

TABLE 11-2 Job Ranking at Jackson Hospital

Ranking Order	Our Current Annual Pay Scale	What Others Pay: Salary Survey Pay	Our Final Assigned Pay
1. Office manager	\$43,000	\$45,000	\$44,000
2. Chief nurse	42,500	43,000	42,750
3. Bookkeeper	34,000	36,000	35,000
4. Nurse	32,500	33,000	32,750
5. Cook	31,000	32,000	31,500
6. Nurse's aide	28,500	30,500	29,500
7. Orderly	25,500	27,000	27,000

Note: After ranking, it becomes possible to slot additional jobs (based on overall job difficulty, for instance) between those already ranked and to assign each an appropriate wage rate.

Drawbacks derive more from how managers use ranking than from the method itself. For example, there's a tendency to rely too heavily on "guesstimates" (of things like overall difficulty), since ranking usually does not use compensable factors. Similarly, ranking provides no yardstick for quantifying the value of one job relative to another. For example, job number 4 may in fact be five times "more valuable" than job number 5, but with the ranking method all you know is that one job ranks higher than the other. Ranking is usually more appropriate for small employers that can't afford the time or expense of a more elaborate method.

The *factor comparison method* is a special ranking method. It requires ranking each of a job's "factors" (such as education required, experience, and complexity), and then adding up the points representing the number of "degrees" of each factor each job has. Employers seldom use it today.

Job Evaluation Methods: Job Classification

job classification (or job grading)

A method for categorizing jobs into groups.

classes

Grouping jobs based on a set of rules for each group or class, such as amount of independent judgment, skill, physical effort, and so forth, required. Classes usually contain similar jobs.

grades

A job classification system like the class system, although grades often contain dissimilar jobs, such as secretaries, mechanics, and firefighters. Grade descriptions are written based on compensable factors listed in classification systems.

grade definition

Written descriptions of the level of, say, responsibility and knowledge required by jobs in each grade. Similar jobs can then be combined into grades or classes.

Job classification (or job grading) is a simple, widely used job evaluation method in which raters categorize jobs into groups; all the jobs in each group are of roughly the same value for pay purposes. We call these groups **classes** if they contain similar jobs, or **grades** if they contain jobs that are similar in difficulty but otherwise different. Thus, in the federal government's pay grade system, a "press secretary" and a "fire chief" might both be graded "GS-10" (GS stands for "General Schedule"). On the other hand, in its job class system, the state of Florida might classify all "secretary IIs" in one class, all "maintenance engineers" in another, and so forth.

In practice, there are several ways to categorize jobs. One is to write class or grade summaries or descriptions (similar to job descriptions); you then place jobs into the classes or grades based on how well they fit these descriptions. Another is to write a set of compensable factor–based rules for each class (for instance, how much independent judgment, skill, and physical effort does the class of jobs require?). Then categorize each job according to these rules.

The usual procedure blends these two: the analysts choose compensable factors and then develop short class or grade descriptions that describe each class (or grade) in terms of the amount or level of the factors in those jobs. For example, the U.S. government's classification system uses eight compensable factors: (1) difficulty and variety of work, (2) supervision received and exercised, (3) judgment exercised, (4) originality required, (5) nature and purpose of interpersonal work relationships, (6) responsibility, (7) experience, and (8) knowledge required. Based on these compensable factors, raters write a **grade definition** like that in Figure 11-4. This one shows one grade description (for grade GS-7) for the federal government's pay grade system. Then the evaluation committee reviews all job descriptions and slots each job into its appropriate grade, by comparing each job description to the rules in each grade description. Thus, the federal government system classifies the positions *automotive mechanic*, *welder*, *electrician*, and *machinist* in grade GS-10.

FIGURE 11-4 Example of a Grade Definition

Source: From “Grade Level Guide for Clerical and Assistance Work” from www.opm.gov/policy-data-oversight/classification-qualifications/classifying-general-schedule-positions/functional-guides/gscler.pdf, accessed September 12, 2018.

Grade	Nature of Assignment	Level of Responsibility
GS-7	Performs specialized duties in a defined functional or program area involving a wide variety of problems or situations; develops information, identifies interrelationships, and takes actions consistent with objectives of the function or program served.	Work is assigned in terms of objectives, priorities, and deadlines; the employee works independently in resolving most conflicts; completed work is evaluated for conformance to policy; guidelines, such as regulations, precedent cases, and policy statements require considerable interpretation and adaptation.

The classification method has several advantages. The main one is that most employers usually end up grouping jobs into classes or grades anyway, regardless of the evaluation method they use. They do this to avoid having to price separately dozens or hundreds of jobs. Of course, the job classification automatically groups the employer’s jobs into classes. The disadvantages are that it isn’t easy to write the class or grade descriptions, and considerable judgment is required to apply them. Yet many employers use this method with success.

Job Evaluation Methods: Point Method

point method

The job evaluation method in which a number of compensable factors are identified and then the degree to which each of these factors is present on the job is determined.

The **point method’s** overall aim is to determine the degree to which the jobs you’re evaluating contain selected compensable factors. It involves identifying several compensable factors for the jobs, as well as the degree to which each factor is present in each job. Assume there are five degrees of the compensable factor “responsibility” a job could contain. Further, assume you assign a different number of points to each degree of each compensable factor. Once the evaluation committee determines the degree to which each compensable factor (like “responsibility” and “effort”) is present in a job, it can calculate a total point value for the job by adding up the corresponding degree points for each factor. The result is a quantitative point rating for each job. The point method of job evaluation is the most popular job evaluation method today.⁷⁰

“PACKAGED” POINT PLANS A number of groups (such as the Hay Group, the National Electrical Manufacturer’s Association, and the National Trade Association) have developed standardized point plans. Many thousands of employers use these systems. They contain ready-made factor and degree definitions and point assessments for a wide range of jobs. Employers can often use them with little or no modification.

Computerized Job Evaluations

Using job evaluation methods such as the point method can be time-consuming. Accumulating the information about “how much” of each compensable factor the job contains is a tedious process. The evaluation committees must debate the level of each compensable factor in each job. They then write down their consensus judgments and compute each job’s point values or rankings. Many employers therefore turn to computerized systems (see example on page 364.)

Most such computerized systems have two main components.⁷¹ There is, first, a structured questionnaire. This contains items such as “enter total number of employees who report to this position.” Second, such systems may use statistical models. These allow the computer program to price jobs more or less automatically, by assigning points based on the questionnaire responses.

LEARNING OBJECTIVE 11-3

Explain in detail how to establish a market-competitive pay plan.

How to Create a Market-Competitive Pay Plan

As we said, many firms simply price their jobs based on what other employers are paying—they just use a market-based approach. However, most employers also base their pay plans on job evaluation methods like those just described. These evaluations assign

Job Evaluation: An Internet Application

This is an interactive web-based tool that allows you to develop a point method job evaluation instrument. Using this tool, you will be able to specify the number and type of job evaluation factors, the number of levels within each factor, and the points associated with the factors.

Each screen will have brief instructions and an on-line form for you to complete. Click the button below to begin.

[Begin](#)

Mail questions to: [webmaster](#) June 2001

Computer-aided job evaluation can streamline the job evaluation process

Source: Reprinted by permission from Computer-aided job evaluation can streamline the job evaluation process, in Screen capture: www.hrsoftware.net/cgi/JobEvaluation.cgi.

values (such as point values) to each job. This helps to produce a pay plan in which each job's pay is internally equitable, based, as it is, on the job's value to the employer (as measured, for instance, by how many points it warrants). However, even with the job evaluation approach, managers must adjust pay rates to fit the market.⁷² After all, you want employees' pay to be equitable internally—relative to what their colleagues in the firm are earning—but also competitive externally—relative to what *other employers* are paying. In a *market-competitive pay plan* a job's compensation reflects the job's value in the company, as well as what other employers are paying for similar jobs in the marketplace. Because the point method (or “point-factor method”) is so popular, we'll use it as the centerpiece of our step-by-step example for creating a market-competitive pay plan.⁷³ The 16 steps in creating a market-competitive pay plan begin with choosing benchmark jobs.

1. Choose Benchmark Jobs

Particularly when an employer has dozens or hundreds of different jobs, it's impractical and unnecessary to evaluate each of them separately. Therefore, the first step in the point method is to select benchmark jobs. Benchmark jobs are representative of the jobs the employer needs to evaluate. Like “accounting clerk” they should be common among employers (thus making it easier to survey what competitors are paying for similar jobs).⁷⁴

2. Select Compensable Factors

The choice of compensable factors depends on tradition (as noted, the Equal Pay Act of 1963 uses four compensable factors: skill, effort, responsibility, and working conditions), and on strategic and practical considerations. For example, if your firm's competitive advantage is quality, you might substitute “responsibility for quality” for working conditions, or simply add it as a fifth factor.⁷⁵ Similarly, using “working conditions” makes little practical sense for evaluating executive jobs.

The employer should carefully define each factor. This is to ensure that the evaluation committee members will each apply the factors with consistency. Figure 11-5 shows (on

FIGURE 11-5 Illustrative Point Values and Degree Definitions for the Factor Job Complexity

Source: Copyright Gary Dessler, PhD.

Factor Definition: What Is Job Complexity? Job complexity generally refers to the amount of judgment, initiative, ingenuity, and complex data analysis that doing the job requires. To what extent does the person doing this job confront unfamiliar problems, deal with complex decisions, and have to exercise discretion?

Degree	Points	Job Complexity Degree Definitions: What to Look for in the Job
First	120	Here the job is routine and consists of repetitive operations requiring little or no choice of action and the automatic application of easily understood rules and procedures. For example, a filing clerk.
Second	240	Here the employee follows detailed instructions but may have to make limited decisions based on previously prescribed instructions which lay out prescribed alternatives. For example, a billing clerk or a receptionist.
Third	360	Here the employee again follows detailed instructions but because the number of matters to consider is more varied, the employee needs to exhibit initiative and independent judgment, under direct supervision. For example, a nurse's aide.
Fourth	480	Here the employee can generally follow standard practices but the presence of nonroutine problems requires that the employee be able to use initiative and judgment to analyze and evaluate situations, possibly modifying the standard procedures to adjust to the new situations. For example, a nurse.
Fifth	600	On this job, the employee needs to use independent judgment and plan and perform complex work under only general supervision, often working independently toward achieving overall results. For example, medical intern.

top) one such definition, in this case for the factor job complexity. The human resource specialist often draws up the definitions.

3. Assign Weights to Compensable Factors

Having selected compensable factors, the next step is to determine the relative importance (or weighting) of each factor (for instance, how much more important is “skill” than “effort”?). This is important because for each cluster of jobs some factors are bound to be more important than others are. Thus, for executive jobs the “mental requirements” factor would carry far more weight than would “physical requirements.” To assign weights, we assume we have a total 100 percentage points to allocate for each job. Then (as an illustration), assign percentage weights of 60% for the factor job complexity, 30% for effort, and 10% for working conditions.⁷⁶

4. Convert Percentages to Points for Each Factor

Next, we want to convert the percentage weights assigned to each compensable factor into point values for each factor (this is, after all, the point method). It is traditional to assume we are working with a total of 1,000 points (although one could use some other figure). To convert percentages to points for each compensable factor, *multiply the percentage weight for each compensable factor (from the previous step) by 1,000.*⁷⁷ This will tell you the *maximum number of points* for each compensable factor. Doing so in this case would translate into $1,000 \times 0.60 = 600$ possible points for job complexity, $1,000 \times 0.30 = 300$ points for effort, and $1,000 \times 0.10 = 100$ points for working conditions.

5. Define Each Factor's Degrees

Next, split each factor into degrees, and define (write degree definitions for) each degree so that raters may judge the amount or degree of a factor existing in a job.

Thus, for a compensable factor such as “job complexity” you might choose to have five degrees, ranging from “here the job is routine” to “uses independent judgment.” (Our definitions for each degree are shown in Figure 11-5 under “Job Complexity Degree Definitions: What to Look for in the Job.”) The number of degrees usually does not exceed five or six, and the actual number depends mostly on judgment. Thus, if all employees work either in a quiet, air-conditioned office or in a noisy, hot factory, then two degrees would probably suffice for the factor “working conditions.” You need not have the same number of degrees for each factor, and you should limit degrees to the number necessary to distinguish among jobs.

6. Determine for Each Factor Its Factor Degrees’ Points

The evaluation committee must be able to determine the number of points each job is worth. To do this, the committee must be able to examine each job and (from each factor’s degree definitions) *determine what degree of each compensable factor* that job has. For them to do this, we must first assign points to *each degree of each compensable factor*. For example, in our illustration, we have five possible degrees of job complexity, and the job complexity compensable factor is worth up to 600 points maximum. In our case, we simply decide that the first degree level of job complexity is worth 120 (or one-fifth of 600) points, the second degree level is worth 240 points, the third degree level is worth 360 points, the fourth degree level is worth 480 points, and the fifth degree is worth the maximum 600 points (see Figure 11-5).⁷⁸ Do this for each factor (as in Table 11-3).

7. Review Job Descriptions and Job Specifications

The heart of job *evaluation* involves determining the amount or degree to which the job contains the selected compensable factors such as effort, job complexity, and working conditions. The team conducting the job evaluation will frequently do so by first reviewing each job’s job description and job specification. As we explained in Chapter 4 (Job Analysis), it is through the job analysis that the manager identifies the job’s duties and responsibilities and writes the job description and job specification. Ideally, therefore, the job analyst included, in the job description and specification, information about the compensable factors (such as job complexity) around which the employer plans to build its compensation plan.⁷⁹

8. Evaluate the Jobs

Steps 1–7 provide us with the information (for instance, on points and degrees) based on which we can evaluate the jobs. The committee has also gathered the job descriptions and job specifications for the benchmark jobs they will focus on.

Then, from their review of each job description and job specification, the committee *determines the degree to which each compensable factor is present in each job*. Thus for, say, a job of master mechanic, the team might conclude (after studying the job description and job specification) that the master mechanic’s job deserves the third-degree level of *job complexity* points, the first-degree level of *effort*, and the first-degree level of *working conditions*.

Knowing the job complexity, effort, and working conditions degrees for each job, *and knowing the number of points we previously assigned to each degree of each*

TABLE 11-3 Points Assigned to Factors and to Their Degrees (Revised)

Factors	First-Degree Points	Second-Degree Points	Third-Degree Points	Fourth-Degree Points	Fifth-Degree Points
Job complexity (Total maximum points equal 600)	120	240	360	480	600
Effort (Total maximum points equal 300)	60	120	180	240	300
Working conditions (Total maximum points equal 100 points)	20	40	60	80	100

compensable factor, we can now determine how many job complexity, effort, and working conditions points each benchmark job should contain. (We know the degree level for each factor for each job, so we merely check the corresponding points [see Table 11-3] that we previously assigned to each of these degrees.)

Finally, we add up these degree points for each job to determine each job's total number of points.⁸⁰ The master mechanic job gets $360 + 60 + 20 = 440$ points from Table 11-3. This enables us to list a hierarchy of jobs, based upon each job's points. We can soon turn to assigning wage rates to each job (step 9). But first, we should define market-competitive pay plan and wage curve.

What should the pay rate be for each job? Of course, jobs with more points should command higher pay. The question is what pay rate to use. Our company's current, "internal" pay rates? Or pay rates based on what the "external" market is paying?⁸¹

With a **market-competitive pay system**, the employer's actual pay rates are competitive with those in the relevant labor market, as well as equitable internally.⁸² Put simply, the basic approach is to compare what the employer is *currently* paying for each job ("internal pay") with what the market is paying for the same or similar job ("external pay"), and then to combine this information to produce a market-competitive pay system.

market-competitive pay system

A pay system in which the employer's actual pay rates are competitive with those in the relevant labor market.

wage curve

Shows the relationship between the value of the job and the average wage paid for this job.

WAGE CURVES Wage curves play a central role in assigning wage rates to jobs. The wage curve typically shows the pay rates paid for jobs, relative to the points or rankings assigned to each job by the job evaluation. Figure 11-6 presents an example. Note that it shows pay rates for jobs on the vertical axis, and point values for these jobs along the horizontal axis. The purpose of the wage curve is to show the relationships between (1) the value of the job (expressed in points) as determined by one of the job evaluation methods and (2) the pay rates for the job. (We'll see that many employers may combine jobs into classes or grades. Here the wage curve would show the relationship between average pay rates for each grade, and each grade's average point value.) The pay rates on the wage curve are traditionally those now paid by the employer. However, if there is reason to believe the current pay rates are out of step with the market rates for these jobs, the employer will have to adjust them. One way to do this is to compare a wage curve that shows the jobs' *current* wage rates relative to the jobs' points, with a second curve that shows *market* wage rates relative to points. We do this as follows.

9. Draw the Current (Internal) Wage Curve

First, to study how each job's points relates to its current pay rate, we start by drawing an *internal wage curve*. Plotting each job's points and the wage rate the employer is now paying for each job (or wage rates, if there are several for each job) produces a scatter plot as in Figure 11-7 (left). We now draw a wage curve (on the right) through these

FIGURE 11-6 Plotting a Wage Curve

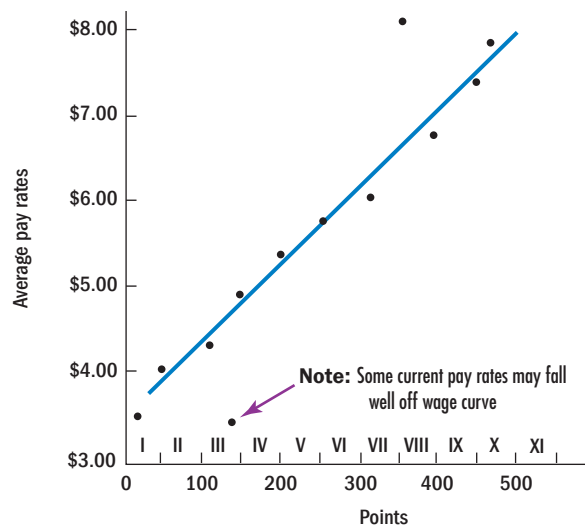
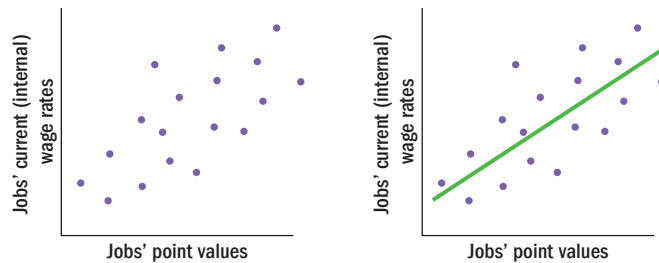


FIGURE 11-7 The Current/Internal Wage Curve

plots that shows how point values relate to current wage rates. We can draw this wage line by just estimating a line that best fits the plotted points (by minimizing the distances between the plots and the curve). Or we can use regression, a statistical technique. Using the latter will produce a current/internal wage curve that best fits the plotted points. In any case, we show the results in Figure 11-7 (right).⁸³

10. Conduct a Market Analysis: Salary Surveys

Next, we must compile the information needed to draw an *external wage curve* for our jobs, based on what other employers are paying for similar jobs. **Salary surveys**—surveys of what others are paying—play a big role in pricing jobs.⁸⁴ Employers use salary surveys in three ways. First, they use survey data to price benchmark jobs. Benchmark jobs are the anchor jobs around which they slot their other jobs, based on each job's relative worth to the firm. Second, employers typically price 20% or more of their positions directly in the marketplace (rather than relative to the firm's benchmark jobs), based on a survey of what comparable firms are paying for comparable jobs. (Google might do this for jobs like systems engineer, whose salaries fluctuate widely and often.) Third, surveys also collect data on benefits like insurance, sick leave, and vacations for decisions regarding employee benefits.

Salary surveys can be formal or informal. *Informal* phone or Internet surveys are good for checking specific issues, such as when a bank wants to confirm the salary at which to advertise a newly open teller's job, or whether some banks are really paying tellers an incentive. Some large employers can afford to send out their own *formal* surveys to collect compensation information from other employers. These ask about things like number of employees, overtime policies, starting salaries, and paid vacations.

Many employers use surveys published by consulting firms, professional associations, or government agencies. For example, the U.S. Department of Labor's Bureau of Labor Statistics' (BLS) *National Compensation Survey (NCS)* provides comprehensive reports of occupational earnings, compensation cost trends, and benefits (www.bls.gov/bls/wages.htm). A consultant might charge \$12,000 for its salary survey—a lot of money, but a tiny fraction of the millions a client with 5,000 or so employees pays in compensation.⁸⁵

Detailed occupational earnings are available from the *National Compensation Survey* for over 800 occupations in the United States, calculated with data from employers in all industry sectors in every state and the District of Columbia (http://stats.bls.gov/oes/current/oes_nat.htm). The *Current Employment Statistics Survey* is a monthly survey of the payroll records of business establishments that provides data on earnings of production and nonsupervisory workers at the national level. This provides information about earnings as well as production bonuses, commissions, and cost-of-living increases. The *National Compensation Survey—Benefits* provides information on the share of workers who participate in specified benefits, such as health care, retirement plans, and paid vacations. These data also show the details of those benefits, such as amounts of paid leave. Internationally, the BLS reports comparative hourly compensation costs in local currencies and U.S. dollars for production workers and all employees in manufacturing in its international labor comparisons tables.

Private consulting and/or executive recruiting companies like Hay Group, Towers Watson Global Data Services, and Aon/Hewitt (www.aon.com) publish data covering compensation for top and middle management and members of boards of directors. Professional organizations like the Society for Human Resource Management and

salary survey

A survey aimed at determining prevailing wage rates. A good salary survey provides specific wage rates for specific jobs. Formal written questionnaire surveys are the most comprehensive, but telephone surveys and newspaper ads are also sources of information.

TABLE 11-4 Some Pay Data Web Sites

Sponsor	Internet Address	What It Provides	Downside
Salary.com	www.salary.com	Salary by job and ZIP code, plus job and description, for hundreds of jobs	Adapts national averages by applying local cost-of-living differences
U.S. Office of Personnel Management	www.opm.gov/oca/09Tables/index.asp	Salaries and wages for U.S. government jobs, by location	Limited to U.S. government jobs
Job Star	http://jobstar.org/tools/salary/sal-prof.php	Profession-specific salary surveys	Necessary to review numerous salary surveys for each profession
CNN Money	http://money.cnn.com	Input your current salary and city; for comparable salary in destination city	Based on national averages adapted to cost-of-living differences

the Financial Executives Institute publish surveys of compensation practices among members of their associations.⁸⁶

USING THE INTERNET TO DO COMPENSATION SURVEYS Internet-based options make it easy for anyone to access published compensation survey information. Table 11-4 shows some popular salary survey Web sites.

Many of these sites, such as Salary.com, provide national salary levels for jobs that the site then arithmetically adjusts to each locale based on cost-of-living formulas. To get a real-time picture of what employers in your area are actually paying for, say, accounting clerks, it's useful to access the online Internet sites of one or two of your local newspapers. For example, the *South Florida Sun-Sentinel* (and many papers) uses a site called Careerbuilder.com. It lists just about all the job opportunities listed in the newspaper by category and, in many instances, their wage rates (www.careerbuilder.com).

11. Draw the Market (External) Wage Curve

The current/internal wage curve from step 9 is helpful. For example, showing, as it does, how a job's current pay rate compares with its points helps the employer identify jobs for which pay rates are currently too high or too low, relative to other jobs in the company. (For example, if a job's current wage rate is well above the internal wage curve, it suggests that the present wage rate for that job is inequitably high, given the number of points we've assigned to that job.)

What the current (internal) wage curve does *not* reveal is whether our pay rates are too high, too low, or just right relative to what other firms are paying. For this, we need to draw a *market* or *external* wage curve.

To draw the market/external wage curve, we produce a scatter plot and wage curve as in Figure 11-8 (left and right). However, instead of using our firm's current wage rates, we use market wage rates (obtained from salary surveys). The market/external wage curve thereby compares our jobs' points with market pay rates for our jobs.

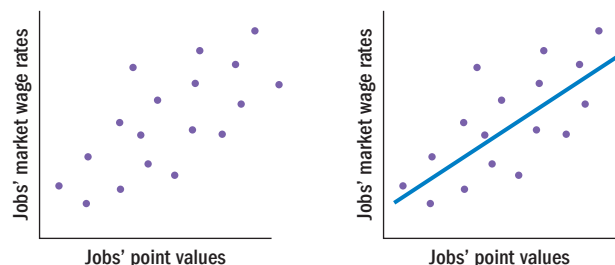
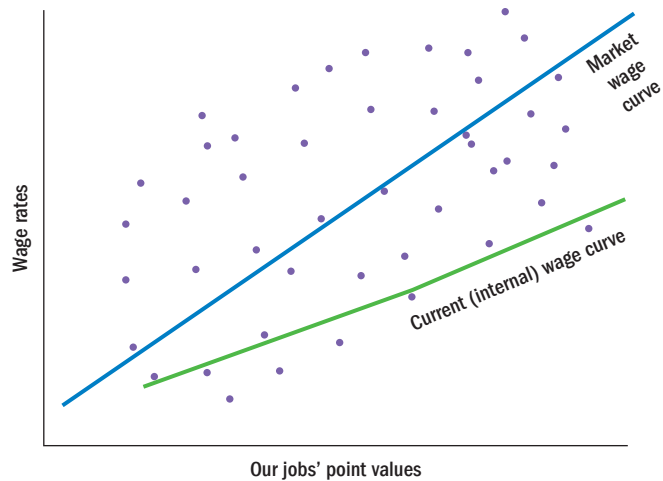
FIGURE 11-8 The Market/External Wage Curve

FIGURE 11-9 Plotting Both the Market and Internal Wage Curves



12. Compare and Adjust Current and Market Wage Rates for Jobs

How different are the market rates other employers are paying for our jobs and the current rates we are now paying for our jobs? To determine this, we combine both the current/internal and market/external wage curves on one graph, as in Figure 11-9. The market wage curve might be higher than our current wage curve (suggesting that our current pay rates may be too low), or below our current wage curve (suggesting that our current wage rates might be too high). Or perhaps market wage rates are higher for some of our jobs and lower for others.⁸⁷

Based on comparing the current/internal wage curve and market/external wage curve in Figure 11-9, we must decide whether to adjust the current pay rates for our jobs, and if so how. This calls for a policy decision by management. Strategic considerations influence this decision. Do our strategic aspirations suggest we should pay more, the same, or less than competitors? For example, we might decide to move our current internal wage curve up (and thereby give everyone a raise), or down (and thereby perhaps withhold pay increases for some time), or adjust the slope of the internal wage curve to increase what we pay for some jobs and decrease what we pay for others. In any case, the wage curve we end up with (the orange line in Figure 11-10) should now be equitable internally (in terms of the point value of each job) and equitable externally (in terms of what other firms are paying).⁸⁸

13. Develop Pay Grades

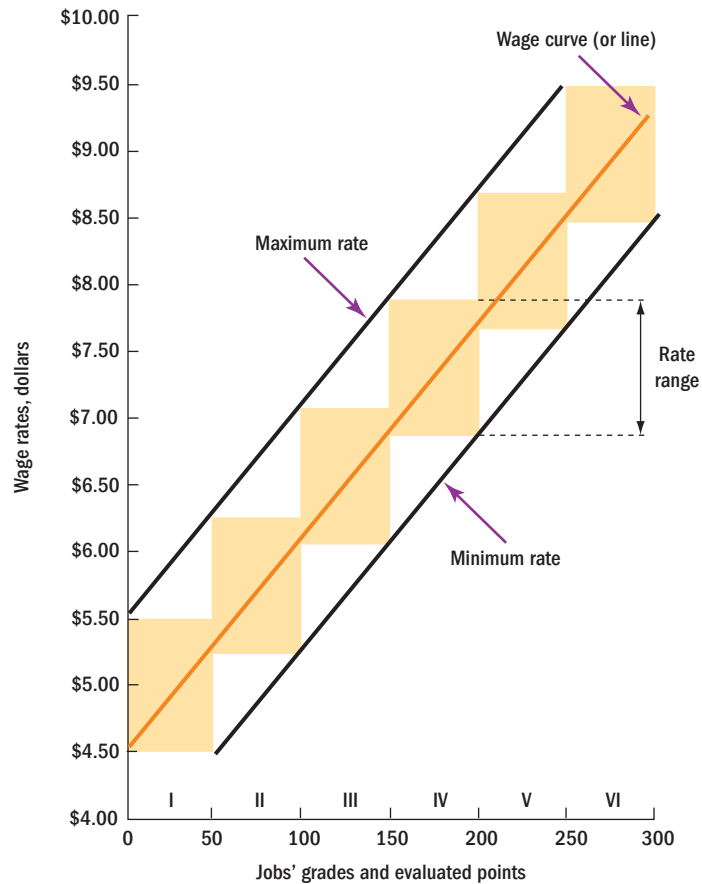
Employers typically group similar jobs (in terms of points) into grades for pay purposes. Then, instead of having to deal with hundreds of job rates, you might only have to focus on, say, pay rates for 10 or 12 pay grades. For example, Serco, a services firm that operates a London, England, light railway system, set up pay grades after ranking jobs using a system based on knowledge, management complexity, and the job's magnitude and impact on the organization.⁸⁹

A **pay (or wage) grade** is composed of jobs of approximately equal difficulty or importance as determined by job evaluation. If you used the point method of job evaluation, the pay grade consists of jobs falling within a range of points. If the ranking method was used, the grade consists of a specific number of ranks. If you use the classification system, then your jobs are already categorized into classes (or grades).

DETERMINING THE NUMBER OF PAY GRADES It is standard to establish grades of equal point spread. (In other words, each grade might include all those jobs falling between 50 and 100 points, 100 and 150 points, 150 and 200 points, etc.) Since each grade is the same width, the main issue involves determining how many grades to have. There doesn't seem to be any optimal number, although 10 to 16 grades for a given job cluster

pay (or wage) grade

A pay grade is composed of jobs of approximately equal difficulty.

FIGURE 11-10 Wage Structure

(shop jobs, clerical jobs, etc.) seems to be common. You need more pay grades if there are, say, 1,000 jobs to be graded than if there are only 100.

14. Establish Rate Ranges

Most employers do not pay just one rate for all jobs in a particular pay grade. For example, GE Medical won't want to pay all its accounting clerks, from beginners to long tenure, at the same rate, even though they may all be in the same pay grade. Instead, employers develop vertical pay (or "rate") ranges for each of the horizontal pay grades (or pay classes). These **pay (or rate) ranges** often appear as vertical boxes within each grade, showing minimum, maximum, and midpoint pay rates for that grade, as in Figure 11-10. (Specialists call this graph a *wage structure*. Figure 11-10 graphically depicts the range of pay rates—in this case, per hour—paid for each pay grade.) Alternatively, you may depict the pay range for each class or grade as steps in a table, as in Table 11-5. Here you will have specific corresponding pay rates for each step within each grade in tabular form. Thus, Table 11-5 shows the pay rates and steps for most federal government grades. As of the time of this pay schedule, for instance, employees in positions classified in grade GS-10 could be paid annual salaries between \$47,630 and \$61,922, depending on the level or step at which they were hired into the grade, the amount of time they were in the grade, and any merit increases they've received.

pay (or rate) ranges

A series of steps or levels within a pay grade, usually based upon years of service.

DEVELOPING RATE RANGES As in Figure 11-10, the wage curve usually anchors the average pay rate for each vertical pay range. The firm might then arbitrarily decide on a maximum and minimum rate for each grade, such as 15% above and below the wage curve. As an alternative, some employers allow the pay range for each grade to become taller (they include more pay rates) for the higher pay ranges, reflecting the greater demands

TABLE 11-5 U.S. Government Annual Rates by Grade and Step

Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10	Within Grade Amounts
1	\$ 18,526	\$ 19,146	\$ 19,762	\$ 20,375	\$ 20,991	\$ 21,351	\$ 21,960	\$ 22,575	\$ 22,599	\$ 23,171	VARIES
2	20,829	21,325	22,015	22,599	22,853	23,525	24,197	24,869	25,541	26,213	VARIES
3	22,727	23,485	23,243	25,001	25,759	26,517	27,275	28,033	28,791	29,549	758
4	25,514	26,364	27,214	28,064	28,914	29,764	30,614	31,464	32,314	33,164	850
5	28,545	29,497	30,449	31,401	32,353	33,305	34,257	34,209	36,161	37,113	952
6	31,819	32,880	33,941	35,002	36,063	37,124	38,185	39,246	40,307	41,368	1,061
7	35,359	36,538	37,717	38,896	40,075	41,254	42,433	43,612	44,791	45,970	1,179
8	39,159	40,464	41,769	43,074	44,379	45,684	46,989	48,294	49,599	50,904	1,305
9	43,251	44,693	46,135	47,577	49,019	50,461	51,903	53,345	54,787	56,229	1,442
10	47,630	49,218	50,806	52,394	53,982	55,570	57,158	58,746	60,334	61,922	1,588
11	52,329	54,073	55,817	57,561	59,305	61,049	62,793	64,537	66,281	68,025	1,744
12	62,722	64,813	66,904	68,995	71,086	73,177	75,268	77,359	79,450	81,541	2,091
13	74,584	77,070	79,556	82,042	84,528	87,014	89,500	91,986	94,472	96,958	2,486
14	88,136	91,074	94,012	96,950	99,888	102,826	105,764	108,702	111,640	114,578	2,938
15	103,672	107,128	110,584	114,040	117,496	120,952	124,408	127,864	131,320	134,776	3,456

Source: From salary table 2015-gs incorporating the 1% general schedule increase effective January 2015, from <https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2017/GS.pdf>.

and performance variability inherent in more complex jobs. As in Figure 11-10, most employers structure their rate ranges to overlap a bit, so an employee in one grade who has more experience or seniority may earn more than would someone in an entry-level position in the next higher pay grade.⁹⁰

There are several reasons to use pay ranges for each pay grade. First, it lets the employer take a more flexible stance in the labor market. For example, it makes it easier to attract experienced, higher-paid employees into a pay grade at the top of the range, since the starting salary for the pay grade's lowest step may be too low to attract them. Pay ranges also let companies provide for performance differences between employees within the same grade or between those with different seniorities.

Compensation experts sometimes use *compa ratios*. The **compa ratio** equals an employee's pay rate divided by the pay range midpoint for his or her pay grade. A compa ratio of 1 means the employee is being paid exactly at the pay range midpoint. If the compa ratio is above 1 then the person's pay rate exceeds the midpoint pay for the job. If it is below, then the pay rate is less than the midpoint. The compa ratio can help reveal how many jobs in each pay grade are paid above and below competitive market pay rates.⁹¹

15. Address Remaining Jobs

To this point, we have focused our job evaluation on a limited number of benchmark jobs, as is traditional. We now want to add our remaining jobs to the wage structure. We can do this in two ways. We can evaluate each of the remaining jobs using the same process we just went through. Or we can simply slot the remaining jobs into the wage structure where we feel they belong, without formally evaluating and assigning points to these jobs. Jobs similar enough to our benchmark jobs we can easily slot into the wage structure. Jobs we're not sure about should undergo the same job evaluation process; we assign points to them and precisely slot them into the wage structure.⁹²

compa ratio

Equals an employee's pay rate divided by the pay range midpoint for his or her pay grade.

16. Correct Out-of-Line Rates

Finally, the wage rate the firm is now paying for a particular job may fall well off the wage curve or well outside the rate range for its grade, as illustrated in Figure 11-6 (page 367). This means that the average pay for that job is currently too high or too low, relative to other jobs in the firm. For underpaid jobs, the solution is clear: Raise the wages of underpaid employees to the minimum of the rate range for their pay grade.

Current pay rates falling above the rate range are a different story. These are “red circle,” “flagged,” or “overrates.” There are several ways to cope with this problem. One is to freeze the rate paid to these employees until general salary increases bring the other jobs into line. A second option is to transfer or promote the employees involved to jobs for which you can legitimately pay them their current pay rates. The third option is to freeze the rate for 6 months, during which time you try to transfer or promote the overpaid employees. If you cannot, then cut the rate you pay these employees to the maximum in the pay range for their pay grade. The accompanying HR Tools discussion explains a streamlined pay plan procedure for small businesses.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Developing a Workable Pay Plan

Pay plans are as important for small firms as large ones. Pay that is too high wastes money; too low triggers turnover; and internally inequitable causes endless demands for raises. The owner who wants to concentrate on major issues like sales needs a rational pay plan.

Surveying market rates come first. Sites like LinkedIn and Salary.com will show localized average pay rates for jobs in your geographic area. The Sunday newspaper classified ads (online and offline) will contain information on wages offered for jobs similar to those you’re trying to price. Local job service “one-stop” offices can provide a wealth of information, as they compile extensive information on pay ranges and averages for many jobs. Employment agencies, always anxious to form ties with employers, will provide good data. Local college and university career centers will reveal prevailing pay rates for many jobs. Professional associations (such as the careers link for civil engineers at www.asce.org) are good sources of professionals’ pay rates.

Smaller firms are making use of the Internet in other ways. StockHouse Media Corp (www.stockhouse.com) uses the Web for determining salaries for all the firm’s personnel. For example, the HR manager surfs the Web to monitor rates and trends by periodically checking job boards, company Web sites, LinkedIn, and industry associations.⁹³

If you employ more than 20 employees or so, conduct at least a rudimentary job evaluation (probably using the ranking method we covered on pages 361–362). For this you will need job descriptions (from, for example, O*NET and jobdescription.com), since these will be the source of data regarding the nature and worth of each job.

You may find it easier to split your employees into three clusters—say, managerial/professional, office/clerical, and plant personnel. For each of the three groups, choose one or more compensable factors. Then rank (or assign points to) each job in that cluster based on, say, a ranking job evaluation. For each job you will then want to create a pay range. In general, you might choose as the midpoint of that range the average market salary for that job, or an average of the market rate and what you are currently paying. Then produce a total range of about 30% around this average, broken into five steps. (Thus, assemblers, one of the plant personnel jobs, might earn from \$8.00 to \$12.60 per hour, in five steps.)

Required compensation policies will include amount of holiday and vacation pay (as we explain in Chapter 13), overtime pay policy, method of pay (weekly, biweekly, monthly), garnishments, and time card or sign-in sheet procedures. Many pay policy examples are available online.⁹⁴ ■

MyLab Management Talk About It 4

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete these discussion questions. What type of job evaluation method would you use in a company with 15 employees? Why?

LEARNING OBJECTIVE 11-4

Explain how to price managerial and professional jobs.

Pricing Managerial and Professional Jobs

Developing compensation plans for managers or professionals is similar in many respects to developing plans for any employee. The basic aim is the same: to attract, motivate, and retain good employees. And job evaluation is about as applicable to managerial and professional jobs (below the top executive levels) as to production and clerical ones.

There are some big differences though. Managerial jobs tend to stress harder-to-quantify factors like judgment and problem solving more than do production and clerical jobs. There is also more emphasis on paying managers and professionals based on their performance or on what they can do, rather than on static job demands like working conditions. And one must compete in a marketplace for executives who often have rock star pay. So, job evaluation, although still important for management jobs, usually plays a secondary role to issues like bonuses, incentives, market rates, and benefits.

What Determines Executive Pay?

Because average CEO pay has leaped relative to the average worker's, executive pay has become a contentious topic today.

Whatever it is that accounts for CEO pay, it's apparently not always company performance. In one survey, the best-performing CEOs received the lowest average compensation, while those in low-performing companies were paid relatively well.⁹⁵ Conversely, one expert says CEOs with the highest 20% of compensation produced stock returns 60% greater than those of other firms in their industries.⁹⁶ Another study concluded that three main factors, *job complexity* (span of control, the number of functional divisions over which the executive has direct responsibility, and management level), the employer's *ability to pay* (total profit and rate of return), and the executive's *human capital* (educational level, field of study, work experience), accounted for about two-thirds of executive compensation variance.⁹⁷

In practice, external equity plays a big role in setting a top manager's compensation plan. The board of director's compensation committee may retain a compensation consultant, and together they will choose and analyze top executives' pay in what they consider to be "peer companies"—companies that may (or may not) be in the same industry as theirs. Critics argue that this process creates upward pressures on CEO compensation, because the peer companies often are ones with higher-paid CEOs.⁹⁸ Alternatively, companies such as Berkshire Hathaway and Amazon tend to pay their founder/CEOs (Warren Buffet, Jeff Bezos) far less than do comparably sized firms; however, the CEOs have of course become very wealthy (as have many stockholders) through their stockholdings.⁹⁹

Below the CEO, many employers do use job evaluation for pricing managerial jobs (at least, below the top jobs). The basic approach is to classify executive and management positions into grades, each with a salary range. As with nonmanagerial jobs, one alternative is to rank the executive and management positions in relation to each other, then group into classes those of similar value. However, firms also use the job classification and point methods, with compensable factors like position scope, complexity, and difficulty. As with any jobs, job analysis, salary surveys, and fine-tuning salary levels around wage curves play roles.

Shareholder activism and government oversight have tightened the restrictions on what companies pay top executives. For example, Walt Disney shareholders recently rejected (in a nonbinding vote) a plan to pay Disney CEO Robert Iger a total of almost \$300 million over four years.¹⁰⁰

Compensating Executives

Compensation for a company's top executives usually consist of several main elements.¹⁰¹ *Base pay* includes the person's fixed salary. *Bonuses* are single payments generally to reward the manager for achieving a specific goal such as "total company profit over \$18 million." *Short-term incentives* are usually cash or stock bonuses for achieving progress toward strategic goals, such as "reducing reliance on domestic sales from 80% to 50%." *Long-term incentives* aim to encourage the executive to take actions that drive up the value of the company's stock and include things like stock options. Finally, *executive benefits and perks* include things such as supplemental executive retirement pension plans. As an example, one CEO's total compensation was about \$24 million in one year. Long-term stock awards and stock options of about \$15 million were the largest component. About \$1.5 million was base salary. About \$3.5 million was annual incentive plan, just over \$4 million was increased pensions and deferred compensation, and most of the rest went to "all other compensation."¹⁰²

Salary is traditionally the cornerstone of executive compensation. On it, employers layer benefits, incentives, and perquisites. Top executive compensation packages can be whoppers. The CEOs of Charter Communications and of CBS recently earned a total of about \$98 million and \$68 million, respectively.¹⁰³

Executive compensation emphasizes performance (discussed in Chapter 12) more than do other employees' pay plans, since organizational results reflect executives' contributions more than those of lower-echelon employees. Indeed, boards are boosting the emphasis on performance-based pay (in part due to shareholder activism). The big issue here is identifying the appropriate performance measures. Typical short-term measures include revenue growth and operating profit margin. Long-term measures include rate of return above some predetermined base. With so many complicated elements, employers must also be alert to the tax and securities law implications of their executive compensation decisions.

