Chapter 12

Human Resource Management

Chapter Outline

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Annotated Learning Objectives

After studying this chapter, students should be able to:

1. Explain the role of human resource management in organizational strategic planning.

   The term human resource planning (HRM) refers to activities undertaken to attract an effective workforce, develop the workforce to its potential, and maintain the workforce over the long term. These goals take place within the larger organizational environment including competitive strategy, federal legislation, and
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societal trends. The organization’s competitive strategy may include mergers and acquisitions, downsizing to increase efficiency, international operations, or the acquisition of automated production technology. These strategic decisions determine the demand for skills and employees. The human resource strategy, in turn, must include the correct employee makeup to implement the organization’s strategy.


Several federal laws have been passed to ensure equal employment opportunity (EEO). The point of the laws is to stop discriminatory practices that are unfair to specific groups and to define enforcement agencies for these laws. EEO legislation attempts to balance the pay given to men and women; provide employment opportunities without regard to race, religion, national origin, and sex; ensure fair treatment for employees of all ages; and avoid discrimination against disabled individuals. More recent legislation pertains to illegal aliens.

Trends in society that raise new problems for staffing the firm include everything from court decisions that rule against companies that fire employees to dramatic changes in the makeup of the labor force. These trends include the following:

Globalization. As companies enter the global marketplace HRM must deal with such staffing concerns as whether or not to send expatriate managers or hire local managers for foreign operations.

Workforce Diversity. The people filling jobs in the year 2000 will have a different racial and gender makeup than current employees.

Labor Supply Fluctuations. Changing demographics and economic conditions affect labor supply. The massive reduction in the nation’s defense needs and widespread corporate downsizing reversed the labor shortage as millions of white-collar and blue-collar Americans joined the ranks of the unemployed. The future labor supply may fluctuate further between shortage and oversupply as conditions change such as the beginning of baby-boomer retirement in the year 2000.

Employment-at-Will. The employment-at-will rule traditionally permitted an employer to fire an employee for just cause, or even no cause. Now 40 states have written employment laws to severely limit the “at will” doctrine and to protect against wrongful firing of employees who refuse to violate a law or who expose an illegal action by their employers.

Employee Flexibility. One of the clearest trends is the increased effort to obtain quality employees and, at the same time, reduce excess employee costs so that firms can remain competitive in the global marketplace. Employers will be making greater use of part-time employees, work schedules that allow employees to work other than the traditional hours during the day, employee leasing and temporary employees, contract employees, etc. The intent is to allow employers to get the workforce needed and avoid the provision of offices and benefits on a full-time basis. One study predicts that by year 2000, 50 percent of the American workforce will be contingent workers hired for short-term work as the need arises.
Unionization. The general trend in North America is away from unionization. Currently, about one-fourth of all workers are covered by collective bargaining agreements. In companies where unions represent workers, union officials research the needs of members, the elements of the pay package, and the employer’s financial condition. When a contract expires, union officials negotiate on behalf of the members of the bargaining unit for desired pay components and other issues relevant to workers.

3. Explain what the changing social contract between organizations and employees means for workers and human resource managers.

Not since the advent of mass production and modern organizations has a redefinition of work and career been so profound. In the new image, each person must take care of herself or himself. Particularly in learning organizations, everyone is expected to be a self-motivated worker who has excellent interpersonal relationships and is continuously acquiring new skills. Employees take more responsibility and control in their jobs, becoming partners in business improvement rather than cogs in a machine. Organization provides challenging work assignments as well as information and resources to enable workers to continuously learn new skills. HRM departments can help organizations develop a mix of training, career development opportunities, compensation packages, and rewards and incentives. They can provide career information and assessment, combined with career coaching to help employees determine new career directions.

4. Explain how organizations determine their future staffing needs through human resource planning.

Human resource planning is the forecasting of human resource needs and the projected matching of individuals with expected vacancies. Human resource planning begins with several questions:

What new technologies are emerging, and how will these affect the work system? What is the volume of the business likely to be in the next five to ten years? What is the turnover rate, and how much, if any, is avoidable? By anticipating future HRM needs, the organization can prepare itself to meet competitive challenges more effectively than organizations that react to problems only as they arise.

5. Describe the tools managers use to recruit and select employees.

Recruiting is defined as the practices that define the characteristics of applicants to whom selection procedures are ultimately applied. Many organizations use internal recruiting, or promote-from-within, policies to fill their higher-level positions. Internal recruiting has several advantages because it is less costly, generates higher employee commitment, development, and satisfaction and offers opportunities for career advancement to employees rather than outsiders. External recruiting is recruiting newcomers from outside the organization. A variety of outside sources provide applicants, including newspaper advertising, state employment services,
private employment agencies, job fairs, and employee referrals. Referrals are one of the cheapest and most reliable methods of external recruiting.

6. Describe how organizations develop an effective workforce through training and performance appraisal.

Training and development represent a planned effort by an organization to facilitate employees’ learning of job-related behaviors. Some authors use the term “training” to refer to teaching lower-level or technical employees how to do their present jobs, while development refers to teaching managers the skills needed for both present and future jobs. For simplicity, we will refer to both as training. Performance appraisal is another technique for developing an effective workforce. Performance appraisal comprises the steps of observing and assessing employee performance, recording the assessment, and providing feedback to the employee. Managers use performance appraisal to describe and evaluate the employees’ performance.

7. Explain how organizations maintain a workforce through the administration of wages and salaries, benefits, and terminations.