Compensating Professional Employees

In compensating professionals, employers should first ensure that the person is actually a "professional" under the law. The Fair Labor Standards Act "provides an exemption from both minimum wage and overtime pay for employees employed as bona fide executive, administrative, professional and outside sales employees."¹⁰⁴

However, calling someone a professional doesn't make them one. In addition to earning at least \$455 per week, the person's main duty must "be the performance of work requiring advanced knowledge," and "the advanced knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction."¹⁰⁵ One company hired a high school graduate as an exempt "product design specialist II," earning \$62,000 per year. The job required 12 years of relevant experience, but no particular education. The court ruled the job was *nonexempt*.¹⁰⁶

Beyond that, compensating professionals such as engineers and attorneys presents unique challenges.¹⁰⁷ Analytical jobs like these emphasize compensable factors such as creativity and problem solving that are not easily measured. Furthermore, how to measure performance? For example, the success of an engineer's idea depends on how the firm develops and markets it. And such jobs can be highly sensitive to market conditions and industry demand. For example, Facebook, Google (Alphabet), and Amazon reportedly hire about 30% of American computer science graduates, which creates highly competitive pricing conditions.¹⁰⁸ Wages for other jobs—such as for engineers in the heating and air conditioning industry—face less pressure.¹⁰⁹

Employers can and do use job evaluation for professional jobs. Compensable factors here tend to focus on problem solving, creativity, job scope, and technical knowledge and expertise. Firms use the point method and job classification.

Yet, in practice, firms rarely rely on just job evaluation for pricing professional jobs. Factors like creativity (as noted) are hard to measure, and nonpay issues often influence professionals' job decisions. Tech firms in particular also take dramatic steps to keep their best engineers from leaving. A few years ago Google raised its employees' salaries by 10% in the face of defections by even their highest-paid professionals, such

as the head of its Chrome OS team, to Facebook.¹¹⁰ Many of them, well paid by most standards, still felt underpaid. Tech firms like Facebook also award far more stock options (or stock shares) than do most other industries, and many give large signing bonuses that they can claw back if someone leaves the company prematurely.¹¹¹

Most employers therefore emphasize a market-pricing approach for these jobs. They price professional jobs in the marketplace as best they can, to establish the values for benchmark jobs. Then they slot these benchmark jobs and their other professional jobs into a salary structure. Each professional discipline (such as engineer) usually ends up having four to six grade levels, each with a broad salary range. This helps employers remain competitive when bidding for professionals who literally have global employment possibilities.¹¹² That way, even outside Silicon Valley, engineers' pay stays competitive: In one (non-high-tech) study a few years ago, the engineers earned a base salary of \$89,000, and a bonus of about \$9,000 based on personal performance, product profitability, and safety metrics.¹¹³



IMPROVING PERFORMANCE: THROUGH HRIS

Payroll Administration

Payroll administration is one of the first functions most employers computerize or outsource, and for good reason. Administering the payroll system—keeping track of each employee's FLSA worker status, wage rate, dependents, benefits, overtime, tax status, and so on; computing each paycheck; and then directing the actual printing of checks or direct deposits is a time-consuming task, one complicated by the need to comply with many federal, state, and local wage, hour, and other laws.

Many employers do perform this function in-house, usually with a payroll processing software package. Intuit's *Basic Payroll* lets the employer “enter hours worked and get instant paycheck calculations, including earnings, payroll taxes, and deductions. Then print paychecks yourself. *Basic Payroll* calculates federal and state payroll taxes for you, so you can easily e-pay federal taxes and write a check for state taxes.”¹¹⁴ Kronos's *Workforce Payroll* automates the payroll process, and offers self-service features. For example (see www.kronos.com/products/payroll), *Workforce Payroll* will “let your employees see pay stubs and earning histories, make changes to direct deposit and W-4 forms, print W-2s, and even check out how changes to their deductions will affect their paychecks.”

On the other hand, many employers do outsource payroll administration to vendors such as ADP. In deciding which vendor to use, the employer should consider its goals and the potential economic benefits, as well as factors such as the vendor's reputation. SHRM recommends evaluating the initial list of prospective vendors based on the employer's goals for the relationship. Don't just consider the relative economic benefits of outsourcing the function (rather than doing it in-house), but also the desirability of integrating the employer's internal systems with the vendor's, streamlining tax compliance and filings, and increasing employee self-service.¹¹⁵ ■

LEARNING OBJECTIVE 11-5

Explain the difference between competency-based and traditional pay plans.

Contemporary Topics in Compensation

In this section, we'll look at five important contemporary compensation topics: competency-based pay, broadbanding, comparable worth, board oversight of executive pay, and total rewards.

Competency-Based Pay

Some managers question whether job evaluations that slot jobs into narrow cubbyholes (“Machinist I,” “Machinist II,” and so on) might not actually be counterproductive. For example, high-performance work systems depend on flexible multiskilled job assignments and on teamwork, and there's no place here for employees to say, “That's not my job.”

Competency-based pay aims to avoid that problem.¹¹⁶ With competency (generally skill or knowledge-based) pay, you pay the employee for the skills and knowledge he or she is capable of using rather than for the responsibilities or title of the job

competency-based pay

Where the company pays for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.

Many employers pay certain workers based on attained skill levels.

Monty Rakusen/Cultura/Getty Images



currently held.¹¹⁷ Experts variously call this competence-, knowledge-, or skill-based pay. With competency-based pay, an employee in a class I job who could (but may not have to at the moment) do class II work gets paid as a class II worker, not a class I. *Competencies* are demonstrable personal characteristics such as knowledge, skills, and personal behaviors such as leadership. Why pay employees based on the skill levels they achieve, rather than based on the jobs they're assigned to? Because, for example, a company that organizes a facility around teams may want to encourage employees to get and to use the skills required to rotate among jobs.

As an example, review Chapter 4's Figure 4-11 on page 124. For this job, BP lists the minimum level of each skill (Technical Expertise, Problem Solving, and so on) someone holding this job must attain. As an employee achieves and is tested on each level of each skill, he or she would receive a bump in pay.

Broadbanding

Most firms end up with pay plans that slot jobs into classes or grades, each with its own vertical pay rate range. For example, the U.S. government's pay plan consists of 15 main grades (GS-1 to GS-15), each with its own pay range. For an employee whose job falls into one of these grades, the pay range for that grade dictates his or her minimum and maximum salary.

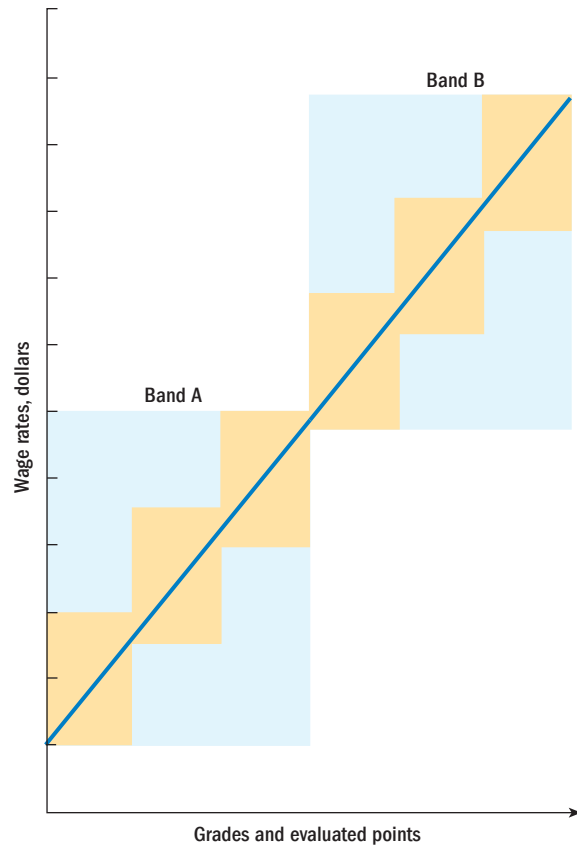
The question is, "How wide should the salary grades be, in terms of the number of job evaluation points they include?" (For example, should the U.S. government collapse its 15 salary grades into 5 or 6 broader bands?) There is a downside to having (say, 15) narrow grades. For instance, if you want someone whose job is in grade 2 to fill in for a time in a job that happens to be in grade 1, it's difficult to reassign that person without lowering his or her salary. Similarly, if you want the person to learn about a job that happens to be in grade 3, the employee might first want a corresponding raise to grade 3 pay. Traditional grade pay plans could thus breed inflexibility.

That is why some firms broadband their pay plans.¹¹⁸ **Broadbanding** means collapsing salary grades into just a few wide levels or bands, each of which contains a relatively wide range of jobs and pay levels. Figure 11-11 illustrates this. Here,

broadbanding

Consolidating salary grades and ranges into just a few wide levels or "bands," each of which contains a relatively wide range of jobs and salary levels.

FIGURE 11-11 Broadbanded Structure and How It Relates to Traditional Pay Grades and Ranges



the company's previous six pay grades are consolidated into two broad grades or "broadbands."

A company may create broadbands for all its jobs, or for specific groups such as managers or professionals. The (vertical) pay rate range of each broadband is relatively large, since it ranges from the minimum pay of the lowest grade the firm merged into the broadband up to the maximum pay of the highest merged grade. Thus, for example, instead of having 10 salary grades, each of which contains a salary range of \$15,000, the firm might collapse the 10 grades into three broadbands, each with a set of jobs such that the difference between the lowest- and highest-paid jobs might be \$40,000 or more. (Again, see Figure 11-11). For the jobs that fall in this broadband, there is therefore a much wider range of pay rates. You can move an employee from job to job within the broadband more easily, without worrying about the employee's moving outside the (relatively) narrow rate range associated with a traditional narrow pay grade. This can make it easier to train someone on a higher level job, or to have them fill in for a time on a lower level job without worrying about pay levels.

Comparable Worth

comparable worth

The concept by which women who are usually paid less than men can claim that men in comparable rather than in strictly equal jobs are paid more.

Comparable worth refers to the requirement to pay men and women equal wages for jobs that are dissimilar but of comparable value (for instance measured in points) to the employer. This may mean comparing dissimilar jobs, such as nurses to mechanics. The question "comparable worth" seeks to address is this: Should you pay women who are performing jobs *equal* to men's or just *comparable* to men's the same as men?

County of Washington v. Gunther (1981) was a pivotal case. It involved Washington County, Oregon, prison matrons, who claimed sex discrimination. The county had evaluated roughly comparable (but different) men's jobs as having 5% more "job content" (based on a point evaluation system) than the women's jobs, but paid the men 35% more.¹¹⁹ Why should there be such a pay discrepancy for roughly comparable

jobs? After moving through the courts to the U.S. Supreme Court, Washington County finally agreed to pay 35,000 employees in female-dominated jobs almost \$500 million in pay raises over 7 years to settle.

Comparable worth has implications for job evaluation. Virtually every comparable worth case that reached court involved the point method of job evaluation. By assigning points to dissimilar jobs, point plans facilitate comparability ratings among different jobs. Should employers still use point plans? Perhaps the wisest approach is for employers to price their jobs as they see fit (with or without point plans), but to also ensure that women have equal access to all jobs. In other words, eliminate sex-segregated jobs.



Diversity Counts: The Pay Gap

All this notwithstanding, women in the United States earn only about 81% as much as men.¹²⁰ This seems true even among the most highly trained. For example, new female medical doctors earn about \$17,000 per year less than their male counterparts.¹²¹ Reasons put forward for the gap include what one writer calls a “Motherhood Penalty” (women take more time off to care for the family, and are penalized career-wise for this), employer discrimination, the outdated notion that employers view women as having less leverage, the fact that professional men change jobs more often (gaining more raises in the process), and that women tend to end up in departments that pay less.¹²² In any case, it’s a problem employers have to recognize and address. Some, like Alphabet are already doing so. Pressures from investor groups, some states, and the national #MeToo movement are forcing others to do so.¹²³ ■

MyLab Management Apply It!

How do companies actually adjust salaries and raises? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise.

Board Oversight of Executive Pay

The company’s board of directors is responsible for setting and approving top executives’ pay, and boards today are scrutinizing that pay for two reasons: governmental regulation/legal, and shareholder activism/inequity.

First, legislation gives various governmental agencies oversight over executive pay. To ensure adequate disclosure, the Securities and Exchange Commission (SEC) requires detailed compensation-related information for the CEO, chief financial officer, and next three highest paid executives. The company usually summarizes this in a Summary Compensation Table in the company’s annual proxy statement filed with the SEC.¹²⁴ The Dodd–Frank Law of 2010 requires that American companies give shareholders a (nonbinding) “say on pay.” The Sarbanes–Oxley Act makes executives personally liable, under certain conditions, for corporate financial oversight lapses. Similarly, tax treatment and disclosure are overseen by the Departments of the Treasury and of Labor, and the Internal Revenue Service.¹²⁵

Second, CEO pay compared with an average worker’s pay has mushroomed in the past 20 or so years—the gap is about six times larger than it was then.¹²⁶ Boards therefore face shareholder activism on executive pay. Law firms file class-action suits demanding information from companies about their senior executive pay decisions.¹²⁷ As of 2018, public corporations in the United States must compute the ratio of CEO to median company employee pay.¹²⁸ The net result is that lawyers specializing in executive pay suggest that boards of directors ask themselves these questions:¹²⁹

- Has our compensation committee identified its duties and processes?
- Is our compensation committee using the appropriate compensation advisors?
- Are there particular executive compensation issues that our committee should address?

- Do our procedures demonstrate diligence and independence (including careful deliberations and records)?
- Is our committee appropriately communicating its decisions? How will shareholders react?¹³⁰

LEARNING OBJECTIVE 11-6

Describe the importance of total rewards for improving employee engagement.

Employee Engagement Guide for Managers

Total Rewards Programs

Total rewards is an important concept in compensation management. People bring to their jobs many needs—for challenging work and for respect and appreciation, for instance—not all of which are satisfied by pay or bonuses. “Total rewards” encompass not only compensation and benefits but also personal and professional growth opportunities and a motivating work environment.”¹³¹ It includes not just traditional financial rewards (wages and incentives plus benefits and perks), but also nonfinancial and intangible rewards such as recognition, the nature of the job/quality of work, career development opportunities,¹³² good relationships with colleagues, organizational justice, trust in employees, feeling of being valued and involved, opportunities for promotion,¹³³ and a great work climate.¹³⁴ Specific total rewards also include recognition programs and redesigned jobs (discussed in Chapter 4), telecommuting programs, health and well-being programs, and training and career development.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Noncash recognition/appreciation rewards such as gift cards, merchandise, and recognition are parts of such total compensation.¹³⁵

New digital and social media tools enable employees to recognize and reward each other. For example, a West Virginia DuPont plant installed an online system that enabled employees to give each other recognition; 95% were soon using it.¹³⁶ International Fitness Holdings lets employees use a Facebook-type app to recognize peers by posting messages and sending private e-mails.¹³⁷ Employers contract with sites like Globoforce.com to provide online recognition systems. ■

Total Rewards and Employee Engagement

When it comes to employee engagement, both material and nonmaterial rewards—total rewards—seem essential.¹³⁸ For example, one study found that base pay and benefits alone were weakly related to engagement.¹³⁹ However, intangible rewards (such as the nature of the job/quality of work and career development opportunities) had high or very high impacts on engagement and performance, when combined with base salary and short-term incentives or bonuses.¹⁴⁰

It’s therefore not surprising that many high-engagement employers emphasize total rewards. For example, the values laid out in Toyota’s famous “The Toyota Way” include mutual trust and respect, stable employment, helping employees to develop their technical skills, and providing extensive benefits such as childcare. Disney emphasizes providing employees with a total rewards package that includes pay plus various benefits and career development opportunities.¹⁴¹ Similarly, many “Best Companies to Work For” emphasize intangible rewards. For example, one top executive at NetApp takes an opportunity to call and thank several employees each day for their efforts; Whole Foods emphasizes employee involvement, for instance letting employees vote on new hires and see what all Whole Foods employees earn.¹⁴² At SAS there is stimulating work, an empowering management philosophy, flexible work, and an emphasis on being happy at work.¹⁴³

In addition to offering such rewards, the employer should issue total reward statements periodically. List all the rewards—financial and nonfinancial—the company offers, and note their importance to the employees’ overall well-being.¹⁴⁴ This increases their impact.

Chapter Review

Chapter Section Summaries

- 11-1.** In establishing strategic pay plans, managers first need to understand some **basic factors in determining pay rates**. Employee compensation includes both direct financial payments and indirect financial statements. The factors determining the design of any pay plan include legal, union, company strategy/policy, and equity. Legal considerations include, most importantly, the Fair Labor Standards Act, which governs matters such as minimum wages and overtime pay. Specific categories of employees are exempt from the act or certain provisions of the act, particularly its overtime provisions. The Equal Pay Act of 1963 and the Employee Retirement Income Security Act are other important laws.
- 11-2.** Employers use two basic approaches to setting pay rates: *market-based approaches* and **job evaluation methods**. Many firms, particularly smaller ones, simply use a *market-based* approach. Job evaluation methods involve assigning values to each of the company's jobs. This helps to produce a pay plan in which each job's pay is equitable based on its value to the employer. Popular job evaluation methods include ranking, job classification, and the point method.
- 11-3.** We said the process of **creating a market-competitive pay plan** while ensuring external, internal, and procedural equity consists of 16 steps as follows: (1) Choose benchmark jobs; (2) Select compensable factors; (3) Assign weights to compensable factors; (4) Convert percentages to points for each factor; (5) Define each factor's degrees; (6) Determine for each factor its factor degrees' points; (7) Review job descriptions and job specifications; (8) Evaluate the jobs; (9) Draw the current (internal) wage curve; (10) Conduct a market analysis: Salary surveys; (11) Draw the market (external) wage curve; (12) Compare and adjust current and market wage rates for jobs; (13) Develop pay grades; (14) Establish rate ranges; (15) Address remaining jobs; and (16) Correct out-of-line rates.
- 11-4.** **Pricing managerial and professional jobs** involves some special issues. Managerial pay typically consists of base pay, short-term incentives, long-term incentives, and executive benefits and, particularly at the top levels, doesn't lend itself to job evaluation but rather to understanding the job's complexity, the employer's ability to pay, and the need to be competitive in attracting top talent.
- 11-5.** We addressed five important **special topics in compensation**. More employers are moving from paying jobs based on their intrinsic duties toward paying jobs based on the competencies the job requires. Broadbanding means consolidating several rates and ranges into a few wide levels or "bands," each of which contains a relatively wide range of jobs in salary levels. Comparable worth refers to the requirement to pay men and women equal pay for jobs that are of comparable rather than strictly equal value to the employee. With many stockholders concerned with excessive executive remuneration, board oversight of executive pay has become an important issue, and boards of directors should use qualified advisors and exercise diligence and independence in formulating executive pay plans.
- 11-6.** Research shows that if **employee engagement** is the aim, it makes sense to emphasize total rewards, not just financial rewards. For example, one study found that base pay and benefits alone had a weak relationship with employee engagement. However, total rewards including intangible rewards such as the nature of the job/quality of work, and career development opportunities had a high or very high impact on engagement and performance, when combined with base salary and short-term incentives or bonuses.

Discussion Questions

- 11-1.** What is the difference between exempt and non-exempt jobs?
- 11-2.** Should the job evaluation depend on an appraisal of the jobholder's performance? Why? Why not?
- 11-3.** What is the relationship between compensable factors and job specifications?
- 11-4.** Define and give an example of how to conduct a job evaluation.

- 11-5. The average pay for most university presidents is around \$300,000 per year, but many earn much more. For example, the president of NYU received about \$1 million in 1 year. Discuss why you would (or would not) pay university presidents as much as or more than many corporate CEOs.
- 11-6. Do small companies need to develop a pay plan? Why or why not?
- 11-7. After Walmart raised its minimum starting pay to \$10 an hour, some longer-term employees

(like one earning \$12 per hour) complained that the strictly entry-level increase was unfair to them. And when the head of a company called Gravity Payments decided to pay all his employees at least \$70,000 a year, some longer-tenure employees complained that it was unfair to raise new peoples' salaries and not theirs.¹⁴⁵ How should Walmart and Gravity address these complaints?

Individual and Group Activities

- 11-8. Working individually or in groups, conduct salary surveys for the following positions: entry-level accountant and entry-level chemical engineer. What sources did you use, and what conclusions did you reach? If you were the HR manager for a local engineering firm, what would you recommend that you pay for each job?
- 11-9. Working individually or in groups, develop compensation policies for the teller position at a local bank. Assume that there are four tellers: two were hired in May and the other two were hired in December. The compensation policies should address the following: appraisals, raises, holidays, vacation pay, overtime pay, method of pay, garnishments, and time cards.
- 11-10. Working individually or in groups, access relevant Web sites to determine what equitable pay ranges are for these jobs: chemical engineer, marketing manager, and HR manager, all with a bachelor's degree and 5 years' experience. Do so for the following cities: New York, New York; San Francisco, California; Houston, Texas; Denver, Colorado; Miami, Florida; Atlanta, Georgia; Chicago, Illinois; Birmingham, Alabama; Detroit, Michigan; and Washington, D.C. For each position in each city, what are the pay ranges and the average pay? Does geographical location impact the salaries of the different positions? If so, how?

- 11-11. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
- 11-12. Working individually or in groups, use the point system described in steps 1 to 16 in this chapter. Do so for a job description that you find online—a list like that at <http://hiring.monster.com/hr/hr-best-practices/recruiting-hiring-advice/job-descriptions/sample-job-descriptions.aspx> is useful. To simplify things, assume there is only one compensable factor you have to use, and that it is job complexity, so that you can use Figure 11-5.
- 11-13. How do you think politicians in the United States should address the problem of income inequality?



Experiential Exercise

Ranking the College's Administrators

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Purpose: The purpose of this exercise is to give you experience in performing a job evaluation using the ranking method.

Required Understanding: You should be thoroughly familiar with the ranking method of job evaluation and obtain job descriptions for your college's dean, department chairperson, director of admissions, library director, registrar, and your professor.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. The groups will perform a job evaluation of the positions of dean, department chairperson, and professor using the ranking method.

Perform a job evaluation by ranking the jobs. You may use one or more compensable factors.

11-14. If time permits, a spokesperson from each group can put his or her group's rankings on the board. Did the groups end up with about the same results? How did they differ? Why do you think they differed?

Application Case

Salary Inequities at AstraZeneca

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More than 50 years after passage of the Equal Pay Act, women in America still earn about 80 cents for every dollar earned by a man. That adds up to a loss for the average female worker of about \$380,000 over a lifetime.

The U.S. Department of Labor's Office of Federal Contract Compliance Programs (OFCCP) entered into an agreement with AstraZeneca, a large international pharmaceuticals firm, for the company to pay some of its female sales associates a total of \$250,000.¹⁴⁶ AstraZeneca had a contract valued at over \$2 billion with the U.S. Department of Veterans Affairs to provide drugs to hospitals around the country. That made it subject to Executive Order 11246, which aims to ensure that employees of U.S. contractors and subcontractors with federal contracts pay their employees fairly without regard to sex, race, color, religion, and national origin.

After conducting a compliance review, the OFCCP concluded that AstraZeneca violated Executive Order 11246 by failing to ensure certain women employees were paid fairly. According to the OFCCP lawsuit, an AstraZeneca Business Center had routinely paid some of its female "primary care" and "specialty care" level III pharmaceutical sales specialists an average of \$1,700 less than men with the same positions.

Because of the company's pay secrecy policies, many of the women didn't know they were being paid less. In addition to the financial settlement, AstraZeneca and OFCCP will review records of the firm's female employees in 14 states. If they find additional statistical evidence of wage discrimination, the company must remedy it.

Questions

AstraZeneca has brought you in as a compensation consultant. Here are the questions they would like you to answer for them:

- 11-15.** Although the case with OFCCP is closed, we wonder if there are any less-discriminatory explanations possible for why our women sales reps on average earned less than men. If so, what are they?
- 11-16.** Our own company now uses a point method to evaluate jobs for pay purposes, and each resulting job class also has a rate range associated with it. Sales associates are now paid a salary that is not based on incentive pay. List three specific things we can do to ensure that a similar problem (inequitable pay based on gender) does not arise again, assuming they continue using the point plan.
- 11-17.** What sort of compensation plan would you recommend for us, and why?

Continuing Case

Carter Cleaning Company

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The New Pay Plan

Carter Cleaning Centers does not have a formal wage structure nor does it have rate ranges or use compensable factors. Wage rates are based mostly on those prevailing in the surrounding community and are tempered with an attempt on the part of Jack Carter to maintain some semblance of equity between what workers with different responsibilities in the stores are paid.

Carter does not make any formal surveys when determining what his company should pay. He peruses the want ads almost every day and conducts informal surveys among his friends in the local chapter of the laundry and cleaners trade association. While Jack has taken a "seat-of-the-pants" approach to paying employees, his salary schedule has been guided by several basic pay policies. Although many of his colleagues adhere to a policy of paying minimum rates, Jack has always

followed a policy of paying his employees about 10% above what he feels are the prevailing rates, a policy that he believes reduces turnover while fostering employee loyalty. Of somewhat more concern to Jennifer is her father's informal policy of paying men about 20% more than women for the same job. Her father's explanation is, "They're stronger and can work harder for longer hours, and besides they all have families to support."

Questions

- 11-18.** Is the company at the point where it should be setting up a formal salary structure based on a complete job evaluation? Why?
- 11-19.** Is Jack Carter's policy of paying 10% more than the prevailing rates a sound one, and how could that be determined?
- 11-20.** Similarly, is Carter's male-female differential wise? If not, why not?
- 11-21.** Specifically, what would you suggest Jennifer do now with respect to her company's pay plan?

Translating Strategy into HR Policies and Practices Case*,§

* The accompanying strategy map for this chapter is in MyLab Management; the overall map on the inside back cover of this text outlines the relationships involved.

Improving Performance at the Hotel Paris

The New Compensation Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

Like several other HR systems at the Hotel Paris, the compensation program was unplanned and unsophisticated. The company has a narrow target range for what it will pay employees in each job category (front-desk clerk, security guard, and so forth). Each hotel manager decides where to start a new employee within that narrow pay range. The company has given little thought to tying general pay levels or individual employees' pay to the company's strategic goals. For example, the firm's policy is simply to pay its employees a "competitive salary," by which it means about average for what other hotels in the city are paying for similar jobs. Lisa knows that pay policies like these may actually run counter to what the company wants to achieve strategically, in terms of creating an extraordinarily service-oriented workforce. How can you hire and retain a top workforce, and channel its behaviors toward high-quality guest services, if you don't somehow link performance and pay? She and her team therefore turn to the task of assessing and redesigning the company's compensation plan.

Even the most casual review by Lisa Cruz and the CFO made it clear that the company's compensation plan wasn't designed to support the firm's new strategic goals. For one thing, they knew that they should pay somewhat more on average than did their competitors if they expected employees to exceed expectations when it came to serving guests. Yet their review of a variety of metrics (including the Hotel Paris's salary/competitive salary ratios, the total compensation expense per employee, and the target percentile for total compensation) suggested that in virtually all job categories the Hotel Paris paid no more than average and, occasionally, paid somewhat less.

The current compensation policies had also bred what one hotel manager called an "I don't care" attitude on the part of most employees. What she meant was that most Hotel Paris employees quickly learned that regardless of what their performance was, they always ended up getting paid about the same as employees who performed better and worse than they did. So, the firm's compensation plan actually created a disconnect between pay and performance: It was not channeling employees' behaviors toward those required to achieve the company's goals. In some ways, it was doing the opposite.

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Lisa and the CFO knew they had to institute a new, strategic compensation plan. They wanted a plan that improved employee morale, contributed to employee engagement, reduced employee turnover, and rewarded (and thus encouraged) the sorts of service-oriented behaviors that boosted guest satisfaction. After meeting with the company's CEO and the board, the CFO gave Lisa the go-ahead to redesign the company's compensation plan, with the overall aim of creating a new plan that would support the company's strategic aims.

Lisa and her team (which included a consulting compensation expert) set numerous new measurable compensation policies for the Hotel Paris, and these new policies formed the heart of the new compensation plan. A new job evaluation study provided a more rational and fair basis upon which the company could assign pay rates. A formal compensation survey by the consultant established, for the first time at the Hotel Paris, a clear picture of what competitive hotels and similar businesses were paying in each geographic area, and enabled the Hotel Paris team to more accurately set targets for what each position at the hotel should be paying. Rather than just paying at the industry average, or slightly below, the new policy called for the Hotel Paris to move all its salaries into the 75th percentile over the next 3 years.

As they instituted the new compensation policies, Lisa and the CFO were pleased to learn from feedback from the hotel managers that they were already noting several positive changes. The number of applicants for each position had increased by over 50% on average, turnover dropped by 80%, and surveys of morale and commitment were producing higher results. Lisa and her team now began to consider how to inject more of a "pay for performance" element into the company's compensation plan, perhaps by instituting new bonuses and incentives. We will see what she did in Chapter 12.

Questions

- 11-22. Lisa knew little about setting up a new compensation plan. Based on what you learned here in Dessler *Human Resource Management*, what would you tell her if she asked, "How do I set up a new compensation plan for the Hotel Paris?"
- 11-23. Would you suggest that Hotel Paris implement a competency-based pay plan for its nonmanagerial staff? Why or why not? Outline what they need to do for one.
- 11-24. Devise a ranking job evaluation system for the Hotel Paris's nonmanagerial employees (housekeepers, valets, front-desk clerks, phone operators, waitstaff, groundskeepers, and security guards), and use it to show the worth of these jobs relative to one another.

MyLab Management

Go to www.pearson.com/mylab/management for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 11-25. You want to hire a new salesperson for the small dress shop you own in Columbus, Ohio, but first need to decide what sort of pay package to offer whomever you eventually hire. How would you conduct a salary survey to determine what the pay should be?

- 11-26. Compare and contrast the following methods of job evaluation: ranking, classification, factor comparison, and point method.
- 11-27. MyLab Management only—comprehensive writing assignment for this chapter.

MyLab Management Try It!

How would you use pay or other components of a total rewards program to solve a “motivation problem” in a company? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the simulation.

Key Terms

employee compensation, 350	Fair Labor Standards Act (1938), 351	ranking method, 361	salary survey, 368
direct financial payments, 350	Equal Pay Act, 356	job classification (or job grading), 362	pay (or wage) grade, 370
indirect financial payments, 350	Employee Retirement Income Security Act (ERISA), 356	classes, 362	pay (or rate) ranges, 371
Davis-Bacon Act (1931), 351	job evaluation, 359	grades, 362	compa ratio, 372
Walsh-Healey Public Contract Act (1936), 351	market-competitive pay plan, 359	grade definition, 362	competency-based pay, 376
Title VII of the 1964 Civil Rights Act, 351	compensable factor, 359	point method, 363	broadbanding, 377
	benchmark job, 361	market-competitive pay system, 367	comparable worth, 378
		wage curve, 367	

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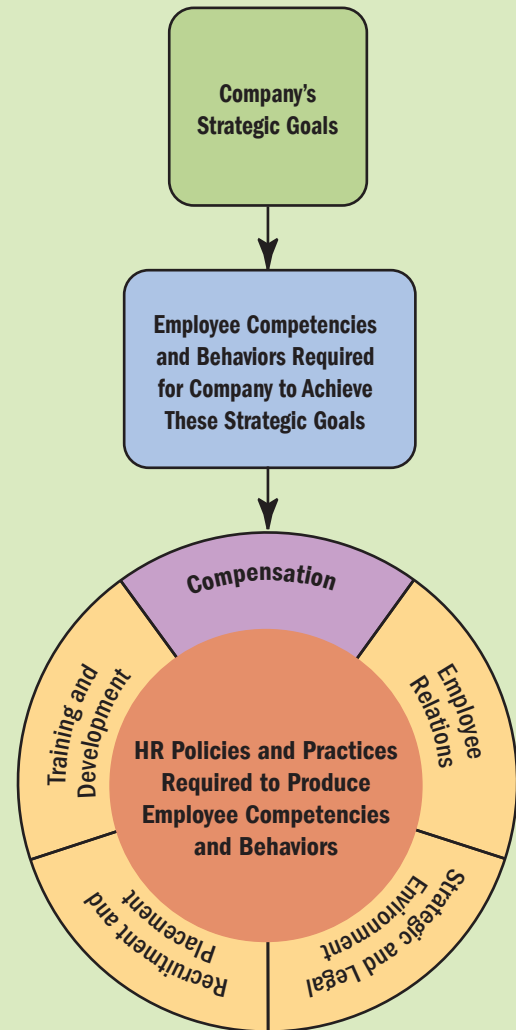
Pay for Performance and Financial Incentives

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 12-1** **Explain** how you would apply four motivation theories in formulating an incentive plan.
- 12-2** **Discuss** the main incentives for individual employees.
- 12-3** **Discuss** the pros and cons of commissions versus straight pay for salespeople.
- 12-4** **Describe** the main incentives for managers and executives.
- 12-5** **Name and describe** the most popular organization-wide incentive plans.
- 12-6** **Explain** how to use incentives to improve employee engagement.

The owners of a 21-store fast-food franchise in the Midwest knew that their stores' performance and profits depended on their employees' performance. They hoped a new employee incentive program could boost their employees' and their stores' performance. We'll see what they did.



WHERE ARE WE NOW . . .

Chapter 11 focused on developing pay plans and on salaries and wages. Incentives are important in any pay plan. The main purpose of this chapter is to explain how managers use incentives to motivate employees. The main topics we'll discuss are **Money's Role in Motivation, Individual Employee Incentive and Recognition Programs, Incentives for Salespeople, Incentives for Managers and Executives, Team and Organization-Wide Incentive Plans, and Incentives and Employee Engagement**. In Chapter 13, we'll turn to the financial and nonfinancial benefits that comprise the third component of employee compensation packages.

LEARNING OBJECTIVE 12-1

Explain how you would apply four motivation theories in formulating an incentive plan.

financial incentives

Financial rewards paid to workers whose production exceeds some predetermined standard.

productivity

The ratio of outputs (goods and services) divided by the inputs (resources such as labor and capital).

fair day's work

Output standards devised based on careful, scientific analysis.

scientific management movement

Management approach based on improving work methods through observation and analysis.

pay-for-performance

Any plan that ties pay to some measure of performance, such as productivity or profitability.

variable pay

Any plan that ties pay to productivity or profitability, usually as one-time lump payments.

Money's Role in Motivation

Frederick Taylor popularized using **financial incentives**—financial rewards paid to workers whose production exceeds some predetermined standard—in the late 1800s. As a supervisor at the Midvale Steel Company, Taylor was concerned with what he called “systematic soldiering”—the tendency of employees to produce at the minimum acceptable level. Some workers had the energy to run home and work on their houses after a 12-hour day. Taylor knew that if he could harness this energy at work, Midvale could achieve huge productivity gains. **Productivity** “is the ratio of outputs (goods and services) divided by the inputs (resources such as labor and capital).”¹

In pursuing his aim, Taylor turned to financial incentives. At the time, primitive incentive plans were in use, but were generally ineffective (because employers arbitrarily changed incentive rates).

Taylor made three contributions. He saw the need for formulating a “**fair day's work**,” namely precise output standards for each job. He spearheaded the **scientific management movement**, which emphasized improving work through observation and analysis. And he popularized using incentive pay to reward employees who produced over standard.

Incentive Pay Terminology

Managers often use two terms synonymously with incentive plans.² All incentive plans are **pay-for-performance** plans. They all tie employees' pay to the employees' performance. Some limit the term **variable pay** to group or team incentive plans,³ but most use *variable pay* to include any performance-based incentive plan.

Linking Strategy, Performance, and Incentive Pay

Incentive pay—tying worker pay to performance—is popular.⁴ The problem is that doing so is easier said than done. United Airlines tried replacing its quarterly bonus with a lottery. Instead of getting quarterly bonuses when United attained its performance goals, qualified employees would instead be eligible to win, say, \$100,000 prizes. Employees revolted, and United returned to its bonus plan.⁵ Another incentive plan, at Levi Strauss, is widely assumed to have been the last nail in the coffin of Levi's U.S.-based production.

Research on incentive plans is sketchy, but one older study found that just 28% of 2,600 U.S. workers said their companies' incentive plans motivated them. “Employees don't see a strong connection between pay and performance, and their performance is not particularly influenced by the company's incentive plan,” said one expert.⁶

One problem is that many incentive plans incentivize the wrong behavior. For example, a Wells Fargo Bank incentive plan pushed bank employees to hit high sales goals, such as selling eight bank products per customer.⁷ Bank employees opened accounts for thousands of customers without the customer's permission.⁸ At ethics workshops, managers told employees not to create fake bank accounts. But employees knew they had to meet their sales goals, so they opened fake accounts.⁹ Fines, lawsuits, and the CEO's exit came next.

Another big reason for incentive plans' often-dismal results is that incentives that may motivate some people won't motivate others. We'll review some motivation background next, and then go on to explain various incentive plans.

Motivation and Incentives

Several motivation theories have particular relevance to designing incentive plans.

MOTIVATORS AND FREDERICK HERZBERG Frederick Herzberg said the best way to motivate someone is to organize the job so that doing it provides the challenge and recognition we all need to help satisfy “higher-level” needs for things like accomplishment and recognition. These needs are relatively insatiable, says Herzberg, so challenging work provides a sort of built-in motivation generator. Doing things to satisfy a worker's “lower-level” needs for things like better pay and working conditions just keeps the person from becoming dissatisfied.

Herzberg says the factors (“hygienes”) that satisfy lower-level needs are different from those (“motivators”) that satisfy or partially satisfy higher-level needs. If *hygiene* factors (factors outside the job itself, such as working conditions, salary, and incentive pay) are inadequate, employees become dissatisfied. However, adding more of these hygienes (like incentives) to the job (supplying what Herzberg calls “extrinsic motivation”) is an inferior way to try to motivate someone, because lower-level needs are quickly satisfied. Inevitably the person says, in effect, “I want another raise.”

Instead of relying on hygienes, says Herzberg, managers interested in creating a self-motivated workforce should emphasize “job content” or *motivator* factors. Managers do this by enriching workers’ jobs so that the jobs are more challenging, and by providing feedback and recognition—by making doing the job intrinsically motivating, in other words. In organizational psychology, **intrinsic motivation** is motivation that derives from the pleasure someone gets from doing the job or task. It comes from “within” the person, rather than from externally, such as from a financial incentive plan. Intrinsic motivation means that just doing the task provides the motivation. Herzberg makes the point that relying exclusively on financial incentives is risky. The employer should also provide the recognition and challenging work that most people crave.

intrinsic motivation

Motivation that derives from the pleasure someone gets from doing the job or task.

DEMOTIVATORS AND EDWARD DECI Psychologist Edward Deci’s work highlights another potential downside to relying too heavily on extrinsic rewards: They may backfire. Deci found that extrinsic rewards could at times actually detract from the person’s intrinsic motivation.¹⁰ The point may be stated thusly: Be cautious in devising incentive pay for highly motivated employees, lest you inadvertently demean and detract from the desire they have to do the job out of a sense of responsibility.

EXPECTANCY THEORY AND VICTOR VROOM In general, people won’t pursue rewards they find unattractive, or where the odds of success are very low. Psychologist Victor Vroom’s expectancy motivation theory echoes these commonsense observations. He says a person’s motivation to exert some level of effort depends on three things: the person’s **expectancy** (in terms of probability) that his or her effort will lead to performance;¹¹ **instrumentality**, or the perceived connection (if any) between successful performance and actually obtaining the rewards; and **valence**, which represents the perceived value the person attaches to the reward.¹² In Vroom’s theory:

$$\text{Motivation} = (E \times I \times V),$$

where E represents expectancy, I instrumentality, and V valence. If E or I or V is zero or inconsequential, there will be no motivation.

Vroom’s theory has three implications for how managers design incentive plans.

- First, if employees don’t *expect* that effort will produce performance, no motivation will occur. So, managers must ensure that their employees have the skills to do the job, and believe they can do the job. Thus, training, job descriptions, and confidence building and support are important in using incentives.
- Second, Vroom’s theory suggests that employees must see the *instrumentality* of their efforts—they must believe that successful performance will in fact lead to getting the reward. Managers can accomplish this, for instance, by creating easy-to-understand incentive plans.
- Third, the reward itself must be of *value* to the employee. The manager should take into account individual employee preferences.

BEHAVIOR MODIFICATION/REINFORCEMENT AND B. F. SKINNER Using incentives also assumes the manager understands how consequences affect behavior.¹³ Psychologist B.F. Skinner’s findings are useful here. Managers apply Skinner’s principles by using *behavior modification*. **Behavior modification** means changing behavior through rewards or punishments that are contingent on performance. For managers, behavior modification boils down to two main principles. First, that behavior that appears to lead to a positive consequence (reward) tends to be repeated, whereas behavior that

expectancy

A person’s expectation that his or her effort will lead to performance.

instrumentality

The perceived relationship between successful performance and obtaining the reward.

valence

The perceived value a person attaches to the reward.

behavior modification

Using contingent rewards or punishment to change behavior.

appears to lead to a negative consequence (punishment) tends not to be repeated; and second, that managers can therefore get someone to change his or her behavior by providing the properly scheduled rewards (or punishment).

To arrange our discussion, we will organize the following sections around individual employee incentive and recognition programs, sales compensation programs, management and executive incentive compensation programs, and team- and organization-wide incentive programs. First, however, we look at some legal aspects of incentive plan design.



KNOW YOUR EMPLOYMENT LAW

Employee Incentives and the Law

Various laws affect incentive pay. Under the Fair Labor Standards Act, if the incentive the worker receives is in the form of a prize or cash award, the employer generally must *include the value of that award* when calculating the worker's overtime pay for that pay period.¹⁴ So, unless you structure the incentive bonuses properly, the bonus itself becomes part of the week's wages. For example, suppose someone who earns \$10 per hour for a 40-hour week also earns, in one week, performance incentive pay (a performance bonus) of \$80 for the week, or \$480 total pay for the week. Further, assume she *also* works 2 hours overtime that week. The overtime rate for each of the 2 hours she works overtime is not simply 1.5 times her regular \$10-per-hour pay. Instead, it is 1.5 times \$12 per hour. Why? Because with her performance bonus she earned \$480 for the 40-hour week, and \$480 divided by 40 hours is \$12 per hour. Therefore, she will actually earn in total that week \$480 plus the overtime pay of \$12 per hour for the two extra hours, or $\$480 + \$24 = \$504$ total for the week.

Certain bonuses are excludable from overtime pay calculations. For example, Christmas and gift bonuses that are not based on hours worked, or are so substantial that employees don't consider them a part of their wages, do not have to be included in overtime pay calculations. Similarly, purely discretionary bonuses in which the employer retains discretion over how much if anything to pay are excludable.

However, other types of incentive pay *must* be included. Under the Fair Labor Standards Act (FLSA), bonuses to include in overtime pay computations include those promised to newly hired employees; those provided for in union contracts or other agreements; and those announced to induce employees to work more productively or efficiently or to induce them to remain with the company. Such bonuses would include many of those we turn to next, such as individual and group production bonuses. ■



LEARNING OBJECTIVE 12-2

Discuss the main incentives for individual employees.

piecework

A system of pay based on the number of items processed by each individual worker in a unit of time, such as items per hour or items per day.

Individual Employee Incentive and Recognition Programs

Several incentive plans are particularly suited for use with individual employees.

Piecework

Piecework is the oldest incentive plan and still the most commonly used. Earnings are tied directly to what the worker produces. The person is paid a piece rate for each unit he or she produces. Thus, if Tom Smith gets \$0.40 apiece for stamping out doorjamb, then he would get, say, \$80 for stamping out 200.