Compensation refers to all monetary payments and all goods or commodities used in lieu of money to reward employees. An organization’s compensation structure includes wages and/or salaries and fringe benefits such as health insurance, paid vacations, or employee fitness centers. A company’s compensation structure is designed to fit company strategy and to provide compensation equity. The wage and salary structure is important in maintaining a productive workforce. Equally important are the benefits offered by the organization. Benefits were once called “fringe” benefits, but this term is no longer accurate because they are now a central part of the compensation package. Benefits comprise more than one-third of labor costs and in some industries nearly two-thirds. Terminations are valuable in maintaining an effective workforce. Employees who are poor performers can be dismissed. Also, employers can conduct exit interviews with departing employees. The exit interview is an excellent and inexpensive tool for learning about pockets of dissatisfaction within the organization and, hence, reduce future turnover.

Lecture Outline

Suggested Opening Remarks

At UPS, new district manager Jennifer Shroeger worked with the HRM department to solve the problem of high turnover at the Buffalo distribution center, dramatically cutting the attrition rate in the first quarter of 2002 to a low 6 percent. Managers realized that keeping more people had a lot to do with how those people were selected in the first place. Previously, UPS had basically been hiring the first applicant who walked in and was capable of handling heavy packages. Shroeger decided they needed to start asking
what the applicant was looking for in the job. Many of those hired as part-timers were really looking for full-time jobs, which rarely opened up. After a few months, these people realized their chances of full-time work were slim, so they’d move on. UPS started giving realistic job previews, emphasizing not only the hard, intimidating environment of the warehouse, but also the fact that these were part-time jobs and short shifts that were never going to be anything else. The upside to this aspect of the job is that it is perfect for students, mothers, and other people who genuinely want to work only part-time. But hiring those people meant UPS needed to build in flexibility. Students and mothers, for example, tend to need more occasional days off or frequent changes in their schedule. Instead of just saying “we can’t do that,” HRM started looking for ways the company could do it. Other changes involved improved training and mentoring for new employees, handled by part-time shift supervisors who understood the problems of the work environment. The supervisors themselves also got upgraded training in communication skills, motivation, and flexibility to meet the needs of diverse workers. A final, important aspect of the new strategy was to accept that most people they hired wouldn’t want to load and unload boxes for their entire careers.

I. THE STRATEGIC ROLE OF HUMAN RESOURCE MANAGEMENT (HRM)

Exhibit 12.1

What is human resource management

*Human resource management* refers to the design and application of formal systems in an organization to ensure the effective and efficient use of human talent to accomplish goals.

This term includes activities undertaken to attract, develop, and maintain an effective workforce.

Human Resource personnel are considered key players on the management team.

HRM consists of three elements:

- All managers are human resource managers
- Employees are viewed as assets. In today’s brutally competitive business environment, how a company manages its workforce may be the single most important factor in sustained competitive success.
- HRM is a matching process, integrating the organization’s strategy and goals with the correct approach to managing the firm’s human resources.

Some current strategic issues of particular concern to managers include:

- Becoming more competitive on a global basis
- Improving quality; productivity, and customer service
- Managing mergers and acquisitions
- Applying new information technology for e-business
HRM activities and goals do not take place inside a vacuum but within the context of issues and factors affecting the entire organization.

Issues include globalization, technology and knowledge work, shifts in markets and the environment, societal trends, government regulations, and changes in the organization’s culture, structure, strategy, and goals.

The goals of HRM are to attract an effective workforce, develop the workforce to its potential, and maintain the workforce over the long term.

Achieving these goals requires skills in planning, training, performance appraisal, wage and salary administration, benefit programs, and termination techniques.

Discussion Question #1: *It is the year 2010. In your company, central planning has given way to front-line decision-making and bureaucracy has given way to teamwork. Shop floor workers use computers and robots. There is a labor shortage for many job openings, and the few applicants lack skills to work in teams, make decisions, or use sophisticated technology. As vice-president of human resource management since 2000, what should you have done to prepare for this problem?*

Notes

II. ENVIRONMENTAL INFLUENCES ON HRM

Human resource managers must find, recruit, train, nurture, and retain the best people; without the right people, the brightest idea or trend is doomed to fail.

When employees don’t feel valued, they are not willing to give their best to the company and leave to find a more supportive work environment.

For these reasons, it is important that human resource executives be involved in competitive strategy.

HR executives also interpret federal legislation and respond to the changing nature of careers and work relationships.

A. Competitive Strategy

HRM contributes directly to the bottom line through its appreciation that it is the organization’s human assets—its people that meet or fail to meet strategic goals.


*Human capital* refers to the economic value of the knowledge, experience, skills, and capabilities of employees.

To build human capital, HRM develops strategies for ensuring a workforce with superior knowledge and skills.
This means recruiting to find the best talent, enhancing their skills and knowledge with training programs and opportunities for personal and professional development.

This also means providing compensation and benefits that enhance the sharing of knowledge and appropriately reward people for their contributions.

A related concern is social capital, which refers to the quality of interactions among employees and whether they share a common perspective.

In firms with a high degree of social capital, relationships are based on honesty, trust, and respect, and people cooperate to achieve shared goals.

2. Globalization.

Most companies are in the early stages of developing effective HRM policies, structures, and services that respond to the current reality of globalization.

A study of more than 200 global companies showed that the biggest challenge for HRM is leadership development and training in the global arena.

The success of global business strategies is closely tied to the effectiveness of the organization’s global HR strategies.

*International human resource management (IHRM)* addresses the complexity that results from recruiting, selecting, developing, and maintaining a diverse workforce on a global scale.

IHRM managers need a high degree of cultural sensitivity and the ability to tailor and communicate policies and practices for different cultures.