Developing a workable piece rate plan requires job evaluation and (ideally) industrial engineering. Job evaluation enables you to assign an hourly wage rate to the job in question. But the crucial issue is the production standard, and this is often developed by industrial engineers. The engineers state production standards in terms of a standard number of minutes per unit or a standard number of units per hour. In Tom Smith's case, the job evaluation indicated that his doorjamb stamping job was worth \$8.00 an hour. The industrial engineer determined that 20 jamb per hour was the standard production rate. Therefore, the engineered piece rate (for each doorjamb) was \$8.00 divided by 20, which equals \$0.40 per doorjamb.

straight piecework

An incentive plan in which a person is paid a sum for each item he or she makes or sells, with a strict proportionality between results and rewards.

standard hour plan

A plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. Similar to piecework payment but based on a percent premium.

merit pay (merit raise)

Any salary increase awarded to an employee based on his or her individual performance.

With a **straight piecework** plan, Tom Smith would be paid based on the number of doorjambs he produced; there would be no guaranteed minimum wage. However, today most employers must guarantee their workers a minimum wage. With a guaranteed piecework plan, Tom Smith would be paid \$7.25 per hour (the 2018 minimum wage) whether or not he stamped out 18 doorjambs per hour (at \$0.40 each). But he would also get \$0.40 for each unit over 18.

Piecework generally implies “straight piecework,” a strict proportionality between results and rewards regardless of level of output. Thus, in Smith’s case, he continues to get \$0.40 apiece for stamping out doorjambs, even if he stamps out more than the planned, say, 500 per day. However, some piecework plans share productivity gains between worker and employer. For example, the employee might only get \$0.35 per piece over 400 units per day, instead of \$0.40. Other plans *boost* the employee’s share once a threshold is met—such as paying Tom \$0.45 each once he reached 400 units per day.

The **standard hour plan** is like the piecework plan, with one difference. Instead of getting a rate per piece, the worker gets a pay premium equal to the percent by which his or her performance exceeds the standard. So if Tom’s standard is 160 doorjambs per day (\$64 per eight hour day), and he actually makes 200 jambs, he’d get an extra 25% (40/160), or \$80. Using this approach may reduce workers’ tendency to link their production standard (18 jambs per hour) to pay. This makes it easier to change the standard.

ADVANTAGES AND DISADVANTAGES Piecework incentive plans have several advantages. They are simple to calculate and easily understood by employees. Piecework plans appear equitable in principle, and their incentive value can be powerful since they tie pay directly to performance.

Piecework also has disadvantages. One is an unsavory reputation, based on employers’ habit of arbitrarily raising production standards whenever workers earned “excessive” wages. A more subtle drawback is that because piece rates are quoted on a per piece basis, in worker’s minds the production standard (in pieces per hour) becomes tied inseparably to what they earn. Piecework plans can thus engender rigidity. When the employer tries to raise production standards, resistance ensues. Employees may similarly focus less on quality, and may resist switching jobs (since doing so could reduce productivity). Even equipment maintenance may suffer as employees push to hit quotas.

Merit Pay as an Incentive

Merit pay or a **merit raise** is a salary increase the firm awards to an individual employee based on individual performance. It is different from a bonus in that it usually becomes part of the employee’s base salary, whereas bonuses are generally one-time payments. Although the term *merit pay* can apply to the incentive raises given to any employee, the term is more often used for professional, office, and clerical employees.

Merit pay has pros and cons. Advocates say granting pay raises across the board (*without* regard to merit) reduces performance by rewarding employees regardless of how they perform. Detractors argue, most notably, that since most appraisals are unfair, so too are the merit decisions based on them.

The evidence is mixed. For example, one study in a nuclear waste facility found a “very modest relationship between merit pay increase and performance rating.”¹⁵ Studies of merit pay for teachers found that merit pay was more linked to research productivity than to teaching effectiveness.¹⁶ A recent survey found that only 20% of employers in North America said merit pay drives higher levels of performance.¹⁷ (This survey also concluded that awarding raises for demonstrating job-critical knowledge and skills was the better option.)¹⁸

If a merit pay plan isn’t working, one sensible reaction is to improve it. This starts with establishing effective appraisal procedures, to ensure that managers actually do tie merit awards to performance. Similarly, merit plan effectiveness requires really differentiating among employees. In one survey, the highest-paid office clerical employees got short-term incentive payouts of about 13%, the lowest-rated got 3%, and mid-rated employees got 8%.¹⁹



HR in Action at the Hotel Paris Based on their analysis, Lisa Cruz and the CFO concluded that, by any measure, their company's incentive plan was inadequate. The percentage of the workforce whose merit increase was tied to performance was effectively zero, because managers awarded merit pay across the board. To see how they handled this, see the case on pages 414–415.

MERIT PAY OPTIONS Two merit pay adaptations are popular. One awards merit raises in a lump sum once a year (making them, in effect, short-term bonuses for lower-level workers). Traditional merit increases become part of the employee's salary, but these *lump-sum merit raises* do not. This has two benefits. First, the merit raise is not baked into the employee's salary, so you need not pay it year after year. Lump-sum merit increases are also more dramatic. For example, a 5% lump-sum merit payment to a \$30,000 employee is \$1,500 cash, as opposed to a weekly merit payout of about \$29.

The other adaptation ties merit awards to both individual and organizational performance. Table 12-1 shows an example. In this example, you measure company performance by profits. Here, company performance and the employee's performance (using his or her performance appraisal) receive equal weight in computing merit pay. In Table 12-1 an outstanding performer would receive 70% of his or her maximum lump-sum award even when the company's performance is marginal. However, employees with marginal or unacceptable performance get no lump-sum awards even when the firm's performance was outstanding. Alternatively, you might decide to award, say, 60% of someone's bonus based on the supervisor's appraisal, 30% based on department performance, and 10% based on company performance.

Incentives for Professional Employees

Professional employees are those whose work involves the application of learned knowledge to the solution of the employer's problems, such as lawyers and engineers.

Making incentive pay decisions for professional employees is challenging. For one thing, firms usually pay professionals well anyway. For another, they're already driven by the desire to produce high-caliber work.

However, it is unrealistic to assume that people like Google engineers work only for professional gratification. Few firms, therefore, work harder than Google to maintain competitive incentives for professionals. For example, Google reportedly pays higher incentives to engineers working on important projects. Those who choose the intrinsic motivation of working on more theoretical long-term projects are rewarded if their research pays off.²⁰ As at most Silicon Valley firms, Google's professionals also bask in the light of potentially millionaire-making stock option grants.

Dual-career ladders are another way to manage professionals' pay. At many employers, higher pay requires rerouting from, say, engineering into management.

TABLE 12-1 Merit Award Determination Matrix (an Example)

The Employee's Performance Rating (Weight = 0.50)	The Company's Performance (Weight = 0.50)				
	Outstanding	Excellent	Good	Marginal	Unacceptable
Outstanding	1.00	0.90	0.80	0.70	0.00
Excellent	0.90	0.80	0.70	0.60	0.00
Good	0.80	0.70	0.60	0.50	0.00
Marginal	—	—	—	—	—
Unacceptable	—	—	—	—	—

Note: To determine the dollar value of each employee's award: (1) multiply the employee's annual, straight-time wage or salary as of June 30 times his or her maximum incentive award (as determined by management or the board—such as, "10% of each employee's pay") and (2) multiply the resultant product by the appropriate percentage figure from this table. For example, if an employee had an annual salary of \$40,000 on June 30 and a maximum incentive award of 7% and if her performance and the organization's performance were both "excellent," the employee's award would be \$2,240: ($\$40,000 \times 0.07 \times 0.80 = \$2,240$).



However, not all professionals want management. Therefore, many employers institute one career path for managers, and another for technical experts, allowing the latter to earn higher pay without switching to management.²¹

Nonfinancial and Recognition-Based Awards

Employers often supplement financial incentives with various nonfinancial and recognition-based awards. The term *recognition program* usually refers to formal programs, such as employee-of-the-month programs. *Social recognition program* generally refers to informal manager–employee exchanges such as praise, approval, or expressions of appreciation for a job well done. *Performance feedback* means providing quantitative or qualitative information on task performance so as to change or maintain performance; showing workers a graph of how their performance is trending is an example.²²



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA²³

Employers are bulking up their recognition programs with digital support. For example, Baudville offers a workplace recognition e-card service called ePraise. Employers use this to tell employees they're appreciated. Intuit shifted its employee recognition, years of service, patent awards, and wellness awards programs to Globoforce.com, an online awards vendor. This “allowed us to build efficiencies and improved effectiveness” into the programs, says Intuit.²⁴

Various new apps let employees showcase their awards, contributions, and praise from coworkers, and enable employees to praise each other.²⁵ For example, one lets employees “give recognition by picking out a badge and typing in a quick note to thank the people who matter most....” Others let users post the positive feedback they receive to their LinkedIn profiles.

Mobile technology is also changing how employers incentivize front-line service people. For example, pay for a \$5.00 espresso in many coffeehouses with a credit card and the iPad screen will ask how big a tip you want to leave—from \$1.00 to \$3.00.²⁶ ■

Most employers offer both financial and nonfinancial awards. At one company, customer service reps who exceed standards receive a plaque, a \$500 check, their photo and story on the firm's intranet, and a dinner for themselves and their teams.²⁷ One survey of 235 managers found the most-used financial and nonfinancial rewards (from most used to least) were:²⁸ employee recognition, gift certificates, special events, cash rewards, merchandise incentives, e-mail/print communications, training programs, work/life benefits, variable pay, group travel, individual travel, and sweepstakes. The HR Tools feature elaborates.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

The supervisor should not rely only on the employer's financial incentive plans for motivating subordinates. There are simply too many opportunities to motivate employees every day to let those opportunities pass. What to do?

First, the best option for motivating an employee is also the simplest—*make sure the employee has a doable goal* and that he or she agrees with it. It makes little sense to try to motivate employees with incentives if they don't know their goals or don't agree with them. Psychologist Edwin Locke and his colleagues have consistently found that specific, challenging goals lead to higher task performance than do specific unchallenging goals; vague goals (“do your best”); or no goals.

Second, *recognizing an employee's contribution* is a powerful motivation tool. Studies show that recognition has a positive impact on performance, either alone or combined with financial rewards. For example, in one study, combining financial rewards with recognition produced a 30% performance improvement in service firms, almost twice the effect of using each reward alone. Figure 12-1 presents a list.

FIGURE 12-1 Social Recognition and Related Positive Reinforcement Managers Can Use

Source: Based on Bob Nelson, *1001 Ways to Reward Employees* (New York: Workman Publishing, 1994), p. 19; Sunny C. L. Fong and Margaret A. Shaffer, “The Dimensionality and Determinants of Pay Satisfaction: A Cross-Cultural Investigation of a Group Incentive Plan,” *International Journal of Human Resource Management* 14, no. 4 (June 2003), p. 559 (22).

- Challenging work assignments
- Freedom to choose own work activity
- Having fun built into work
- More of preferred task
- Role as boss’s stand-in when he or she is away
- Role in presentations to top management
- Job rotation
- Encouragement of learning and continuous improvement
- Being provided with ample encouragement
- Being allowed to set own goals
- Compliments
- Expression of appreciation in front of others
- Note of thanks
- Employee-of-the-month award
- Special commendation
- Bigger desk
- Bigger office or cubicle

Third, use *social recognition* apps for positive reinforcement. As noted earlier, online tools such as Globoforce (www.globoforce.com/how-it-works/superior-innovation/social-recognition/) enable employees to recognize each other’s contributions in real time, and encourage them to emulate outstanding behaviors.²⁹ One pitfall to avoid: awarding points for recognizing colleagues can lead to excessive compliments.³⁰ ■

MyLab Management Talk About It 1

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. You have decided to verify that recognition does in fact improve performance. To that end, you will use an honest observation to praise someone’s performance today. What was the effect of your experiment?

■ HR AND THE GIG ECONOMY: RECOGNITION, NONFINANCIAL REWARDS, AND GIG WORKERS

Some assume that pay is all that matters to gig workers, but that’s not the case. One study found that gig workers will exhibit intrinsic motivation (motivation that comes from “inside” the person, driving him or her to do a good job), if the workers identify with the organization.³¹ How to accomplish that? According to Mercer, a human resource management consultant, employers can do at least three things.³²

Provide Meaning and Structure

Everyone wants to feel they’re contributing in a meaningful way. Use company communications to provide gig workers with a context within which to understand how they’re contributing to the company’s success.

Create a Sense of Belonging and Connection

At work most people want to feel that they’re part of a community. Take steps to make gig workers feel they’re part of something, such as through online communities where they share stories and ideas.

Value and Respect Your Workforce

Treat your gig workers (and all workers) respectfully, and consider rewarding their progress with things like badges based on customer ratings.

Job Design

Although not usually considered an “incentive,” job design (discussed in Chapter 4) can affect employee motivation. A study by Harvard Business School researchers concluded that job design is a primary driver of employee engagement. Another by Sibson Consulting concluded that job responsibility and feedback were the

fifth- and seventh-most important drivers of employee engagement. Another study concluded that challenging work ranked as the seventh-most important driver for attracting employees.³³ Job design can thus be a useful part of a total rewards program.

The Strategic Context feature illustrates how employers combine incentives to boost profits.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

The Fast-Food Chain

The heart of just about any fast-food chain's strategy is to control performance: One asked, "Can financial and nonfinancial incentives boost performance in our fast-food chain?"

Two researchers studied the impact of financial and nonfinancial incentives on business performance in 21 stores of a Midwest fast-food franchise.³⁴ The researchers compared performance over time in stores that did and did not use financial and nonfinancial incentives. Each store had about 25 workers and two managers. The researchers trained the managers to identify measurable employee behaviors that were currently deficient but that could influence store performance. Example behaviors included "keeping both hands moving at the drive-through window" and "repeating the customer's order back to him or her."³⁵ Then the researchers instituted financial and nonfinancial incentive plans. They measured store performance in terms of gross profitability (revenue minus expenses), drive-through time, and employee turnover.

Financial Incentives

Some employees in some of the stores received financial incentives for exhibiting the desired behaviors. The financial incentives consisted of lump-sum bonuses in the workers' paychecks. For example, if the manager observed a work team exhibiting up to 50 behaviors (such as "working during idle time") during the observation period, he or she added \$25 to the paychecks of all store employees that period; 50 to 100 behaviors added \$50 per paycheck, and more than 100 behaviors added \$75 per paycheck. Payouts eventually rose over time as the employees learned to enact the behaviors they were to exhibit.

Nonfinancial Incentives

The researchers trained the managers in some stores to use nonfinancial incentives such as feedback and recognition. For example, for *performance feedback* managers maintained charts showing the drive-through times at the end of each day. They placed the charts by the time clocks. Thus, these store employees could keep track of their store's performance on measures like drive-through times. The researchers also trained managers to administer *recognition* to employees. For instance, "I noticed that today the drive-through times were really good."³⁶

Results

Both the financial and nonfinancial incentives improved employee and store performance.³⁷ For example, store profits rose 30% for those units where managers used financial rewards. Store profits rose 36% for those units where managers used nonfinancial rewards. During the same 9-month period, drive-through times decreased 19% for the financial incentives group, and 25% for the nonfinancial incentives groups. Turnover improved 13% for the financial incentives group, and 10% for the nonfinancial incentives group.

Implications for Managers

Here is what these findings mean for managers designing incentive plans:³⁸

1. Link the incentive to behavior that is crucial for achieving strategic goals.³⁹ For example, this chain wanted to boost store performance and profits. Incentivizing employees to work faster and smarter accomplished that.
2. The point of an incentive is to motivate the person to work better. Therefore, it makes more sense to use an incentive plan when (1) motivation (not ability) is the problem; (2) when the employee's effort and results are directly related; and (3) when the employee can actually control the results you plan to incentivize. Put another way, make sure there is a clear link between the person's *effort and performance* and between the *performance and reward*, that the incentive is *attractive* to the employee, and that the employee *has the skills* to do the job.

3. Don't just rely on material rewards. Support the incentive plan with performance feedback (like the performance graphs) and with recognition.⁴⁰
4. Set complete standards. For example, don't just pay for "repeating the customer's order" if speed is important too.
5. Be scientific. As in this study, *gather evidence*, and analyze the effects of the incentive plan over time.⁴¹

MyLab Management Talk About It 2

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. The dean has asked you to design an incentive plan for your professor. How would you apply what you learned in this feature to do so?

LEARNING OBJECTIVE 12-3

Discuss the pros and cons of commissions versus straight pay for salespeople.

Incentives for Salespeople

As one survey said, "the performance metrics given to the sales team must drive behaviors that will help the company's . . . strategy to be successful."⁴² Unfortunately, that survey also found that "30% of respondents believe their sales compensation program rewarded the right behaviors 'not well' or 'very poorly.'"⁴³ Employers are therefore moving to align how they measure and reward their salespeople, with their firms' strategic goals.⁴⁴

Salary Plan

Sales compensation plans focus on salary, commissions, or some combination of the two.⁴⁵ Some firms pay salespeople fixed salaries (perhaps with occasional incentives such as bonuses, sales contest prizes, and the like).⁴⁶ Straight salary makes sense when the main aim is prospecting (finding new clients) or account servicing. Recruiting is another reason. Faced with difficulty attracting good salespeople, a car dealership in Lincolnton, North Carolina, offers straight salary as an option to salespeople who sell an average of at least eight vehicles a month (plus a small "retention bonus" per car sold).⁴⁷ Straight salary also makes it easier to switch salespersons' territories. The main disadvantage, of course, is that straight salary lacks commissions' motivation potential.

Commission Plan

Straight commission plans pay salespeople only for results. Commission plans tend to attract high-performing salespeople because they see that effort produces rewards. Sales costs are proportionate to sales rather than fixed, and the company's fixed sales costs are thus lower. Such plans are easy to understand and compute. Commission plan alternatives include straight commissions, quota bonuses (for meeting particular quotas), management by objectives programs (pay is based on specific metrics), and ranking programs (which reward high achievers but pay little or no bonuses to the lowest-performing salespeople).⁴⁸ About half of companies surveyed use "top-line" measures like revenue, while the others use bottom-line criteria like profits; some also use nonsales measures.⁴⁹

However, in poorly designed plans, salespeople may focus on making the sale, and neglect nonselling duties such as servicing small accounts and pushing hard-to-sell items. Wide variations in pay can make some feel the plan is inequitable. Misjudging sales potential can lead to excessive commissions and to having to cut commission rates. Salespersons' pay may be excessive in boom times and low in recessions. Furthermore, sales performance—like any performance—reflects not just motivation, but also ability. If the person can't sell, commissions won't help.⁵⁰

Combination Plan

Most companies pay salespeople a combination of salary and commissions. The combination varies by industry and by what the company hopes to achieve, but a split of about 60%–70% base salary and 40%–30% incentive seems typical.⁵¹

Combination plans have pros and cons.⁵² They give salespeople a floor to their earnings, let the company specify what services the salary component is for (such as servicing current accounts), and still provide a performance incentive. But the salary isn't tied to performance, so the employer trades away some incentive value.

Combination plans also tend to be complicated, so misunderstandings can ensue. This isn't a problem with a simple salary-plus-commission plan, but most plans aren't so simple. For example, in a "commission-plus-drawing-account" plan, the salesperson is paid based on commissions. However, he or she can draw on future earnings during low sales periods. In the "commission-plus-bonus" plan, the firm pays its salespeople mostly based on commissions. However, they also get a small bonus for directed activities like selling slow-moving items.

Maximizing Sales Results

In setting sales quotas and commission rates, one wants to motivate sales activity but avoid excessive commissions. Unfortunately, the tendency to set commission rates informally often reduces such plans' effectiveness.⁵³

Setting effective quotas is an art. Questions to ask include: Are quotas communicated to the sales force within 1 month of the start of the period? Does the sales force know how their quotas are set? Do you combine bottom-up information (like account forecasts) with top-down requirements (like the company business goals)? Are returns and de-bookings reasonably low?⁵⁴

One expert suggests this rule as to whether the sales incentive plan is effective: 75% or more of the sales force achieving quota or better, 10% of the sales force achieving higher performance level (than previously), and 5% to 10% of the sales force achieving below-quota performance and receiving coaching.⁵⁵ Also consider the effect of sales carryover: In most firms, a significant portion of the sales in one year reflects a "carryover" (sales that would repeat even without any efforts by the sales force) of sales from the prior year. Paying the sales force a commission on all the current year's sales means the employer pays a commission on last year's carryover sales, which the salesperson had little or no role in bringing in this year.⁵⁶

A survey of sales effectiveness reveals that salespeople at high-performing companies:

- Receive 38% of their total cash compensation in the form of *sales incentive pay* (compared with 27% for salespeople at low-performing companies)
- Are twice as likely to receive stock, *stock options*, or other equity pay as their counterparts at low-performing companies (36% versus 18%)
- Spend 264 more hours per year on *high-value sales activities* (e.g., prospecting, making sales presentations, and closing) than salespeople at low-performing companies
- Spend 40% more time each year with their *best potential customers*—qualified leads and prospects they know—than salespeople at low-performing companies
- Spend nearly 25% *less time on administration*, allowing them to allocate more time to core sales activities, such as prospecting leads and closing sales⁵⁷

Distinguishing among performers is also important. For example, some companies distinguish among stars, laggards, and core sales performers. Companies that limit commission earnings can perversely encourage stars to stop selling when they reach their quotas. Laggards do better with more frequent, quarterly bonuses and social pressure to improve. Core performers—the midrange of the sales force—need multitier targets. The first tier target is what sales agents historically attain. The second tier is what a small percentage of the sales force attains. The third tier target is usually only attained by the company's star salespeople.⁵⁸ One expert advocates "acceleration": here the commission rate rises for those who meet their sales targets.⁵⁹ Finally, track cost of sales—for instance, a salesperson's *salary plus commissions* (assuming 100% of quota) plus *bonus opportunities*—divided by that person's sales revenues.⁶⁰

ENTERPRISE INCENTIVE MANAGEMENT Many employers use Enterprise Incentive Management (EIM) software to track and control sales commissions.⁶¹ For example, Oracle Sales Cloud enables management to easily create scorecard metrics such as number of prospecting calls and sales contracts, and to monitor these in real time on the system’s dashboards.⁶² It also helps users gamify the sales incentive process, by awarding points or badges based on each salesperson’s performance.

Sales Incentives in Action

Traditionally, a car salesperson’s commission is based on a percentage of the difference between the dealer’s invoice cost and the amount the car is sold for, minus an amount to cover the “pack” or dealer overhead (the pack being perhaps \$300 for a new car to \$800 for a used car, and rising for pricier cars).⁶³

This approach encourages the salesperson to hold firm on the retail price, and to push “after-sale products” like floor mats and side moldings. There may also be extra incentives to sell packages such as rustproofing. For selling slow-moving vehicles, the salesperson may get a “spiff”—an extra incentive bonus over commission. And there are bonuses, such as Salesperson of the Month (perhaps \$300 for most cars sold).⁶⁴



LEARNING OBJECTIVE 12-4

Describe the main incentives for managers and executives.

Incentives for Managers and Executives

Managers play a crucial role in divisional and company-wide profitability, and most employers therefore think through how to reward them. Most managers get short-term and long-term incentives in addition to salary. Short-term incentives might include, for instance, annual incentive plans (which reward achieving preset results and are usually paid in cash), discretionary bonuses (based on performance), retention bonuses, and the manager’s share of any profit-sharing plan.⁶⁵ To link shareholders’ and managers’ interests, long-term incentives are often paid in stock or stock options.

Strategy and the Executive’s Long-Term and Total Rewards Package

Whether consolidating operations or pursuing growth, firms can’t fully implement most strategies in just 1 or 2 years. Therefore, the long-term signals you send managers via long-term incentives can determine whether the firm’s strategy succeeds.

The executives’ reward components—base salary, short-and long-term incentives, and benefits—must align with each other and with the company’s strategic aims. Compensation experts suggest first specifying the strategic aims—“What is our strategy, and what are our strategic goals?”—and then deciding what long-term behaviors (boosting sales, cutting costs, and so on) are important for achieving these strategic aims. Next shape each component of the executive total compensation package (base salary, short-and long-term incentives, and benefits) to encourage these required behaviors; then combine the components into a plan. The point is this: Each pay component should help focus the manager’s attention on the behaviors required to achieve the company’s strategic goals.⁶⁶

Using multiple, strategy-based performance criteria for incentivizing executives is best. Criteria include financial performance, number of strategic goals met, employee productivity measures, customer satisfaction surveys, and employee morale surveys.⁶⁷

One expert estimates that the typical CEO’s salary accounts for about one-fifth of his or her pay. A bonus based on explicit short-term performance standards accounts for another fifth, and long-term incentive awards such as stock options and long-term performance plans account for the remaining three-fifths.⁶⁸ Ideally, the performance standards should include a combination of market benchmarks (such as performance against competitors) as well as business performance standards (such as earnings per share growth).



SARBANES–OXLEY The Sarbanes–Oxley Act of 2002 affects how employers formulate their executive incentive programs. Congress passed Sarbanes–Oxley to inject a higher level of responsibility into executives’ and board members’ decisions. It makes them personally liable for violating their fiduciary responsibilities to their shareholders. The act also requires CEOs and CFOs of a public company to repay any bonuses,



annual bonus

Plans that are designed to motivate short-term performance of managers and that are tied to company profitability.

incentives, or equity-based compensation received from the company during the 12-month period following the issuance of a financial statement that the company must restate due to material noncompliance with a financial reporting requirement stemming from misconduct.⁶⁹

Short-Term Incentives and the Annual Bonus

For better or worse, employers are shifting away from long-term incentives to put more emphasis on short-term performance and incentives.⁷⁰ Most firms have **annual bonus** plans for motivating managers' short-term performance. Such short-term incentives can easily produce plus-or-minus adjustments of 25% or more to total pay. Three factors influence one's bonus: eligibility, fund size, and individual performance.

ELIGIBILITY Employers first decide eligibility. Traditionally, most based annual bonus eligibility on job level/title, base salary, and/or officer status. Some simply based eligibility on job level or job title, or salary.⁷¹ Recently, more employers were offering a broader range of employee annual incentive plans “. . . in which both executives and other employees participate.”⁷²

The trend is evident from surveys of what determines bonus plan eligibility. Rather than job title or officer status, *salary grade or band* was the most common eligibility determinant, reported by 42% of employers in one survey. This was followed by *title/reporting relationship* (24%), *officer status* (13%), *compensation committee approval* (11%), *discretionary* (6%), and *base salary* (2%).⁷³

The percentage size of any bonus is typically greater for top executives. Thus, an executive earning \$250,000 in salary may be able to earn another 80% of his or her salary as a bonus, while a manager in the same firm earning \$100,000 can earn only another 30%. In one year, Microsoft's CEO was eligible for an annual bonus of up to 100% of his salary (but collected only half). A typical bonus percentage might be executives, 45% of base salary; managers, 25%; and supervisory personnel, 12%.

FUND SIZE Second, one must determine how big the annual bonus fund should be. Most employers (33% in one survey) use the sum of targets approach.⁷⁴ This means they estimate the likely bonus for each eligible (“target”) employee, and total these to arrive at the bonus pool's size.

However, more employers are funding the short-term bonus based on financial results. Here there are no fixed rules about how much of the profits to pay out. One alternative is to reserve a minimal amount of the profits, say, 10%, for safeguarding stockholders' investments. Then establish a fund for bonuses equal to, say, 20% of the operating profit (profit from the company's core business) before taxes in excess of this safeguard amount. Suppose the operating profits were \$200,000 (after putting away 10% to safeguard stockholders). Then the management bonus fund might be 20% of \$200,000, or \$40,000.

Most employers use more than one financial measure on which to base the bonus fund; sales, earnings per share, and cash flow are the most popular.⁷⁵ Other illustrative formulas include:

- Twelve percent of net earnings after deducting 6% of net capital
- Ten percent of the amount by which net income exceeds 5% of stockholders' equity

Employers also use formulas to set their bonus pools based on other measures they wish to emphasize. For example, Transocean Ltd., the firm that managed the Deepwater Horizon Gulf oil rig that sank in 2010, uses a formula that includes “safety” as 25% of the formula. After the Gulf explosion, senior Transocean executives donated safety bonuses to the victims' families.⁷⁶ Other firms decide bonuses on a discretionary basis.

THE INDIVIDUAL AWARDS Finally, one must decide the actual individual awards. Typically, the employer sets a target bonus (as well as maximum bonus, perhaps double the target bonus) for each eligible position. The actual bonus then reflects the manager's performance. For example, having previously decided which financial performance

Even in retail stores, it's not unusual to compensate managers partly based on short-term sales and profits.



Monkey Business Images/Shutterstock

measures (return on assets, revenue growth, and so on) to use to measure each manager's performance, the employer computes preliminary total company bonus estimates, and compares the total amount of money required with the bonus fund available.⁷⁷ If necessary, it then adjusts the individual bonus estimates. In any case, outstanding managers should receive at least their target bonuses, and marginal ones should receive at best below-average awards. Use what you save on the marginal employees to supplement the outstanding employees. A study of CEOs of Standard & Poor's 1500 companies for one 3-year period found that 57% of the CEOs received pay increases, although company performance (in terms of total shareholder return) did not improve.⁷⁸

One question is whether to give managers bonuses based on individual performance, corporate performance, or both. Firms usually tie top-level executive bonuses mostly to overall corporate results (or divisional results if the executive heads a major division). But as one moves farther down, corporate profits become a less-accurate gauge of a manager's contribution. For supervisors or the heads of functional departments, it often makes more sense to base the bonus more on individual performance.

Many firms end up tying short-term bonuses to both organizational and individual performance. Perhaps the simplest method is the *split-award plan*. This makes the manager eligible for two bonuses, one based on his or her individual effort and one based on the organization's overall performance. Thus, a manager might be eligible for an individual performance bonus of up to \$10,000, but receive only \$2,000 at the end of the year, based on his or her individual performance evaluation. But the person might also receive a second bonus of \$3,000, based on the firm's profits for the year.

One drawback to this approach is that it may give marginal performers too much—for instance, someone could get a company-based bonus, even if his or her own performance is mediocre. One way to avoid this is to use the *multiplier method*. As Table 12-2 illustrates, multiply the person's target bonus by 1.00, 0.80, or zero (if the firm's performance is excellent, and the person's performance is excellent, good, fair, or poor). A manager whose own performance is poor does not even receive the company-based bonus.

LONG TERM INCENTIVES Employers use *long-term incentives* to inject a long-term perspective into their executives' decisions. With only short-term (generally one year) criteria to shoot for, a manager could conceivably boost profitability by reducing plant maintenance, for instance; this tactic might catch up with the company 3 or 4 years

TABLE 12-2 Multiplier Approach to Determining Annual Bonus

Individual Performance (Based on Appraisal, Weight = 0.50)	Company Performance (Based on Sales Targets, Weight = 0.50)			
	Excellent	Good	Fair	Poor
Excellent	1.00	0.90	0.80	0.70
Good	0.80	0.70	0.60	0.50
Fair	0.00	0.00	0.00	0.00
Poor	0.00	0.00	0.00	0.00

Note: To determine the dollar amount of a manager's award, multiply the maximum possible (target) bonus by the appropriate factor in the matrix.

later. Popular long-term incentives include cash, stock options, stock, stock appreciation rights, and phantom stock.⁷⁹ PepsiCo's CEO was paid \$26.4 million for one year, including a base salary of \$1.6 million, stock awards of \$6.25 million and a performance-based cash bonus of \$13.9 million, a \$4.26 million adjustment to her pension, plus perks such as air travel.⁸⁰

Long-term incentives such as stock options, if well-designed, should only pay off if the firm achieves its strategic goals (such as "double our rate of return"), because the owners and investors should also benefit from the executives' efforts. Long-term incentives may also be "golden handcuffs," motivating executives to stay by letting them accumulate capital (usually options to buy company stock) that they can cash in only after a certain period. Again, popular long-term incentives include cash, stock, stock options, stock appreciation rights, and phantom stock.⁸¹ We'll look at each.

stock option

The right to purchase a stated number of shares of a company stock at today's price at some time in the future.

STOCK OPTIONS A **stock option** is the right to purchase a specific number of shares of company stock at a specific price during a specific period. The executive thus hopes to profit by exercising his or her option to buy the shares in the future but at today's price. This assumes the stock will go up. Unfortunately, this depends partly on considerations outside the manager's control.⁸² When stock markets dropped a while ago, many employers including Intel and Google adjusted their option plans to boost the likely payout.⁸³ The HR Practices Around the Globe feature addresses one aspect of this.

IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Until January 2006, China basically prohibited publicly listed companies from offering stock incentive plans to their managers.⁸⁴ At that point better economic conditions and an evolving political philosophy led to new regulations. Soon 42 Chinese-listed companies were permitting such plans.

A study focused on those 42 companies. It sought to determine how the new incentive plans affected company performance. To understand the findings it's important to know that managing in China still has unique characteristics. For example, prior to becoming publicly listed firms, the big firms were usually owned by the government. Furthermore, the government may well continue to retain certain ownership control rights even after the firms go on the stock market. In such cases, the goals of the owners and the management may diverge. For example, government owners might want to maximize employment, rather than profitability. The question is, given such cultural and political realities, do management stock option plans in China translate into improved company performance, as they often do in the United States?

The researchers compared the performance of the 42 Chinese companies that did adopt management stock option plans with a control group of firms without such plans. One thing they found was that the stock option plans did improve firm performance in companies controlled by private shareholders, but not in companies controlled by the government. In the latter, goals such as maximizing employment may have outweighed boosting profits, thus limiting managers' profit-boosting efforts.

The findings highlight why managing globally is challenging. In this case, a stock option plan that might improve financial performance in the United States might fail in China, where the government owners' goals may well differ from the desire of managers to boost profits.

MyLab Management Talk About It 3

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete these discussion questions. Given these findings, would it make sense for managers in government-controlled companies to receive stock options tied to something other than profitability, such as “no employees lose their jobs in this company”? Why?

The chronic problem with stock option plans is that many reward even managers who have lackluster performance, but there are also other problems. Several years ago some executives allegedly lied about the dates they received their options to boost their returns. Options may also encourage executives to take perilous risks in pursuit of higher profits.⁸⁵ One alternative may be to force recipients to convert their options into stock sooner. One paper argues that it’s probably cheaper just to pay cash awards than stock options.⁸⁶

OTHER STOCK PLANS Beyond that, the trend is toward tying rewards more explicitly to performance goals. Instead of stock options, more firms are granting various types of performance-based shares. With *performance-contingent restricted stock* the executive receives his or her shares only if he or she meets the preset performance targets.⁸⁷ With (time-based) *restricted stock plans*, the firm usually awards rights to the shares without cost to the executive but the employee is restricted from acquiring (and selling) the shares for, say, five years, and the award may be subject to forfeiture if the recipient ceases to be employed by the company for a set period. Unlike options, the recipient usually pays nothing for the stock. The employer’s aim is to retain the employee’s services during that time.⁸⁸ With *indexed options*, the option’s exercise price fluctuates with the performance of, say, a market index. If the company’s stock does no better than the index, the manager’s options are worthless. With *premium priced options*, the exercise price is higher than the stock’s closing price on the date of the grant, so the executive can’t profit from them until the stock makes significant gains;⁸⁹ IBM has used these for years.⁹⁰

Stock appreciation rights (SARs) let the recipient exercise the stock option (by buying the stock) or to take any appreciation in the stock price in cash, stock, or some combination of these. Under *phantom stock plans*, executives receive not shares but “units” that are similar to shares of company stock. Then at some future time, they receive value (usually in cash) equal to the appreciation of the “phantom” stock they own. Both SARs and phantom stock essentially “are bonus plans that grant not stock but rather the right to receive an award based on the value of the company’s stock.”⁹¹ A *performance achievement plan* awards shares of stock for the achievement of predetermined financial targets, such as profit or growth in earnings per share. Most employees seem to prefer cash bonuses to either stock options or restricted stocks. Due to differences in employee preferences, when possible, enable each employee to choose whether to receive stock options or restricted stock.⁹²

POTENTIAL PROBLEMS Two problems plague executive incentives: short termism, and lack of range. Many plans encourage short-term thinking. For example, the manager boosts earnings per share (and his or her short-term bonus) by cutting R&D, which in turn hurts earnings three or four years down the road. Relatedly, tying the incentive to one metric rather than to several can encourage counterproductive behavior. For example, incentivize the manager just for earnings, and he or she could boost earnings by cutting advertising and other costs, which in turn cause future revenues (unmeasured by the bonus plan) to fall.⁹³

Three experts suggest several solutions. First, use *multiple metrics*, for instance earnings, and revenue growth, and R&D spending.⁹⁴

Second, reward performance *relative to competitors*. For example, increasing a company’s earnings when its industry grew 10%, isn’t as impressive as increasing them 2% when industry sales and earnings fell. Rewarding performance relative to

competitors also forces top managers to analyze what their competitors are doing, and how to improve their firm's relative position.

Third, include *nonfinancial targets*. Nonfinancial targets (such as employee engagement, and customer satisfaction) are harder to “game” than financial targets (such as boosting earnings by cutting R&D). Furthermore, nonfinancial measures can and do affect a company's long-term performance.

ETHICS AND INCENTIVES Recently, a truck stop company arranged to pay some managers commissions and bonuses based on how many dollars of diesel fuel trucking firms purchased each month. Federal prosecutors allege that doing so encouraged the managers to withhold the volume rebates the trucking firms were supposed to get. In one year, for instance, one officer with a base salary of about \$400,000 earned about \$14 million in bonuses and pay.⁹⁵

Anyone designing a long-term incentive plan should remember the management truism: “People put their efforts where they know they'll be rewarded.” The point is that simplistic incentives that focus on just one factor (such as cost-cutting) may encourage managers to ignore other important factors (such as long-term investment). Similarly, in the absence of strong ethical standards, incentives may breed unethical behavior.⁹⁶ Examples are depressingly familiar. For example, to paraphrase *Forbes*, one firm's culture now incentivizes aggressiveness at the expense of doing what's best for the client. For stock option plan designers, the solution is to include a sufficient array of bonus-able criteria in the incentive plan, while fostering an ethical culture.

Some Other Executive Incentives

Companies offer other executive incentives. Some incentivize executives to stay with the firm. This is especially important when executives might flee because another company is stalking the firm with intentions to buy it. **Golden parachutes** are extraordinary payments (usually a combination of severance pay, accelerated vesting, and other benefits) made to executives in connection with a change in company ownership or control. Former Yahoo CEO Marissa Mayer reportedly received more than \$54 million when Verizon bought Yahoo, and Oracle's co-presidents would each receive over \$139 million, for instance.⁹⁷

Some firms use loans as incentives, for example by guaranteeing large loans to directors and officers to buy company stock.

golden parachute

A payment companies make in connection with a change in ownership or control of a company.

MyLab Management Apply It!

How does a company actually go about creating an incentive plan? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise.

LEARNING OBJECTIVE 12-5

Name and describe the most popular organization-wide incentive plans.

Team and Organization-Wide Incentive Plans

We've focused so far on individual employee incentives (such as piecework, commissions, and executive bonuses). Let's look now at incentives for teams, and for employees company-wide.

How to Design Team Incentives

Firms increasingly rely on teams to manage their work. They therefore need incentive plans that focus teams on performance and encourage teamwork. **Team (or group) incentive plans** pay incentives to the team based on team performance.

The main question here is how to reward the team's performance, and the wrong choice can be lethal. Levi Strauss switched from an individual to a team incentive plan, one that rewarded the team as a whole for its output. Unfortunately, they ignored the fact that some employees worked harder than others. The slower ones (economists sometimes call them “free riders” because they take a free ride on others' efforts) were paid the same as the faster ones. The faster ones, no longer individually incentivized, slowed down, production declined, and Levi's closed its U.S. factories.

team (or group) incentive plan

A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.

Given the potential free rider problem, companies usually incentivize teams in one of three ways: they pay the same incentives to each team member based on some overall standard, or pay different rates to each member based on performance, or pay different rates to each in some proportion to each team member's base pay.⁹⁸

Free riders notwithstanding, the usual approach is probably still to tie rewards to some overall standard of group performance, such as "10 labor hours per car." One company established such an overall standard for its work teams. If the firm reached 100% of its goal, the employees would share in about 5% of the improvement (in labor costs saved). The firm divided the resulting bonus pool by the number of employees to compute the value of a "share." If the firm achieved less than 100% of its goal, the bonus pool was less. The results of this plan in terms of focusing teams on the firm's strategic goals were reportedly "extraordinary."⁹⁹ Firms such as Toyota that use team plans rely on employee selection, training, and peer pressure to minimize free riding.

While most employers just use their experience to estimate what the team goal or standard should be ("10 total labor hours per car"), others carefully engineer their production standards. If so, the employer typically bases the team incentive on either the piece rate or standard hour plan. All team members then typically receive the same share of the team's incentive pay. Thus, the team might receive, say, \$5 for each wheel installed above the industrially engineered "standard" of 10 wheels per hour.

Occasionally, the employer may want to pay team members according to some other formula. For instance, instead of paying each team member based on how well the team as a whole does, pay everyone based on how well the *best* team member does. This counterintuitive option may make sense when an employer has reason to believe the new team incentive plan might demotivate high-performing team members. That's what happened at Levi's.

Team incentives often make sense. They reinforce team problem solving, and can help ensure cooperation. Team incentives also facilitate training, since each member has an interest in getting new members up to speed fast. The main disadvantage is the demotivating effects of free rider workers who share in the team-based pay but who don't put their hearts into it.

Team incentives can foster a sense of cooperation and unanimity.



GaudiLab/Shutterstock

Evidence-Based HR: Inequities That Undercut Team Incentives

Although about 85% of large employers reportedly use some type of group- or team-based incentives, studies suggest that team incentives are often counterproductive. Why?

A researcher studied business students enrolled in a graduate online MBA program.¹⁰⁰ She devised a method for categorizing how they said they reacted to the team incentives they'd experienced in the past.

Inequity was the big problem.¹⁰¹ Sometimes all team members' financial compensation was the same, although one or two people "did the lion's share of the work." In other cases, the employer chose one or two team members for promotion, leaving others to feel they'd worked hard to support someone else's career. The bottom line is that unless you take steps to minimize interpersonal inequities, it may be best to pay employees based on their individual contributions, rather than on collective team performance.

Many employers take the team incentive idea to the next level and institute incentive plans in which all or most employees participate. **Organization-wide incentive plans** are plans in which all or most employees can participate, and which generally tie the reward to some measure of company-wide performance. Also called *variable pay plans*, we'll look at them next.

organization-wide incentive plan

Incentive plan in which all or most employees can participate.

profit-sharing plan

A plan whereby employees share in the company's profits.

Profit-Sharing Plans

Profit-sharing plans are plans in which all or most employees receive a share of the firm's annual profits. While that sounds good in theory, free riders may again be a problem: Some may ask, "If everyone gets paid the same whether they work hard or not, why bother?"¹⁰²

Research is sketchy. Older studies found evidence that profit-sharing plans boost productivity and morale, but that their effect on profits is insignificant, once you factor in the costs of the plans' payouts.¹⁰³ Another study, in Spain, concluded that profit-sharing plans improve employee commitment.¹⁰⁴ A more recent study found that employee earnings rose faster in firms with profit-sharing plans.¹⁰⁵

There are several profit-sharing plans. With *current profit-sharing* or cash plans, employees share in a portion of the employer's profits quarterly or annually. Here the firm simply distributes a percentage of profits (usually 15% to 20%) as profit shares to employees at regular intervals. For example, Southwest Airlines offers a broad-based (almost everyone is eligible) profit-sharing plan for employees. Several years ago it distributed a \$228 million profit-sharing payout to employees.¹⁰⁶

With *deferred profit-sharing* plans, the employer puts cash awards into trust accounts for the employees' retirement.¹⁰⁷ Employees' income taxes on the distributions are deferred until the employee retires or withdraws funds from the plan (thus "deferred profit-sharing plans"). Such plans are essentially pension plans that give the employer the option of deciding each year how much to contribute to the plan.

Scanlon Plans

Few would argue with the idea that one of the best ways of ensuring that employees are engaged and motivated is to ensure that by pursuing his or her goals, the worker pursues the employer's goals as well. Experts have proposed many ways to achieve this. However, few have been as successful as the **Scanlon plan**, developed in 1937 by Joseph Scanlon, a United Steel Workers Union official.¹⁰⁸ It is still popular today.

The Scanlon plan is remarkably progressive, considering that it is now more than 80 years old. Scanlon plans have five basic features.¹⁰⁹ The first is Scanlon's *philosophy of cooperation*. This philosophy assumes that managers and workers must rid themselves of the "us" and "them" attitudes that normally inhibit employees from developing a sense of ownership in the company.

A second feature is what its practitioners call *identity*. This means that in order to focus employee involvement, the company must articulate its mission or purpose, and employees must understand how the business operates in terms of customers, prices, and costs. *Competence* is a third basic feature. The program, say three experts, "explicitly recognizes that a Scanlon plan demands a high level of competence from employees at all levels."¹¹⁰ This suggests careful selection and training.

Scanlon plan

An incentive plan developed in 1937 by Joseph Scanlon and designed to encourage cooperation, involvement, and sharing of benefits.

The fourth feature of the plan is the *involvement system*. Employees present improvement suggestions to the appropriate departmental-level committees, which transmit the valuable ones to the executive-level committee. It then decides whether to implement the suggestion.

The fifth element of the plan is the *sharing of benefits formula*. If a suggestion is implemented and successful, all employees usually share in 75% of the savings. For example, assume that the normal monthly ratio of payroll costs to sales is 50%. (Thus, if sales are \$600,000, payroll costs should be \$300,000.) Assume the firm implements suggestions that result in payroll costs of \$250,000 in a month when sales were \$550,000 and payroll costs therefore should have been \$275,000 (50% of sales). The savings attributable to these suggestions is \$25,000 (\$275,000 minus \$250,000). Workers would typically split 75% of this (\$18,750), while \$6,250 would go to the firm. In practice, the firm sets aside about one-quarter of the \$18,750, for months when payroll costs exceed the standard.

Other Gainsharing Plans

The Scanlon plan is one early version of today's **gainsharing plans**. Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost-savings gains shared among employees and the company.¹¹¹ In addition to the Scanlon plan, other popular gainsharing plans include the Lincoln, Rucker, and Improshare plans.

The basic difference among these plans is how employers determine employee bonuses. The Scanlon formula divides payroll expenses by total sales (or, sometimes, by total sales plus increases in inventory). In one version of the *Lincoln incentive system*, first instituted at the Lincoln Electric Company of Ohio, employees work on a guaranteed piecework basis. The company then distributes total annual profits (less taxes, 6% dividends to stockholders, and a reserve) each year among employees based on their merit rating. Most firms customize their gainsharing plans.

Results support gainsharing's effectiveness in settings ranging from automotive parts manufacturers, to hospitals. For example, in one study cost savings achieved by hospital physicians translated into cash payments to the physicians.¹¹² The U.S. Department of Health and Human Services approved certain hospital gainsharing plans.

At-Risk Pay Plans

Pay-for-performance plans can support an employer's cost control efforts. Base pay and benefits represent the lion's share of labor costs, and normally neither varies much even when sales plummet.¹¹³ (Pay cuts adversely affect morale, and if sales fall one year, it's generally hard to cut labor costs without downsizing.) In an **earnings-at-risk pay plan**, employees agree to put some portion (say, 10%) of their normal pay at risk (forego it) if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals. For example, put part of the employees' pay "at risk" by replacing (1) 10% of each worker's wages with (2) a 10% bonus if the company meets its goals plus an additional 3% bonus if it exceeds these goals.

Employee Stock Ownership Plans

Employee stock ownership plans (ESOPs) are company-wide retirement/incentive plans, in which the employer contributes shares of its stock (or cash to be used to purchase such stock) to a trust set up to purchase shares of the firm's stock for employees. The firm generally makes these contributions to the trust annually, in proportion to total employee compensation, up to a limit of 15% of compensation. The trust holds the stock in individual employee accounts. It then distributes the stock to employees upon retirement (or other separation from service), assuming the person has worked long enough to earn ownership of the stock.

ESOPs are popular. The company receives a tax deduction equal to the fair market value of the shares it transfers to the trustee; it can also claim an income tax deduction for dividends paid on ESOP-owned stock.¹¹⁴ Employees, as noted, aren't taxed until they receive a distribution from the trust, usually at retirement. The Employee

gainsharing plan

An incentive plan that engages employees in a common effort to achieve productivity objectives and share the gains.

earnings-at-risk pay plan

Plan that puts some portion of employees' normal pay at risk if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.



employee stock ownership plan (ESOP)

A corporation contributes shares of its own stock to a trust in which additional contributions are made annually. The trust distributes the stock to employees on retirement or separation from service.

Retirement Income Security Act (ERISA) allows a firm to borrow against employee stock held in trust and then repay the loan in pretax rather than after-tax dollars, another tax incentive.¹¹⁵

ESOPs can also help shareholders of closely held corporations (for instance, a family owns all the shares of a small regional bank and wants to sell all or some of its shares). They place some of their shares of the bank's stock into the ESOP trust. The banking company compensates them (perhaps by borrowing the money) for the shares they put in the trust, and the family then uses those funds to buy other assets.¹¹⁶

Studies suggest that ESOPs correlate with performance, but that it's probably "the cooperative culture that can be fostered by employee ownership that drives better workplace performance in ESOP firms."¹¹⁷ In any case, the company's board and management have legal and fiduciary responsibilities for the ESOP fund, and must manage the fund prudently.

BROAD-BASED STOCK OPTIONS Some companies offer "broad-based stock option plans" in which all or most employees can participate. (Definitions of what is "broad-based" range from at least 20% of a company's employees, to a majority of full-time employees, to a plan "which includes most non-management employees.")¹¹⁸ Perhaps because such plans foster a sense of cooperation and ownership (as do ESOPs), at least one study concluded that firms with broad-based stock option plans had higher productivity and annual growth rates than peers.¹¹⁹

However, in the early 2000s, many companies cut back on these. For example, Time Warner, Microsoft, Aetna, and Charles Schwab discontinued distributing stock options to most employees. Some of them, including Microsoft, instead award stock. With current tax laws, companies must show the options as an expense when awarded, reducing their attractiveness as a "costless" reward. Microsoft and others apparently feel awarding stock instead of stock options is a more direct and immediate way to link pay to performance.¹²⁰

Incentive Plans in Practice: Nucor

Nucor Corp. is the largest steel producer in the United States. It also has the highest productivity and lowest labor cost per ton, consistently ranks as a "Best Places to Work," and hasn't had layoffs in decades.¹²¹ Employees can earn bonuses of 100% or more of base salary, and all participate in one of four performance-based incentive plans. With the *production incentive plan*, operating and maintenance employees and supervisors get weekly bonuses based on their work groups' productivity. The *department manager incentive plan* pays department managers annual incentive bonuses based mostly on the ratio of net income to dollars of assets employed for their division. With the *professional and clerical bonus plan*, employees not in one of the two previous plans get bonuses based on their divisions' net income return on assets.¹²² Finally, under the *senior officer incentive plan*, Nucor senior managers (whose base salaries are lower than those comparable firms) get bonuses based on Nucor's annual overall percentage of net income to stockholders equity.¹²³ In one recent year Nucor's CEO earned a total of \$10.6 million, including \$2.9 million in stock awards, \$4 million in stock options, and \$2.4 million in incentive plan awards tied to return on equity and Nucor's position in its sales comparison group.¹²⁴

Nucor also divides 10% of its operating profits yearly among all employees (except senior officers). Depending on company performance, this may be from 1% to over 20% of an employee's pay.

LEARNING OBJECTIVE 12-6

Explain how to use incentives to improve employee engagement.

Employee Engagement Guide for Managers

Incentives and Engagement

A survey provides some insights into the role of incentive pay in fostering employee engagement. Of approximately 6,300 compensation professionals the researchers solicited, 736 responded to the survey.¹²⁵ Here's what the researchers found.

First, although the compensation professionals believed that total rewards programs can influence employee engagement, many of these professionals did *not* specifically include employee engagement as one of the goals of their compensation plans. About 60% agreed or strongly agreed that “employee engagement and performance metrics are incorporated into variable pay programs in our organization.” But only 37% agreed or strongly agreed that “in the organization, engagement levels fostered by line managers are important factor in evaluating performance.”

Second, they concluded that the most direct ways to encourage employee engagement with incentives are (1) to measure the extent to which *supervisors are encouraging their subordinates to be engaged*, and (2) to *use incentives to reward supervisors for improving employee engagement*.

Third, even more important than the rewards themselves, getting employees involved in developing the rewards programs was the “gold standard” for building employee cooperation and commitment.

So, in brief: Make improving employee engagement a formal target of your compensation plan; appraise and incentivize your supervisors partly based on whether they take steps to improve their subordinates’ engagement; and if possible get employee input in devising the incentive plan.

Chapter Review

Chapter Section Summaries

- 12-1.** In designing an effective financial incentive plan, it’s important to understand the relationship between **money and motivation**. Herzberg said the best way to motivate someone is to organize the job so that it provides the feedback and challenge that help satisfy the person’s higher-level needs. Deci found that extrinsic rewards may actually detract from a person’s intrinsic motivation. Vroom’s expectancy motivation theory says a person’s motivation depends on expectancy, instrumentality, and valence. Skinner’s behavior modification–based approach means changing behavior through rewards or punishments that are contingent on performance.
- 12-2.** Piecework is an **individual employee incentives and recognition program** incentive plan in which a person is paid a sum for each item he or she makes. Merit pay is a salary increase awarded based on individual performance. Nonfinancial and recognition-based awards include awards in the form of employee recognition, gift certificates, and individual travel. Many employers use enterprise incentive management systems to automate the planning, analysis, and management of their incentive plans.
- 12-3.** **Incentives for salespeople** are typically sales commissions. Although the percentage of pay in the form of sales commission may vary, a survey found that salespeople at high-performing companies receive about 38% of their total cash compensation in sales-related variable pay.
- 12-4.** Managers take many things into consideration when formulating **incentives for managers and executives**. Most firms have annual bonus plans aimed at motivating managers’ short-term performance. The actual award often depends on some combination of individual performance and organizational performance, so that, for instance, high-performing managers get a bonus even if the company itself underperforms. Long-term incentives include stock options, “golden parachutes,” and stock appreciation rights.
- 12-5.** With more employers organizing their efforts around teams, **team and organization-wide incentive plans are more important**. With team incentives, the main question is whether to reward members based on individual or team performance; both have pros and cons. Organization-wide incentive plans are plans in which all or most employees can participate. These include profit-sharing plans in which employees share in the company’s profits; gainsharing plans, including the Scanlon plan, engage employees in a common effort to achieve productivity objectives and thereby share the gains. With employee stock ownership plans the employer contributes shares of its own stock to a trust established to purchase shares of the firm’s stock for employees.

12-6. Consciously make **employee engagement** a goal of your compensation plan; appraise and incentivize supervisors partly based on their

effectiveness in improving their subordinates' engagement; and if possible enable employees to participate in devising the compensation plan.

Discussion Questions

- 12-1. Compare and contrast six types of incentive plans.
 12-2. Explain five reasons why incentive plans fail.
 12-3. Describe the nature of some important management incentives.
 12-4. You are applying for a job as a manager and are at the point of negotiating salary and incentives. What questions would you ask your prospective employer concerning incentives? Describe the incentives package you would try to negotiate for yourself.

- 12-5. In this chapter, we listed a number of guidelines for instituting a pay-for-performance plan. Do you think these points make sense in terms of motivation theory? Why or why not?
 12-6. What is merit pay? Do you think it's a good idea to award employees merit raises? Why or why not?
 12-7. Give four examples of when you would suggest using team or group incentive programs rather than individual incentive programs.

Individual and Group Activities

- 12-8. Working individually or in groups, create an incentive plan for the following positions: chemical engineer, plant manager, used-car salesperson. What factors did you have to consider in reaching your conclusions?
 12-9. A state university system in the Southeast instituted a "Teacher Incentive Program" (TIP) for its faculty. Faculty committees within each of the university's colleges were told to award \$5,000 raises (not bonuses) to about 40% of their faculty members based on how good a job they did teaching undergraduates, and how many courses they taught per year. What are the potential advantages and pitfalls of such an incentive program? How well do you think it was accepted by the faculty? Do you think it had the desired effect?
 12-10. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists;

(3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

- 12-11. Several years ago, the pension plan of the Utility Workers Union of America proposed that shareholders change the corporate bylaws of Dominion Resources, Inc., so that in the future management had to get shareholder approval of executive pay exceeding \$1 million, as well as detailed information about the firm's executive incentive plans. The union pointed out that, usually, under IRS regulations, corporations can't deduct more than \$1 million in pay for any of a company's top five paid executives. Under the new rules the Utility Workers Union is pushing, boards of directors will no longer be able to approve executive pay above \$1 million; instead, shareholders would have to vote on it. In terms of effectively running a company, what do you think are the pros and cons of the union's recommendations? Would you vote for or against the union's recommendation? Why?



Experiential Exercise

Motivating the Employees at Pearson Urgent Care

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice developing an incentive plan.

Required Understanding: Be thoroughly familiar with this chapter, and read the following:

Pearson Urgent Care is a chain of walk in medical urgent care centers in New York City. Each walk in center has about 12 full time employees; Pearson's total number

of employees is therefore about 75, including the walk in center employees and central office accountants, clerks, and managers. Pearson is run by Taylor Pearson MD. Her main business problem now is that online Yelp-type walk in center reviews are abysmal. Common customer complaints include:

- Front desk clerks who greet patients and obtain their medical history forms seem unfriendly and unhelpful.
- Nurses who take the patients to the examining rooms and review their medical histories seem uncaring.
- Doctors seem rushed and unwilling to explain in detail what the patient's problem is or how to deal with it.
- X-ray technicians seem rushed.

Table 12-3 summarizes Pearson's walk in center compensation plan. As you can see, Pearson currently pays all its walk in center team members based on wages or salaries.

How to Set Up the Exercise/Instructions: Divide the class into groups of several students. One or more groups should analyze each of the four teams in Table 12-3's first column. Each student group should analyze the compensation package for its Pearson team, and answer these questions:

- 12-12. In what ways might the current compensation method contribute to the customer service problems?
- 12-13. What recommendations would you make to improve the compensation system in a way that would likely improve customer satisfaction?

TABLE 12-3 Pearson Urgent Care Teams and Pay

Pearson Urgent Care Team	Main Responsibility of Team	Main Current Compensation Method
1. Front desk	Greet patients, process health forms.	Hourly wage.
2. Nurses	Complete patients' medical history.	Annual salary.
3. Doctors	Diagnose patients, provide prescriptions.	Annual salary.
4. X-ray technicians	Take prescribed x-rays.	Hourly wage.

Application Case

The HubSpot.com Sales Incentive Plan

Written and copyrighted by Gary Dessler, PhD.

Two graduates of MIT's Sloan School of Management founded HubSpot.com about 12 years ago.¹²⁶ HubSpot provides special customer relationship management (and other) software and systems aimed at helping clients use online content to attract potential customers to their Web sites, something known as "inbound" marketing.¹²⁷

When the founders started HubSpot, their sales challenge was straightforward. At that point, the company only had about 100 customers, so they had to acquire as many customers as they could, as quickly as possible. Therefore, they focused their first sales compensation plan on what that plan's architect refers to as "hunting" for new customers. That first plan gave HubSpot salespeople a base salary, plus \$2 dollars up front for every \$1 of monthly recurring revenue they brought in from clients. Knowing that some clients might well leave, the sales compensation plan included a four-month claw back clause. In other words, if a client left for any reason within the first four months, HubSpot took back that entire commission from the salesperson. It was a straightforward sales compensation plan, and in less than six months HubSpot zoomed from 100 to 1000 customers, and its revenues jumped from \$300,000 to \$3 million. So far so good.

However, a problem soon became apparent. HubSpot had a big client retention problem. Way too many clients were dropping the service (mostly after four months). HubSpot's usual procedure was to assign each

new client to a postsale consultant. That consultant was responsible for setting up the new client's service, and training its staff in how to use HubSpot software and services. Management first assumed that some postsale consultants were doing something to turn their clients off, and that that accounted for the client churn. But after analyzing client retention rates, it was apparent that the postsale consultants were not the problem: client churn for all postsale consultants was about the same.

Management therefore turned to analyzing client churn among salespeople, and there they found the problem. Some salespeople had more than 10 times the client churn than others! For some reason, some salespeople's clients remained long-term customers, while others left in droves. Some salespeople were doing a better job than others, in terms of the types of customers they focused on and what they told their clients HubSpot could accomplish for them.

Management believed that modifying the sales compensation plan was the way to solve the problem. The question was, what exactly should the new sales compensation plan look like?

Questions

- 12-14. How exactly would you change the HubSpot sales compensation plan to solve this client retention problem? Please be specific about what your new plan would consist of.
- 12-15. Management defined the client churn problem as a sales problem, to be solved with a modified sales compensation plan. What else could have caused the client churn problem, and how would you have solved that?

Continuing Case

Carter Cleaning Company

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The Incentive Plan

The question of whether to pay Carter Cleaning Center employees an hourly wage or an incentive of some kind has always intrigued Jack Carter.

His basic policy has been to pay employees an hourly wage, except that his managers do receive an end-of-year bonus depending, as Jack puts it, “on whether their stores do well or not that year.”

However, he is considering using an incentive plan in one store. Jack knows that a presser should press about 25 “tops” (jackets, dresses, blouses) per hour. Most of his pressers do not attain this ideal standard, though. In one instance, a presser named Walt was paid \$8 per hour, and Jack noticed that regardless of the amount of work he had to do, Walt always ended up going home at about 3:00 P.M., so he earned about \$300 at the end of the week. If it was a holiday week, for instance, and there were a lot of clothes to press, he might average 22 to 23 tops per hour (someone else did pants) and so he’d earn perhaps \$300 and still finish each day in time to leave by 3:00 P.M. so he could pick up his children at school. But when things were very slow in the store, his productivity would drop to perhaps 12 to 15 pieces an hour, so that at the end of the week he’d end up earning perhaps \$280, and in fact not go home much earlier than he did when it was busy.

Jack spoke with Walt several times, and while Walt always promised to try to do better, it gradually became apparent to Jack that Walt was simply going to earn his \$300 per week no matter what. Though Walt never told him so directly, it dawned on Jack that Walt had a family to support and was not about to earn less than his “target” wage, regardless of how busy or slow the store was. The problem was that the longer Walt kept pressing each day, the longer the steam boilers

and compressors had to be kept on to power his machines, and the fuel charges alone ran close to \$6 per hour. Jack clearly needed some way short of firing Walt to solve the problem, because the fuel bills were eating up his profits.

His solution was to tell Walt that, instead of an hourly \$8 wage, he would henceforth pay him \$0.33 per item pressed. That way, said Jack to himself, if Walt presses 25 items per hour at \$0.33 he will in effect get a small raise. He’ll get more items pressed per hour and will therefore be able to shut the machines down earlier.

On the whole, the experiment worked well. Walt generally presses 25 to 35 pieces per hour now. He gets to leave earlier and, with the small increase in pay, he generally earns his target wage. Two problems have arisen, though. The quality of Walt’s work has dipped a bit, plus his manager has to spend a minute or two each hour counting the number of pieces Walt pressed that hour. Otherwise, Jack is fairly pleased with the results of his incentive plan, and he’s wondering whether to extend it to other employees and other stores.

Questions

- 12-16. Should this plan be extended to pressers in the other stores?
- 12-17. Should other employees (cleaner/spotters, counter people) be put on a similar plan? Why or why not? If so, how, exactly?
- 12-18. Is there another incentive plan you think would work better for the pressers? Describe it.
- 12-19. A store manager’s job is to keep total wages to no more than 30% of sales and to maintain the fuel bill and the supply bill at about 9% of sales each. Managers can also directly affect sales by ensuring courteous customer service and by ensuring that the work is done properly. What suggestions would you make to Jennifer and her father for an incentive plan for store managers or front-desk clerks?

Translating Strategy into HR Policies and Practices Case*,§

*The accompanying strategy map for this chapter is in MyLab Management; the overall map in the inside back cover of this text outlines the relationships involved.

Improving Performance at the Hotel Paris

The New Incentive Plan

The Hotel Paris’s competitive strategy is “To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability.” HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

One of Lisa Cruz’s biggest pay-related concerns is that the Hotel Paris compensation plan does not link pay to performance in any effective way. Because salaries were historically barely competitive, supervisors tended to award merit raises across the board. So, employees who performed well got only about the same raises as did those who performed poorly. Similarly, there was no bonus or incentive plan of any kind aimed at linking employee performance to strategically relevant employee capabilities and behaviors such as greeting guests in a friendly manner or providing expeditious check-ins and check-outs. The bottom line for Lisa and the CFO was that the company’s financial rewards system—potentially, the single-biggest tool they had for channeling employee performance toward accomplishing the Hotel Paris’s goals—was totally inadequate. She and her team thus turned to the job of deciding what sort of incentive-based reward systems to install.

Based on their analysis, Lisa Cruz and the CFO concluded that, by any metric, their company’s incentive plan had to be changed. The percentage of the workforce whose merit increase or incentive pay was tied to performance was effectively zero, because managers awarded merit pay across the board. No more than 5% of the workforce (just the managers) was eligible for incentive pay. And, the percentage difference in incentive pay between a low-performing and a high-performing employee was less than 2%. Lisa knew from industry studies that in top firms, over 80% of the workforce had merit pay or incentive pay tied to performance. She also knew that in high-performing firms, there was at least a 5% or 6% difference in incentive pay between a low-performing and a high-performing employee. The CFO authorized Lisa to design a new strategy-oriented incentive plan for the Hotel Paris’s employees. Their overall aim was to incentivize the pay plans of just about all the company’s employees.

Lisa and the company’s CFO laid out three measurable criteria that the new incentive plan had to meet. First, at least 90% (and preferably all) of the Hotel Paris’s employees must be eligible for a merit increase or incentive pay that is tied to performance. Second, there must be at least a 10% difference in incentive pay between a low-performing and high-performing employee. Third, the new incentive plan had to include specific bonuses and evaluative mechanisms that linked employee behaviors in each job category with strategically relevant

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employee capabilities and behaviors. For example, front-desk clerks were to be rewarded in part based on the friendliness and speed of their check-ins and check-outs, and the housecleaning crew was to be evaluated and rewarded in part based on the percentage of room cleaning infractions.

With these criteria in mind, Lisa and her team turned to designing the new merit and incentive pay plan. They created a larger merit pay pool, and instructed supervisors that employees scoring in the lower 10% of performance were to receive no merit pay, while the difference in merit pay between the top category and medium category employees was to be 10%. They contracted with an online employee recognition firm and instituted a new “Hotel Paris instantaneous thank-you award program.” Under this program, any guest or any supervisor could recommend any hotel employee for an instantaneous recognition award; if approved by the department manager, the employee could choose the recognition award by going to the company’s Web site. The incentive structure for all the company’s managers, including hotel managers, assistant managers, and departmental managers, now

ties at least 10% of each manager’s annual pay to the degree to which his or her hotel achieves its strategic aims. The plan measures this in terms of ratings on the guest satisfaction index, average length of guest stay, and frequency of guest returns. Ratings on all these metrics soon began to rise.

Questions

- 12-20. Discuss what you think of the measurable criteria that Lisa and the CFO set for their new incentive plan.
- 12-21. Given what you know about the Hotel Paris’s strategic goals, list three or four specific behaviors you would incentivize for each of the following groups of employees: front-desk clerks, hotel managers, valets, housekeepers.
- 12-22. Based on what you learned in this chapter of Dessler *Human Resource Management*, lay out a complete incentive plan (including all long- and short-term incentives) for the Hotel Paris’s hotel managers.

MyLab Management

Go to www.pearson.com/mylab/management for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 12-23. When and why would you pay a salesperson based solely on commission? Based on a combined salary and commission?
- 12-24. Explain the role recognition and other nonmaterial incentives play in an effective incentive plan.
- 12-25. MyLab Management only—comprehensive writing assignment for this chapter.

PERSONAL INVENTORY ASSESSMENTS



Incentives play a big role in employee motivation. Go to www.pearson.com/mylab/management to complete the Personal Inventory Assessment related to this chapter.

Key Terms

financial incentives, 391
 productivity, 391
 fair day’s work, 391
 scientific management movement, 391
 pay-for-performance, 391
 variable pay, 391
 intrinsic motivation, 392

expectancy, 392
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 merit pay (merit raise), 394

annual bonus, 402
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 golden parachute, 406
 team (or group) incentive plan, 406
 organization-wide incentive plan, 408
 profit-sharing plan, 408

Scanlon plan, 408
 gainsharing plan, 409
 earnings-at-risk pay plan, 409
 employee stock ownership plan (ESOP), 409

Endnotes

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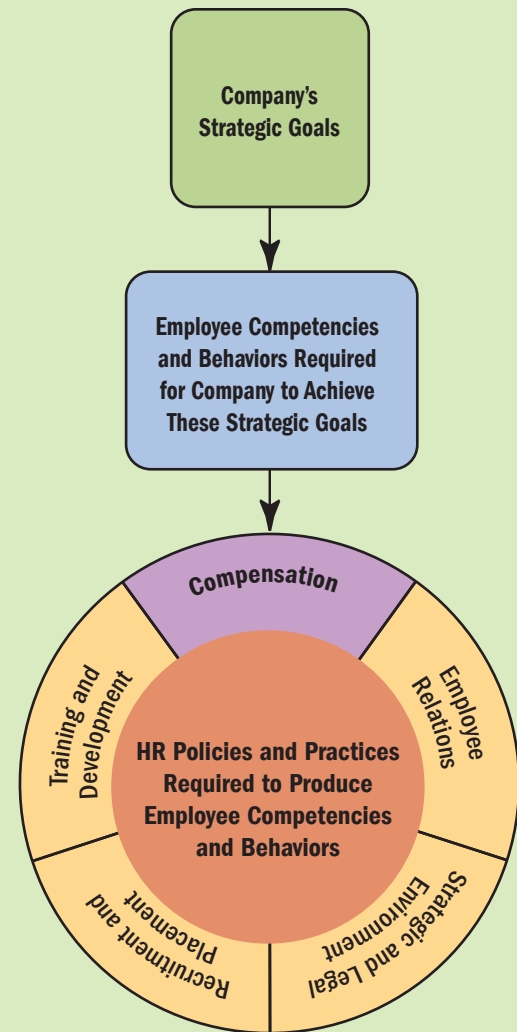
Benefits and Services

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 13-1** Name and define each of the main pay for time not worked benefits.
- 13-2** Describe each of the main insurance benefits.
- 13-3** Discuss the main retirement benefits.
- 13-4** Outline the main employees' services benefits.
- 13-5** Explain the main flexible benefit programs.
- 13-6** Explain how to use benefits to improve engagement, productivity, and performance.

About 30 years ago, Gary Erickson was biking through California and got an idea that changed his life—to create tastier and healthier health bars than those then available.¹ That was the beginning of Clif Bar, a company Erickson started as a small bakery and then grew into one with hundreds of employees selling healthy foods and drinks. He wanted an employee benefits plan for his employees that highlighted Clif Bar's healthy/sustainable focus; we'll see what he did.



WHERE ARE WE NOW . . .

Chapters 11 and 12 addressed salaries (and wages) and incentives. The main purpose of this chapter is to explain the third major pay component: employee benefits. The main topics we discuss are **Pay for Time Not Worked Benefits, Insurance Benefits, Retirement Benefits, Employees' Services Benefits, Flexible Benefits, and Employee Engagement Guide for Managers.**

This chapter completes our discussion of employee compensation.

The next chapter starts a new part of this book, and focuses on managing employee relations.

benefits

Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.

Introduction: The Benefits Picture Today

“What are your benefits?” is the first thing many applicants ask. **Benefits**—indirect financial and nonfinancial payments employees receive for their employment with the company and which employers use to attract, recognize, and retain workers—are an important part of just about everyone’s compensation.² They include things like health and life insurance, pensions, paid time off, and child-care assistance. Employee benefits account for about 31% of total compensation. Figure 13-1 summarizes the breakdown of benefits as a percentage of compensation.

For most employees, *health benefits* are the 800-pound gorilla of the benefits package. In one recent survey, benefits that people said they coveted most were health, dental, and vision benefits (88%), more flexible hours (88%), more vacation time (80%), and more work from home options (80%).³ Even human resource managers can underestimate benefits’ attractiveness. One survey concluded that many human resource managers erroneously assume that things like job security and autonomy are more important than benefits.⁴ They aren’t.

Policy Issues

Employers therefore should design benefits packages carefully, and there are many policy decisions to make. These include what benefits to offer, who receives coverage, whether to include retirees in the plan, whether to deny benefits to employees during initial “probationary” periods, how to finance benefits, cost-containment procedures, and how to communicate benefits options to employees.⁵

Legal issues loom large. Federal and state laws *mandate* some benefits (such as Social Security), while other benefits are *voluntary* (at the employer’s discretion); see Table 13-1 (page 422). However, we’ll see that federal law still affects even voluntary/discretionary benefits such as vacation leave. And employers must adhere to the laws of the states in which they do business. For example, California requires most state contractors to provide domestic partner benefits for employees.

There are many benefits and ways to classify them. We will classify them as (1) pay for time not worked (such as vacations), (2) insurance benefits, (3) retirement benefits, (4) personal services benefits, and (5) flexible benefits. We will start our discussion with pay for time not worked.



HR in Action at the Hotel Paris As they reviewed the benefits figures, Lisa Cruz and the CFO became increasingly concerned. They computed several benefits-related metrics for their firm, including *benefits costs as a percentage of payroll* and *sick days per full-time equivalent employee per year*. The results were not what they should have been. They had to change their benefits plan. To see how they handled this, read the case on pages 447–448.

FIGURE 13-1 Relative Importance of Employer Costs for Employee Compensation (Private Industry), December 2017

Source: Based on Employer Costs for Employee Compensation—December 2017. <http://www.bls.gov/news.release/pdf/ecec.pdf> accessed March 30, 2018.

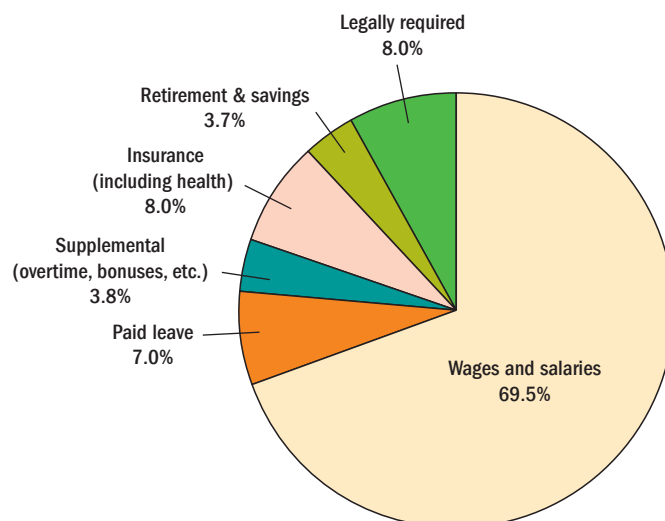


TABLE 13-1 Some Required and Discretionary Benefits

Benefits Required by Federal or Most State Laws	Benefits Discretionary on Part of Employer*
Social Security	Disability, health, and life insurance
Unemployment insurance	Pensions
Workers' compensation	Paid time off for vacations, holidays, sick leave, personal leave, jury duty, etc.
Leaves under Family and Medical Leave Act	Employee assistance and counseling programs; "family-friendly" benefits for child care, elder care, flexible work schedules, etc.; executive perquisites

Note: *Although not required under federal law, all these benefits are regulated in some way by federal law, as explained in this chapter.



LEARNING OBJECTIVE 13-1

Name and define each of the main pay for time not worked benefits.

supplemental pay benefits

Benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.

unemployment insurance (or compensation)

Provides benefits if a person is unable to work through some fault other than his or her own.

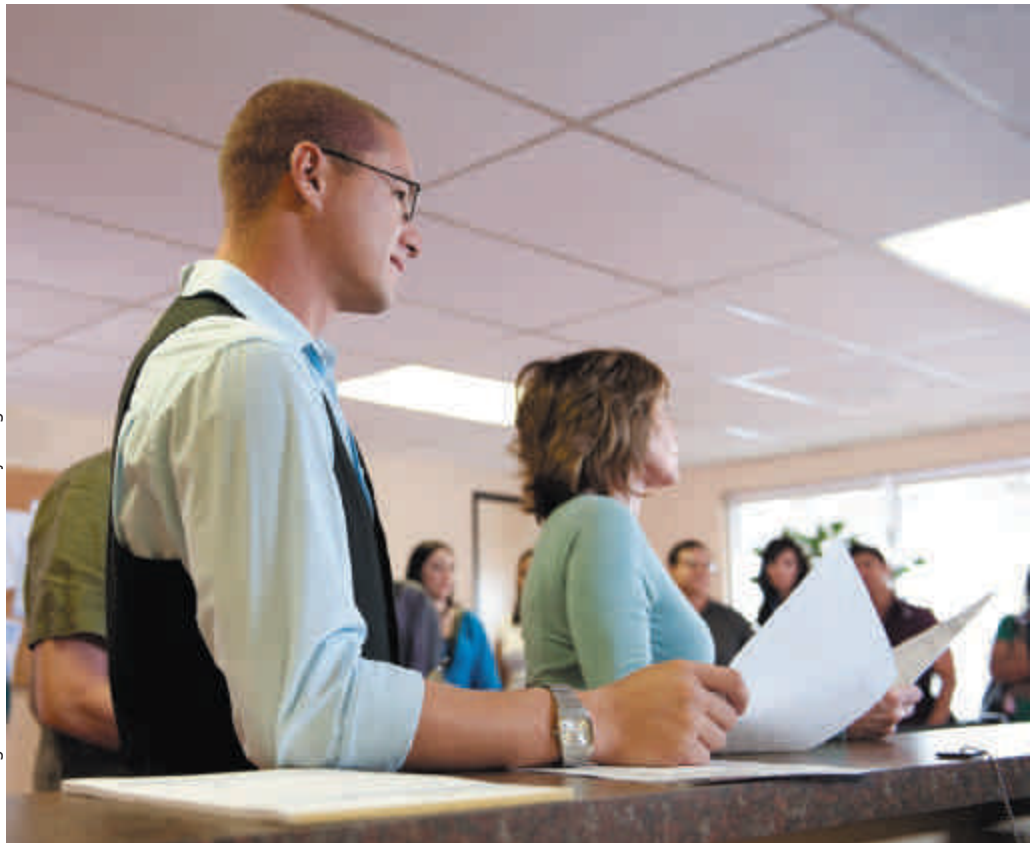
Pay for Time Not Worked

Pay for time not worked—also called **supplemental pay benefits**—is very costly, because of how much time off most employees receive. Common time-off-with-pay benefits include holidays, vacations, jury duty, funeral leave, military duty, personal days, sick leave, sabbatical leave, maternity leave, and unemployment insurance payments for laid-off or terminated employees.

Unemployment Insurance

All states have their own **unemployment insurance (or compensation)** laws. These provide benefits to eligible workers who become unemployed through no fault of their own. The benefits derive from a tax on employers that can range from 0.1% to 5% of taxable payroll in most states. An employer's unemployment tax rate reflects its rate of employee terminations. Unemployment tax rates are rising in many states.

Yellow Dog Productions Inc./Photodisc/Getty Images



Unemployment insurance/compensation laws provide short-term benefits to people who lose their jobs through no fault of their own.

For example, prior to the 2007–2008 recession, Maryland’s unemployment insurance tax rate was 0.3% or lower, but now ranges from 0.6% to 9.0% per employee.⁶ All states follow federal unemployment insurance guidelines.

Not everyone dismissed by an employer is entitled to unemployment benefits—only those released through no fault of their own. Thus, strictly speaking, a worker fired for chronic lateness can’t legitimately claim benefits. But many managers are lackadaisical in protecting their employers. Employers therefore spend thousands of dollars on unemployment taxes unnecessarily.

The main rule is to keep a list of written warnings to demonstrate that poor performance caused the dismissal. The checklist in Table 13-2 can help. (Those fired during their initial “90-day probation” *are* eligible for unemployment, so follow that checklist for them, too.)

Vacations and Holidays

Most firms offer vacation and holiday benefits. About 90% of full-time workers and 40% of part-timers get paid holidays, an average of eight paid holidays off.⁷ Common U.S. paid holidays include New Year’s Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.⁸ On average, American workers get about 9 days of vacation leave after 1 year’s employment, 14 days after 5 years, and 17 after 10 years.⁹

Firms should address several holiday-and vacation-related policy issues, such as how many vacation days employees get, and which days (if any) are paid holidays. Other vacation policy decisions include: Are employees paid for accrued vacation time if they quit before taking their vacations? Will you pay employees for a holiday if they don’t come to work the day before and the day after the holiday? And, should we pay some premium—such as time and a half—when employees must work on holidays?

In practice, vacation policies range from highly flexible, to traditional, to restrictive. Some employers have “unlimited vacation policies.” One motive here is that with many workers answering e-mails 24/7, going home doesn’t mean leaving work, so they deserve flexible vacations.¹⁰ Such plans also aid recruiting. Of course, unlimited

TABLE 13-2 An Unemployment Insurance Cost-Control Checklist

Do You:

- ✓ Keep documented history of lateness, absence, and warning notices
- ✓ Warn chronically late employees before discharging them
- ✓ Have a rule that 3 days’ absence without calling in is reason for automatic discharge
- ✓ Request doctor’s note on return to work after absence
- ✓ Make written approval for personal leave mandatory
- ✓ Stipulate date for return to work from leave
- ✓ Obtain a signed resignation statement
- ✓ Mail job abandonment letter if employee fails to return on time
- ✓ Document all instances of poor performance
- ✓ Require supervisors to document the steps taken to remedy the situation
- ✓ Document employee’s refusal of advice and direction
- ✓ Require all employees to sign a statement acknowledging acceptance of firm’s policies and rules
- ✓ File the protest against a former employee’s unemployment claim on time (usually within 10 days)
- ✓ Use proper terminology on claim form, and attach documented evidence regarding separation
- ✓ Attend hearings, and appeal unwarranted claims
- ✓ Check every claim against the individual’s personnel file
- ✓ Routinely conduct exit interviews to produce information for protesting unemployment claims

Source: Copyright Gary Dessler, PhD.

vacation plans aren't really unlimited. While theoretically there's no limit on how many days off employees can take, in practice they must plan their schedules with their supervisors. When one company switched to such a plan, the average vacation days rose from 14 to 16.6, year-over-year. As a rule, very few employees actually take more time off.¹¹ Blackrock recently became the first big financial firm to introduce such a plan.¹²

Other employers take a traditional approach: employees are eligible for a certain number of annual vacation days (for instance all IBM employees get at least 3 weeks, and after 10 years get 4 weeks),¹³ and place requests for vacations with their supervisors and perhaps their HR departments. Wage surveys provide typical vacation policies, which employers then usually describe in their employee manuals.

Some employers, concerned with excessive absence, emphasize restrictive, centralized absence oversight (called "integrated absence management"). This starts with collecting data. For instance, how many people are on leave; how many days of work is the employer losing; how much is the employer spending to replace absent workers; and what units have the attendance problems?¹⁴ These employers then closely monitor all aspects of their employees' leaves and absences.



KNOW YOUR EMPLOYMENT LAW

Some Legal Aspects of Vacations and Holidays

Although federal law doesn't require vacation benefits, the employer must still formulate its vacation policy with care. As an example, with many employers' vacation policies, vacation pay accrues, say, on a biweekly basis. This means that these employers obligate themselves to pay new employees pro rata vacation pay if they leave the firm during their first year. But if the employer's vacation policy requires that a new employee pass his or her first employment anniversary *before becoming entitled* to a vacation, the employee gets no vacation pay if he or she leaves during that first year.

Another question is whether the employer can cancel an employee's scheduled vacation, for instance, due to a rush of orders. Here it's important that it formulate its vacation policy so it's clear that the employer reserves the right to require vacation cancellation and rescheduling if production so demands. ■

Sick Leave

Sick leave provides pay to employees when they're out of work due to illness. Most policies grant full pay for a specified number of sick days—perhaps 12 per year, usually accumulating at the rate of, say, 1 day per month of service. Six states and several cities now have mandatory paid leave sick laws.¹⁵

The problem with sick days is that many employees use them whether they're sick or not. In one survey, personal illnesses accounted for about 45% of unscheduled sick leave absences. Family issues (27%), personal needs (13%), and "entitlement" (9%) were other reasons cited.¹⁶ Absenteeism costs U.S. employers about 20% of their total payrolls.¹⁷

COST-REDUCTION TACTICS Employers use several tactics to reduce excessive sick leave absence. About 87% use *pooled paid leave plans* (or "*banks*"). These lump together sick leave, vacation, and personal days into a single leave pool. In one SHRM survey, the average days awarded depended on the employee's time with the employer, and ranged from 13 to 26.¹⁸ (Special absences like serious short-term illnesses and bereavement leave are usually handled separately.) Most firms don't include federal holidays in their paid time off "*banks*."¹⁹

Another tactic is to repurchase unused sick leave at the end of the year by paying their employees for each unused sick day. The problem is that legitimately sick employees may come to work. Others hold monthly lotteries in which only employees with perfect monthly attendance are eligible for a cash prize. At Marriott, employees can trade the value of some sick days for other benefits. Others aggressively investigate all absences, calling absent employees at home.²⁰ The accompanying Profit Center feature shows how one employer cut costs.

sick leave

Provides pay to an employee when he or she is out of work because of illness.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Controlling Sick Leave

Sick leave often gets out of control because employers don't measure it. In one survey, only 57% of employers formally tracked sick days for their exempt employees.²¹ Three-fourths of the employers couldn't provide an estimate of what sick pay was costing them. Therefore, the employer should first have a system for monitoring sick leaves and for measuring their financial impact.²²

As an example, when she became director of the United Kingdom's Driver and Vehicle Licensing Agency, the new director knew steps were needed to address its absence rate.²³ The rate had peaked at 14 days out per employee in 2005, at a cost of about \$20 million per year (then £10.3 million).

The new director organized a human resource absence initiative.²⁴ The agency set a goal of reducing absences by 30% by 2010. Agency directors received absence-reduction goals, and their progress was tracked. The agency introduced new policies on special leave, rehabilitation support, and monitoring absentees. They made it easier for employees to swap work shifts, and introduced a guaranteed leave day policy.