What works in one country may not translate well to another.

3. Information Technology.

Information technology is transforming human resource management and helping to meet the challenges of today’s global environment.

HRM functions are rapidly becoming computerized—from recruiting, to training, to retention strategies.

A *human resource information system* is an integrated computer system designed to provide data and information used in HR planning and decision-making.

Some organizations are close to a paperless HRM system, which not only saves time and money but also frees staff from mundane chores.

B. Federal Legislation

Several federal laws have been passed to insure equal employment opportunity (EEO).

The purpose of these laws is to stop discriminatory practices that are unfair to specific groups and define enforcement agencies for these laws.
EEO legislation attempts to balance the pay given to men and women and provide employment opportunities without regard to race, religion, national origin, and sex.

It ensures fair treatment for employees of all ages and avoids discrimination against disabled individuals.

The Civil Rights Act of 1964 created the Equal Employment Opportunity Commission (EEOC), the major agency involved with employment discrimination. **Discrimination** occurs when some applicants are hired or promoted based on criteria that are not job relevant.

When discrimination is found, remedies include back pay and affirmative action. **Affirmative action** requires an employer to take positive steps to guarantee equal employment opportunities for people within protected groups.

Failure to comply with equal employment opportunity legislation can result in substantial fines and penalties for employers.

One issue of concern is **sexual harassment**, which is a violation of Title VII of the Civil Rights Act.

The EEOC guidelines specify that behavior such as unwelcome advances, requests for sexual favors, and other verbal and physical conduct of a sexual nature becomes sexual harassment when submission to the conduct is tied to continued employment or advancement or when the behavior creates an intimidating, hostile, or offensive work environment.

### UNLOCKING CREATIVE SOLUTIONS THROUGH TECHNOLOGY

**Internet-Based System Puts the People Back in HR**

Jeff Anthony, senior vice president for corporate development as PSS/World Medical, had a mess on his hands. He’d been tapped to “fix” the company’s human resource management department, which was 100 percent paper-driven and nearly 100 percent out of control. The rapid growth threw the HR department into chaos. Anthony decided that automation was the way to go and selected a system from Employease, a developer of Internet-based HR services. PSS immediately saw savings in paper costs and managers’ time. The combination of more focus on people and the smoother HR processes has contributed to a decrease in turnover to 8 percent a year.

**Discussion Question #2:** *If you were asked to advise a private company about its equal employment opportunity responsibilities, what two points would you emphasize as most important?*

**Notes**
Another current issue is the changing nature of careers. HRM can responding to the changing relationship between employers and employees and changed jobs such as telecommuting, job sharing, and virtual organizations.

A. The Changing Social Contract

In the old social contract, the employee contributed ability, education, loyalty, and commitment and the company provided wages and benefits, work, advancement, and training.

Volatile changes in the environment have disrupted this contract; organizations have downsized and careers no longer progress up a vertical hierarchy. The new social contract is based on the concept of employability rather than lifetime employment. Individuals manager their own careers; the organization no longer takes care of them or guarantees them employment. Employees take more responsibility and control in their jobs, becoming partners in business improvement rather than cogs in a machine.

Many employees are not prepared for new levels of cooperation or responsibility employment insecurity is stressful, and it is harder to gain employee commitment. A challenge for HRM is revising performance evaluation, developing training and career development opportunities, and compensation and reward practices.

B. HR Issues in the New Workplace

The rapid change and turbulence in today’s business environment bring significant new challenges for HRM. One important issue is responding to the increasing use of teams and project management.

HRM must devise policies to address the needs of temporary employees and virtual workers, manage downsizing, and acknowledge the demands for work-life balance.

1. Teams and Projects

The advent of teams and project management is another significant trend in the new workplace.

People who used to work alone are now thrown into teams and succeed as part of a group.
Each member of the team acts like a manager, becoming responsible for quality standards, scheduling, and even hiring and firing other team members.

Many workers straddle functional and departmental boundaries and handle multiple tasks and responsibilities.

2. Temporary Employees

Temporary agencies such as Manpower grew rapidly during the 1990s, and by 2001, more than 3.3 million workers were in temporary firm placements. People in these temporary jobs do everything from data entry to becoming the interim CEO; recently demand has grown for professionals. *Contingent workers* are people who work for an organization, but not on a permanent or full-time basis. This may include temporary placements, contracted professional, leased employees, or part-time workers; these workers make up 25 percent of the workforce.

3. Technology

A *virtual team* is made up of members who are geographically or organizationally dispersed, rarely meet face to face, and do their work using advance information technologies. *Telecommuting* means using computers and telecommunications equipment to do work without going to an office.

There’s a growth of what is called *extreme telecommuting*, which means that people live and work in countries far away from the organization’s physical location.

4. Work-Life Balance

Telecommuting is one way organizations are helping employees lead more balanced lives. *Flexible scheduling* for regular employees is also important in today’s workplace, with approximately 27 percent of the workforce having flexible hours.

Broad work-life initiatives have become a critical retention strategy; managers realize that people have personal needs that may require special attention. Some HR responses include benefits such as on-site gym facilities and childcare, assistance with arranging child- and eldercare, and paid leaves. Many European companies are miles ahead of U.S. firms in supporting work-life balance.
UNLOCKING CREATIVE SOLUTIONS THROUGH PEOPLE

Norsk Hydro: Working Better by Working Less

Norwegians have always had a very different attitude than Americans about the meaning of work and its place in one’s life. Their view is rooted in the notion of balance, and the idea that working less often means working better. As one of Norway’s dominant institutions, Norsk Hydro operates in 70 countries and employs 39,000 people. Hydro offers a program called Hydroflex, which offers employees varying combinations of flexible hours, team work, home offices, new technology, and redesigned office space. Hydro sees its work-life balance initiatives as critical strategic elements for remaining competitive.

5. Downsizing

Downsizing refers to an intentional, planned reduction in the size of a company’s workforce.

Some researchers have found that massive downsizing has often not achieved the intended benefits and in some cases harmed the organization.

Unless HRM manages the downsizing process, layoffs can lead to decreased morale and performance.

Managers can smooth the downsizing process by regularly communicating with employees and providing them with as much information as possible.

Managers can also use training and development to help address the emotional needs of remaining employees.

Discussion Question #6: How will the growing use of telecommuters, contingent workers, and virtual teams affect human resource management? How can managers improve recruiting and retention of these new kinds of employees?

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IV. ATTRACTING AN EFFECTIVE WORKFORCE

The first goal of HRM is to attract individuals who show signs of becoming valued, productive, and satisfied employees.

The first step in attracting a workforce is planning, predicting the need for new employees based on the types of vacancies that exist.
The second step is to communicate with potential applicants; the third step is to select those with the best potential; finally, the new employee is welcomed to the organization.

Underlying the organization’s effort to attract employees is a matching model, the organization and the individual match the needs, interests, and values each offers.

A new approach is called job sculpting, attempts to match people to jobs that enable them to fulfill deeply embedded life interests.

The idea is that people can fulfill deep-seated needs and interests on the job, which will induce them to stay with the organization.

A. Human Resource Planning

*Human resource planning* is the forecasting of human resource needs and the projected matching of individuals with expected job vacancies.

HRM resource planning begins with several questions:

- What new technologies are emerging and how will they affect the work system?
- What is the volume of business likely to be in the next few years?
- What is the turnover rate, and how much, if any, is avoidable?

The responses to these questions are used to formulate specific HR questions?

- How many senior managers are needed?
- What types of engineers are needed?
- Are persons with IT skills available?
- How many administrative people are needed?
- Can we use temporary, contingent, or virtual workers?

Answers to these questions help define the direction for the organization’s HRM strategy.

One of the most successful applications of human resource planning is the Tennessee Valley Authority’s development of an eight-step system.

B. Recruiting

*Recruiting* is defined as activities or practices that define the characteristics of applicants to whom selection procedures are applied.

Many organizations use internal recruiting (promote-from-within) policies because it is less costly, generates higher employee commitment, and offers career advancement.

*External recruiting* gains newcomers from newspaper ads, state employment services, private employment agencies, job fairs, and employee referrals.

1. Assessing Organizational Needs

Basic building blocks of human resource management include job analysis, job descriptions, and job specifications.
Job analysis is a systematic process of gathering and interpreting information about the essential duties, tasks, job responsibilities, and the job context.

A written job description is a clear and concise summary of the specific tasks, duties, and responsibilities.

A job specification, outlines the knowledge, skills, education, physical abilities, and other characteristics needed to adequately perform the job.

2. Realistic job previews (RJP)

A realistic job preview gives applicants all pertinent and realistic information, positive and negative, about the job and the organization.

RJPs enhance employee satisfaction and reduce turnover, because they facilitate matching individuals, jobs, and organizations.

3. Legal considerations

Organizations must ensure that their recruiting practices conform to the law.

EEO laws require that recruiting and hiring decisions cannot discriminate on the basis of race, national origin, religion, and gender.

The Americans with Disabilities Act underscored the need for job descriptions and specifications that reflect the job’s mental and physical specifications.

Affirmative action refers to the use of goals, timetables, or other methods in recruiting to promote the hiring, development, and retention of “protected groups.”

4. E-cruiting.

A fast-growing approach to recruiting is using the Internet; e-cruiting, or recruiting job applicants online, offering access to a wider pool of applicants.

In addition to posting job openings on the company Web site, many organizations use recruiting sites such as Monster.com or CareerBuilder.com.

Approximately, 2.5 million resumés are posted online, and the number is growing.

The do-it-yourself retail giant B&Q combines e-cruiting with psychometric testing to eliminate unsuitable candidates and build a database of potential applicants.

5. Other Recent Approaches to Recruiting

One highly effective approach is getting referrals from current employees, who know of people who are qualified and would fit in to the company’s culture.

Many organizations offer cash awards to employees who submit names of people who subsequently accept employment.

Companies turn to nontraditional sources to find employees when there is a tight labor market (e.g., hiring former welfare recipients, refugees or the homeless).

Recruiting on a global basis is on the rise; high-tech companies are looking for qualified workers in foreign countries because they cannot find the right people in the U.S.
Discussion Question #4: Think back to your own job experience. What human resource management activities described in this chapter were performed for the job you filled? Which ones were absent?

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C. Selecting

In the selection process, employers assess applicants’ characteristics in an attempt to determine the “fit” between the job and applicant characteristics.

The most frequently used are the application form, interview, employment test, and assessment center.

Human resource professionals may use a combination of these devices to obtain a valid prediction of employee job performance.

Validity refers to the relationship between one’s score on a selection device and one’s future job performance.

1. Application Form.

The application form is used to collect information about the applicant’s education, previous job experience, and other background characteristics.

Research shows that biographical information inventories can validly predict future job success.

To be avoided are questions, irrelevant to job success; the application should not ask questions that create an adverse impact on protected groups.

For example, the CPA exam is relevant to job performance in a CPA firm.

2. Interview.

The interview serves as a two-way communication channel that allows both the organization and the applicant to collect information that is hard to obtain.