By 2010, the sickness absence rate was down to 7.5 days per employee and productivity was up, for multiyear savings of about \$48 million dollars (£24.4 million). ■

MyLab Management Talk About It 1

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. A note on this agency in Wikipedia refers to "amazingly high" levels of sick leave among staff at the DVLA [around 2007], with employees having an average of three weeks a year sick leave."²⁵ What sorts of inaction on the part of previous managers could help explain such poor attendance?



KNOW YOUR EMPLOYMENT LAW

Leaves and the Family and Medical Leave Act and Other Laws

Parental leave is an important benefit. About half of workers are women; about 80% of them will become pregnant during their work lives. Furthermore, many workers are single parents. Several laws apply here. Under the Pregnancy Discrimination Act, employers must treat women applying for pregnancy leave as they would any other employee requesting a leave under the employer's sick leave policies. The Family and Medical Leave Act of 1993 (FMLA)²⁶ stipulates that:²⁷

1. Private employers of 50 or more employees must provide eligible employees (women or men) up to 12 weeks of unpaid leave for their own serious illness, the birth or adoption of a child, or the care of a seriously ill child, spouse, or parent.
2. Employers may require employees to take their paid sick leave or annual leave as part of the 12-week leave provided in the law.
3. Employees taking leave are entitled to receive health benefits while they are on unpaid leave, under the same terms and conditions as when they were on the job.
4. Employers must guarantee most employees the right to return to their previous or equivalent position with no loss of benefits at the end of the leave.

Under the Americans with Disabilities Act (ADA), a qualified employee with a disability may be eligible for a leave if it's necessary to accommodate the employee.²⁸

FMLA Guidelines

Managers who want to avoid granting nonrequired FMLA leaves must understand the law. For example, to be eligible for leave under the FMLA, the employee must have worked for the employer for at least a total of 12 months and have worked for 1,250 or more hours in the past 12 consecutive months.²⁹ If these conditions don't apply, no leave is required.

Employers should have procedures for all leaves of absence (including those under the FMLA). In particular:

- Give no employee a leave until the reason for the leave is clear.
- Confirm the legitimacy of any FMLA request. Employers can request sufficient medical facts and symptoms to confirm the eligible condition, prescriptions, appointments, and the treatment regimen.³⁰
- Use a standard form to record both the employee's expected return date and the fact that, without an authorized extension, the firm may terminate his or her employment (see Figure 13-2). ■

Many employers enrich their parental leave plans to make them more attractive for mothers to return from maternity leave. For example, keep in touch during maternity leave, offer flexible jobs with reduced travel and hours, and offer longer leaves.³¹

FIGURE 13-2 Online
Request for Leave Form

Source: From Request for Leave or Approved Absence, http://www.opm.gov/FORMS/PDF_FILL/opm71.pdf.

Request for Leave or Approved Absence						
1. Name (Last, first, middle)			2. Employee or Social Security Number (Enter only the last 4 digits of the Social Security Number (SSN))			
3. Organization						
4. Type of Leave/Absence (Check appropriate box(es) below)	Date		Time		Total Hours	5. Family and Medical Leave
	From	To	From	To		
<input type="checkbox"/> Accrued Annual Leave						If annual leave, sick leave, or leave without pay will be used under the Family and Medical Leave Act of 1993, please provide the following information: I hereby invoke my entitlement to Family and Medical Leave for: <input type="checkbox"/> Birth/Adoption/Foster Care <input type="checkbox"/> Serious health condition of spouse, son, daughter, or parent <input type="checkbox"/> Serious health condition of self Contact your supervisor and/or your personnel office to obtain additional information about your entitlements and responsibilities under the Family and Medical Leave Act. Medical certification of a serious health condition may be required by your agency.
<input type="checkbox"/> Restored Annual Leave						
<input type="checkbox"/> Advanced Annual Leave						
<input type="checkbox"/> Accrued Sick Leave						
<input type="checkbox"/> Advanced Sick Leave						
Purpose: <input type="checkbox"/> Illness/injury/incapacitation of requesting employee <input type="checkbox"/> Medical/dental/optical examination of requesting employee <input type="checkbox"/> Care of family member, including medical/dental/optical examination of family member, or bereavement <input type="checkbox"/> Care of family member with a serious health condition <input type="checkbox"/> Other						
<input type="checkbox"/> Compensatory Time Off						
<input type="checkbox"/> Other Paid Absence (Specify in Remarks)						
<input type="checkbox"/> Leave Without Pay						
6. Remarks:						
7. Certification: I hereby request leave/approved absence from duty as indicated above and certify that such leave/absence is requested for the purpose(s) indicated. I understand that I must comply with my employing agency's procedures for requesting leave/approved absence (and provide additional documentation, including medical certification, if required) and that falsification on this form may be grounds for disciplinary action, including removal.						
7a. Employee Signature					7b. Date	
8a. Official Action on Request: <input type="checkbox"/> Approved <input type="checkbox"/> Disapproved					(If disapproved, give reason. If annual leave, initiate action to reschedule.)	
8b. Reason for Disapproval:						
8c. Supervisor Signature					8d. Date	
PRIVACY ACT STATEMENT Section 6311 of Title 5, United States Code, authorizes collection of this information. The primary use of this information is by management and your payroll office to approve and record your use of leave. Additional disclosures of the information may be: to the Department of Labor when processing a claim for compensation regarding a job connected injury or illness; to a State unemployment compensation office regarding a claim; to Federal Life Insurance or Health Benefits carriers regarding a claim; to a Federal, State, or local law enforcement agency when your agency becomes aware of a violation or possible violation of civil or criminal law; to a Federal agency when conducting an investigation for employment or security reasons; to the Office of Personnel Management or the General Accounting Office when the information is required for evaluation of leave administration; or the General Services Administration in connection with its responsibilities for records management. Public Law 104-134 (April 26, 1996) requires that any person doing business with the Federal Government furnish a social security number or tax identification number. This is an amendment to Title 31, Section 7701. Furnishing the social security number, as well as other data, is voluntary, but failure to do so may delay or prevent action on the application. If your agency uses the information furnished on this form for purposes other than those indicated above, it may provide you with an additional statement reflecting those purposes.						

Print Form

Clear Form

Save Form

The FMLA mandates only unpaid leave. Therefore, several states implemented paid family leave laws.³² Recently, there's been discussion of the need for federal parental paid leave legislation.³³

Severance Pay

severance pay

A one-time payment some employers provide when terminating an employee.

Many employers provide **severance pay**, a one-time separation payment when terminating an employee. Most managers expect employees to give them 1 or 2 weeks' notice if they plan to quit, so severance pay seems appropriate when dismissing an employee. Reducing litigation from disgruntled former employees is another reason.³⁴ Severance pay also helps reassure employees that they'll receive some financial help if let go, too. If the employer obligates itself (for instance, in its employee handbook) to pay severance, then its "voluntary" plan must comply with additional ERISA rules.³⁵

The reason for the dismissal usually affects the severance pay. About 95% of employees dismissed due to downsizings get severance pay, but only about a third of employers offer severance when dismissing for poor performance. It is uncommon to pay when employees quit.

The maximum weeks of severance pay tends to vary by position. In one survey about 45% of officers and senior executives got 52 weeks or more, 42% of professionals got 14–26 weeks, and 39% of administrative staff got 14–26 weeks. Few lower-level employees got no severance, but 13%–19% of officers and senior executives got no severance.³⁶

GUIDELINES In any event, keep several things in mind when designing severance plans:

- List the situations for which the firm will pay severance, such as layoffs resulting from reorganizations.
- Require signing of a knowing and voluntary waiver/general release prior to remittance of any severance pay, absolving the employer from employment-related liability.
- Reserve the right to terminate or alter the severance policy.
- Make it clear that any continuing severance payments continue until only the stated deadline or until the employee gets a new job, whichever occurs first.
- Remember that, as with all personnel actions, employers must make severance payments, if any, equitably.³⁷

IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Severance Pay in France

Although President Emmanuel Macron is working to change it, French labor law is still complex and restrictive, and aimed mostly at protecting employees' rights.³⁸

For example, when one employer refused two employees' requests to be fired, they stopped coming to work. He dismissed them, after which a labor tribunal held they'd been wrongfully terminated. The two former employees ended up getting about \$60,000 each. Proceedings in these tribunals can go on for years.

Understandably, many employers take the easy way out and don't hire employees. Instead, they outsource work or use temps. President Macron wants to put a ceiling on the labor tribunal awards. He hopes that lifting that threat will make employers more willing to hire again. But unions are resisting capping awards, and striking. In any case, managers from other countries should understand French labor law before opening new facilities there.

supplemental unemployment benefits

Provide for a "guaranteed annual income" in certain industries where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.

Supplemental Unemployment Benefits

In some industries such as automaking, shutdowns to reduce inventories or change machines are common. **Supplemental unemployment benefits** are cash payments that supplement the employee's unemployment compensation, to help the person maintain his or her standard of living while out of work.



Insurance Benefits

Most employers also provide various required or voluntary insurance benefits, such as workers' compensation and health insurance.

LEARNING OBJECTIVE 13-2

Describe each of the main insurance benefits.

workers' compensation

Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.

Workers' Compensation

Workers' compensation laws aim to provide sure, prompt income and medical benefits to work-related accident victims or their dependents, regardless of fault. Every state has its own workers' compensation law and commission, and some run their own insurance programs. However, most require employers to carry workers' compensation insurance with private, state-approved insurance companies. Neither the state nor the federal government contributes any funds for workers' compensation.

HOW BENEFITS ARE DETERMINED Workers' compensation can be monetary or medical. In the event of a worker's death or disablement, the person's dependents receive a cash benefit based on prior earnings—usually one-half to two-thirds the worker's average weekly wage, per week of employment. Most states have a time limit—such as 500 weeks—for which benefits can be paid. If the injury causes a specific loss (such as an arm), the employee may receive additional benefits based on a statutory list of losses, even though he or she may return to work. In addition to these cash benefits, employers must furnish medical, surgical, and hospital services as required for the employee.

For workers' compensation to cover an injury or work-related illness, one must only prove that it arose while the worker was on the job. It doesn't matter that he or she may have been at fault.³⁹ Suppose you instruct employees to wear safety goggles at their machines. One worker doesn't and has an eye injury on the job. The company must still provide workers' compensation benefits.

Americans with Disabilities Act provisions generally prohibit employers from inquiring about an applicant's workers' compensation history. Furthermore, failing to let an employee who was on injury-related workers' compensation return to work, or not accommodating him or her, could trigger ADA lawsuits.

CONTROLLING WORKERS' COMPENSATION COSTS It is important to control workers' compensation claims (and therefore costs). The employer's insurance company usually pays the claim, but the employer's premiums may rise with more claims.

There are ways to reduce workers' compensation claims. First, new employees are most at risk: inexperienced (less than one year) workers have two to four times the loss costs, for instance.⁴⁰ Competent selection—background checks, testing, and drug testing—plus training are therefore crucial.⁴¹ Also reduce accident-causing conditions, such as slippery floors or sloppy work habits. Check and comply with safety standards laws. Furthermore, some workers' compensation claims are not legitimate. Red flags include vague accident details, minor accidents resulting in major injuries, lack of witnesses, injuries occurring late Friday, and late reporting.⁴²

Case management is popular for cost control. It is “the treatment of injured workers on a case-by-case basis by an assigned manager, usually a [specially trained] registered nurse, who coordinates with the physician and health plan to determine which care settings are the most effective for quality care and cost.”⁴³

Moving aggressively to support the injured employee and to get him or her back to work is important too. The involvement of an attorney and the duration of the claim both influence the worker's claim cost.⁴⁴ Many firms have programs such as physical therapy assistance to help reintegrate claim recipients.

Hospitalization, Health, and Disability Insurance

Health insurance looms large in many people's choice of employer, because it's so expensive.⁴⁵ Hospitalization, health, and disability insurance helps protect employees against hospitalization costs and from the income loss arising from off-the-job accidents or illness. Many employers purchase insurance from life insurance companies, casualty insurance companies, or Blue Cross (for hospital expenses) and Blue Shield

TABLE 13-3 Percentage of Employers Offering Some Popular Health Benefits

2015 Health Care and Welfare Benefits	
Dental insurance	96%
Prescription drug coverage	96%
Mental health coverage	91%
Mail-order prescription program	87%
Vision insurance	87%
Accidental death and dismemberment insurance (AD&D)	85%
Preferred provider organization (PPO)	85%
Contraceptive coverage	83%
Chiropractic coverage	81%
Long-term disability insurance	80%
Employee assistance program (EAP)	79%
Short-term disability insurance	74%
Medical flexible spending accounts	69%

Source: 2015 *Employee Benefits*, SHRM, <https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2015-Employee-Benefits.pdf>, accessed April 23, 2017.

(for physician expenses) organizations. Others contract with health maintenance organizations or preferred provider organizations. The employer and employee usually both contribute to the plan. Experts forecasted the total cost of medical and pharmacy benefits to rise by 5% in 2018, to about \$14,000 per employee.⁴⁶ And of course employers are dealing with implementing the Patient Protection and Affordable Care (“Obamacare”) Act, as we will see.⁴⁷

Table 13-3 illustrates the prevalence of health-related benefits.

COVERAGE Most employer health plans provide at least basic hospitalization and surgical and medical insurance for all eligible employees at group rates. Insurance is generally available to all employees—including new nonprobationary ones—regardless of health or physical condition. Most basic plans pay for hospital room and board, surgery charges, and medical expenses (such as doctors’ visits to the hospital). Some also provide “major medical” coverage to meet the medical expenses resulting from serious illnesses.

Most employers’ health plans also cover health-related expenses like doctors’ visits, eye care, and dental services. Other plans pay for general and diagnostic visits to the doctor’s office, vision care, hearing aids, and prescription drugs. *Disability insurance* provides income protection for salary loss due to illness or accident, and may continue until age 65 or beyond. Disability benefits usually range from 50% to 75% of the employee’s base pay if he or she is disabled.

Under the Patient Protection and Affordable Care Act, employers with at least 50 full-time-equivalent employees are to offer minimum levels of affordable health-care coverage or pay a penalty.

HMOs Many employers offer membership in a **health maintenance organization (HMO)**, a medical organization consisting of specialists (surgeons, psychiatrists, and so on), often operating out of a health-care center. HMOs provide routine medical services to employees who pay a nominal fee. Employees often have “gatekeeper” doctors who must approve appointments with specialist doctors. The HMO receives a fixed annual fee per employee from the employer (or employer and employee), regardless of whether it provides that person service.

PPOs Preferred provider organizations (PPOs) are a cross between HMOs and the traditional doctor–patient arrangement: They are “groups of health-care providers that contract with employers, insurance companies, or third-party payers to provide

health maintenance organization (HMO)

A prepaid health-care system that generally provides routine round-the-clock medical services as well as preventive medicine in a clinic-type arrangement for employees, who pay a nominal fee in addition to the fixed annual fee the employer pays.

medical care services at a reduced fee.”⁴⁸ Unlike HMOs, PPOs let employees select providers (such as doctors) from a relatively wide list, and see them in their offices, often without gatekeeper doctor approval. Providers agree to discounts and to certain controls, for example, on testing.⁴⁹

MENTAL HEALTH BENEFITS The World Health Organization estimated that more than 34 million people in the United States between the ages of 18 and 64 suffer from mental illness.⁵⁰ Mental illnesses represent about 24% of all reported disabilities, more than disabling injuries, cardiovascular diseases, and cancer combined. For some reason Millennials are more likely to report being depressed.⁵¹

Mental health costs are rising. Reasons include widespread drug and alcohol problems, more states requiring employers to offer minimum mental health benefits, and the fact that mental health claims tend to trigger other health-care claims. The Mental Health Parity Act of 1996 (amended in 2008) sets minimum mental health-care benefits; it also prohibits employer group health plans from adopting mental health benefits limitations without comparable limitations on medical and surgical benefits.⁵²



KNOW YOUR EMPLOYMENT LAW

Patient Protection and Affordable Care Act of 2010 and Other Laws

Under the Patient Protection and Affordable Care Act, employers with at least 50 full-time-equivalent employees are to offer minimum levels of affordable health-care coverage or pay a penalty of \$167 per employee per month. To be eligible, an employee must work at least 30 hours per week or a total of 130 hours in a calendar month.⁵³ The bill was signed into law by President Obama in 2010, and employers faced a number of deadlines under the act.⁵⁴ By 2018, employers with health-care plans that cost more than the threshold the law sets (for instance, \$27,500 for family coverage) had to pay a 40% tax on the amount of coverage over \$27,500. Individual and group health plans that already provide dependent coverage must expand eligibility up to age 26.⁵⁵

Under the law, each state (or, when necessary, the federal government) may run health insurance exchanges—in effect, marketplaces for buying and selling insurance. In part to discourage employers from dropping their health-care plans and sending employees to the health exchanges, the law imposes those fines of \$2,000 (\$167 per month) per worker on any employer with more than 50 workers who doesn’t offer a health insurance plan. “Obamacare” health-care exchanges cover less than 10% of the health insurance market; employers’ programs cover almost half the U.S. population.⁵⁶

Because employers had to pay a 40% surcharge beginning in 2018 on health insurance plans exceeding \$27,500 for a family (or \$10,200 for an individual), many employers are moving to reduce their health-care benefits, for instance by increasing employee co-pays and deductibles.⁵⁷ To avoid penalties that could reach \$2,000 per employee, some employers are directing employees who qualify for Medicaid to sign up for it, instead of employer-supplied insurance.⁵⁸ Some employers are eliminating their health plans, or turning more full-time workers into part-timers working less than 30 hours per week.⁵⁹ About 43% of employers surveyed say their workers will have to pay more for their health-care plans.⁶⁰ Others are reducing their coverage.⁶¹ Other employers calculate that it may be cheaper to pay the penalty than supply the insurance.⁶²

The Evolving Law

The Affordable Care Act did not please everyone, and many legislators in particular objected to it. For example, some say it entangles the federal government excessively in citizen’s personal health matters, and that it provides excessive monetary subsidies to support the act’s provisions. (Indeed, without a change, Obamacare premiums were projected to rise quickly).⁶³

An early proposal would have changed or eliminated many of the Affordable Care Act’s core provisions, by allowing individual states to waive compliance with them.⁶⁴ Congress’s initial attempts to replace Obamacare failed to obtain sufficient support.

With uncertainty surrounding the Affordable Care Act, many insurers were uncertain they could continue providing coverage.⁶⁵ At least for 2018, employers were proceeding with most of the Obamacare rules in place.⁶⁶

COBRA

COBRA—the Consolidated Omnibus Budget Reconciliation Act—requires most private employers to continue to make health benefits available to separated employees and their families for a time, generally 18 months after separation.⁶⁷ The former employee must pay for the coverage.

Employers ignore COBRA's rules at their peril. The employer does not want separated employees to leave and be injured, and then claim they were never told they could have continued their insurance coverage. Therefore, when a new employee first becomes eligible for the company's insurance plan, the person *must* receive (and acknowledge receiving) an explanation of his or her COBRA rights. And all employees separated from the company should sign a form acknowledging that they received and understand those rights. (See Figure 13-3 for a checklist.)

Other Laws

Other federal laws are pertinent. For example, the *Employee Retirement Income Security Act of 1974* (ERISA) sets minimum standards for most voluntarily established pension and health plans in private industry.⁶⁸ *The Newborn Mother's Protection Act of 1996* prohibits employers' health plans from using incentives to encourage employees to leave the hospital after childbirth after less than the legislatively determined

FIGURE 13-3 Illustrative
COBRA Compliance Checklist

Source: Adapted from: www.cobraplus.com/wp-content/themes/cobra-plus/images/constant/COBRAetup.pdf; COBRA Checklist, www.shrm.org/resourcesandtools/; COBRA record keeping checklist, BLR Business and Legal Resources; and COBRA compliance checklist, <http://brscobra.com/cobra-checklist>, all accessed August 1, 2017. Copyright Gary Dessler, PhD.

Cobra to do list would include, for example:	✓ If Done
Complete COBRA services agreement with vendor.	<input type="checkbox"/>
Complete COBRA census: who is covered, with their ages.	<input type="checkbox"/>
Maintain records of those covered by group health plan.	<input type="checkbox"/>
Notify all employees of their rights under COBRA.	<input type="checkbox"/>
Document notification to qualified individuals if they are not eligible to continue coverage.	<input type="checkbox"/>
Monitor COBRA election periods.	<input type="checkbox"/>
Document all notifications (7 years).	<input type="checkbox"/>
Receive signed COBRA election form.	<input type="checkbox"/>
Maintain log of all inquiries received re COBRA.	<input type="checkbox"/>
Track eligible individuals' COBRA payments.	<input type="checkbox"/>
Notify insurers of cancellation of coverage.	<input type="checkbox"/>
Notify qualified beneficiaries if they are not eligible for continued COBRA coverage.	<input type="checkbox"/>
Mail COBRA qualifying event notice and election form to former employee.	<input type="checkbox"/>
Maintain current addresses of those on COBRA.	<input type="checkbox"/>
Maintain records of qualified COBRA beneficiaries.	<input type="checkbox"/>
Terminate COBRA coverage.	<input type="checkbox"/>



minimum stay. Employers who provide health-care services must follow the privacy rules of the *Health Insurance Portability and Accountability Act of 1996* (HIPAA).⁶⁹ Employers must provide the same health-care benefits to employees over the age of 65 that they do to younger workers, even though the older ones are eligible for federal Medicare health insurance. Under the *Americans with Disabilities Act*, the health plan generally shouldn't make distinctions based on disability. Under the *Genetic Information Nondiscrimination Act of 2008* (GINA), even innocent actions can be problems. For example, if a health plan administrator writes down that a member's mother passed away from breast cancer, making the note could conceivably violate the act.⁷⁰ States such as California have their own FMLAs.⁷¹ ■

Trends in Employer Health-Care Cost Control

It can cost a business with 50 employees \$1 million or more for insurance coverage. Health-care cost control is therefore one big way the HR department can improve profits.⁷²

Cost control should start by measuring and auditing health-care costs.⁷³ One survey several years ago found that while the *standard* for claims errors was 3%, the *actual* percentage of claims with errors was about 6.3%. The standard for claims dollars paid in error was 1%; the *actual* percentage of claims dollars paid in error was 3.4%. Consultants who audit employers' health-care payments estimate up to 8% overpayments. The bottom line is that auditing claims is essential.⁷⁴

Beyond that, for many employers, deductibles and co-pays are the low-hanging fruit in health-care cost control. For example, at least 20% of employees were enrolled in high-deductible plans in one survey.⁷⁵

OTHER COST-CONTROL TOOLS Employers take other cost-control steps. For example, employees use tax-sheltered health savings accounts (HSAs) to pay for "low dollar" (not catastrophic) medical expenses.⁷⁶ About 19% of employers surveyed had some form of health-care plan *spousal exclusion policies*, such as excluding a spouse when similar coverage was available from the spouse's employer.⁷⁷ Some employers offer *defined contribution health insurance plans*. Like 401(k) plans, defined contribution health insurance plans tie each employee's health-care benefits to what he or she and the employer contributes, rather than providing health-care benefits that are defined in advance.⁷⁸

Many employers move Medicare-eligible retirees from their company health insurance plans into private individual exchanges. That reduces their own administrative obligations while offering retirees more choices for less money.⁷⁹ The exchanges are run by companies that include Mercer, and Aon Hewitt.

Other employers hire "patient advocates," such as nurses who review employees' medications and (with the consultation of independent physicians) recommend reduced medication regimens.⁸⁰ The U.S. Labor Department recently proposed rules making it easier for small businesses to band together to offer *minimal health benefits plans* (although some worry that such plans don't cover big health issues like childbirth).⁸¹ Some employers have *on-site medical centers*; here patient confidentiality rules, and state laws regarding medical waste disposal are just two issues to consider.⁸² Employers require that insurers use *accountable care organizations* (ACO), special vendors who help insurers, health-care providers, and others improve costs and outcomes.⁸³ Amazon recently was considering establishing its own health clinics for Amazon employees.

Also, *make sure employees know the costs* of their medical benefits.⁸⁴ For example, periodically send a statement to each employee listing the employer's costs for each health benefit. *Online selection* lets employees choose the best of the employer's health-care offerings, based on input from other employees concerning matters like doctor visits and specialists.

WELLNESS PROGRAMS The top two health-care employer priorities in one survey were, "Offer incentives or disincentives to motivate sustained health-care behavior change"; and "Promote a culture of health in the workplace [such as healthy cafeteria foods]"⁸⁵ Because various illnesses are preventable, many employers offer wellness/preventive programs. For example, in one 15-year period, the percentage of Johnson & Johnson



employees who smoke dropped by two-thirds, in part assumedly due to its various wellness programs. J&J managers estimate the company earns about \$2.75 for every \$1.00 it spends on wellness.⁸⁶

Employers offer various wellness/preventive services and incentives.⁸⁷ *Clinical prevention* programs include things like mammograms and checkups. Walgreens provides *on-site health-care services* such as mammograms.⁸⁸ Insurer USAA offers options like these: employees pay \$300 a year to use company fitness centers, but those who go three or more times a week get 75% off; they have running and walking trails at many campuses, and mileage markers in company hallways; healthy foods are at eye level in the cafeterias, and pricing encourages workers to buy them; and employees have weight loss and other health incentives, and employees who meet the goals can earn up to \$550. Other wellness programs include obesity management, stress management, and smoking cessation.

Incentives can boost wellness program participation, but may backfire.⁸⁹ (Whirlpool gave nonsmoker discounts worth about \$500 on health-care premiums. It suspended 39 workers caught smoking outside the plant after claiming on their enrollment forms that they were nonsmokers.) Some employers offer standing desks. The desks may boost wellness; however, a recent study concluded that six hours a day of standing burned only about 54 calories—about the same as in a piece of fruit.⁹⁰

Wellness program research is mixed. J&J, as noted, has had positive results but in another study, wellness programs (including with incentives) did not change employees' behavior much.⁹¹ The key seems to be to motivate the employee to take steps to stay well. Two experts say this entails:

Leadership commitment and support For example, at Lincoln Industries, promoting health is embedded in the company's mission statement.⁹²

Build a culture of health Good health emerges from a culture evidenced by elements such as health-promoting policies, healthy food offerings, staircases rather than elevators, and treadmills.

Employee involvement Wellness requires employee engagement—they have to want it. Employees should “own” the wellness program, and should have a big role in its creation and operation.

Spread the word For example, USAA continually communicates in multiple ways to employees that the wellness program is there to serve them.

The accompanying Profit Center feature shows how one employer cut costs.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

The Doctor Is on the Phone

With more than 12,000 employees in its health plan, Rent-A-Center was looking for a better way to get its employees the medical advice they required, while also reducing health plan costs. The company signed an agreement with Teladoc, Inc. Teladoc's doctors provide medical consultations over the phone. In the first 16 months the new telemedicine program was in effect, Rent-A-Center saved more than \$770,000 in doctor and hospital visits and in employee productivity that would have been lost.

The program seems to be win-win. The Teladoc consultation is free to employees, compared to a \$20 office co-payment, and the doctors are available 24 hours per day, usually within 30 minutes. If necessary, they call in antibiotics prescriptions. And for Rent-A-Center, there's that extra \$770,000 in their bottom line.⁹³ ■

MyLab Management Talk About It 2

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete these discussion questions. Would you recommend this program to your employer? Why or why not?

group life insurance

Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.

Long-Term Care

Long-term care insurance—for things like nursing assistance for former employees in their old age—is a key employee benefit. The Health Insurance Portability and Accountability Act of 1996 lets employers and employees deduct long-term care insurance premiums from their income taxes, making this benefit more attractive.⁹⁴ Employers can also provide insurance benefits for related matters such as adult day care, assisted living, and custodial care.

Life Insurance

In addition to hospitalization and medical benefits, most employers provide **group life insurance** plans. Such plans generally offer lower rates than individual plans, and usually accept all employees regardless of health or physical condition.

In general, there are three key personnel policies to address: the benefits-paid schedule (the amount of life insurance is usually tied to the employee's annual earnings), supplemental benefits (continued life insurance coverage after retirement, for instance), and financing (the amount and percent the employee contributes).

Accidental death and dismemberment coverage provides a lump-sum benefit in addition to life insurance benefits when death is accidental. It also provides benefits in case of accidental loss of limbs or sight.

Benefits for Part-Time and Contingent Workers

About 19 million people work part-time (less than 35 hours a week).⁹⁵ More gig work, more phased retirements, and a desire to better balance work and family life help explain this phenomenon. In any case, many firms provide holiday, sick leave, and vacation benefits to part-timers, and more than 70% offer some form of health-care benefits to them.⁹⁶

HR AND THE GIG ECONOMY: GIG WORKER BENEFITS

Employers that want to offer gig workers benefits are often reluctant to do so. The problem is providing gig workers with benefits, while maintaining their status as independent contractors not also entitled to things like payroll tax contributions.⁹⁷

The head of one company, Handy (whose independent contractors go to people's homes to clean or make repairs), is trying to do something about it.⁹⁸ He's working with New York legislators to create legislation that would make it easier for employers to fund things like sick leave and portable benefits for their independent contractors, while keeping them as independent contractors.⁹⁹ Uber partners with Stride Health, a health-care insurance marketplace that helps Uber drivers arrange for insurance they (not Uber) pay for themselves.¹⁰⁰

**LEARNING OBJECTIVE 13-3**

Discuss the main retirement benefits.

Retirement Benefits

Retirement benefits such as Social Security and pension plans are big HR issues, in no small part because the huge contingent of baby boomers (born 1946–1964) turns 65 between roughly now and 2029.

Social Security

Most people assume that **Social Security** provides income only when they are older than 62, but it actually provides three types of benefits. *Retirement benefits* provide an income if you retire at age 62 or thereafter and are insured under the Social Security Act. Second are *survivor's* or *death benefits*. These provide monthly payments to your dependents regardless of your age at death (assuming you're insured under Social Security). Finally, *disability payments* provide monthly payments to employees who become disabled totally (and to their dependents) if they meet certain requirements. The Social Security system also administers the Medicare program, which provides health services to people age 65 or older.

Social Security

Federal program that provides three types of benefits: retirement income at the age of 62 and thereafter, survivor's or death benefits payable to the employee's dependents regardless of age at time of death, and disability benefits payable to disabled employees and their dependents. These benefits are payable only if the employee is insured under the Social Security Act.

pension plans

Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.

defined benefit pension plan

A plan that contains a formula for determining retirement benefits.

defined contribution pension plan

A plan in which the employer's contribution to employees' retirement savings funds is specified.

portability

Instituting policies that enable employees to easily take their accumulated pension funds when they leave an employer.

**401(k) plan**

A defined contribution plan based on section 401(k) of the Internal Revenue Code.

A tax on the employee's wages funds Social Security (technically, "Federal Old Age and Survivor's Insurance"). Recently, the maximum amount of earnings subject to Social Security tax was \$128,400; the employer pays 7.65% and the employee 7.65%.¹⁰¹ "Full retirement age" for nondiscounted Social Security benefits traditionally was 65—the usual age for retirement. It is now 67 for those born in 1960 or later.¹⁰²

Pension Plans

Pension plans provide income to individuals in their retirement, and just over half of full-time workers participate in some type of pension plan at work. Pension planners classify pension plans as *contributory versus noncontributory* plans, and as *defined contribution versus defined benefit* plans.¹⁰³ The employee contributes to contributory pension plans, while the employer makes all contributions to noncontributory plans. Defined benefit plans "define" how much the pension will be, while with defined contribution plans the benefits (if any) will depend on the contributions to the plan and on how the assets performed. Note that some plans are also "qualified" (or not), insofar as they receive favorable treatment under the tax code.

Again, with **defined benefit pension plans**, the employee's pension is specified ("defined"), in that the person knows in advance his or her pension benefits. A formula usually ties the pension to a percentage of the person's preretirement pay (for example, to an average of his or her last 5 years of employment), multiplied by the years he or she worked for the company). Due to tax law changes and other reasons, defined benefit plans now are a minority of pension benefit plans. However, even younger employees express a strong preference for defined benefit plans.¹⁰⁴ Some companies, such as Union Pacific, offer them as employee retention tools.¹⁰⁵

Defined contribution pension plans specify ("define") what *contribution* the employee and employer will make to the employee's retirement or savings fund. Here the contribution is defined, not the pension. With a *defined benefit* plan, the employee can compute what his or her retirement *benefits* will be upon retirement. With a *defined contribution* plan, the actual pension will depend on the amounts contributed to the fund *and* on the success of the fund's investment earnings. Defined contribution plans are popular among employers due to their relative ease of administration, favorable tax treatment, and other factors. **Portability**—the ability of employees who leave the firm prior to retirement to take their accumulated pension funds with them—is easier with defined contribution plans.

In any case, CEO retirement packages tend to dwarf the average employee's.¹⁰⁶ For example, when Target's CEO stepped down after a huge credit card breach, he walked away with retirement plans worth more than \$47 million, plus a \$7.2 million severance payment and \$4.1 million from vested stock awards.

401(K) PLANS The most popular defined contribution plans are based on section 401(k) of the Internal Revenue Code, and are called **401(k) plans**. The employee authorizes the employer to deduct a sum from his or her paycheck before taxes, and to invest it in the bundle of investments in his or her 401(k) account. The deduction is pretax, so the employee pays no tax on those dollars until after he or she retires (or removes the money from the 401(k) plan). The person can deduct annually an amount up to the IRS maximum (about \$15,000). Employers often match employees' 401(k) contributions dollar for dollar up to a set percentage. The employer arranges, usually with an investment company such as Fidelity Investments, to administer the 401(k) plan and to make investment options (typically mutual stock funds and bond funds) available to the plan.

Employers must choose 401(k) providers with care. The employer has a fiduciary responsibility to its employees and must monitor the fund and its administration.¹⁰⁷ In addition to trustworthiness, the 401(k) plan provider should make it easy to enroll and participate in the plan.¹⁰⁸ Firms such as Vanguard, Fidelity, and others establish Web-based 401(k) plans with online tools—such as an "asset allocation planner"—even for small firms. Employers must also monitor 401(k) housekeeping issues such as late deposits and incorrect employer matching contributions.¹⁰⁹

Firms such as Vanguard, Fidelity, and others can establish online, fully Web-based 401(k) plans even for small firms with 10 to 50 employees.



DNY59/Getty Images

savings and thrift plan

Plan in which employees contribute a portion of their earnings to a fund; the employer usually matches this contribution in whole or in part.

deferred profit-sharing plan

A plan in which a certain amount of profits is credited to each employee's account, payable at retirement, termination, or death.

employee stock ownership plan (ESOP)

A qualified, tax-deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees.

cash balance plans

Plans under which the employer contributes a percentage of employees' current pay to employees' pension plans every year, and employees earn interest on this amount.

Under the Pension Protection Act of 2006, employers who sponsor plans that facilitate both *automatic enrollment* and allocation to *default investments* (such as age-appropriate “lifestyle funds”) reduce their compliance burdens.¹¹⁰ Google's 401(k) plan automatically enrolls employees to contribute 10% of their eligible compensation. (The employee can decline).¹¹¹ After the president signed the 2017 tax law, many large and midsize companies, including Honeywell and AFLAC, increased their 401(k) contributions (to get the higher tax deduction that year).¹¹²

OTHER PLANS The 401(k) plan is one example of a **savings and thrift plan**.¹¹³ In any such plan, employees contribute a portion of their earnings to a fund, and the employer usually matches this contribution completely or in part.

As discussed in Chapter 12 (Incentives), employers use a **deferred profit-sharing plan** to contribute a portion of their profits in cash to a pension fund, regardless of the level of employee contribution. An **employee stock ownership plan (ESOP)** is a qualified, tax-deductible defined contribution plan in which employers contribute stock to a trust for eventual use by employees who retire.

CASH BALANCE PENSION PLANS With *defined benefits* plans, to get your maximum pension, you generally must stay with your employer until you retire—the formula takes the number of years you work into consideration. With *defined contribution* plans, your pension is more portable—you can leave with it at any time. **Cash balance plans** are a hybrid; they have defined benefit plans' more predictable benefits, but the portability of defined contribution plans. The employer contributes a percentage of employees' current pay (usually 5%) to the employees' pension plans every year, and employees earn interest on this amount.¹¹⁴



KNOW YOUR EMPLOYMENT LAW

Pension Planning and the Law

Various federal laws regulate pension planning and administration. As a rule, pension planning requires expert help.¹¹⁵

Employee Retirement Income Security Act of 1975 (ERISA)

Signed into law by President Ford to require that pension rights be vested and protected by a government agency, the PBGC.

Pension Benefits Guarantee Corporation (PBGC)

Established under ERISA to ensure that pensions meet vesting obligations; also insures pensions should a plan terminate without sufficient funds to meet its vested obligations.

The **Employee Retirement Income Security Act of 1975 (ERISA)** requires that employers have written pension plan documents and adhere to certain guidelines, such as regarding eligibility.¹¹⁶ ERISA protects the employer's pension or health plans' assets by requiring that those who control the plans act responsibly. The *fiduciary's* responsibility is to run the plan solely in the interest of participants and beneficiaries.

Employers (and employees) also want their pension contributions to be "qualified," or tax deductible, so must adhere to the *income tax codes*. Under *labor relations laws*, the employer must let its unions participate in pension plan administration. The *Job Creation and Worker Assistance Act* provides guidelines regarding what rates of return employers should use in computing their pension plan values. ■

ERISA established the **Pension Benefits Guarantee Corporation (PBGC)** to oversee and insure a pension if a plan terminates without sufficient funds. Thousands of benefits plans, both private and public, are worryingly underfunded.¹¹⁷ However, the PBGC guarantees only defined benefit plans, not defined contribution plans. And it will only pay a pension of up to about \$5,420 per month for someone 65 years of age with a plan terminating as of 2018.¹¹⁸ So, high-income workers still face reduced pensions if their employers go bankrupt.

MEMBERSHIP REQUIREMENTS When does the employee become eligible for a pension? Under the Tax Reform Act of 1986, an employer can require that an employee complete a period of no more than 2 years' service to the company before becoming eligible to participate in the plan. However, if it requires more than 1 year of service before eligibility, the plan must grant employees full and immediate vesting rights at the end of that period.

VESTING *Vested funds* are the money employer and employee have placed in the latter's pension fund that cannot be forfeited for any reason. The employees' contributions are always theirs. However, until ERISA, the *employers'* contribution in many pension plans didn't vest until the employee retired. Someone could have worked for a company for 30 years and been left with no pension if the company went bust a year before the person retired.

Employers can choose one of two minimum vesting schedules (employers can allow funds to vest faster if they wish). With *cliff vesting*, the period for acquiring a nonforfeitable right to employer matching contributions (if any) is 3 years. So, the employee must have nonforfeitable rights to these funds by the end of 3 years. With the second (*graded vesting*) option, pension plan participants must receive nonforfeitable rights to the matching contributions as follows: 20% after 2 years, and then 20% for each succeeding year, with a 100% nonforfeitable right by the end of 6 years.

Pensions and Early Retirement

To trim their workforces or for other reasons, some employers encourage employees to retire early. Many such programs take the form of **early retirement window** arrangements for specific employees (often age 50+). The "window" means that for a limited time, the employees can retire early, generally with a combination of improved or liberalized pension benefits plus a cash payment.

Early retirement programs can backfire, however. In the early 2000s Verizon offered enhanced pensions to encourage 12,000 employees to retire. When over 21,000 took the plan, the company had to replace 16,000 managers.¹¹⁹ Furthermore, unless structured properly, older employees can challenge early retirement programs for forcing them to retire involuntarily. Although it is generally legal to use incentives to encourage individuals to choose early retirement, the employee's decision must be voluntary. Under the Older Workers' Benefit Protection Act (OWBPA), the employee's waiver

early retirement window

A type of offering by which employees are encouraged to retire early, the incentive being liberal pension benefits plus perhaps a cash payment.

must be knowing and voluntary, and the employee must have ample time to consider the agreement and seek legal advice.



IMPROVING PERFORMANCE: THROUGH HRIS

Online Benefits Management Systems

It can be enormously time-consuming answering benefits questions such as, “If I retire in 5 years, what will be my monthly retirement income?” Most employers therefore opt for online self-service applications.

For example, when the organization that assists Pennsylvania school districts with their insurance needs decided to help the school boards automate their benefits administration, they chose a company called Benelogic.¹²⁰ The solution, called the “Employee Benefit Electronic Service Tool,” lets users manage all aspects of benefits administration, including enrollment, plan descriptions, eligibility, and premium reconciliation, via their browsers.¹²¹

Benelogic hosts and maintains the Web application on its servers, and creates customized, Web-based applications for each school district. The system facilitates online employee benefit enrollment, and provides centralized call center support for benefit-related questions. It even handles benefits-related payroll and similar functions by collaborating with companies like ADP (for payroll). Each school board employee accesses the Benelogic site via a link on his or her own board’s Web site. ■



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Communicating with employees about their benefits once required time-consuming HR assistance, but with digital and social media that’s no longer the case.¹²² Some use their Facebook and LinkedIn pages to publicize their benefits to a wider audience. Siemens created an internal social media Web site for its 13,000 UK employees. Siemens UK uses it to keep its employees up-to-date about its latest employee benefits offerings, to run real-time employee feedback polls about Siemens benefits, and to remind employees about the availability of various benefits. (For example, that each employee has points to use as part of the Siemens employee recognition program.)

To facilitate employee benefits self-management, other employers provide workers with mobile apps.¹²³ For example, clients of Discovery Benefits Inc., a benefits administrator, reportedly logged in through its app about 25,000 times in one year, saving Discovery the time it would have spent dealing with call-ins.¹²⁴

Social media sites can also get workers in trouble. In one case, an employee took a sick day, saying that chronic pain prevented her from coming to work. Unfortunately, she posted pictures of herself drinking at a festival the day she was supposed to be home sick. One of her Facebook “friends” got the photo and showed it to a company supervisor. The company fired her for absence, and an appeals court upheld the employer’s decision.¹²⁵ ■



LEARNING OBJECTIVE 13-4

Outline the main employees’ services benefits.

Personal Services and Family-Friendly Benefits

Although time off, insurance, and retirement account for the lion’s share of benefits costs, most employers also provide various services benefits. These include personal services (such as legal and personal counseling), “family-friendly” services (such as child-care facilities), educational subsidies, and executive perquisites (such as company cars for executives).

Personal Services

Personal services benefits include credit unions, legal services, counseling, and social and recreational opportunities. All are voluntary benefits, rather than required or mandatory under the law.

employee assistance program (EAP)

A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.

Perhaps most notably, **employee assistance programs (EAPs)** provide counseling and advisory services, such as personal legal services, adoption assistance, or mental health counseling, for personal problems that may adversely affect the employee's work life. As the EAP site for one such plan at Sutter Health says, "Life's journey isn't always a smooth one. Sutter Health recognizes this and wants to help you overcome obstacles through the Employee Assistance Program."¹²⁶ Its EAP offers consulting on: child-care and parenting issues, elder care and disabled adult issues, pet care needs, adoptions, school, high school and college selection, and financial planning.¹²⁷

Few but the largest employers establish their own EAPs. Most contract with vendors such as Ceridian Life Works, Comps Sync, and Integrated Behavioral Health.¹²⁸

In either case, everyone involved, including supervisors and EAP staff, must respect *confidentiality*. Also keep files locked, limit access, and minimize identifying information. *Be aware of legal issues*. For example, in most states counselors must disclose suspicions of child abuse to state agencies. *Define* the program's purpose, employee eligibility, the roles and responsibilities of EAP and employer personnel, and procedures for using the plan. Ensure your EAP vendors fulfill *professional and state licensing requirements*.