This technique is used in the hiring process in almost every job category in virtually every organization, but it is not a valid predictor of job performance.

The interview, has high “face validity”; it seems valid to hire someone only after having had an interview.

Organizations put candidates through a series of eight different interviews, each one conducted by a different person and each one probing a different aspect of the candidate.
Some organizations are using panel interviews, in which the candidate meets with several interviewers who take turns asking questions, to increase interview validity.

Some organizations are also using computer-based interviews to complement traditional interviewing information.

**Discussion Question #5:** How “valid” do you think the information obtained from a personal interview versus an employment test versus an assessment center would be for predicting effective job performance for a college professor? An assembly-line worker in a team-oriented plant? Discuss.

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**MANAGER’S SHOPTALK**

*The Right Way to Interview a Job Applicant*

The following techniques will insure a successful interview:

- *Know what you want*
- *Prepare a road map—develop questions that reveal qualifications*
- *Use open-ended questions in which the right answer is not obvious*
- *Do no ask questions that are irrelevant to the job*
- *Listen: don’t talk*
- *Allow enough time so that the interview will not be rushed*
- *Avoid reliance on your memory---request permission to take notes*

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3. Employment Test

An employment test is a written or computer-based test designed to measure a particular attribute such as intelligence or aptitude.

Many companies use employment tests as valid predictors that may include intelligence tests, aptitude tests, and personality inventories.

4. Assessment Center.

An assessment center is a technique for selecting individuals with high managerial potential based on a series of simulated managerial tasks.
One technique used is the in-basket simulation, which requires the applicant to play the role of a manager and respond to a number of memos in his or her in-basket.

A panel assesses the applicant’s interpersonal, communication, and problem-solving skills.

Assessment centers have proven to be valid predictors of managerial success, and some organizations now use them for hiring front-line workers as well.

**Discussion Question #7:** Do you see any conflict between the current emphasis on computerizing HR and the growing focus on building human capital? Discuss.

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**V. DEVELOPING AN EFFECTIVE WORKFORCE**

Following selection, the major goal of HRM is to develop employees into an effective workforce.

**A. Training and Development**

*Training and development* is a planned effort by an organization for employees to learn job-related behaviors.

*On-the-job training* (OJT) is a type of training in which an experienced employee “adopts” a new employee to teach the performance of job duties.

*Cross-training* places an employee in a new position for as short as a few hours or for as long as a year, to develop new skills and give the organization flexibility.

*Mentoring* means a more experienced employee is paired with a newcomer or a less-experienced worker to provide guidance, support, and learning opportunities.

*Orientation training* introduces newcomers are introduced to the organization’s culture, standards and goals.

*Classroom training* includes lectures, films, and simulations.

*Self-directed learning* involves books, manuals, or computers to provide subject matter in highly organized and logical sequences followed by questions.

*Computer-based training* includes computer-assisted instruction, Web-based training, and teletraining.

1. **Corporate University**

   A *corporate university* is an in-house training and education facility that offers broad-based learning opportunities for employees—and for customers, suppliers, and strategic partners as well—throughout their careers.

2. **Promotion from Within**
Promotion from within helps companies retain valuable employees. This provides challenging assignments, prescribes new responsibilities, and helps employees grow by expanding and developing their abilities.

**Discussion Question #8:** Why is mentoring such a powerful means of developing an effective workforce?

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**B. Performance Appraisal**

*Performance appraisal* is observing and assessing employee performance, recording the assessment, and providing feedback to the employee.

During performance appraisal, skilled managers give feedback and praise concerning the acceptable elements of the employee’s performance.

Performance appraisal can also reward high performers with merit pay, recognition, and other rewards.

Recent thinking is that performance appraisal should be ongoing, not something that is done once a year as part of a consideration of raises.

HRM professionals concentrate on an accurate assessment of performance and training managers to use the performance appraisal interview effectively.

1. **Assessing Performance Accurately**

   To obtain an accurate performance rating, managers must acknowledge that jobs are multidimensional and performance may be multidimensional as well.

   The “360 degree feedback” is a process that uses multiple raters, including self-rating, to appraise employee performance and guide development.

   Members of the appraisal group may include supervisors, co-workers, and customers to provide appraisal of the employee from a variety of perspectives.

   *Performance review ranking* is a method in which managers evaluate direct reports relative to one another and categorizes each on a scale.

   Proponents say the technique provides an effective way to assess performance and offer guidance for employee development.

   Critics call it *rank* and *yank*, arguing that subjective judgments produce skewed results and discriminate against employees who are “different.”

   Appropriate use of performance ranking is helping Applebee’s retain quality workers in the high-turnover restaurant business.

2. **Performance Evaluation Errors**

   *Stereotyping* occurs when a rater places an employee into a class or category based on one or a few traits or characteristics.
Halo effect, is rating on all dimensions of the job even if performance is good on some dimensions and not good on others.

**Exhibit 12.10**

The behaviorally anchored rating scale (BARS) is developed from critical incidents pertaining to job performance.

**Discussion Question #3:** How can the human resource activities of recruiting, performance appraisal, and compensation be related to corporate strategy?

**VI. MAINTAINING AN EFFECTIVE WORKFORCE**

Maintenance of the current workforce involves compensation, wage and salary systems, benefits, and occasional terminations.

A. Compensation

*Compensation* refers to all monetary payments or wages and/or salaries. And goods or commodities used in lieu of money to reward employees.

Developing an effective compensation system is an important part of human resource management because it helps to attract and retain talented workers.

A company’s compensation system has an impact on strategic performance; pay and benefit systems to fit the company strategy and provide compensation equity.