Family-Friendly Benefits

Family-related distractions—a sick child or parent, for instance—can make it difficult for employees to work effectively. Therefore, creating a family-friendly workplace through **family-friendly (or "work-life") benefits** is important. Such benefits include, for instance, child care, elder care, flexible work schedules, paid family leave, and concierge services (for help with tasks like grocery shopping).¹²⁹

SUBSIDIZED CHILD CARE A recent study by the Brookings Institution listed some consequences of inadequate child care, including deleterious effects on children, lost productivity for employers due to parents missing work, and lost wages for parents.¹³⁰ Employers who want to reduce the distractions associated with finding reliable child care can help. Some simply investigate the day care facilities in their communities and recommend certain ones to employees. Others set up company-sponsored and subsidized day care facilities. For example, Goldman Sachs established its Children's Centre

family-friendly (or work-life) benefits

Benefits such as child care that make it easier for employees to balance their work and family responsibilities.

Software giant SAS Institute, Inc., is one company that offers generous employee benefits. The North Carolina firm keeps turnover at 4% in an industry where 20% is typical, partly by offering family-friendly and other benefits like paid maternity leave, day care on site, lunchtime piano concerts, massages, and yoga classes like this one.

bearmoney/Shutterstock



at its London facility to offer backup child-care services for Goldman staff; the Centre takes children between three months and 12 years old.¹³¹

For many Millennials, benefits like child care reportedly often trump higher pay. Netflix recently told employees they can take a year off for child care.¹³² Policies like those of Goldman and Netflix not only benefit employees. Employers may gain in improved recruiting results, lower absenteeism, improved morale, and lower turnover. As usual, start by surveying employees to assess their needs and perhaps what they'd be willing to pay.

SICK CHILD BENEFITS Sick child benefits are important. Sending a sick child with flulike symptoms to school because the parents must work risks worsening the child's condition and exposing classmates and teacher to illness. Yet only about half of U.S. workers are eligible for paid sick days that they can use for family members, so they risk pay loss and job loss by staying home.¹³³ By one estimate, sick children, sick nannies, and snow days cause about 2.8 million days of absences per year for U.S. employers.¹³⁴ The FMLA provides only unpaid leave, and not all employees are even eligible for that. Several states and cities including California, New Jersey, and New York City do provide for family-related paid sick leave.¹³⁵

Employers can do several things. To use paid sick days, some employees claim they themselves are ill, but the better alternative is a policy allowing use for sick children too. Paid time off banks facilitate this. Flexible schedules and telecommuting policies can help. Some employers offer last-minute backup care, either with on-site centers (like Goldman Sachs'), or by making available last-minute in-home nannies.¹³⁶

ELDER CARE By one estimate, 80% of elderly care is done by family members.¹³⁷ As with child care, female employees tend to bear the brunt of providing care for elderly parents. Helpful benefits for them (as well as male workers) include 10 to 15 days of backup elder care,¹³⁸ scheduling flexibility, and sabbaticals (for those needing extended time off).¹³⁹ About 43% of employers in one survey provide information on available elder care services.¹⁴⁰ When Pfizer discovered from a survey how many employees needed elder care services, it improved flexible schedule options, trained managers in how to handle such requests, and offered geriatric assessments.¹⁴¹ Companies including Facebook and Vanguard instituted paid time off benefits to care for sick relatives.¹⁴²

Finally, don't ignore employees who do *not* have family members to care for. For example, treat requests for schedule flexibility or time off seriously, regardless of the employee's family or marital status.¹⁴³

EDUCATIONAL SUBSIDIES Employers use educational subsidies (usually tuition assistance) to help employees pursue educational course work, usually at the undergraduate or graduate college level, but also for basic learning, such as high school equivalency degrees.¹⁴⁴ By one estimate, almost 90% of U.S. employers provide such subsidies. About 5.6% of undergraduate students received such employer support a few years ago, and about 14.5% of graduate students did. (Almost 22% of MBA students receive such support). However, the benefit seems to be somewhat less popular than it used to be.

It may at first seem counterintuitive to subsidize an employee to get a degree that might then prompt him or her to move to a better job somewhere else, and educational benefits can have such unintended effects. But in general, educational subsidies seem to more than pay for themselves, in terms of improved employee recruiting and retention, and by improving productivity by raising employees' skills.

Introducing such a program requires policy decisions. For example, some employers only reimburse the employee after the course is completed, or if a particular grade is obtained. Some pay part of the tuition up front and then the remainder after completion. Some require repayment if the employee leaves the firm within a specific time period.

Other Personal Services Benefits

Employers provide other personal services benefits.¹⁴⁵ Google, perennially one of the "100 best companies to work for," is famous for its personal services benefits. Google arranges with local vendors to provide on-Google-site programs such as ATMs, mobile

libraries, bike repair, car wash and oil change, dry cleaning, haircuts and salons, and organic grocery delivery.¹⁴⁶ Free though they are to Google, why does Google even bother? Largely because their on-site availability boosts employees' efficiency by reducing the need for them to seek services off-site. (It also offers the Google Child Care Center, and free shuttle service from San Francisco, for instance.)¹⁴⁷ CVS Caremark, seeking to retain older employees, offers various elder-friendly benefits. Its "snow-bird" program lets pharmacists winter in Florida and work in the Northeast when it's warmer, for instance.¹⁴⁸ Nestlé Purina Pet Care's St. Louis headquarters lets employees bring their dogs to work.¹⁴⁹ PriceWaterhouseCoopers helps employees pay off student loans.¹⁵⁰ Most *Fortune* 500 companies offer donation-matching programs.¹⁵¹



Diversity Counts: Domestic Partner Benefits

When employers provide *domestic partner benefits* the employees' same-sex or opposite-sex domestic partners are eligible to receive the same benefits (health care, life insurance, and so forth) as do the husband, wife, or legal dependent of one of the firm's employees. In 2013, the U.S. Supreme Court struck down part of the Defense of Marriage Act. Under its ruling, gay couples married in states where it is legal must receive the same federal health, tax, Social Security, and other benefits heterosexual couples receive.¹⁵² Then, in 2015, the U.S. Supreme Court held that same-sex couples can marry nationwide.¹⁵³

After the 2015 decision, the percentage of employers providing same-sex domestic partner benefits dropped, from 59% to 48%.¹⁵⁴ Some employers such as IBM and Verizon said they would phase out domestic partner benefits, but gave employees who were receiving such benefits time to consider getting married. With same sex marriage legal in all 50 states, the trend, says one expert, is to "not differentiate between types of spouses" in offering benefits.¹⁵⁵ ■

The Strategic Context feature illustrates how one employer uses benefits to support its strategic goals.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Gary Erickson started Clif Bar as a small bakery and grew it into a company that's been growing 20% per year. Central to his "healthy foods" strategy is the idea that his hundreds of employees should live the values of sustainability, healthiness, and eco-friendliness.¹⁵⁶ Therefore, he put together a benefits package that encouraged just such values. For example, the company encourages eco-friendliness by reimbursing employees up to \$6,500 if they buy hybrid or electric vehicles. Those who bike or walk to work receive \$1,500 per year. Clif Bar's subsidized cafeteria serves meals cooked with local organic ingredients. Employees become eligible for 6-week paid sabbaticals after 7 years working for the company. He put in place an employee stock option plan (ESOP). With employee turnover only 3% per year, Clif Bar received over 7,500 applications for 114 open jobs one year, so his benefits plan also seems to be helping keep workforce costs under control.

MyLab Management Talk About It 3

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. How do you think offering benefits like these affects Clif Bar's recruiting and selection process and helps the company to keep costs down?

Executive Perquisites

When you reach the pinnacle of the organizational pyramid—or close to the top—you will find, waiting for you, the "executive perk." Perquisites (perks for short) are special benefits for top executives. They range from company planes to private bathrooms.

Most fall between these extremes. Perks include *management loans* (typically to exercise executives' stock options); *financial counseling*; and *relocation benefits*, often including subsidized mortgages, purchase of the executive's current house, and payment for the move. Publicly traded companies must itemize all executives'

perks (if they total more than \$100,000). Many popular perks (such as entertainment expenses) lost their tax breaks under the 2017 tax law, and many employers are reducing or phasing them out.¹⁵⁷



LEARNING OBJECTIVE 13-5

Explain the main flexible benefit programs.

Flexible Benefits Programs

In a report titled “Employee Benefits: What Each Generation Wants,” Glassdoor says employees increasingly seek flexibility.¹⁵⁸ They say baby boomers value salary level, health insurance, and retirement plans. Gen Xers (born roughly from the 1960s to the early 1980s) value salary level, a 401K plan with matching benefits, job security, advancement, and work–life balance. Millennials (born roughly from the early 1980s to early 2000s) value benefits choices, paid time off, ability to work remotely, control over their schedules, and flexibility. Offering flexibility thus makes sense. However, first survey employees’ preferences, perhaps with a form as in Figure 13-4.¹⁵⁹

The Cafeteria Approach

One way to provide choice is with an aptly named *cafeteria benefits plan*. To paraphrase the U.S. Internal Revenue Service, a **cafeteria plan** provides participants an opportunity to receive a choice of certain benefits on a pretax basis. Qualified benefits include, for instance, accident and health benefits, adoption assistance, dependent care assistance, and group-term life insurance coverage.¹⁶⁰

Cafeteria plans come in several varieties.¹⁶¹ For example, *flexible spending accounts* are a form of cafeteria plan that reimburses employees for expenses they incur for buying certain qualified benefits;¹⁶² the employees pay for the benefits with pretax dollars. With a *core plus option plan*, the employer specifies a core set of benefits (such as medical insurance), which are required; beyond those the employee can choose (up to a limit) which other benefits he or she wants.

cafeteria benefits plan

Individualized tax-qualified plans allowed by employers to accommodate employee preferences for benefits.

FIGURE 13-4 One Page from Online Survey of Employees’ Benefits Preferences

Source: Reprinted with permission from GrapeVine solutions.

Your Logo Here. (200 px)

Human Resources - Employee Benefits Survey

Please take a moment to tell us your thoughts on the Company benefits plan. Your input is valued and will help us make this better.

Health care

1 Please rate the following. 1-Very Satisfied, 5-Very Dissatisfied

	1	2	3	4	5
Medical plan	1	2	3	4	5
Dental plan	1	2	3	4	5
Vision plan	1	2	3	4	5

Retirement and Savings Plan

The accompanying HR Tools feature explains how many smaller employers manage the costs of their various benefits.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Benefits and Employee Leasing

Many businesses—particularly smaller ones—don’t have the resources or employee base to support the cost of many of the benefits we’ve discussed in this chapter. That’s one big reason they turn to “employee leasing.”

In brief, employee leasing firms (also called *professional employer organizations* or *staff leasing firms*) assume all or most of the employer’s human resources chores. In doing so, they also become the employer of record for the employer’s employees, by transferring them all to the employee leasing firm’s payroll. The leasing firm thus becomes the employees’ legal employer, and usually handles employee-related activities such as recruiting, hiring (with client firms’ supervisors’ approvals), and paying taxes (Social Security payments, unemployment insurance, and so on).

But insurance and benefits are usually the big attraction. Even group rates for life or health insurance can be quite high when only 20 or 30 employees are involved. That’s where leasing comes in. Remember that the leasing firm is now the legal employer. The employees are thus part of a larger insurable group, along with other employers’ former employees. The small business owner may get insurance it couldn’t otherwise afford.

As in dealing with all vendors, the employer should have a detailed negotiated agreement with the employee leasing firm. Define what the services will be; include priorities, responsibilities, and warranties.¹⁶³ Understand that if the leasing firm merges into another firm, the new parent may require you to change your systems once the contract period expires.¹⁶⁴ ■

MyLab Management Talk About It 4

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion. Explain how you believe you’d react to having your employer switch you to a leasing firm, and why.

Flexible Work Schedules

Flexible work schedules are popular.¹⁶⁵ In one survey about 70% of surveyed employees called flexible work hours “very important.”¹⁶⁶

Flextime is a plan whereby employees’ workdays are built around a core of midday hours, such as 11:00 A.M. to 2:00 P.M. Thus, workers may opt to work from 8:00 A.M. to 4:00 P.M. or from 11:00 A.M. to 7:00 P.M. In one survey of employers about 57% offered flextime.¹⁶⁷

Some writers suggest that inflexible schedules help explain both the gender pay gap and the fact that women hold few top management jobs. A new job search site (www.saywerk.com) negotiates ahead of time with employers to provide flexible schedules for any jobs listed on its site.¹⁶⁸

Telecommuting—using technology to work away from the office—is popular. Almost two-thirds (62%) of employers offer at least some telecommuting.¹⁶⁹ Some jobs have much higher rates than others. Historically, for example, almost 45% of medical transcription is reportedly work from home.¹⁷⁰ Just over 13 million Americans work from home at least one day per week, with Fridays and Mondays the favorite days to stay home.¹⁷¹

Employers that offer telecommuting must calculate the program’s benefits and costs. Thus, Delta Airlines spends an initial \$2,500 for each home-based reservation agent for computer and software licenses, but pays each such agent \$1.50 per hour less than call-center counterparts. Less obvious expenses include having IT answer telecommuters’ technical questions.¹⁷² Telecommuting’s effects on the environment, of course, are positive, given the reduced commuting.

flextime

A work schedule in which employees’ workdays are built around a core of midday hours, and employees determine, within limits, what other hours they will work.

Studies of telecommuting's effects on productivity are mixed. A program at Capital One Bank apparently led to about a 41% increase in workplace satisfaction, and a 53% increase in those who say their workplace enhances group productivity.¹⁷³ Another study concluded that telecommuting had positive effects for creative jobs but negative effects for dull jobs.¹⁷⁴ Detractors contend that telecommuting reduces camaraderie and opportunities for collaboration and synergies at work.¹⁷⁵ Yahoo! famously said a few years ago that it needed its employees “working side by side” and brought them back to the office.¹⁷⁶

COMPRESSED WORKWEEKS Many employees, like airline pilots, don't work conventional 5-day, 40-hour workweeks.¹⁷⁷

compressed workweek

Schedule in which employee works fewer but longer days each week.

Workers like these typically have **compressed workweek** schedules—they work fewer days each week, but each day they work longer hours. Some firms have four 10-hour day workweeks. Some workers—in hospitals, for instance—work three 12-hour shifts, and then take off for 4 days.¹⁷⁸ About 29% of employers in one survey reported using compressed workweeks.¹⁷⁹ Some experts argue that 12-hour shifts increase fatigue and accidents. To reduce potential side effects, some employers install treadmills, exercise bikes, and special lights that mimic daylight.

job sharing

Allows two or more people to share a single full-time job.

OTHER FLEXIBLE WORK ARRANGEMENTS **Job sharing** allows two or more people to share a single full-time job. For example, two people may share a 40-hour-per-week job, with one working mornings and the other working afternoons. For example, two retired friends arranged to share a job (working alternate days) at a library.¹⁸⁰ About 11% of the firms questioned recently indicated that they allow job sharing, down from 22% several years ago.¹⁸¹ **Work sharing** refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs. Thus, 400 employees may all agree to work (and be paid for) only 35 hours per week, to avoid a layoff of 30 workers.¹⁸²

work sharing

Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.

LEARNING OBJECTIVE 13-6

Explain how to use benefits to improve engagement, productivity, and performance.

Employee Engagement Guide for Managers

Costco's Compensation Plan

Costco's HR strategy is to deflect Walmart's famously low costs and wages by paying employees more, and thereby producing improved employee engagement, productivity, and customer service.¹⁸³

For example, Costco pays its employees on average about \$21 per hour (not including overtime,) almost triple the federal minimum wage.¹⁸⁴ That compares with Walmart's average wage for full-time employees in the United States of \$12.67 an hour.¹⁸⁵

Costco's employee benefits are also highly competitive, particularly compared with the typically sparse offerings in the retail industry.¹⁸⁶ For example, Costco pays about 90% of the health insurance costs of its over 90,000 domestic employees.¹⁸⁷ Its other benefits include (as examples) dental care, a pharmacy/prescriptions program, a vision program, a 401(k) plan, a dependent care assistance plan, an external network of professional counselors, voluntary short-term disability, long-term disability, and life insurance.¹⁸⁸ Costco also extends these benefits to employees' spouses, children, and domestic partners.

Costco doesn't directly measure employee engagement; it says it tracks engagement by “by-products,” such as turnover and productivity.¹⁸⁹ By those criteria, Costco's engagement efforts seem to be working. Its sales per employee are about \$500,000 a year versus \$340,000 at Walmart's Sam's Club.¹⁹⁰ Costco's turnover is far below the retail industry average, and employee retention is higher.¹⁹¹ Costco, by the way, is not alone. Other large chains with traditionally excellent customer service, like Nordstrom and the Container Store, also do well financially, in part by treating employees well and keeping engagement up.¹⁹²

Chapter Review

Chapter Section Summaries

- 13-1. Employers provide numerous **pay for time not worked benefits**. These include unemployment insurance, vacation and other leave days, and sick pay. Minimizing sick leave pay is important, and here cost reduction tactics include paid leave plans that lump sick leave, vacation, and holidays into one leave pool. The Family and Medical Leave Act requires larger employers to provide up to 12 weeks of unpaid leave for family-related issues.
- 13-2. Most employers also provide required or voluntary **insurance benefits**. Workers' compensation laws aim to provide sure, prompt medical benefits to work-related accident victims or their dependents, regardless of fault. Most employer health plans provide at least basic hospitalization and surgical and medical insurance for eligible employees. When an employee is terminated or terminates his or her employment, it is essential that the employer make the person aware of his or her COBRA rights. Employers generally work hard to keep the rising cost of health-care insurance under control.
- 13-3. **Retirement benefits** are important to employees today. Social Security is a federal program that provides retirement income at the age of 62 and thereafter, as well as other benefits. Many employers make available pension plans; these provide an income when employees reach retirement age or when they can no longer work due to disability. Defined benefit plans contain a formula for determining retirement benefits, while defined contribution plans are plans in which the contribution to employees' retirement savings plans is specified. The most well-known of the latter are 401(k) plans. The Employee Retirement Income Security Act of 1975 requires that employers have written pension plan documents, and established the Pension Benefits Guarantee Corporation to oversee employers' pension plans. Key pension policy issues include membership requirements and testing.
- 13-4. Most employers also provide various **personal services and family-friendly benefits**. These include credit unions, employee assistance programs, and subsidized child care and elder care.
- 13-5. Employees prefer choice in their benefits plans, so **flexible benefits programs** are important. Flexible benefits or cafeteria benefits plans are individual plans that accommodate employee preferences for benefits. Some employers turn to employee leasing companies to capitalize on the advantage of the leasing firm's large employee base to get better employee benefits for their employees. Employers also are implementing various types of flexible work schedules, including flextime, compressed workweeks, and other flexible work arrangements such as job sharing.
- 13-6. Costco's HR strategy is to deflect Walmart's low wages by paying employees more, thereby producing more **employee engagement**, higher productivity, and better customer service. As one example, Costco pays about 90% of the health insurance costs of its over 90,000 domestic employees.

Discussion Questions

- 13-1. What is unemployment insurance? Is an organization required to pay unemployment benefits to all dismissed employees? Explain how you would go about minimizing your organization's unemployment insurance tax.
- 13-2. Explain how ERISA protects employees' pension rights.
- 13-3. Describe the main retirement benefits.
- 13-4. What are the main provisions of the FMLA?

Individual and Group Activities

- 13-5. Working individually or in groups, research the unemployment insurance rate and laws of your state. Write a summary detailing your state's unemployment laws. Assuming Company X has a 30% rate of annual personnel terminations, calculate Company X's approximate unemployment tax rate in your state.
- 13-6. Assume you run a small business. Working individually or in groups, visit the Web site www.dol.gov/elaws. See the Small Business

Retirement Savings Advisor. Write a two-page summary explaining: (1) the various retirement savings programs available to small business employers, and (2) which retirement savings program you would choose for your small business, and why.

13-7. You are the HR consultant to a small business with about 40 employees. Now the firm offers only 5 days of vacation, 5 paid holidays, and legally mandated benefits such as unemployment insurance payments. Develop a list of other benefits you believe it should offer, along with your reasons for suggesting them.

13-8. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or



SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

Revising the Benefits Package

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to provide practice in developing a benefits package for a small business.

Required Understanding: Be very familiar with the material presented in this chapter. In addition, review Chapter 11 to reacquaint yourself with sources of compensation survey information, and come to class prepared to share with your group the benefits package for the small business in which you work or in which someone with whom you're familiar works.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Your assignment is as follows: Maria Cortes runs a small personnel recruiting office in Miami and has decided to start offering an expanded benefits package to her 25 employees. At the current time, the only benefits are 7 paid holidays per year and 5 sick days per year. In her company, there are 2 other managers, as well as 17 full-time recruiters and 5 secretarial staff members. Your assignment is as follows:

- In the time allotted, your group should create a benefits package in keeping with the size and requirements of this firm.

Application Case

Striking for Benefits¹⁹³

Written and copyrighted by Gary Dessler, PhD.

When the Southern California grocery workers went on strike against the state's major supermarket chains, the main issue was employee benefits, and specifically how much of their health-care costs the employees should pay themselves. Based on their existing contract, the workers had unusually good health benefits. For example, they paid nothing toward their health insurance premiums, and paid only \$10 co-payments for doctor visits. However, supporting these excellent health benefits cost the big Southern California grocery chains over \$4 per hour per worker.

The big grocery chains were not proposing cutting health-care insurance benefits for their existing employees. Instead, they proposed putting any new employees hired after the new contract went into effect into a separate insurance pool, and contributing \$1.35 per hour for their health insurance coverage. That meant new employees' health insurance would cost each new employee perhaps \$10 per week. And, if that \$10 per week wasn't enough to cover the cost of health care, then the employees would have to pay more, or do without some of their benefits.

It was a difficult situation for all involved. For the grocery chain employers, skyrocketing health-care costs were undermining their competitiveness; the current employees feared any step down the slippery slope that might eventually mean cutting their own health benefits. The unions didn't welcome a situation in which they'd end up representing two classes of employees, one (the existing employees) who had excellent health insurance benefits, and another (newly hired employees) whose benefits were relatively meager, and who might therefore be unhappy from the moment they took their jobs and joined the union.

Questions

- 13-9. Assume you are mediating this dispute. Discuss five creative solutions you would suggest for how the grocers could reduce the health insurance benefits and the cost of their total benefits package without making any employees pay more.
- 13-10. From the grocery chains' point of view, what is the downside of having two classes of employees, one of which has superior health insurance benefits? How would you suggest they handle the problem?

- 13-11. Similarly, from the point of view of the union, what are the downsides of having to represent two classes of employees, and how would you suggest handling the situation?

Continuing Case

Carter Cleaning Company

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The New Benefit Plan

Carter Cleaning Centers has traditionally provided only legislatively required benefits for its employees. These include unemployment compensation, Social Security, and workers' compensation (which is provided through the same insurance carrier that insures the stores for such hazards as theft and fire). The principals of the firm—Jack, Jennifer, and their families—have individual, family-supplied health and life insurance.

Jennifer can see several potential problems with the company's policies regarding benefits and services. One is turnover. She wants to study whether similar companies' experiences with providing health and life insurance benefits enable these firms to reduce employee turnover and perhaps pay lower wages. Jennifer is also concerned that her company has no formal vacation or paid days off or sick leave policies. Informally, at least, it is understood that employees get 1 week's vacation after 1 year's work, but in the past the policy regarding paid

vacations for days such as New Year's Day and Thanksgiving Day has been very inconsistent. Sometimes employees who had been on the job only 2 or 3 weeks were paid fully for one of these holidays, while at other times employees who had been with the firm for 6 months or more had been paid for only half a day.

She also wonders whether it would be advisable to establish some type of day care center for the employees' children. Many of them have no place to go during the day (they are preschoolers) or have no place to go after school; she wonders whether a day care benefit would be in the best interests of the company.

Questions

- 13-12. Draw up a policy statement regarding vacations, sick leave, and paid days off for Carter Cleaning Centers.
- 13-13. What would you tell Jennifer are the advantages and disadvantages to Carter Cleaning Centers of providing its employees with health, hospitalization, and life insurance programs?
- 13-14. Would you advise establishing some type of day care center for the Carter Cleaning employees? Why or why not?

Translating Strategy into HR Policies and Practices Case*,§

* The accompanying strategy map for this chapter is in MyLab Management; the overall map on the inside back cover of this text outlines the relationships involved.

Improving Performance at the Hotel Paris

The New Benefits Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

While the Hotel Paris's benefits (in terms of things like holidays and health care) were comparable to other hotels', Lisa knew they weren't good enough to support the high-quality service behaviors her company sought. Indeed, the fact that they were roughly comparable to those of similar firms didn't seem to impress the Hotel Paris's employees. Sixty percent of them consistently said they were dissatisfied with their benefits. Lisa's concern (with which the CFO concurred) was that dissatisfaction with benefits contributed to low morale and engagement, and thus to inhibiting the Hotel Paris from achieving its strategic aims. Lisa therefore turned to the task of assessing and redesigning the company's benefits plans.

As they reviewed the benefits numbers, Lisa and the CFO became concerned. They computed several benefits-related metrics for their firm, including benefits costs as a percentage of payroll, sick days per full-time-equivalent employee per year, benefits cost/competitor's benefits cost ratio, and workers' compensation experience ratings. The results, said the CFO, offered a "good news–bad news" situation. On the good side, as noted, the ratios were similar to most competing hotels'. The bad news was that the measures were well below those for high-performing service businesses. The CFO authorized Lisa to design and propose a new benefits plan.

Lisa knew there were several things she wanted to accomplish. She wanted a plan that contributed to improved employee morale and engagement. And, she wanted the plan to include elements that made it easier for her employees to do their jobs—so that, as she put it, "they could come to work and give their full attention to giving our guests great service, without worrying about child care and other family distractions."

The new plan's centerpiece was a proposal for much better family-friendly benefits. Because so many of each hotel's employees were single parents, and because each hotel had to run 24 hours a day, Lisa's team proposed, and the board approved, setting aside a room in each hotel for an on-site child-care facility and for hiring a trained professional attendant. They considered instituting a flexible work schedule program, but for most of the jobs, this was impractical, because each front-line employee simply had to be there at his or her appointed hour. However, they did institute a new job-sharing program. Now two people could share one housekeeping or front-desk clerk job, as long as the job was covered.

One of the metrics Lisa and her team specifically wanted to address was the relatively high absence rate at the Hotel Paris. Because so many of these jobs are front-line jobs—valets, limousine drivers, and front-desk clerks, for instance—absence had a particularly serious effect on metrics like overtime pay and temporary help costs. Here, at the urging of her compensation consultant, Lisa decided to opt for a system similar to Marriott's BENETRADE. With this benefit program, employees can trade the value of some sick days for other benefits. As Lisa put it, "I'd rather see our employees using their sick day pay for things like additional health-care benefits, if it means they'll think twice before taking a sick day to run a personal errand."

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After just less than a year, Lisa and the CFO believe the new program is successful. Their studies suggest that the improved benefits are directly contributing to improved employee morale and commitment, sick days have diminished by 40%, and employee turnover is down 60%. And when they advertise for open positions, over 60% of the applicants cite “family-friendly benefits” as a top reason for applying to work at the Hotel Paris.

Questions

13-15. What is your opinion of the new Hotel Paris benefits plan?

13-16. Because employers typically make benefits available to all employees, they may not have the motivational effects of incentive plans. Given this, list five employee behaviors you believe Hotel Paris could try to improve through an enhanced benefits plan, and explain why you chose them.

13-17. Given your answer to question 13-16 and what you read in this chapter of Dessler *Human Resource Management*, explain specifically what other benefits you would recommend the Hotel Paris implement to achieve these behavioral improvements.

MyLab Management

Go to www.pearson.com/mylab/management for Auto-graded writing questions as well as the following Assisted-graded writing questions:

13-18. You are applying for a job as a manager and are at the point of negotiating salary and benefits. What questions would you ask your prospective employer concerning benefits? Describe the benefits package you would try to negotiate for yourself.

13-19. Your clients want to know how they can use their employee benefits package to improve employee engagement. What would you tell them?

13-20. MyLab Management only—comprehensive writing assignment for this chapter.

Key Terms

benefits, 421
 supplemental pay benefits, 422
 unemployment insurance (or compensation), 422
 sick leave, 424
 severance pay, 427
 supplemental unemployment benefits, 427
 workers' compensation, 428

health maintenance organization (HMO), 429
 group life insurance, 434
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 cafeteria benefits plan, 442
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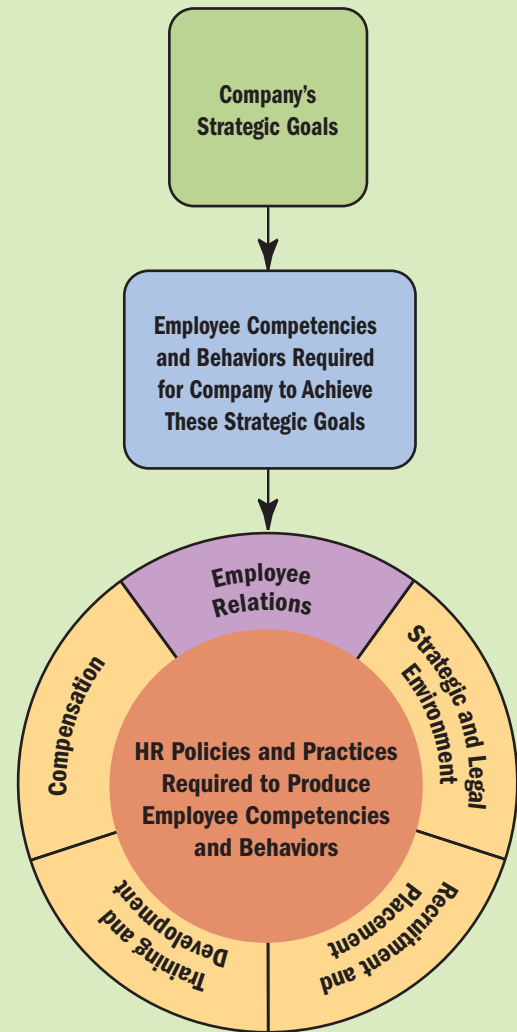
Building Positive Employee Relations

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 14-1** Define *employee relations*.
- 14-2** Discuss at least four methods for managing employee relations.
- 14-3** Explain what is meant by ethical behavior.
- 14-4** Explain what is meant by fair disciplinary practices.
- 14-5** Answer the question, “How do companies become ‘Best Companies to Work For’?”

After a worker uprising over pay and work rules at Apple Inc.’s Foxconn iPhone assembly plant in Shenzhen, China, Apple asked the plant’s owner to have the Fair Labor Association (FLA) survey the plant’s workers. The FLA found “tons of issues.”¹ We’ll see what they found and what Foxconn’s management did to improve the situation.



WHERE ARE WE NOW . . .

Although people tend to view recruitment, selection, appraisal, training, and compensation as the heart of human resource management, most employees expect something more. For example, they expect to be treated fairly, and to have a safe work environment. Now, in Part Five, we therefore turn to ethics, employee fairness, safety, and union relations. The main purpose of this chapter is to explain the building blocks of positive employee relations. Our topics include **What Is Employee Relations, Managing Employee Relations, Using Human Resource Management Tools to Promote Ethics and Fair Treatment, Managing Employee Discipline, and Employee Engagement Guide for Managers.**



LEARNING OBJECTIVE 14-1

Define *employee relations*.

employee relations

The activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

What Is Employee Relations?

Anyone who has worked knows that some companies are better to work for than are others. Some companies we’ve touched on in this book—Wegmans, SAS, and Google, for instance—show up repeatedly on “Best Companies to Work For” lists, while others always seem to have labor problems and negative press. This commonsense observation reflects the fact that some companies do have better employee relations than do others.

Employee relations is the managerial activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.² Whether you’re recruiting employees, managing union organizing campaigns, asking employees to work overtime, or doing some other task, it obviously makes sense to have employees “on your side.” Many employers therefore endeavor to build positive employee relations, on the sensible assumption that doing so beats building negative ones. Managing employee relations is usually assigned to HR, and is a topic that both the SHRM and HRCI exams address.

Employers can do many things to build positive employee relations. Some examples include good training, fair appraisals, and competitive pay and benefits (all of which we discussed in previous chapters). However, most employers also institute special “employee relations programs” to maintain positive employee relations. These include employee fair treatment programs, improving employee relations through improved communications, developing employee recognition/relations programs, and having fair and predictable disciplinary procedures.



LEARNING OBJECTIVE 14-2

Discuss at least four methods for managing employee relations.

fair treatment

Reflects concrete actions, such as “employees are treated with respect,” and “employees are treated fairly.”

Employee Relations Programs for Building and Maintaining Positive Employee Relations

We’ll begin with how to ensure fair treatment.

Ensuring Fair Treatment

Anyone who has suffered unfair treatment at work knows it is demoralizing. It reduces morale, poisons trust, and negatively impacts employee relations and performance.³ Employees of abusive supervisors are more likely to quit, and to report lower job and life satisfaction and higher stress.⁴ The effects on employees of such abusiveness are particularly pronounced where the abusive supervisors seem to have support from higher-ups.⁵ Even when someone just witnesses abusive supervision—for instance, seeing a coworker abused—it triggers adverse reactions including unethical behavior.⁶ At work, **fair treatment** reflects concrete actions such as “employees are treated with respect,” and “employees are treated fairly” (see Figure 14-1).⁷

There are many reasons why managers should be fair. The golden rule is one obvious reason. What may not be so obvious is that unfairness can backfire on the company. For example, victims of unfairness exhibit more workplace deviance, such as theft and sabotage.⁸ Victims of unfairness also suffer a range of ill effects including poor health, strain, and psychological conditions.⁹ Unfairness leads to increased tensions between the employee and his or her family or partner.¹⁰ Abusive supervisors undermine their subordinates’ effectiveness and may prompt them to act destructively.¹¹ Witnessing disrespectful behavior in the morning contaminated employees’ perceptions all day, making even innocent interactions seem rude.¹²

In terms of employee relations, employees’ perceptions of fairness relate *positively* to employee commitment; job involvement; satisfaction with the company, job, and leader; and organizational citizenship behaviors; and *negatively* to employees’ turnover intention.¹³

The employer and its managers are responsible for ensuring that employees are treated fairly and with respect. Techniques for minimizing unfairness discussed in previous chapters include hire competent employees and supervisors, ensure equitable pay, have fair performance appraisal systems, and have policies requiring fair treatment. Communications systems (such as periodic attitude surveys), and disciplinary appeals programs (both discussed later in this chapter) also reduce unfairness.

FIGURE 14-1 Perceptions of Fair Interpersonal Treatment Scale

Source: “The Perceptions of Their Interpersonal Treatment Scale: Development and Validation of a Measure of Interpersonal Treatment in the Workplace” by Michelle A. Donovan, from *Journal of Applied Psychology* 83, no. 5 (1998).

What is your organization like most of the time? Circle yes if the item describes your organization, No if it does not describe your organization, and ? if you cannot decide.

IN THIS ORGANIZATION:

1. Employees are praised for good work	Yes	?	No
2. Supervisors yell at employees (R)	Yes	?	No
3. Supervisors play favorites (R)	Yes	?	No
4. Employees are trusted	Yes	?	No
5. Employees' complaints are dealt with effectively	Yes	?	No
6. Employees are treated like children (R)	Yes	?	No
7. Employees are treated with respect	Yes	?	No
8. Employees' question and problems are responded to quickly	Yes	?	No
9. Employees are lied to (R)	Yes	?	No
10. Employees' suggestions are ignored (R)	Yes	?	No
11. Supervisors swear at employees (R)	Yes	?	No
12. Employees' hard work is appreciated	Yes	?	No
13. Supervisors threaten to fire or lay off employees (R)	Yes	?	No
14. Employees are treated fairly	Yes	?	No
15. Coworkers help each other out	Yes	?	No
16. Coworkers argue with each other (R)	Yes	?	No
17. Coworkers put each other down (R)	Yes	?	No
18. Coworkers treat each other with respect	Yes	?	No

Note: R = the item is reverse scored

procedural justice

Refers to just procedures in the allocation of rewards or discipline, in terms of the actual procedures being evenhanded and fair.

distributive justice

Refers to a system of distributing rewards and discipline in which the actual results or outcomes are evenhanded and fair.

RESEARCH INSIGHT A study illustrates the effects of unfairness. College instructors first completed surveys concerning the extent to which they saw their colleges as treating them with *procedural* and *distributive* justice. (**Procedural justice** refers to justice in the allocation of rewards or discipline, in terms of the *procedures* being evenhanded and fair; **distributive justice** refers to a system for distributing rewards and discipline in which *the actual results* or outcomes are evenhanded and fair.) Procedural justice items included, for example, “In general, the department/college’s procedures allow for requests for clarification or for additional information about a decision.” Distributive justice items included, “I am fairly rewarded considering the responsibilities I have.”

Then the instructors completed organizational commitment questionnaires, with items such as “I am proud to tell others that I am part of this department/college.” Their students then completed surveys, with items such as “The instructor was sympathetic to my needs,” and “The instructor treated me fairly.”

The results were impressive. Instructors who perceived high distributive and procedural justice were more committed. Furthermore, these instructors’ students reported higher levels of instructor effort, prosocial behaviors, and fairness, and had more positive reactions to their instructors.¹⁴ So in this case, treating some professors badly backfired on the university. Treating others fairly produced improved employee commitment and results.

The accompanying Strategic Context feature shows how one employer in China improved the fairness with which it treated employees.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

A New HR Strategy at the Foxconn Plant in Shenzhen, China

The phrase *social responsibility* tends to trigger images of charitable contributions, but it actually refers to much more. For example, it refers to the honesty of the company’s ads; to the quality of the parts it builds into its products; and to the honesty, ethics, fairness, and “rightness” of

social responsibility

Refers to the extent to which companies should and do channel resources toward improving one or more segments of society other than the firm's owners or stockholders.

its dealings with customers, suppliers, and, of course, employees. The basic question is always whether the company is serving all its constituencies (or "stakeholders") fairly and honestly. Corporate **social responsibility** thus refers to the extent to which companies should and do channel resources toward improving one or more segments of society other than the firm's owners or stockholders.¹⁵

A worker uprising at Apple's Foxconn iPhone assembly plant in Shenzhen, China, shows that workers around the globe want their employers to treat them in a fair and socially responsible manner.

Producing quality products as efficiently as possible was long the strategy at this plant. However, after the uprising over pay and work rules at the Foxconn plant, Apple asked the plant's owner to have the Fair Labor Association (FLA) survey the workers. It found "tons of issues."¹⁶ For example, employees faced "overly strict" product-quality demands: "Every job is tagged to time, there are targets on how many things must be completed within an hour," said Xie Xiaogang, 22, who worked at Foxconn's Shenzhen plant. "In this environment, many people cannot take it."¹⁷ Heavy overtime work and having to work through a holiday week were other examples.

To foster the improved behaviors that the plant's performance required, Hon Hai, the Foxconn plant's owner, tweaked its efficiency-first strategy and changed its plant human resource strategy and practices. It made 284 changes altogether, including raising salaries and cutting mandatory overtime.¹⁸ The changes show that fair treatment is a global obligation.

MyLab Management Talk About It 1

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. How would you explain the fact that workers in such diverse cultures as America and China seem to crave fair treatment?

Bullying and Victimization

Some workplace unfairness, such as bullying, is blatant. Bullying and victimization—singling out someone to harass and mistreat—is a serious problem. For example, a survey of 1,000 U.S. employees concluded that about 45% said they'd worked for abusive bosses.¹⁹ Victims will often suffer in silence in fear of retribution.²⁰ The U.S. government (www.stopbullying.gov) says most would agree that bullying involves three things:

- **Imbalance of power.** People who bully use their power to control or harm, and the people being bullied may have a hard time defending themselves.
- **Intent to cause harm.** Actions done by accident are not bullying; the person bullying has a goal to cause harm.
- **Repetition.** Incidents of bullying happen to the same person over and over by the same person or group, and that bullying can take many forms, such as:
 - **Verbal:** name-calling, teasing
 - **Social:** spreading rumors, leaving people out on purpose, breaking up friendships
 - **Physical:** hitting, punching, shoving
 - **Cyberbullying:** using the Internet, mobile phones, or other digital technologies to harm others

Undoubtedly, the perpetrator is to blame for bullying. However, how some people behave does make them more likely victims.²¹ These include submissive victims (who seem more anxious, cautious, and sensitive), provocative victims (who show more aggression), and victims low in self-determination (who leave it to others to make decisions for them). Similarly, high performers can earn colleagues' envy and thus suffer victimization.²² Using team-building training, social gatherings, and interteam competition to build team cohesion can reduce envy and victimization.²³ Other suggestions include identify bullying through morale surveys, train employees to recognize bullying, and have a code of conduct.²⁴

Beyond this, maintaining positive employee relations entails having communications programs that let employees both express their opinions, and let management know if there's a problem. We turn to these programs next.

Improving Employee Relations through Communications Programs

Many employers use communications programs, on the reasonable assumption that employees feel better about their employers when they're "kept in the loop." For example, one university's Web site emphasizes its intention to keep employees in the loop regarding matters like policies and benefits.²⁵ This employer uses an *open-door policy* to encourage communication between employees and managers, an *employee handbook* covering basic employment information, as well as abundant *e-mail* and *hard copy notes and memos*.²⁶

Two-way communication also helps management know what's bothering employees. To paraphrase one writer, soliciting complaints is vital for employers who want to short-circuit inequitable treatment and maintain positive employee relations.²⁷ Tactics include hosting employee *focus groups*, making available *ombudsman* and *suggestion boxes*, and implementing telephone, messaging, and Web-based *hotlines*. (Some employers use hotline providers to manage their hotlines. A vendor sets up the hotlines for the employer; it also receives the employees' comments, and provides ongoing feedback to the employer about employees' concerns, as well as periodic summaries of comments and trends.) *Exit interviews*, discussed in an earlier chapter, should enable the manager to sample the quality of employee relations and identify potential problem areas.²⁸ Managers also use *open-door policies* and "management by walking around" to informally ask employees "how things are going."