1. Wage and Salary Systems

   Strategy. Management’s strategy for the organization should be a critical determinant of the features and operations of the pay system.

   *Job-based pay* links compensation to the specific tasks that an employee performs.

   *Skill-based pay systems* encourage employees to develop skills and competencies, to be more valuable to the organization and more employable if they leave.

2. Compensation Equity.

   Managers wish to maintain a sense of fairness and equity within the pay structure; the purpose is to maintain employee morale.

   *Job evaluation* is the process of determining the worth of jobs within the organization through an examination of job content; the intent is to pay fairly.

   *Wage and salary surveys* show what other organizations pay incumbents in jobs that match a sample of “key” jobs selected by the organization.

3. Pay-for-performance
Pay-for-performance ties compensation to employee effort and performance, through merit-based pay, bonuses, team incentives, gainsharing or profit sharing.

With pay-for-performance, incentives are aligned with the behaviors needed to help the organization achieve its strategic goals.

B. Benefits

The best Human Resource managers know a compensation package requires more than money; benefits make up 40 percent of labor costs in the U.S..

Some benefits are required by law: social Security, unemployment compensation, worker’s compensation

One reason that benefits make up such a large portion of the compensation package is that health-care costs have been increasing so quickly.

Some firms have cafeteria-plan benefit packages that allow employees to select the benefits of greatest value to them.

The benefits packages provided by large companies attempt to meet the needs of all employees.

Discussion Question #9: What is the role of compensation in maintaining an effective workforce? When would benefits play a part in compensation? When might they not be important?

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C. Terminations

Even with the best efforts of line managers and HRM, the organization will lose employees.

Terminations are valuable in maintaining an effective workforce; employees who are poor performers can be dismissed.

Productive employees often resent disruptive, low-performing employees who are allowed to stay with the company and receive pay comparable to theirs.

Employers can use exit interviews with departing employees to determine why they are leaving.

The exit interview is an excellent, inexpensive tool to learn about dissatisfaction within the organization.

Enlightened companies try to find a smooth transition for departing employees.

By showing concern, the company communicates the value of human resources and helps maintain a positive corporate culture.
Discussion Question #10: What purpose do exit interviews serve for human resource management?

Lecture Example File

Performance Appraisal Services believes that long-term organizational performance improvement is dependent upon linking appraisal to Results Management, HR Development and Change Management.

Performance Appraisal Services has experience in designing and implementing appraisal systems supported by training courses, change management and performance improvement consultancy programs.

Many companies are developing new approaches to performance appraisal by introducing performance review and performance improvement processes, linked to emerging development cultures.

New performance review processes grew out of such factors as:

- Organizational values and behaviors
- Critical success factors
- Process quality management
- Achievement of objectives and results
- Added value contribution to the business

However, in today's leaner and flatter organizations, the management role is increasingly becoming one of performance improvement, setting targets and providing resources and HR development that help others achieve their organizations goals.

This has led to a different approach to management by focusing on result delivery through people rather than task management, with a developmental leadership style rather than an autocratic one.

The shift of management focus from operational tasks to results through performance improvement, via performance review and away from performance appraisal, is becoming an organizational imperative. In other words performance review is changing the role of management and the culture of the organization.

Most large organizations recognize the need to use their people in the most effective way. Consequently the performance appraisal process has been around for a long time, however, to maintain long-term success, it is imperative to utilize a performance review and development process, as an inherent part of staff and management development strategy and organizational culture. Why? Because performance appraisal without
development achieves little performance improvement.

We design and deliver bespoke performance review and development and personal appraisal training events to accommodate businesses corporate objectives and specific learning requirements, performance appraisal system specification, participant function, level, experience and skills.

While performance appraisal is often linked to reviewing achievement against in-job targets or competencies performance review and development looks at all the factors that impact upon an individual's ability to perform effectively within the organization and plan and implement improvement action.

*Initiating performance improvement action therefore needs a holistic approach. This can start with performance appraisal but needs to continue with individual performance development portfolios, coaching and mentoring.* In other words performance appraisal sits at the heart of HR Development.

**Answers to End-Of-Chapter Discussion Questions**

1. *It is the year 2010. In your company, central planning has given way to front-line decision making and bureaucracy has given way to teamwork. Shop floor workers use computers and robots. There is a labor shortage for many job openings, and the few applicants lack skills to work in teams, make decisions, or use sophisticated technology. As vice-president of human resource management since 1990, what did you do to prepare for this problem?*

   This question should get the point across that the field of human resources is always changing. One of the things that should have been done is human resource planning. You should have kept in touch with changes occurring and projected the human resource needs in advance. This way you have the right skills and the right mixture of people on your work force. This would have to be accomplished through effective recruiting and selection techniques. Another vital thing you should have done is provided training and development for your people so that they have the skills to work in teams, make decisions, and use sophisticated technology. Having made this investment in people, you would also have wanted to provide the compensation, including benefits needed to maintain this effective work force.

2. *If you were asked to advise a private company about its equal employment opportunity responsibilities, what two points would you emphasize as most important?*

   The two major points to remember are as follows:

   a. Only use criteria for hiring and promotion that are job related. You must make sure that the criterion is really related to the job and not just nice to have or what has always been expected.
b. Do not use any criteria for job decisions that have adverse impact on a protected minority. For each criterion you should ask yourself, ‘Would this factor have more negative impact on one group than on another?”

3. How can the human resource activities of planning, recruiting, performance appraisal, and compensation be related to corporate strategy?