USING ORGANIZATIONAL CLIMATE SURVEYS Similarly, employers use attitude, morale, or *climate surveys* to support employee relations efforts. They use the surveys to "take the pulse" of their employees' attitudes toward a variety of organizational issues including leadership, safety, role clarity, fairness, and pay, and to thereby get a sense of whether their employee relations need improvement. The dividing lines between attitude surveys, satisfaction or morale surveys, and climate surveys are somewhat arbitrary; we can define **organizational climate** as the perceptions employees have of and the meaning that attach to a company's psychological environment, in terms of dimensions such as concern for employee well-being, supervisory behavior, political behaviors, and rewards.²⁹

Many employers use online surveys from firms like Know Your Company (<http://knowyourcompany.com>), focusing on questions such as "Are you proud to work here?"³⁰ Google conducts an annual "Googlegeist" survey of its employees. This survey measures things such as employees' willingness to leave.³¹ Other surveys are available off the shelf. For instance, one SHRM sample survey has employees use a scale from 1 ("to a very little extent") to 5 ("to a very great extent") to answer survey questions. Questions include, "Overall, how satisfied are you with your supervisor?," "Overall, how satisfied are you with your job?," and "Does doing your job well lead to things like recognition and respect from those you work with?"³²

Develop Employee Recognition/Relations Programs

In addition to communications programs, company-wide employee recognition and award programs improve employee relations. As one example, a trade journal notes how the Murray Supply Co. held a special dinner for all its employees, at which it gave out special awards for things like safe driving, tenure with the company, and branch employee of the year.³³ Employers often distribute such awards with much fanfare at special events such as awards dinners. One SHRM survey found that 76% of organizations surveyed had such employee recognition programs, and another 5% planned to implement one soon.³⁴

Recognition and service award programs requires planning.³⁵ For example, starting a *service award program* requires reviewing employee tenure and setting meaningful award periods (1 year, 5 years, etc.). It also requires setting a budget, selecting awards,

organizational climate

The perceptions a company's employees share about the firm's psychological environment, for instance, in terms of things like concern for employees' well-being, supervisory behavior, flexibility, appreciation, ethics, empowerment, political behaviors, and rewards.

having a procedure for monitoring what awards to actually award, having a process for giving awards (such as special dinners or staff meetings), and measuring program success. Similarly, starting a *recognition program* requires developing criteria (such as customer service, and cost savings), creating forms and procedures for submitting and reviewing nominations, selecting awards, and having a process for awarding the awards.

There are online tools for automating the employee recognition process. Employees use these to recognize each other's contributions, for instance through peer recognition, spot awards, e-Cards, and incentives.³⁶ For example Globoforce.com organized a "Lift" recognition program for JetBlue. Employees nominate colleagues for their everyday contributions, and for outstanding work.³⁷

Use Employee Involvement Programs

Employee relations also tend to improve when employees are *involved* with the company in positive ways.

Employers encourage involvement in various ways. Some organize focus groups. A *focus group* is a small sample of employees who are presented with a specific issue and who interactively express their opinions and attitudes on that issue with the group's assigned facilitator. Many employers use *social media* such as the photo-sharing Web site Pinterest to encourage involvement.³⁸ One survey found that about half of employers use social media to communicate with employees and to develop a sense of community.³⁹ For example, Red Door Interactive used a Pinterest-based project it called "San Diego Office Inspiration." This encouraged employees to contribute interior design and decor ideas for its new offices.⁴⁰

USING EMPLOYEE INVOLVEMENT TEAMS Employers have long used special teams to encourage employee involvement and boost productivity. **Suggestion teams** are temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity. One airline split employees (such as baggage handlers and ground crew) into teams, linking team members via its Web site for brainstorming and voting on ideas.⁴¹ Semi-permanent **problem-solving teams** research work processes, and develop solutions to work problems.⁴² A **quality circle** is a permanent problem-solving team, more popular in the past than now. They are usually composed of 6 to 12 specially trained employees who meet weekly to solve problems affecting their work area.⁴³ The team gets training in problem-analysis techniques (including basic statistics).

A **self-managing/self-directed work team** is a small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who supervise themselves with little or no outside supervision, usually for the purpose of accomplishing a specific mission.⁴⁴ For example, at the GE aircraft engine plant in Durham, North Carolina, employees work in teams, all of which report to the factory manager.⁴⁵ Teams like these usually function with minimal supervisory oversight, collectively voting on who could join the team, training each other, and handling quality control, for instance. Several years ago, GE expanded its footprint in North Carolina, opening new aircraft facilities. GE partnered with a local community college to do the preliminary training for its new employees.⁴⁶

USING SUGGESTION SYSTEMS Employee suggestion plans can produce significant savings (and, through involvement and rewards, improve employee relations). For example, one study several years ago of 47 companies concluded that the firms had saved more than \$624 million in one year from their suggestion programs; more than 250,000 suggestions were submitted, of which employers adopted over 93,000 ideas.⁴⁷ The accompanying HR as a Profit Center feature provides an example.

suggestion teams

Temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity.

problem-solving teams

Teams that identify and research work processes and develop solutions to work-related problems.

quality circle

A special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.

self-managing/self-directed work team

A small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who basically run themselves with little or no outside supervision, usually for the purpose of accomplishing a specific task or mission.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

The Cost-Effective Suggestion System⁴⁸

A Lockheed Martin unit in Oswego, New York, developed its "Cost-Effectiveness Plus" suggestion program to encourage and recognize employees for streamlining processes. With the Cost-Effectiveness Plus program, employees electronically submit their

ideas. These are then evaluated and approved by the local manager and the program's coordinator (and by higher management when necessary). This program reportedly saves this facility about \$77,000 per implemented idea, or more than \$100 million each year.

Today's suggestion systems are more sophisticated than the "suggestion boxes" of years ago.⁴⁹ The main improvements are in how the employer formalizes and communicates the suggestion process. The essential elements of an effective employee suggestion system include the following:⁵⁰

- ✓ Senior staff support
- ✓ A simple, easy process for submitting suggestions
- ✓ A strong process for evaluating and implementing suggestions
- ✓ An effective program for publicizing and communicating the program
- ✓ A program focus on key organizational goals ■

MyLab Management Talk About It 2

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion. Based on this, write a one-page outline describing an employee suggestion system for a small department store.

■ HR AND THE GIG ECONOMY: EMPLOYEE RELATIONS AND GIG WORKERS⁵¹

Employers can take steps to improve employee relations with gig workers.

First understand that gig workers each come to their jobs with their own needs. For example, one researcher interviewed Uber and Lyft drivers. He found that how drivers reacted to things like pay cuts depended on why they were driving. Some were driving mostly for social interaction and to relax from their full-time jobs. (One psychotherapist wasn't too upset by Uber's pay cuts. He was just happy to unwind from 40 hours per week of counseling people). On the other hand, drivers who were financially dependent on driving were understandably quite upset by the cuts.

In any case, here are suggestions for improving gig-worker employee relations:

- Don't treat gig workers like they're disposable. Even if it's a short gig, communicate with the worker, and get to know him or her. Recognize their contributions.
- Make signing on as frictionless as possible. Many gig workers are looking for part-time flexible gigs, and want work, not paperwork.
- Research shows that most employers put little time into onboarding gig workers, which is a mistake: even an abbreviated onboarding process is better than none. Give them a brief background on your company and/or project, and make them feel part (albeit an independent-contractor part) of your business.
- It is important legally to make it clear that they are independent contractors. However, to the extent possible, share company news with and seek feedback from your gig workers. Include them in intracompany communications and to the extent possible in company social and educational events.

LEARNING OBJECTIVE 14-3

Explain what is meant by ethical behavior.

The Ethical Organization

People face ethical choices every day. Is it wrong to use a company credit card for personal purchases? Is a \$50 gift to a client unacceptable? Compare your answers by doing the quiz in Figure 14-2.

Most of those reading this book rightfully view themselves as ethical people, so why include ethics in a human resource management book? For three reasons: First, ethics is not theoretical. Instead, it greases the wheels that make businesses work. Managers who promise raises but don't deliver, salespeople who say "The order's coming" when it's not, production managers who take kickbacks from suppliers—they all corrode the trust that day-to-day business transactions rely on.

Second, it is hard to even imagine an *unethical* company with good employee relations.

The spread of technology into the workshop has raised a variety of new ethical questions and many old ones still linger. Compare your answers with those of other Americans surveyed, on page 479.

Office Technology

1. Is it wrong to use company e-mail for personal reasons?
 Yes No
2. Is it wrong to use office equipment to help your children or spouse do schoolwork?
 Yes No
3. Is it wrong to play computer games on office equipment during the workday?
 Yes No
4. Is it wrong to use office equipment to do Internet shopping?
 Yes No
5. Is it unethical to blame an error you made on a technological glitch?
 Yes No
6. Is it unethical to visit pornographic Web sites using office equipment?
 Yes No

Gifts and Entertainment

7. What's the value at which a gift from a supplier or client becomes troubling?
 \$25 \$50 \$100
8. Is a \$50 gift to a boss unacceptable?
 Yes No
9. Is a \$50 gift from the boss unacceptable?
 Yes No
10. Of gifts from suppliers: Is it OK to take a \$200 pair of football tickets?
 Yes No
11. Is it OK to take a \$120 pair of theater tickets?
 Yes No
12. Is it OK to take a \$100 holiday food basket?
 Yes No

13. Is it OK to take a \$25 gift certificate?
 Yes No
14. Can you accept a \$75 prize won at a raffle at a supplier's conference?
 Yes No

Truth and Lies

15. Due to on-the-job pressure, have you ever abused or lied about sick days?
 Yes No
16. Due to on-the-job pressure, have you ever taken credit for someone else's work or idea?
 Yes No

FIGURE 14-2 *The Wall Street Journal* Workplace Ethics Quiz

Source: Ethics and Compliance Officer Association, Waltham, MA, and the Ethical Leadership Group, Global Compliance's Expert Advisors, Wilmette, IL. (printed in *The Wall Street Journal*, October 21, 1999, pp. B1–B4). © 1999 by Ethics and Compliance Officer Association. Reprinted by permission. All rights reserved.

ethics

The study of standards of conduct and moral judgment; also the standards of right conduct.



Third, many ethical predicaments involve human resource management. For example, one HR manager described how employees at one plant were told to “vent poisonous gas into the air,” something that could have killed them.⁵² A survey found that 6 of the 10 most serious ethical work issues—workplace safety, employee records security, employee theft, affirmative action, comparable work, and employee privacy rights—were HR-related.⁵³

Ethics are “the principles of conduct governing an individual or a group”—the principles people use to decide what their conduct should be.⁵⁴ Of course, not all conduct involves ethics.⁵⁵ For example, buying an iPad usually isn't an ethical decision. Instead, ethical decisions are those rooted in *morality*. Morality refers to society's accepted standards of behavior. To be more precise, morality (and therefore ethical decisions) always involves the most fundamental questions of what is right and wrong, such as stealing, murder, and how to treat other people.

Ethics and Employee Rights

Societies don't rely just on employers' ethics or sense of fairness or morality to ensure that they do what's right. Societies also institute laws, and procedures for enforcing these laws. These laws lay out what employers can and cannot do, for instance, in terms of discriminating based on race. In so doing, these laws also carve out explicit rights for employees. For example, Title VII of the Civil Rights Act gives employees the right to

bring legal charges against an employer who they believe discriminated against them due to race. And, the Fair Labor Standards Act gave employees the right to a minimum wage and overtime pay. The bottom line is that although ethics, fairness, and morality help govern how employers treat their employees, the enforceable rights embedded in employment law also govern what employers and employees can do.

What Shapes Ethical Behavior at Work?

Why do people do bad things? It's complicated. However, one review of over 30 years of ethics research concluded that three factors combine to determine the ethical choices we make.⁵⁶ The authors titled their paper “Bad Apples, Bad Cases, and Bad Barrels.” This title highlighted their conclusion that when

“Bad apples” (people who are inclined to make unethical choices), must deal with “Bad cases” (ethical situations that are ripe for unethical choices), while working in “Bad barrels” (company environments that foster or condone unethical choices), . . . then people tend to act unethically.

Here's a closer look at what they found.

THE PERSON (WHAT MAKES BAD APPLES?) First, because people bring to their jobs their own ideas of what is morally right and wrong, each person must shoulder much of the credit (or blame) for his or her ethical choices.

For example, researchers surveyed CEOs to study their intentions to engage in two questionable practices: soliciting a competitor's technological secrets, and making illegal payments to foreign officials. The researchers concluded that the CEOs' personal predispositions more strongly affected their decisions than did outside pressures or characteristics of their firms.⁵⁷ The most principled people, with the highest level of “cognitive moral development,” think through the implications of their decisions and apply ethical principles. They have “moral attentiveness,” and are aware of the ethical dilemma at hand.⁵⁸ How would you rate your own ethics? Figure 14-2 (page 461) presented a short self-assessment survey (you'll find typical survey takers' answers on page 479).

WHICH ETHICAL SITUATIONS MAKE FOR ETHICALLY DANGEROUS SITUATIONS (BAD CASES)? It's not just the person but the situation that's important. For example, the researchers found that “smaller” ethical dilemmas prompt more bad choices. What determines “small”? Basically, how much harm can befall victims of the choice, or the number of people potentially affected. People seemed more likely to “do the wrong thing” in “less serious” situations, in other words. That obviously doesn't mean that some people don't do bad things when huge consequences are involved; it just means that people cut more ethical corners on small things. The problem is that one thing leads to another; people start by doing small bad things and then “graduate” to larger ones.⁵⁹



WHAT ARE THE “BAD BARRELS”?—THE OUTSIDE FACTORS THAT MOLD ETHICAL CHOICES Finally, the study found that some companies produce more poisonous social environments (“outside factors” or “barrels”) than do others; these bad environments in turn encourage unethical choices.⁶⁰ For example, companies that promoted an “everyone for him- or herself” culture were more likely to suffer unethical choices. Those that encouraged employees to consider the well-being of everyone had more ethical choices. Most important, companies whose managers put in place “a strong ethical culture that clearly communicates the range of acceptable and unacceptable behavior” suffered fewer unethical decisions.⁶¹

How Any Manager Can Create an Ethical Environment

We can translate findings like these into the following specific steps managers can take to create more ethical environments.

REDUCE JOB-RELATED PRESSURES If people did unethical things at work solely for personal gain or because they were “bad people,” it perhaps would be understandable (though inexcusable). The scary thing is that it’s often not personal interests but the pressures of the job. As one former executive said at his trial, “I took these actions, knowing they were wrong, in a misguided attempt to preserve the company to allow it to withstand what I believed were temporary financial difficulties.”⁶²

One study illustrates this. It asked employees to list their reasons for taking unethical actions at work.⁶³ For most of these employees, “meeting schedule pressures,” “meeting overly aggressive financial or business objectives,” and “helping the company survive” were the three top causes. “Advancing my own career or financial interests” ranked about last.⁶⁴ So first, reducing such “outside” pressures helps head off ethical lapses.

MAKE IT CLEAR WHAT’S OKAY AND NOT OKAY⁶⁵ If your company has an ethics code, make it clear you take it seriously; if there is no code, show by your own actions and words what’s acceptable and not acceptable.

MODEL THE DESIRED BEHAVIOR (“WALK THE TALK”) It’s hard to resist even subtle pressure from a boss. In one report, “the level of misconduct at work dropped dramatically when employees said their supervisors exhibited ethical behavior.”⁶⁶ Examples of how supervisors lead subordinates astray include the following:

- Tell them to do “whatever is necessary” to achieve results.
- Look the other way when wrongdoing occurs.
- Take credit for others’ work or shift blame.⁶⁷

Put another way, managers must walk the talk—not just pay lip service to ethics but behave ethically. Some managers urge employees to apply a quick “ethics test” to evaluate whether what they’re about to do fits the company’s code of conduct. For example, Raytheon Co. asked employees to ask:

- Is the action legal?
- Is it right?
- Who will be affected?
- Does it fit Raytheon’s values?
- How will it “feel” afterward?
- How will it look in the newspaper?
- Will it reflect poorly on the company?⁶⁸

REINFORCE THE DESIRED BEHAVIOR, NOT THE UNDESIRABLE BEHAVIOR⁶⁹ People tend to do what they get positive reinforcement for, and gradually stop doing what’s not reinforced. Do not inadvertently reinforce unethical behavior (nor punish ethical behavior).

TAKE IT SERIOUSLY When students complained of inappropriate behavior by an osteopathic medical school administrator, university administrators (including an attorney) put a letter in his file and got his agreement to change. It transpired that they should have taken stronger action. The moral is, investigate ethics-related accusations vigorously and make sure you correct the problem.

How Human Resource Managers Can Create More Ethical Environments

There are also steps human resource managers can take.

INSTITUTE ETHICS POLICIES AND CODES Employers use ethics policies and codes to signal that their companies are serious about ethics. For example, IBM’s code of ethics says, in part:

Neither you nor any member of your family may, directly or through others, solicit or accept from anyone money, a gift, or any amenity that could influence or could reasonably give the appearance of influencing IBM’s business

relationship with that person or organization. If you or your family members receive a gift (including money), even if the gift was unsolicited, you must notify your manager and take appropriate measures, which may include returning or disposing of what you received.⁷⁰

ENFORCE THE RULES Codifying rules without enforcing them is useless. To paraphrase one study, managers' statements can reduce unethical behavior on the part of employees, but knowing that behavior is actually monitored and enforced has the biggest impact.⁷¹ *Ethics audits* address topics like conflicts of interest, giving and receiving gifts, and employee discrimination.⁷² One study found that fraud controls such as hotlines, surprise audits, fraud training for employees, and mandatory vacations can each reduce internal theft by around 50%.⁷³ Lockheed Martin Corp. has a chief ethics officer.⁷⁴



ENCOURAGE WHISTLEBLOWERS Some companies encourage employees to use hotlines and other means to “blow the whistle” on the company when they discover fraud. Several U.S. laws, including Dodd–Frank, the False Claims Act, the U.S. Financial Institutions Reform, Recovery, and Enforcement Act, and U.S. federal sentencing guidelines address whistleblowing.⁷⁵ Under the U.S. Securities and Exchange Commission’s whistleblower program, awards are not limited to company employees. Consultants, independent contractors, vendors, and sometimes audit and compliance personnel are also eligible.⁷⁶

MyLab Management Apply It!

What steps did an actual company take to tighten its ethics processes after confronting accusations of corporate misdeeds? If your professor has chosen to assign this activity, go to www.pearson.com/mylab/management to complete the video exercise.

organizational culture

The characteristic values, traditions, and behaviors a company's employees share.

FOSTER AN ETHICAL CULTURE⁷⁷ Several years ago Uber faced multiple harassment claims, in part due to the company’s uninhibited culture.⁷⁸ **Organizational culture** is the “characteristic values, traditions, and behaviors a company’s employees share.” A *value* is a basic belief about what is right or wrong, or about what you should or shouldn’t do. (“Honesty is the best policy” would be a value.) Managing people and shaping their behavior depends on shaping the values they use as behavioral guides. For example, if management really believes “honesty is the best policy,” the actions it takes should reflect this value. Managers therefore should think through how to send the right signals to their employees—in other words, create the right culture. Doing so includes:

- **Choose as leaders** people who reflect the culture you’re trying to achieve.⁷⁹
- **Clarify expectations.** Make it clear what values you want subordinates to adhere to. For example, IBM’s ethics statement shows the company takes ethics seriously.
- **Use signs and symbols.** *Symbolism*—what the manager actually does—ultimately does the most to create and sustain the company’s culture. As we said earlier, managers should “walk the talk.” They can’t say “don’t falsify the financials” and then do so themselves.
- **Provide physical support.** The physical signs of the employer’s values—its incentive plan, appraisal system, and disciplinary procedures, for instance—send strong signals regarding what employees should and should not do. For example, do promotions reward ethical behavior or penalize it?⁸⁰
- **Interact frequently** with employees to explain the values that are important.⁸¹

The accompanying HR Tools feature illustrates ethics management in small businesses.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Small Business Ethics

When people think of unethical corporate behavior, big companies come to mind, because they're usually in the headlines. Yet studies show that small enterprises are prone to the same unethical behavior as big firms.

For example, one study of 20 small to midsize firms found that bribery, corrupt dealings, and a general tone of dishonesty were all “business as usual” at many of these firms.⁸² Some were clever about it. When doing business abroad, one U.S. business kept its hands “clean” by partnering with a local firm. The latter did the dirty work, for example, the local bribes, while the U.S. firm’s managers looked the other way.

Smaller firms should be alert to unethical behavior. They don’t have the resources for ethics officers, ethics hotlines, or the ethics training that big firms have. Furthermore, having an unethical accountant in a billion-dollar firm embezzle \$10 million is a nuisance. Having the bookkeeper of a \$10 million firm abscond with \$1 million could be the end.

Small business owners can take several steps. First, *size up your company’s current ethics-related activities*.⁸³ Even a self-audit based on guidelines like those in this chapter (having an ethics code, ethics training, controls to monitor ethical behavior, and so on) are worthwhile. Second, *create a code of conduct* (Googling “code of conduct” reveals thousands of examples), and show you take it seriously. Third, *train your people*. Training needn’t be complicated. For example, one expert suggests having your managers develop scenarios, relevant to your business, illustrating which behaviors are ethical and which are not; then meet to discuss these. Fourth, make it easier to *solicit feedback* from your employees, to report unethical behavior. (“Open door” polices and suggestion boxes are examples.) Finally, *walk the talk*. In a small business, the owner is so visible that employees will take their ethical signals from him or her. ■

MyLab Management Talk About It 3

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion. Create a 50-word ethics code for a small business. Then, explain how the owner might use an ethics code to help avoid mistreatment of employees.

HIRE RIGHT The most straightforward way an HR manager can build an ethical organization is to attract and hire ethical people. Start with recruitment ads that highlight your firm’s commitment to ethics. Then screen carefully. An integrity test “is a specific type of personality test designed to assess an applicant’s tendency to be honest, trustworthy, and dependable.”⁸⁴ Use interview questions (such as “Have you ever observed someone doing something dishonest at work? What did you do?”).⁸⁵ Check backgrounds thoroughly.

Also treat job applicants fairly. “If prospective employees perceive that the hiring process does not treat people fairly, they may assume that ethical behavior is not important in the company.”⁸⁶ What exactly to do? Here:

- Applicants tend to view the *formal procedure* (such as the interview) as fair to the extent that it tests job-related criteria and provides an opportunity to demonstrate competence.
- Applicants expect respect. *Fair interpersonal treatment* reflects things like the propriety of the questions, the politeness of interviewer, and the degree of two-way communication.
- Applicants see a selection system as fair to the extent that the employer provides *useful feedback* about the candidate’s own performance.⁸⁷

USE ETHICS TRAINING Ethics training is basically mandatory. Since 1991, federal sentencing guidelines have prescribed reduced penalties for employers accused of misconduct who implement codes of conduct and ethics training.⁸⁸ The Sarbanes–Oxley Act of 2002 makes ethics training even more important.

Ethics training involves showing employees how to recognize ethical dilemmas, how to apply codes of conduct to resolve problems, and how to use personnel activities like discipline in ethical ways.⁸⁹ The training should illustrate the moral underpinnings of the ethical choice, and the company’s commitment to integrity and ethics. Include participation by top managers to emphasize that commitment.⁹⁰

Lockheed Martin’s annual *Giving Voice to Values* ethics training program is an example.⁹¹ Lockheed Martin’s CEO, Marillyn Hewson, first trains her immediate staff. They in turn train their subordinates. The program first reviews Lockheed Martin’s business conduct code. It then prepares employees to recognize and react to ethics-laden situations. To do this, trainees review videos of actual ethics cases from the company’s Ethics Office. Then they discuss the cases and how to react to them.

USE REWARDS AND DISCIPLINE Employees expect employers to punish unethical conduct and to reward ethical conduct, (including executives’, not just underlings’).⁹² A code of conduct generally describes what employees should and should not do ethically.⁹³ Employers often put their code of conduct policies in the employee manual.⁹⁴ For example, one university lists “penalties ranging from a formal written warning notice up to, and including, discharge” for violations such as “immoral or indecent conduct.”⁹⁵



INSTITUTE EMPLOYEE PRIVACY POLICIES With Facebook and others routinely marketing users’ personal information, privacy seems to be going out of style; as one cybersecurity expert said, “surveillance is the business model of the internet.”⁹⁶

But while some online users willingly share personal information as the price of freely staying in touch, privacy still matters at work.⁹⁷ Here employee privacy violations include *intrusion* (such as locker room and e-mail surveillance), *publication* of private matters, and *disclosure* of medical records.⁹⁸ In practice, background checks, monitoring off-duty conduct and lifestyle, drug testing, workplace searches, and workplace monitoring trigger most privacy violations.⁹⁹ Such activities have legitimate business purposes; however, they can be abused—as when erroneous background information leads to unjust treatment.¹⁰⁰ Many employers therefore include privacy policies in their ethics programs. For example, Ceridian’s Privacy Policy Web site starts with “Ceridian is committed to protecting the privacy of our employees, our customers, and their employees.”¹⁰¹



KNOW YOUR EMPLOYMENT LAW

Electronic Monitoring

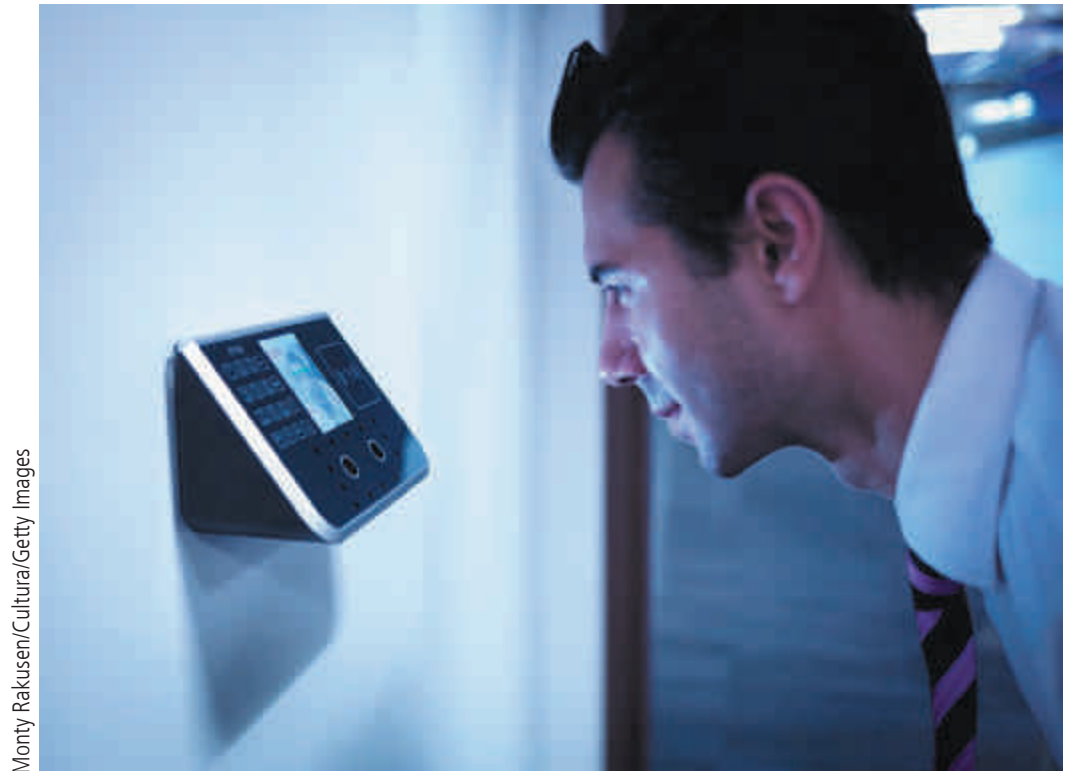
There are two main restrictions on workplace monitoring. One is the **Electronic Communications Privacy Act (ECPA)**. The other are *common-law protections* (protections that evolved from court decisions, for instance, decisions against defaming employees by publicizing highly personal matters about them). The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications. (Several states have similar laws.) It contains two exceptions. The “business purpose exception” permits employers to monitor communications if they can show a legitimate business reason for doing so. The second, “consent exception,” lets employers monitor communications if they have their employees’ consent to do so.¹⁰²

In one survey several years ago, 41% of employers with more than 20,000 employees had someone reading employee e-mails.¹⁰³ Ninety-six percent block access to adult Web sites, 61% to game sites.¹⁰⁴ (A court found one employer liable when one employee used his company computer at work to distribute child pornography.)¹⁰⁵ Some check employees’ personal blogs or Facebook sites to see if they’re publicizing work-related matters.¹⁰⁶

Electronic Communications Privacy Act (ECPA)

The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications.

More employers are using iris scanning to verify employee identity.



Monty Rakusen/Cultura/Getty Images

Electronic eavesdropping is legal—up to a point. For example, federal law and most state laws allow employers to monitor employees' phone calls in the ordinary course of business. However, they must stop listening when it becomes clear the conversation is personal. You can also intercept e-mail to protect the property rights of the e-mail provider. Many employees assume that their messages using the company's e-mail system are open to review, but that e-mails they send via the employer's system but using personal e-mail like Gmail aren't. However, that's not necessarily true.

To be safe, employers issue e-mail and online service usage policies. These warn employees that their systems should be used for business only. Employers also have employees sign e-mail and telephone monitoring acknowledgment statements like that in Figure 14-3.

Monitoring raises privacy issues, but can also boost profits. For example, employers routinely use software to monitor what their employees are doing online. When one employer noticed high employee overtime claims, it installed new software, and discovered many employees spent hours daily shopping online instead of working. Computer monitoring usually involves loading software directly onto the device. It then keeps logs of keystrokes, screenshots, and URLs visited by individuals.¹⁰⁷

FIGURE 14-3 Sample E-Mail Monitoring Acknowledgment Statement

I understand that XYZ Company periodically monitors any e-mail communications created, sent, or retrieved using this company's e-mail system. Therefore, I understand that my e-mail communications may be read by individuals other than the intended recipient. I also understand that XYZ Company periodically monitors telephone communications, for example to improve customer service quality.

Signature

Date

Print Name

Department

An attorney should review the company's e-mail policy. At a minimum, make it clear that employees should have no expectation of privacy in their e-mail and Internet usage.¹⁰⁸ Also emphasize that all messages sent and received on the employer's e-mail system are company property and not confidential.¹⁰⁹ Employee monitoring best practices include: don't target a legally protected class or monitor in nonwork areas, do be consistent in how you monitor employees, and get legal advice before installing a monitoring system.¹¹⁰

Videotaped workplace monitoring requires more caution. Continuous video surveillance of employees in an office setting may not be a problem. But a Boston employer had to pay over \$200,000 to five workers it secretly videotaped in an employee locker room, after they sued.¹¹¹

More companies are monitoring in part due to the proliferation of online and smart devices and social media. For example, a thumb drive can carry off huge amounts of corporate data. And, increasingly, disgruntled employees are using their companies' cloud services to hack into and undermine their computer systems.¹¹²

Monitoring goes beyond work stations and phones. One hospital uses biometric scanners to ensure that employees who clock in really are who they say they are. The Federal Aviation Administration uses iris scanning to control employees' access to their network information systems. One restaurant monitors most everything waiters do, for instance, tracking every ticket, dish, and drink that they process.¹¹³ (This makes it easier to track employee theft, but also helps identify conscientious waiters). The British grocer Tesco has some distribution center employees wear armbands that track how quickly employees are unloading and scanning goods.¹¹⁴ ■

MyLab Management Talk About It 4

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete these discussion questions. How would you feel if your employer told you to wear an armband monitor? Why? How would you react?



LEARNING OBJECTIVE 14-4

Explain what is meant by fair disciplinary practices.

Managing Employee Discipline

The purpose of *discipline* is to encourage employees to behave sensibly at work (where *sensible* means adhering to rules and regulations). Discipline is required when an employee violates a rule.¹¹⁵

Proper disciplinary procedures are important for several reasons. For one thing, positive employee relations requires trust, and few personnel actions will undermine trust as will arbitrary discipline. Legal concerns are important too. One study surveyed 45 published arbitration awards in which tardiness had triggered discipline and/or discharge. When arbitrators overturned employers' decisions, it was usually due to inadequate disciplinary procedures—for example, the employer failed to clarify what “tardy” meant. Unfair disciplinary procedures can backfire in other ways. For example, it can trigger retaliatory employee misbehavior.

The Three Pillars of Fair Discipline

Disciplining employees is often unavoidable, but any such discipline should be rooted in the need to be fair. The manager builds a fair discipline process on three pillars: rules and regulations, a system of progressive penalties, and an appeals process.¹¹⁶

RULES AND REGULATIONS An acceptable disciplinary process begins with a set of clear disciplinary rules and regulations. The rules should cover problems such as theft, destruction of company property, drinking on the job, and insubordination. Examples of rules include:

Poor performance is not acceptable. Each employee is expected to perform his or her work properly and efficiently and to meet established standards of quality.

Alcohol and drugs do not mix with work. The use of either during working hours and reporting for work under the influence of either are both strictly prohibited.

The purpose of the rules is to inform employees ahead of time what is and is not acceptable behavior. Tell employees, preferably in writing, what is not permitted. The employee handbook should contain the rules and regulations.

PROGRESSIVE PENALTIES A system of progressive penalties is the second pillar of effective discipline. The severity of the penalty usually depends on the offense and the number of times it has occurred. For example, most companies issue warnings for the first unexcused lateness. However, for a fourth offense, discharge is the usual disciplinary action.

APPEALS PROCESS Third, the aim of an appeals process is to ensure that supervisors mete out discipline fairly. FedEx's *guaranteed fair treatment* multistep program illustrates this. We'll look at it in a moment.

An appeals process is essential but is no panacea. Often employers can mitigate the effects of unfair discipline by catching it during an appeal. However, some supervisory behavior may be impossible to overcome. For example, behaviors that attack the employee's personal and/or social identity are difficult to remedy.¹¹⁷ Remember that punishment is particularly objectionable when it seems motivated by revenge.¹¹⁸



Diversity Counts: Comparing Males and Females in a Discipline Situation

A well-known study about 20 years ago concluded that when a woman doesn't act the way other men and women expect she should act, they tend to treat her more harshly than they might if a man acted unexpectedly.¹¹⁹

The study involved 360 graduate and undergraduate business school students. They reviewed a labor arbitration case. The case involved two employees, one male and one female, with similar work records and tenure with their employers. Both were discharged for violation of company rules related to alcohol and drugs. The case portrays one worker's behavior as a more serious breach of company rules: The more culpable worker (a male in half the study and a female in the other half) had brought the intoxicant to work. The students had to express their agreement with two alternative approaches (tough or not-so-tough) to settling the dispute that arose after the discharge.

The researchers found bias against the female "employee" by both the male and female students. Both the male and female students recommended harsher treatment for the "culpable" female employee in the case than they did for the "culpable" man. As the researchers conclude, "women, as decision makers, appear to be as willing as men to impose harsher discipline on women than upon men." ■

How to Discipline an Employee

Even if you're a manager in a *Fortune* 500 company, you may find yourself without company guidelines when you have to discipline an employee. An error could trigger a costly appeal, or even litigation. To help head off errors, fair discipline guidelines would include:¹²⁰

- Make sure the evidence supports the charge of employee wrongdoing.
- Adequately warn the employee of the disciplinary consequences of his or her alleged misconduct. Have the employee sign a form as in Figure 14-4.
- The rule that allegedly was violated should be "reasonably related" to the facility's efficient and safe operation.
- Objectively investigate the matter before disciplining.
- The investigation should produce substantial evidence of misconduct.
- Apply applicable rules, orders, or penalties *without discrimination*.
- The U.S. Constitution contains the *due process* clause, specifically that no one shall be "deprived of life, liberty or property without due process of law."¹²¹

Most basically, due process means that anyone accused or suspected deserves to have his or her case reviewed through a fair process. For example, did the person have a chance to defend himself or herself? Was there an appeals process?

FIGURE 14-4 Report of Employee Discipline

**Apex Telecommunications Corporation
Report of Disciplinary Action and Warning**

Employee's Name _____
 Employee's Department _____
 Date of Misconduct _____ Today's Date _____

Description of incident and misconduct (including witnesses, if any) _____

Witnesses to incident _____

If the misconduct violated an Apex Co. policy or rule, state the policy or rule _____

Employee's explanation for misconduct, if any _____

Disciplinary action taken, if any _____

The employee was warned today that if misconduct such as this reoccurs at any time during the next _____ weeks, he or she may be subject to the following disciplinary action _____

_____ Supervisor's signature	_____ Employee's signature
_____ Print name	_____ Print name

- Maintain the employee's right to counsel. For example, all union employees generally have the right to bring a representative to a disciplinary interview.
- Don't rob your subordinate of his or her dignity, for instance by disciplining in public.
- Listen to what the person has to say.
- Remember that the burden of proof is on you. In U.S. society, a person is considered innocent until proven guilty.
- Get the facts. Don't base your decision on hearsay evidence or on your general impression.
- Don't act while angry.

Discipline without Punishment

Traditional discipline processes have two main drawbacks. First, no one likes being punished. Second, punishment tends to gain short-term compliance, but not long-term cooperation.

Discipline without punishment (or alternative or nonpunitive discipline) aims to avoid these drawbacks by reducing the punitive nature of the discipline. Steps include:¹²²

1. **Issue an oral reminder for a first infraction.** Have a private discussion with the employee.
2. **Should another incident arise within 6 weeks, issue a formal written reminder, and place a copy in the employee's personnel file.** Also, hold a second private discussion with the employee.

3. **Give a paid, one-day “decision-making leave.”** If another incident occurs in the next 6 weeks or so, tell the employee to take a 1-day leave with pay, and to consider whether he or she wants to abide by the rules. When the employee returns to work, he or she meets with you and gives you a decision.
4. **If no further incidents occur in the next year or so, purge the 1-day paid suspension from the person’s file.** If the behavior is repeated, the next step is dismissal.

The process would not apply to exceptional circumstances. Criminal behavior or in-plant fighting might be grounds for immediate dismissal, for instance.



LEARNING OBJECTIVE 14-5

Answer the question, “How do companies become ‘Best Companies to Work For?’”

Employee Engagement Guide for Managers

How Companies Become “Best Companies to Work For”

We began this chapter by noting that some companies are better to work for than are others, and we therefore focused on programs managers use to cultivate the positive employee relations that contribute to being a best place to work. This final section zeroes in on three companies that are known in part for actually being best places to work.

The “Best Companies to Work For”

Each year, several organizations publish “Best Companies to Work For” lists, the most notable of which is probably “*Fortune Magazine’s 100 Best Companies to Work For*®.”¹²³ Based on an extensive multinational survey of employees by the Great Place to Work® Institute (www.greatplacetowork.com), the survey seeks to identify the best companies to work for, based on how the employees working in them actually feel about working there. The Great Place to Work Institute defines a great workplace as one where employees trust the people they work for, have pride in the work they do, and enjoy the people they work with.¹²⁴ They say that these companies “have the highest levels of trust, strongest evidence of employee engagement and demonstrate the best applied management practices and programs” as defined by the institute’s proprietary models.¹²⁵ We’ll look at three recent “*Fortune Magazine’s 100 Best Companies to Work For*”—SAS, Google, and FedEx.¹²⁶

SAS: Great Benefits, Trust, and Work–Life Balance

SAS, headquartered in Cary, North Carolina, is a leader in providing business analytics software and services to companies that include 90 of the top 100 companies on the *Fortune* global 500 list.¹²⁷ Founded in the 1970s, the company is privately owned and has long been known for the quality of its benefits and for the support it provides for its employees’ work–life balance. It has annual revenues of over \$2.3 billion, and a worldwide workforce of over 13,000 people, about half at the company’s North Carolina campus.

When people think about employee relations at SAS, the first thing that comes to mind is probably its employee benefits, which are extraordinary. To paraphrase its CEO, the firm’s employees are happier and healthier because SAS’s extensive benefits remove unnecessary distractions and stress.¹²⁸ They include (for example) 3 to 4 weeks per year company-paid vacations, paid sick days, flexible work schedules, 11 paid holidays, competitive pay, company-paid life insurance and accidental death insurance, retirement plans, an on-site fitness center, employee assistance programs, domestic partner benefits, and subsidized on-site child-care centers in Cary.¹²⁹

In a larger sense, such benefits symbolize SAS’s approach to employee relations. While many employers talk about “putting their employees first,” SAS puts its money where its mouth is. For example, late in 2008, as the recession was gaining speed, most employers were laying off employees. SAS’s founder and CEO, Dr. Jim Goodnight, held a special global webcast to announce to employees that none of SAS’s 13,000 worldwide employees would lose their jobs.¹³⁰ They have reportedly never laid off an employee.¹³¹ SAS goes to great lengths to foster trust in other ways, for instance

by giving employees abundant freedom in the hours they work. They also have the Great Place to Work Institute survey employees on important characteristics of trust including open communication, respect, and career paths.¹³²

What does all this do for SAS? As one long-term employee put it, “I just can’t imagine leaving SAS, and I felt that way for a very long time . . . if somebody offered to double my salary, I wouldn’t even think about it.”¹³³ Employee turnover, about 20% in software companies, is about 3% at SAS, which highlights another important facet of the SAS benefits programs.¹³⁴ One expert estimates that the lower turnover alone saves SAS \$60 million to \$80 million a year. As another example, letting employees visit on-campus health professionals (as SAS does) cuts hours out of the average employee’s time away from work.¹³⁵ And, of course, the effect on engagement, morale, and productivity may be priceless.

Google: Happiness and People Analytics

When Google founders Larry Page and Sergey Brin began building Google, they wanted to make it a great place to work, so they turned to SAS. They met with SAS executives and sent a team there to better understand what made SAS consistently a “Best Company to Work For.”¹³⁶

It’s therefore not surprising that Google is one of the few employers whose employee benefits equal or exceed those at SAS. In addition to things like health-care benefits and flexible work hours (and the possibility of making millions on stock options), its benefits include on-site dry cleaners, bowling alleys, cafés, transportation to and from campus, and nap pods.¹³⁷ As Google puts it, “It’s all about removing barriers so Googlers can focus on the things they love, both inside and outside of work. We’re constantly searching for unique ways to improve the health and happiness of our Googlers.”¹³⁸

Aside from its benefits, what sets Google apart is the scientific way it decides how to “improve the health and happiness” of Google employees. At Google, maintaining positive employee relations is highly analytical (one writer calls Google “The Happiness Machine”).¹³⁹ Google calls its human resource department, “People Operations” (employees call it “POPS”). It hired social scientists to create what they call the People & Innovation Lab, with a Google “people analytics team” charged with finding out how to make Googlers happy.¹⁴⁰ Google “monitors its employees’ well-being to a degree that can seem absurd to those who work outside [Google’s headquarters in] Mountain View [California].”¹⁴¹ The social scientists run experiments, for instance, to determine if successful middle managers have certain skills, and what’s the best way to remind people to contribute to their 401(k)s.¹⁴² In one example, when the analytics team found that women staffers’ turnover was too high, they concluded that new mothers were leaving at twice Google’s average departure rate.¹⁴³ This led to a redesigned maternity leave plan including 5 months off at full pay and full benefits. The new plan cut female Googler turnover in half.¹⁴⁴ To support its analytical approach, Google “solicits employee feedback on everything from how they prefer to be compensated, to the design of new bicycles used throughout the expansive headquarters campus.”¹⁴⁵ So, it’s little wonder why Googlers are happy.

FedEx: Guaranteed Fair Treatment

FedEx has been one of the “*Fortune* Magazine’s 100 Best Companies to Work For” for 12 of the past 15 years. Several things—excellent benefits, competitive salaries, and (as we discussed in Chapter 5) a focus on promoting from within help to explain this; however, it may be FedEx’s emphasis on building trust through communications that most sets it apart.

SURVEY FEEDBACK ACTION (SFA) The FedEx survey feedback action (SFA) program is one example. SFA includes an anonymous survey that allows employees to express feelings about the company and their managers, and to some extent about service, pay, and benefits. Each manager then has an opportunity to use the results to help design a blueprint for improving workgroup engagement and commitment.¹⁴⁶

SFA has three phases. First, the survey itself is a standard, anonymous questionnaire given each year to every employee. The questions are designed to gather information about what helps and hinders employees in their work environment. Sample items include: “I can tell my manager what I think” and “My manager tells me what was expected.” A workgroup’s survey results are compiled and sent anonymously to the manager.