Human resource management should reflect what the organization is trying to accomplish. Human resource management does not consist of the same practices and procedures in every organization. If an organization is undergoing downsizing, ARM people should concentrate on outplacement and early retirement. For a software firm that has a strategy of rapid growth, ARM professionals should be concerned with hiring new people and providing a ready supply of both employees and managers. In a large manufacturing firm whose strategy is to have a good relationship with the labor unions, ARM may concentrate on bargaining with union officials and administering the union contract.

Each of the human resource activities should be tailored to the specific strategy. Planning will involve the forecast and acquisition of the appropriate types of people to meet the corporation strategy. Recruiting should target the type of employees best suited to strategic needs, whether they are college graduates with degrees in aeronautical engineering or unskilled laborers. Performance appraisal and compensation are especially important outcomes of strategy. They should reflect the accomplishment of goals and objectives that help the organization accomplish its strategy. If a university has a strategy of increasing the teaching quality for students, performance appraisal should reflect data on professors’ teaching performance, and promotion and compensation should also reflect teaching performance.

4. Think back to your own job experience. What human resource management activities described in this chapter were performed for the job you filled? Which ones were absent?

This question is designed to stimulate student thinking and to get students to apply ARM concepts to their own experience, so there is no single correct answer. Students should think of each step involved in attracting, developing, and maintaining an effective work force as it influenced them. They will realize that some ARM activities are not formalized in organizations. They may be able to relate the success of the organization to the performance of ARM activities in a formal or informal manner. Some activities may not have been performed at all.

5. How might the changing social contract affect the ways human resource departments recruit, develop, and retain workers?

The social contract pertains to telecommuting and job sharing. The changing nature of the social contract impacts the way organizations recruit, develop, and retain workers by improving human resource planning. Second, improving recruiting procedures by communicating with potential applicants. Next, the organization must select the best contributors to the organization. Finally, new employees must be
oriented and trained to have a successful match of employees to the job they are expected to perform.


Because college professors must present vast quantities of complex material to students within a limited time, communication skills are very important. The personal interview is a good indicator for measuring such skill and for ascertaining the professor’s vision for the class and for the profession. The pencil-and-paper test would be a weak predictor of effectiveness because college professors have high intelligence levels, expertise in their particular area of study, and an understanding of what is expected as the proper response to personality inventories. In a modified version of the assessment center, professors may be observed in the classroom situation and assessed according to their communication and interpersonal skills, both in lecture presentation and in response to student questions and problems.

The information obtained through personal interview for a line-worker in a team-oriented plant is practical in the exchange of information regarding the applicant’s background and expectations and the job requirements. Beyond that point, the personal interview may fail to accurately assess the potential of the worker as a result of flaws in the system, such as prejudice on the part of the interviewer, or the individual’s skill in providing answers the interviewer want to hear. Paper-and-pencil tests measuring intelligence, aptitude, and ability are good indicators of potential within a team-oriented plant, because answers provide important information on skills and intelligence in crucial areas, such as mathematical skill in calibrating machinery. Aptitude tests and personality inventories are also excellent sources of information in putting together strong teams. The assessment center is probably the most valuable tool in predicting effective job performance. Simulation of line problems and development of communications and negotiating skills are just an example of the valuable information, which can be acquired through assessment centers.

7. What techniques can managers adopt to improve their recruiting and interviewing practices?

Recruiting includes the activities of identifying individuals with the appropriate characteristics for filling jobs in the organization. One technique is to consider both external and internal search for employees. Internal search is less costly, and it generates employee commitment and satisfaction because it offers opportunities for advancement. Recruiting from outside the organization is advantageous when special skills or abilities are needed that are not available from the pool of current employees. Studies of external recruiting practices suggest that applicants hired from employee referrals have better employee records than those hired from formal sources such as newspaper ads.
Other techniques include realistic job previews and conforming to government regulations. Realistic job previews give all applicants all pertinent and realistic information—both positive and negative about the job and the organization so that they will not be disappointed later if hired. Managers must also insure that their recruiting practices conform to the law. Affirmative action methods promote the hiring, development, and retention of “protected groups.” Equal employment opportunity laws stipulate that recruiting and hiring decisions cannot discriminate on the basis of race, national origin, religion, or sex.

Interview techniques outlined in the Manager’s Shoptalk include deciding exactly what background and qualifications are wanted in the applicant, preparing a road map with appropriate questions to ask during the interview, using open-ended questions in which the right answer is not obvious, asking only questions that are relevant to the job, listening, allowing sufficient time for the interview, and taking good notes to refer to at a later date.

8. How does affirmative action differ from equal employment opportunity in recruiting and selection?

Affirmative action refers to the use of goals, timetables, or other methods to promote the hiring, development, and retention of “protected groups”—persons historically under-represented in the work place. For example, an organization may adopt a goal of hiring one black employee for each two white employees until the proportion of employees is equal to that in the community. Affirmative action means trying to make jobs available to people who would normally not have access to them. The U.S. Supreme Court has decided that affirmative action plans may benefit individuals such as minorities or women who show a pattern of underutilization in the organization.

Equal employment opportunity (EEO) laws are somewhat different because they stipulate that recruiting and hiring decisions cannot discriminate on the basis of race, national origin, religion, or sex. For example, persons of opposite genders who perform substantially similar work must be paid the same rate unless the pay difference can be justified on the basis of merit, seniority, or quantity or quality of production. Organizations must try to walk a fine line between affirmative action and EEO because they cannot discriminate against some groups of employees while trying to increase the representation of minority groups in the workplace.

9. How can exit interviews be used to maintain an effective workforce?

An exit interview is conducted with departing employees to determine why they are leaving. Exit interviews take advantage of terminations to further improve ARM practices in organizations. Exit interviews are most effective when conducted for all departing employees. Retirees can reflect on their work experiences and provide valuable insights for managers. The voluntary departure of a valued employee can provide information on organizational deficiencies that prompted him or her to leave. Exit interviews with employees who are fired can provide feedback about problems they encountered with the organization and whether they feel they were
dismissed properly. Moreover, exit interviews can have a positive effect on departing employees because the interview demonstrates an interest in them and a concern for treatment.

10. Describe the procedure used to build a wage and salary structure for an organization.

Building a wage and salary structure typically consists of five major steps. First, a job analysis is performed and job descriptions are updated. Next, a point system is used to evaluate jobs on the basis of compensable factors such as skill, effort, and responsibility. These factors are assigned point values for each job. Next, a sample of key jobs is selected and a pay survey is used to determine their market pay rates. The pay survey shows what other organizations pay incumbents in jobs that match a sample of key jobs selected by the organization. The survey pay rates and their job evaluation points are then plotted on a graph. The pay-trend line shows the relationship between pay and total point values. The pay-trend line determines the pay values of all jobs for which point values have been calculated. Finally, jobs are grouped into classes based on similarity in pay rates. Ranges of pay for each job class are established, enabling a newcomer to be paid less than experienced people in the same job class.

Teaching Note for Experiential Exercise

Test Your Human Resource Knowledge

Answers are as follows:

1. False. The job market changes so much that keeping resumes for two years is unreasonable.
2. False. Jobs vary considerably from one organization to another, depending on whether it is manufacturing, service, or government. What works in a more structured manufacturing company may be counter-productive in a creativity-based service organization. For example, running efficient meetings may be a good time-saver in a factory, but will squelch creativity in a software development company.
3. True. Personnel records are needed for every company and what is done with them can be seen in a relatively standard way.
4. False. Small companies are exempt from affirmative action requirements. Also, there is a movement in the US questioning the entire affirmative action framework. Legislation is being introduced in various states to rescind affirmative action legislation. However, it is too soon to know what the outcome will be.
5. True. If an employer does not investigate a allegation of sexual harassment, that management can be held legally accountable in a court of law for damages/
6. False. Regardless of the previous discussions, if an employee works overtime, the employer must pay for that.
7. False. Much discrimination in the workplace is unintentional. Managers are often not aware of it. But the courts have held that ignorance is no excuse. It is the job of
managers to look for signs of discrimination, even if they feel it does not exist. They must look for data and trends to see if there is discrimination.

8. **False.** This is not a requirement.

9. **True.** Companies can get the referees into trouble if they make that information public. It is getting harder to keep that information private and job applicants have filed suits against those giving negative references. As a result, managers are now reluctant to say anything negative, especially in writing. This makes references less reliable than they used to be. A skilled HRM professional, though, looks for what is not said.

10. **False.** In today’s chaotic world, it is nearly impossible to make such promises. Also, what is meant by a “good job” may be seen differently be the employer and the employee. Putting such things in the handbook only make the company more liable for a lawsuit.

**Teaching Note for Ethical Dilemma**

**A Conflict of Responsibilities**

Anyone of the three suggestions could be forthcoming. However, with the legal repercussions today it is recommended to follow recommendation number two. Contact the vice-president of sales and ask him to release you from the agreement or to give the reference himself. After all, he made the agreement. You don’t want to lie.

**Surf the Net**

1. **Equal Employment Opportunity.** While student responses in the construction of an outline will vary, a recommendation would be:

   I. Wage Discrimination.
      A. Equal Pay Act.

   II. Racial and Ethnic Harassment.
      A. Civil Rights Act of 1964.
      B. Civil Rights Act of 1991

   III. Age Discrimination.
      A. Employment and Age Discrimination Act of 1967

   IV. Disability Discrimination.
      A. Americans with Disability Act 1990

   V. Sexual Harassment in the Work Place
      A. Sexual Harassment Policy, Procedure and Rules.

2. **Recruiting.** Student responses will vary because everyone is looking for something different in a job. A recommendation is to inquire about a realistic job preview from an employer.

3. **Benefits.** A supplemental benefit check list might include: mandatory social security insurance, unemployment insurance, and worker compensation insurance, voluntary health insurance, life insurance, dental, optical insurance, prescription/drug insurance, pension, vacation and holiday, sick days, and family leave.

**Case for Critical Analysis Solution**

**Waterway Industries**

1. *What impact, positive or negative, do you think a formal compensation system might have on Waterway?*

A formal compensation system at Waterway should have a positive impact upon employees. A formal compensation system builds fairness and equity in a wage structure. A formal job analysis program should commence with the writing of job descriptions and job specifications. A formal job evaluation system should follow to build pay grades and salary ranges within these grades. A sound and equitable wage structure reflecting annual bonuses (developed as a result of a performance appraisal methodology) should be developed.

2. *What type of compensation approach would you suggest Maher implement?*

Maher should implement a compensation system based on salary plus an annual bonus where job performance can be measured and appraised. Financial incentives can motivate performance, and they should be instituted wherever possible, across the board.

3. *How can nonfinancial incentives play a role in helping Waterway retain aggressive, ambitious employees like Lee Carter?*

Nonfinancial incentives can motivate the performance of Lee Carter and permit her to achieve career goals and objectives. Nonfinancial incentives such as job-enrichment, increased freedom, and autonomy will permit increased job satisfaction and provide an opportunity for her to grow and develop to her fullest potential. Other nonfinancial incentives could include flex-time, flex-schedules, and telecommuting.