The second phase is a feedback session between the manager and his or her workgroup. The goal here is to identify specific concerns or problems, examine causes for these problems, and devise action plans to correct the problems.

The feedback meeting should lead to a third, “action plan” phase. This produces a list of actions that the manager will take to address employees’ concerns and boost results. It includes: What is the concern? What’s your analysis? What’s the cause? and What should be done?

THE FEDEX GUARANTEED FAIR TREATMENT PROCESS FedEx’s Guaranteed Fair Treatment Process (GFTP) goes beyond most grievance procedures in several ways, perhaps most notably in that an appeal can go all the way to FedEx’s top executives. The effect is twofold: Complaints don’t get a chance to fester, and managers think twice before acting unfairly.¹⁴⁷ GFTP is available to all permanent FedEx employees. It covers concerns regarding matters such as disputed performance reviews, disciplinary actions, and terminations.¹⁴⁸

Employees use Guaranteed Fair Treatment Process packets, available from the HR department, to file GFTP complaints. These include a fact sheet listing the complainant’s name and work history; a GFTP tracking sheet to track the complaint at each step; management’s rationale (for instance, in terms of applicable policies and procedures); a write-up from the HR department; space for key documents (termination letters, and so on); and space for backup information including witness statements. The employee must try to resolve the problem with his or her supervisor before filing a GFTP appeal.

GFTP contains three steps.¹⁴⁹ In step one, *management review*, the complainant submits a written complaint to a manager, senior manager, or managing director, within seven calendar days of the occurrence of the eligible issue. Then the manager, senior manager, and managing director of the employee’s group review all relevant information; hold a telephone conference and/or meeting with the complainant; make a decision to either uphold, modify, or overturn management action; and communicate their decision in writing to the complainant.

If turned down in step one, then in step two, *officer complaint*, the complainant submits a written complaint to an officer (VP or senior vice president) of the division within 7 calendar days of the step one decision.

Finally (if necessary), in step three, *executive appeals review*, the complainant submits a written complaint within 7 calendar days of the step two decision to the employee relations department. This department investigates and prepares a GFTP case file for the appeals board executive review. The appeals board—the CEO, the COO, the chief personnel officer, and senior vice presidents—then reviews all relevant information and makes a decision to either uphold, overturn, or initiate a board of review or to take other appropriate action; the appeals board’s decision is final.

A “Best Company” Human Resource Philosophy?

SAS, Google, and FedEx are different from each other, and from other companies, so there’s no guarantee that what works for them will work for other firms. For example, SAS is privately owned. Its owners can therefore more easily absorb the short-term fluctuations in profits that great benefits and no layoffs engender than can most publicly traded companies. Google has grown fast through a series of smart strategic moves, and, when the economy turns down, its managers generally still have to focus more on retaining great employees than on laying them off. FedEx, still a “Best Company to Work For,” has run into some labor relations problems recently, for instance, from drivers who don’t want to be independent contractors.

However, there are several things that any manager intent on building positive employee relations can learn from studying any of these three companies. For example, their managers work hard to cultivate trust and to ensure—for instance, by monitoring employees' attitudes and by instituting open-door and guaranteed fair treatment—type grievance processes—that employees are treated fairly. And, in numerous ways (such as in their recognition programs, involvement programs, ethical standards, benefits, and climate surveys and other two-way communications programs), they all exhibit a deep and evident respect for their employees and to “putting employees first.”

But perhaps the single most important thing a manager can glean from these three companies is the human resource philosophy on which they built their human resource management practices. In Chapter 1, we said that people's actions are always based in part on the basic assumptions they make, and that this is especially true in regard to human resource management. The basic assumptions you make about people—Can they be trusted? Do they dislike work? Why do they act as they do? How should they be treated?—together comprise your philosophy of human resource management. And every personnel decision you make—the people you hire, the training you provide, your leadership style, and the like—reflects (for better or worse) this basic philosophy.

One of the things molding your own philosophy is that of your organization's top management. While it may or may not be stated, it is usually communicated by their actions and permeates every level and department. Google's founders want their employees to be happy, and they've worked since Google's founding to make sure that they are. FedEx founder and CEO Frederick Smith is famous for (among many other things) his P-S-P mantra, namely that when you treat your People well they will provide great Service, and Profits will follow.¹⁵⁰ Similarly, the founder and CEO of SAS has said, “We've worked hard to create a corporate culture that is based on trust between our employees and the company . . . a culture that rewards innovation, encourages employees to try new things and yet doesn't penalize them for taking chances, and a culture that cares about employees' personal and professional growth.”¹⁵¹ Such HR philosophies may well be the “magic sauce” that explains why great companies to work for are great.

Chapter Review

Chapter Section Summaries

- 14-1. Employee relations** is the activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.
- 14-2. Managers and HR management use programs to develop positive employee relations.** Unfair treatment reduces morale, increases stress, and has negative effects on employees and should be weeded out. Managers also use communications programs, recognition programs, and employee involvement programs to build positive employee relations.
- 14-3. Ethics** refers to the principles of conduct governing an individual or a group, and specifically to the standards you use to decide what your conduct should be. Numerous factors shape ethical behavior at work. These include individual factors, organizational factors, the boss's influence, ethics policies and codes, and the organization's culture. HR management can influence ethical behavior. Having a fair and open selection process, establishing special ethics training programs, and rewarding (or disciplining) ethical (or unethical) work-related behavior are some examples.
- 14-4.** A fair and just **discipline** process is based on rules and regulations, a system of progressive penalties, and an appeals process. A number of discipline guidelines are important, including discipline should be in line with the way management usually responds to similar incidents,

management must adequately investigate the matter, and do not rob a subordinate of his or her dignity.

- 14-5. There are several things that any manager intent on building positive employee relations and **employee engagement** can draw from studying “Best Companies to Work For” such as SAS,

Google, and FedEx. Their managers cultivate trust and ensure that employees are treated fairly. They all exhibit a deep and evident respect for their employees and to “putting employees first.” Their human resource philosophy emphasizes trust, respect, and caring about their employees’ personal and professional growth.

Discussion Questions

- 14-1. Explain how you would ensure fairness in disciplining, discussing particularly the prerequisites to disciplining, disciplining guidelines, and the discipline without punishment approach.
- 14-2. Why is it important in our litigious society to manage electronic monitoring properly?
- 14-3. Provide two examples of behaviors that would probably be unethical but legal, and three that would probably be illegal but ethical.
- 14-4. List 10 things your college or university does to encourage ethical behavior by students and/or faculty.
- 14-5. You need to select a nanny for your or a relative’s child, and want someone ethical. What would you do to help ensure you ended up hiring someone ethical?
- 14-6. You believe your coworker is being bullied. How would you verify this, and what would you do about it if it is true?
- 14-7. Define *employee relations*, and discuss at least four methods for managing it.

Individual and Group Activities

- 14-8. Working individually or in groups, interview managers or administrators at your employer or college in order to determine the extent to which the employer or college endeavors to build two-way communication, and the specific types of programs used. Do the managers think they are effective? What do the employees (or faculty members) think of the programs in use at the employer or college?
- 14-9. Working individually or in groups, obtain copies of the student handbook for your college and determine to what extent there is a formal process through which students can air grievances. Based on your contacts with other students, has it been an effective grievance process? Why or why not?
- 14-10. Working individually or in groups, determine the nature of the academic discipline process in your college. Do you think it is effective? Based on what you read in this chapter, would you recommend any modifications?
- 14-11. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team’s questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
- 14-12. In a research study at Ohio State University, a professor found that even honest people, left to their own devices, would steal from their employers.¹⁵² In this study, the researchers gave financial services workers the opportunity to steal a small amount of money after participating in an after-work project for which the pay was inadequate. Would the employees steal to make up for the underpayment? In most cases, yes. Employees who scored low on an honesty test stole whether or not their office had an ethics program that said stealing from the company was illegal. Employees who scored high on the honesty test also stole, but only if their office did not have such an employee ethics program—the “honest” people didn’t steal if there was an ethics policy.
- Individually or in groups, answer these questions: Do you think findings like these are generalizable? In other words, would they apply across the board to employees in other types of companies and situations? If your answer is yes, what do you think this implies about the need for and wisdom of having an ethics program?



Experiential Exercise

Discipline or Not?

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Purpose: The purpose of this exercise is to provide you with some experience in analyzing and handling an actual disciplinary action.

Required Understanding: Students should be thoroughly familiar with the facts of the following incident, titled “Botched Batch.” **Do not read the “award” or “discussion” sections until after the groups have completed their deliberations.**

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Each group should take the arbitrator’s point of view and assume that they are to analyze the case and make the arbitrator’s decision. Review the case again at this point, but please do not read the award and discussion sections.

Each group should answer the following questions:

- 14-13.** Based on what you read in this chapter, including all relevant guidelines, what would your decision be if you were the arbitrator? Why?
- 14-14.** Do you think that after their experience in this arbitration the parties involved will be more or less inclined to settle grievances by themselves without resorting to arbitration?

Botched Batch:

Facts: A computer department employee made an entry error that botched an entire run of computer reports. Efforts to rectify the situation produced a second set of improperly run reports. Because of the series of errors, the employer incurred extra costs of \$2,400, plus a weekend of overtime work by other computer department staffers. Management suspended the employee for 3 days for negligence, and revoked a promotion for which the employee had previously been approved.

Protesting the discipline, the employee stressed that she had attempted to correct her error in the early stages of the

run by notifying the manager of computer operations of her mistake. Maintaining that the resulting string of errors could have been avoided if the manager had followed up on her report and stopped the initial run, the employee argued that she had been treated unfairly because the manager had not been disciplined even though he compounded the problem, whereas she was severely punished. Moreover, citing her “impeccable” work record and management’s acknowledgment that she had always been a “model employee,” the employee insisted that the denial of her previously approved promotion was “unconscionable.”

(Please do not read beyond this point until after you have answered the two questions.)

Award: The arbitrator upholds the 3-day suspension, but decides that the promotion should be restored.

Discussion: “There is no question,” the arbitrator notes, that the employee’s negligent act “set in motion the train of events that resulted in running two complete sets of reports reflecting improper information.” Stressing that the employer incurred substantial cost because of the error, the arbitrator cites “unchallenged” testimony that management had commonly issued 3-day suspensions for similar infractions in the past. Thus, the arbitrator decides, the employer acted with just cause in meting out an “evenhanded” punishment for the negligence.

Turning to the denial of the already approved promotion, the arbitrator says that this action should be viewed “in the same light as a demotion for disciplinary reasons.” In such cases, the arbitrator notes, management’s decision normally is based on a pattern of unsatisfactory behavior, an employee’s inability to perform, or similar grounds. Observing that management had never before reversed a promotion as part of a disciplinary action, the arbitrator says that by tacking on the denial of the promotion in this case, the employer substantially varied its disciplinary policy from its past practice. Because this action on management’s part was not “evenhanded,” the arbitrator rules, the promotion should be restored.¹⁵³

Application Case

Enron, Ethics, and Organizational Culture

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For many people, a company called Enron Corp. still ranks as one of history’s classic examples of ethics run amok. During the 1990s and early 2000s, Enron was in the business of wholesaling natural gas and electricity. Enron made its money as the intermediary (wholesaler) between suppliers and customers. Without getting into all the details, the nature of Enron’s business—and the fact that Enron didn’t actually own the assets—meant that its profit statements and balance sheets listing the firm’s assets and liabilities were unusually difficult to understand.

It turned out that the lack of accounting transparency enabled the company’s managers to make Enron’s financial performance look much better than it actually was. Outside experts began questioning Enron’s financial statements in 2001. In fairly short order, Enron collapsed, and courts convicted several of its top executives of things like manipulating Enron’s reported assets and profitability. Many investors (including former Enron employees) lost all or most of their investments in Enron. In Enron’s case, this breakdown is perhaps more perplexing than usual. As one writer said,

Enron had all the elements usually found in comprehensive ethics and compliance programs: a code of ethics, a

reporting system, as well as a training video on vision and values led by [the company's top executives].¹⁵⁴

Experts subsequently put forth many explanations for how a company that was apparently so ethical outwardly could actually have been making so many bad ethical decisions without other managers (and the board of directors) noticing. The explanations ranged from a “deliberate concealment of information by officers,” to more psychological explanations (such as employees not wanting to contradict their bosses) and the “surprising role of irrationality in decision-making.”¹⁵⁵

But perhaps the most persuasive explanation of how an apparently ethical company could go so wrong concerns organizational culture. The reasoning here is that it's not the rules but what employees feel they should do that determines ethical behavior. For example (speaking in general, not specifically about Enron), the executive director of the Ethics Officer Association put it this way:

We're a legalistic society, and we've created a lot of laws. We assume that if you just knew what those laws meant that you would behave properly. Well, guess what? You can't write

enough laws to tell us what to do at all times every day of the week in every part of the world. We've got to develop the critical thinking and critical reasoning skills of our people because most of the ethical issues that we deal with are in the ethical gray areas.

Questions

- 14-15. Based on what you read in this chapter, summarize in one page or less how you would explain Enron's ethical meltdown.
- 14-16. It is said that when one securities analyst tried to confront Enron's CEO about the firm's unusual accounting statements, the CEO publicly used vulgar language to describe the analyst, and that Enron employees subsequently thought doing so was humorous. If true, what does that say about Enron's ethical culture?
- 14-17. This case and chapter had something to say about how organizational culture influences ethical behavior. What role do you think culture played at Enron? Give five specific examples of things Enron's CEO could have done to create a healthy ethical culture.

Continuing Case

Carter Cleaning Company

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Guaranteeing Fair Treatment

Being in the laundry and cleaning business, the Carters feel strongly about not allowing employees to smoke, eat, or drink in their stores. Jennifer was therefore surprised to walk into a store and find two employees eating lunch at the front counter. There was a large pizza in its box, and the two of them were sipping colas and eating slices of pizza and submarine sandwiches off paper plates. Not only did it look messy, but there were grease and soda spills on the counter, and the store smelled from onions and pepperoni, even with the exhaust fan pulling air out through the roof. In addition to being a turnoff to customers, the mess on the counter meant that a customer's order might actually become soiled in the store.

Although this was a serious matter, Jennifer didn't feel that what the counter people were doing was grounds for dismissal (partly because the store manager had apparently condoned their actions). It seemed to her that the matter called for more than just a warning but less than dismissal.

Questions

- 14-18. What would you do if you were Jennifer, and why?
- 14-19. Should a disciplinary system be established at Carter Cleaning?
- 14-20. If so, what should it cover? How would you suggest it deal with a situation such as the one with the errant counter people?
- 14-21. How would you deal with the store manager?

Translating Strategy into HR Policies and Practices Case*,§

*The accompanying strategy map for this chapter is in MyLab Management; the overall map in the inside back cover of this text outlines the relationships involved.

Improving Performance at the Hotel Paris

The Hotel Paris's New Ethics, Justice, and Fair Treatment Process

The Hotel Paris's competitive strategy is “To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability.” HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

As the head of HR for the Hotel Paris, Lisa Cruz was especially concerned about her company maintaining the highest ethical standards. Her concerns were twofold. First, there are, in any single hotel each day, at least a dozen people (including housekeepers, front-desk clerks, security guards, and so on) with easy access to guests' rooms, and to their personal belongings. Guests—many younger, and many unwary—are continually walking the halls unprotected. So, in a service company like this, there is simply no margin for ethical errors.

But she was concerned about ethics for a second reason. She knew that employees do not like being treated unfairly, and that unfairness in any form could manifest itself in low morale and in diminished performance. She wondered if her employees' low morale and engagement—as measured by her firm's attitude surveys—stemmed, in part, from what they perceived as unjust treatment. Lisa therefore turned to the task of assessing and redesigning the Hotel Paris's ethics, justice, and fair treatment practices.

When she sat with the CFO to discuss her proposal for the Hotel Paris's fairness, justice, and ethics system, Lisa came armed with some research. In 2003, the *Journal of Applied Psychology* published a study that showed how improving the level of interpersonal and procedural justice in a service company can lead to improved employee attitudes and performance and thus to improved hotel performance.¹⁵⁶ And the study was done in a hotel chain.

In this study, the researchers collected employee survey data from a hotel chain's 111 different hotels in the United States and Canada. The employee services department of this hotel chain obtained completed

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surveys from 8,832 of the hotel's employees. The researchers also obtained data on employee turnover as well as on the employees' commitment, employees' intentions to remain with the organization, and guest satisfaction.

Clearly, having fair and just procedures in place affected these hotels' employee morale and behavior, and thus company performance—they could even measure the links. For example, procedural justice and interpersonal justice were related to increased levels of employees' satisfaction with supervision.

For Lisa and the CFO, these results supported, in a measurably defensible way, the idea that spending the money required to improve procedural and interpersonal justice would likely improve employee attitudes and behaviors (employee commitment, discretionary service behavior, and employee turnover), and, thereby, improve guest satisfaction and company performance.

Lisa and her HR team took steps to institute new ethics, justice, and fair treatment practices at the Hotel Paris. Working with the company's general counsel, they produced and presented to the CEO a new Hotel Paris code of ethics, as well as a more complete set of ethical guidelines. These now appear on the Hotel Paris's careers Web site link, and are part of each new employee's orientation packet. They contracted with a vendor to provide a customized, Web-based ethics training program, and made it clear that the first employees to participate in it were the company's top executives.

Lisa and her team then proceeded methodically through the company's entire HR process, starting with recruitment and selection. The selection process now includes an honesty test. New guidelines ensure

an open and fair performance appraisal process. The team completely revamped the hotel's disciplinary process. They instituted a new appeals process that included appeals to each hotel's manager, and then to Lisa Cruz, and finally to a top management executive appeals committee. They instituted a new discipline without punishment system.

After 6 months of operating under the new system, several changes are evident. Surveys Lisa took before the new program, and now, indicate a significant upward movement in the employees' perceptions of "consistent and equitable treatment of all employees." Grievances are down by 80%, 95% of employees are able to quote the ethics code, employee morale and commitment are up, and, in general, employee service-type behaviors (such as greeting guests in a friendly manner) have increased, too. Lisa and the CFO are pleased with the new system, and are optimistic it will also help to improve customer service satisfaction.

Questions

- 14-22. Based on what you learned in this chapter of Dessler *Human Resource Management*, what do you think of the adequacy and effectiveness of the steps Lisa has taken so far?
- 14-23. List three more specific steps Hotel Paris should take with respect to each individual human resource function (selection, training, and so on) to improve the level of ethics in the company.
- 14-24. Based on what you learned in this chapter, write a short (less than one page) explanation Lisa can use to sell to top management the need to further improve the hotel chain's fairness and justice processes.

MyLab Management

Go to www.pearson.com/mylab/management for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 14-25. What techniques would you use as alternatives to traditional discipline? Why do you think alternatives like these are important, given industry's need today for highly engaged and committed employees?
- 14-26. Using several "Best Companies to Work For" as examples, explain what you would do to improve employee relations in an organization.
- 14-27. MyLab Management only—comprehensive writing assignment for this chapter.

MyLab Management Try It!

How would you apply the concepts and skills you learned in this chapter? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the simulation.

PERSONAL INVENTORY ASSESSMENTS



Leadership plays a role in fostering ethics. Go to www.pearson.com/mylab/management to complete the Personal Inventory Assessment related to this chapter.

Key Terms

employee relations, 455
fair treatment, 455
procedural justice, 456
distributive justice, 456

social responsibility, 457
organizational climate, 458
suggestion teams, 459
problem-solving teams, 459

quality circle, 459
self-managing/self-directed work team, 459
ethics, 461

organizational culture, 464
Electronic Communications Privacy Act (ECPA), 466

Ethics Quiz Answers

Quiz is on page 461.

1. 34% said personal e-mail on company computers is wrong.
2. 37% said using office equipment for schoolwork is wrong.
3. 49% said playing computer games at work is wrong.
4. 54% said Internet shopping at work is wrong.
5. 61% said it's unethical to blame your error on technology.
6. 87% said it's unethical to visit pornographic sites at work.
7. 33% said \$25 is the amount at which a gift from a supplier or client becomes troubling, while 33% said \$50, and 33% said \$100.
8. 35% said a \$50 gift to the boss is unacceptable.
9. 12% said a \$50 gift from the boss is unacceptable.
10. 70% said it's unacceptable to take the \$200 football tickets.
11. 70% said it's unacceptable to take the \$120 theater tickets.
12. 35% said it's unacceptable to take the \$100 food basket.
13. 45% said it's unacceptable to take the \$25 gift certificate.
14. 40% said it's unacceptable to take the \$75 raffle prize.
15. 11% reported they lie about sick days.
16. 4% reported they take credit for the work or ideas of others.

Endnotes

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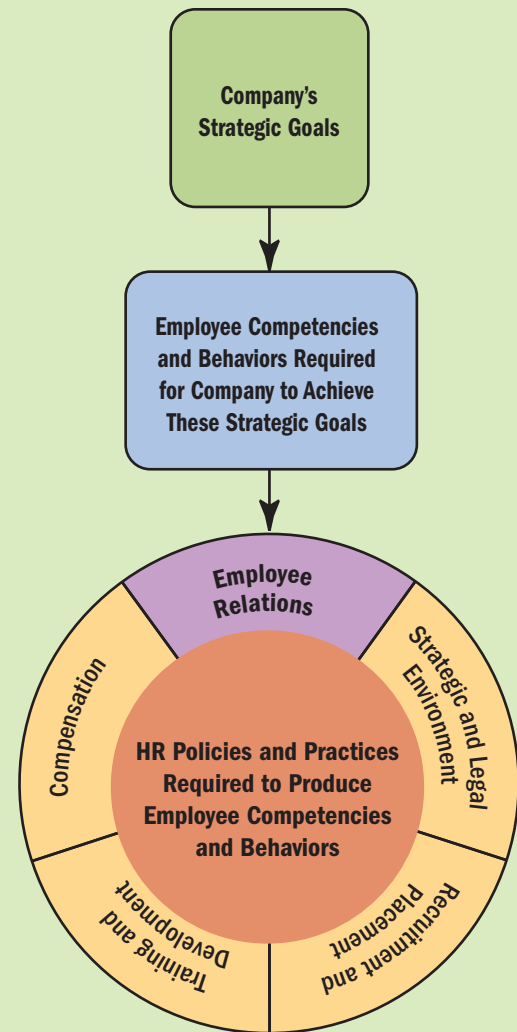
Labor Relations and Collective Bargaining

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 15-1** Present a brief history of the American labor movement.
- 15-2** Give five examples of unfair union practices and of unfair employer practices in labor law.
- 15-3** Present three examples of what a supervisor should or should not do during the union drive and election.
- 15-4** Illustrate with five examples bargaining that is not in good faith.
- 15-5** Develop a grievance procedure.
- 15-6** Give an example of cooperative labor relations.

In early 2018, Walmart raised its starting hourly wages to \$11 and gave \$1,000 bonuses to employees.¹ Walmart's low-cost leader strategy has long meant low wages and personnel costs and difficult labor relations.² Walmart's recent pay and bonus moves suggest that its labor relations strategies may be evolving. We'll see if this is happening, and if so, why.



WHERE ARE WE NOW . . .

Chapter 14 focused on employee relations, ethics, and justice—important issues in determining employees' tendencies to join unions. The main purpose of this chapter is to help you deal effectively with unions and grievances. After briefly discussing the **History of the American Labor Movement**, we describe the **Basic Labor Law**, including unfair labor practices. We explain labor negotiations, including the union actions you can expect during **The Union Campaign and Election**. And we explain what you can expect during the actual **Collective Bargaining** sessions, **How to Handle Grievances**, and finally, **Cooperative Labor Relations**.

LEARNING OBJECTIVE 15-1

Present a brief history of the American labor movement.

The Labor Movement

Unions remain influential. Almost 15 million U.S. workers belong to unions—about 11.1% of the total number of men and women working in America.³ About 36% of public-sector workers belong to unions. In some private-sector industries like utilities (22.3% unionization), and transportation and warehousing (19.6%), it can still be hard to get jobs without joining unions. Unionization also varies widely by state, from a high of 23.8% in New York down to 2.6% in South Carolina.⁴

Furthermore, don't assume that unions affect employers only negatively. For example, perhaps by professionalizing the staff and/or systematizing practices, heart attack mortality among patients in hospitals with unionized nurses was 5% to 9% lower than in nonunion hospitals.⁵ Often, employers' labor relations policies evolve, as the accompanying Strategic Context feature illustrates.

IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Walmart's New HR Strategy

Walmart aims to be retailing's low-cost leader. It minimizes purchasing, site location, distribution, and personnel costs to offer the lowest prices.⁶ It consistently blocked entry to unions.

Recently, Walmart revised its strategies, for several reasons. Amazon was pressuring it on prices. The U.S. labor market tightened, which made hiring more challenging. Negative stories about "below living wage" wages and last-minute employee scheduling undermined Walmart's appeal for many consumers. Costco has long parried Walmart's low labor costs by eliciting higher productivity from higher-paid and engaged employees and by maintaining good union relations. Walmart's year-on-year same-store sales drifted down. Its top management had to do something.

Walmart changed its strategy in two ways. First, it bought jet.com for \$3.3 billion, in a bid to expand its online efforts. Second, it instituted new HR policies. It raised starting employees' hourly wages to \$11 per hour, and awarded up to \$1,000 bonuses to most employees. It instituted a new "Pathways" training program to help employees plan Walmart careers and to help them better understand their jobs. Employees also started getting more choice in scheduling their hours.

Early results are promising. Same-store sales are rising, associates' feedback is good, and employment applications are up 5–10%. Whether Walmart's stance toward unions evolves should become apparent over time.

MyLab Management Talk About It 1

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. Even before it instituted its new HR policies, Walmart effectively blocked union organizing efforts at its store. If pay was so low and scheduling so troublesome, how do you think they were able to keep unions out?

Support for unions has always ebbed and flowed in America, and today pressures are building against unions. For example, many public employees are unionized, and budget problems prompted several states to reduce public employees' numbers, pensions, and pay.

We'll look at unions and dealing with them in this chapter.

Why Do Workers Organize?

Experts have spent much time and money trying to figure out why workers unionize, and they've proposed many theories. Yet there is no simple answer.

Pay is still important. For example, recent median weekly wages for union workers was \$980, versus \$776 for nonunion workers.⁷ Union workers also generally receive more holidays, sick leave, unpaid leave, health plan benefits, and other benefits—about \$14.50 per hour in benefits compared with about \$7.50 per hour for nonunion workers.⁸

But it's not just the money. Instead the urge to unionize often comes down to the belief on the part of workers that it's only through unity that they can get their fair share of the "pie" and also protect themselves from the arbitrary whims of management.



Workers at an early Ford factory. In addition to heavy physical labor, workers faced health hazards—poor lighting, dust, and dangerous machinery.

In the years to come, economic issues would make the headlines when union and management met in negotiations. But in the early years, . . . the principal grievances of the autoworkers were the speed-up of production and the lack of any kind of job security. As production tapered off, the order in which workers were laid off was determined largely by the whim of foremen and other supervisors. . . . Generally, what the workers revolted against was the lack of human dignity and individuality, and a working relationship that was massively impersonal, cold, and nonhuman. They wanted to be treated like human beings—not like faceless clock card numbers.¹²

The bottom line is that low morale, fear of job loss, and poor communication (in other words, poor employee relations) also foster unionization. When Kaiser Permanente cut back on vacation and sick leave for its pharmacists, the Guild for Professional Pharmacists won back the lost vacation days. Said one, “Kaiser is a pretty benevolent employer, but there’s always the pressure to squeeze a little.”⁹ One labor relations lawyer says, “The one major thing unions offer is making you a ‘for cause’ instead of an ‘at will’ employee, which guarantees a hearing and arbitration if you’re fired.”¹⁰ So, in practice, low morale, fear of job loss, and arbitrary management actions help foster unionization.¹¹

In some respects, things haven’t changed much in decades. Here is how one writer describes the motivation behind the early (1900s) unionization of automobile workers:

■ HR AND THE GIG ECONOMY: WILL UBER DRIVERS ORGANIZE?

For many gig workers, being at the employer’s mercy is the biggest downside of gig work. For example, low user ratings can lead to Uber summarily deactivating drivers. Would unionizing help?

Many Uber drivers think so. In New York City pressure from drivers prompted Uber to create a union-like entity known as the Independent Drivers Guild (IDG).¹³ The IDG isn’t really a union under the law. For instance, Uber funds the Guild, Uber drivers are independent contractors and didn’t vote to have the Guild represent them, and the Guild itself agreed not to instigate strikes or to push for forming a union prior to 2021. However, the IDG has established a mechanism through which Uber drivers can appeal deactivations (staffed by other drivers and overseen by the American Arbitration Association) and also provides other types of driver assistance.¹⁴

MyLab Management Talk About It 2

If your professor has chosen to assign this, go to the Assignments section of www.pearson.com/mylab/management to complete these discussion questions. Based on your experience, do you think drivers like those for Uber, Via, and Lyft need union representation? Why?

Employee Engagement and Unionization

Why else do workers unionize? *Modern Survey* conducted a study that measured things such as employees’ interest in being represented by a union, confidence in senior management, and employee engagement. It concluded that 50% of “actively disengaged” employees would vote “yes” to unionize, while only 20% of such employees would vote “no union.” It concludes that “paying attention to employee engagement levels within

your organization helps to foster positive relationships between employees and management and decreases the likelihood of a workforce seeking union representation.”¹⁵

Gallup surveys complement these conclusions. For example, among the over 500 organizations in which Gallup measures employee engagement, 45% of *nonunion* employees were engaged, while fewer—38%—of unionized employees were engaged.¹⁶

Findings like these don’t prove that engaged employees are less likely to support a unionization effort in their companies, or that unionized employees are less engaged. The findings are correlational, so they only “prove” that when employee engagement goes up, unionization goes down. It could be that the same management policies (such as guaranteed fair treatment systems) affect both employee engagement and nonunionization. But on the whole such findings do suggest that the same sorts of policies (such as good benefits, building trust, and guaranteeing fair treatment) that improve employee engagement may also reduce the likelihood of being unionized.



What Do Unions Want?

We can generalize by saying that unions have two sets of aims, for *union security* and for *improved wages, hours, working conditions, and benefits* for their members.

UNION SECURITY First and probably foremost, unions seek security for themselves. They fight hard for the right to represent a firm’s workers, and to be the exclusive bargaining agent for all employees in the unit. (As such, they negotiate contracts for all employees, including those not members of the union.) Five types of union security are possible:

1. **Closed shop.**¹⁷ The company can hire only current union members. Congress outlawed closed shops in interstate commerce, but they still exist in some states for particular industries (such as printing). They account for fewer than 5% of union contracts.
2. **Union shop.** The company can hire nonunion people, but they must join the union after a prescribed period and pay dues. (If not, they can be fired.) These account for about 73% of union contracts.
3. **Agency shop.** Employees who do not belong to the union still must pay the union an amount equal to union dues (on the assumption that the union’s efforts benefit *all* the workers).
4. **Preferential shop.** Union members get preference in hiring, but the employer can still hire nonunion members.
5. **Maintenance of membership arrangement.** Employees do not have to belong to the union. However, union members employed by the firm must maintain membership in the union for the contract period. These account for about 4% of union agreements.

Not all states give unions the right to require union membership as a condition of employment. **Right to work** is a term used to describe “state statutory or constitutional provisions banning the requirement of union membership as a condition of employment.”¹⁸ *Right-to-work laws* don’t outlaw unions. They do outlaw (within those states) any form of union security. Recently, there were 28 right-to-work states.¹⁹ Right to work adversely affects union membership levels.²⁰ After Oklahoma passed right-to-work legislation, its union membership dropped dramatically in the next three years.²¹

IMPROVED WAGES, HOURS, AND BENEFITS Once the union ensures its security at the employer, it fights to improve its members’ wages, hours, working conditions, and benefits. The typical labor agreement also gives the union a role in other human resource activities, including recruiting, selecting, compensating, promoting, training, and discharging employees.

The AFL–CIO and the SEIU

The American Federation of Labor and Congress of Industrial Organizations (AFL–CIO) is a voluntary federation of about 57 national and international labor unions in

closed shop

A form of union security in which the company can hire only union members. This was outlawed in 1947 but still exists in some industries (such as printing).

union shop

A form of union security in which the company can hire nonunion people, but they must join the union after a prescribed period of time and pay dues. (If they do not, they can be fired.)

agency shop

A form of union security in which employees who do not belong to the union must still pay union dues on the assumption that union efforts benefit all workers.

preferential shop

Union members get preference in hiring, but the employer can still hire nonunion members.

right to work

A term used to describe state statutory or constitutional provisions banning the requirement of union membership as a condition of employment.

the United States. For many people in the United States, the AFL–CIO is still synonymous with the word *union*.

There are three layers in the AFL–CIO and most other U.S. unions. The worker joins the local union, to which he or she pays dues. The local is in turn a single chapter in the national union. For example, if you were a teacher in Detroit, you would belong to the local union there, which is one of hundreds of local chapters of the American Federation of Teachers, their national union (most unions actually call themselves international unions). The third layer is the national federation, in this case, the AFL–CIO.

The Service Employees International Union (SEIU) is an organization of more than 2.2 million members. It includes the largest health-care union, with more than 1.1 million members, including nurses, LPNs, and doctors, and the second-largest public employees union, with more than 1 million local and state government workers.²²

Union federation membership is in flux. Some years ago, the SEIU, the International Brotherhood of Teamsters, and UNITE HERE left the AFL–CIO and established their own federation, called the Change to Win Coalition. Together, the departing unions represented over a quarter of the AFL–CIO’s membership and budget. Change to Win plans to be more aggressive about organizing workers than they say the AFL–CIO was.²³ More recently UNITE HERE left Change to Win and rejoined the AFL–CIO.



LEARNING OBJECTIVE 15-2

Give five examples of unfair union practices and of unfair employer practices in labor law.

Unions and the Law

The history of the American labor movement is one of expansion and contraction in response to public policy changes. Until about 1930, there were no special labor laws. Employers were not required to engage in collective bargaining with employees and were virtually unrestrained in their behavior toward unions; the use of spies and firing of union agitators were widespread. “Yellow dog” contracts, whereby management could require nonunion membership as a condition for employment, were widely enforced. Most union weapons—even strikes—were illegal.

This situation lasted until the Great Depression (around 1930).²⁴ Since then, in response to changing public attitudes and economic conditions, labor law has gone through three clear periods: from “strong encouragement” of unions, to “modified encouragement coupled with regulation,” and finally to “detailed regulation of internal union affairs.”²⁵

Period of Strong Encouragement: The Norris–LaGuardia (1932) and National Labor Relations (or Wagner) Acts (1935)

The **Norris–LaGuardia Act of 1932** set the stage for a new era in which union activity was encouraged. It guaranteed to each employee the right to bargain collectively “free from interference, restraint, or coercion.” It declared yellow dog contracts unenforceable. And it limited the courts’ abilities to issue injunctions (stop orders) for activities such as peaceful picketing and payment of strike benefits.

Yet this act did little to restrain employers from fighting labor organizations. So, in 1935, Congress passed the **National Labor Relations (or Wagner) Act** to add teeth to Norris–LaGuardia. It did this by (1) banning certain unfair labor practices, (2) providing for secret-ballot elections and majority rule for determining whether a firm’s employees would unionize, and (3) creating the **National Labor Relations Board (NLRB)** to enforce these two provisions.²⁶

UNFAIR EMPLOYER LABOR PRACTICES The Wagner Act deemed “statutory wrongs” (but not crimes) five unfair labor practices used by employers:

1. It is unfair for employers to “interfere with, restrain, or coerce employees” in exercising their legally sanctioned right of self-organization.
2. It is unfair for company representatives to dominate or interfere with either the formation or the administration of labor unions. Among other specific management actions found to be unfair under these first two practices are bribing employees, using company spy systems, moving a business to avoid unionization, and blacklisting union sympathizers.

Norris–LaGuardia Act of 1932

This law marked the beginning of the era of strong encouragement of unions and guaranteed to each employee the right to bargain collectively “free from interference, restraint, or coercion.”

National Labor Relations (or Wagner) Act

This law banned certain types of unfair practices and provided for secret-ballot elections and majority rule for determining whether a firm’s employees want to unionize.



National Labor Relations Board (NLRB)

The agency created by the Wagner Act to investigate unfair labor practice charges and to provide for secret-ballot elections and majority rule in determining whether a firm’s employees want a union.

3. Employers are prohibited from discriminating in any way against employees for their legal union activities.
4. Employers are forbidden to discharge or discriminate against employees simply because the latter file unfair practice charges against the company.
5. Finally, it is an unfair labor practice for employers to refuse to bargain collectively with their employees' duly chosen representatives.

Unions file an unfair labor practice charge (see Figure 15-1) with the National Labor Relations Board. (For example, the American Guild of Musical Artists said it would file an unfair labor charge against the New York City Opera if it cut staff

FIGURE 15-1 NLRB Form 501: Filing an Unfair Labor Practice

Source: From Unfair Labor Practice (ULP) Case Forms, National Labor Relations Board, www.nlr.gov.

FORM NLRB 501 (2 81)		UNITED STATES OF AMERICA NATIONAL LABOR RELATIONS BOARD CHARGE AGAINST EMPLOYER		FORM EXEMPT UNDER 44 U.S.C. 3512
INSTRUCTIONS: File an original and 4 copies of this charge with NLRB Regional Director for the region in which the alleged unfair labor practice occurred or is occurring.			DO NOT WRITE IN THIS SPACE	
			CASE NO.	DATE FILE
1. EMPLOYER AGAINST WHOM CHARGE IS BROUGHT				
a. NAME OF EMPLOYER			b. NUMBER OF WORKERS EMPLOYED	
c. ADDRESS OF ESTABLISHMENT (street and number, city, state, and ZIP code)		d. EMPLOYER REPRESENTATIVE TO CONTACT	e. PHONE NO.	
f. TYPE OF ESTABLISHMENT (factory, mine, wholesaler, etc.)		g. IDENTIFY PRINCIPAL PRODUCT OR SERVICE		
h. THE ABOVE-NAMED EMPLOYER HAS ENGAGED IN AND IS ENGAGING IN UNFAIR LABOR PRACTICES WITHIN THE MEANING OF SECTION 8(a), SUBSECTIONS (1) AND _____ OF THE NATIONAL LABOR RELATIONS ACT, AND THESE UNFAIR LABOR PRACTICES ARE UNFAIR LABOR PRACTICES AFFECTING COMMERCE WITHIN THE MEANING OF THE ACT. <i>(list subsections)</i>				
2. BASIS OF THE CHARGE (be specific as to facts, names, addresses, plants involved, dates, places, etc.)				
BY THE ABOVE AND OTHER ACTS, THE ABOVE-NAMED EMPLOYER HAS INTERFERED WITH, RESTRAINED, AND COERCED EMPLOYEES IN THE EXERCISE OF THE RIGHTS GUARANTEED IN SECTION 7 OF THE ACT.				
3. FULL NAME OF PARTY FILING CHARGE (if labor organization, give full name, including local name and number)				
4a. ADDRESS (street and number, city, state, and ZIP code)			4b. TELEPHONE NO.	
5. FULL NAME OF NATIONAL OR INTERNATIONAL LABOR ORGANIZATION OF WHICH IT IS AN AFFILIATE OR CONSTITUENT UNIT (to be filled in when charge is filed by a labor organization)				
6. DECLARATION				
I declare that I have read the above charge and that the statements therein are true to the best of my knowledge and belief.				
By _____			(title, if any)	
<small>(signature of representative or person filing charge)</small>				
Address _____				
			<small>(telephone number)</small>	<small>(date)</small>
WILLFULLY FALSE STATEMENTS ON THIS CHARGE CAN BE PUNISHED BY FINE AND IMPRISONMENT <small>(U.S. CODE, TITLE 18, SECTION 1001)</small>				

and moved.) The Board then decides whether to take action. Possible actions include dismissal of the complaint, request for an injunction against the employer, or an order that the employer cease and desist.

FROM 1935 TO 1947 Union membership increased quickly after passage of the Wagner Act. Other factors such as an improving economy and aggressive union leadership contributed to this rise. But by the mid-1940s, largely due to massive postwar strikes, public policy began to shift against what many viewed as union excesses. The stage was set for passage of the Taft–Hartley Act.

Period of Modified Encouragement Coupled with Regulation: The Taft–Hartley Act (1947)

The Taft–Hartley (*or Labor Management Relations*) Act of 1947 reflected the public's less enthusiastic attitude toward unions. It amended the National Labor Relations (Wagner) Act by limiting unions in four ways: (1) prohibiting unfair union labor practices, (2) enumerating the rights of employees as union members, (3) enumerating the rights of employers, and (4) allowing the president of the United States to bar temporarily national emergency strikes.

Taft–Hartley Act of 1947

Also known as the *Labor Management Relations Act*, this law prohibited unfair union labor practices and enumerated the rights of employees as union members. It also enumerated the rights of employers.

Unfair Union Labor Practices

The Taft–Hartley Act enumerated several labor practices that unions were prohibited from engaging in:

1. First, it banned *unions* from *restraining or coercing employees* from exercising their guaranteed bargaining rights. (Some union actions that courts have held illegal include telling an anti-union employee that he or she will lose his or her job once the union gains recognition, and issuing patently false statements during union organizing campaigns.)
2. It is also an unfair labor practice for a union to *cause an employer to discriminate* in any way against an employee so as to encourage or discourage his or her union membership. For example, the union cannot try to force an employer to fire a worker because he or she doesn't attend union meetings or refuses to join a union. There is one exception: Suppose a closed or union shop prevails (and union membership is therefore a prerequisite to employment). Then the union may demand the discharge of someone who fails to pay his or her initiation fees and dues.
3. It is an unfair labor practice for a union to *refuse to bargain in good faith* with the employer about wages, hours, and other employment conditions.
4. It is an unfair labor practice for a union to engage in *featherbedding* (requiring an employer to pay an employee for services not performed).

RIGHTS OF EMPLOYEES The Taft–Hartley Act protected the rights of employees against their unions in other ways. For example, many people felt that compulsory unionism violated the right of freedom of association. Legitimized by Taft–Hartley, new right-to-work laws sprung up in 19 (now 28) states (mainly in the South and Southwest). In New York, for example, in many printing firms you can't work as a press operator unless you belong to a printers' union. In Florida, a right-to-work state, printing shops typically employ both union and nonunion operators. Even today, union membership varies widely by state, from a high of 23.8% in New York to a low of 2.6% in South Carolina.²⁷ The Taft–Hartley act also required the employee's authorization before the union could subtract dues from his or her paycheck.

In general, the Labor Relations (Taft–Hartley) Act does not restrain unions from unfair labor practices to the extent that the law does employers. It says unions may not restrain or coerce employees. However, "violent or otherwise threatening behavior or clearly coercive or intimidating union activities are necessary before the NLRB will find an unfair labor practice."²⁸ Examples include physical assaults or threats, economic reprisals, and mass picketing that restrains lawful entry or leaving.

RIGHTS OF EMPLOYERS The Taft–Hartley Act also explicitly gave *employers* certain rights. First, it gave them full freedom to express their views concerning union organization. For example, as a manager you can tell your employees that in your opinion unions are worthless, dangerous to the economy, and immoral. You can even (generally) hint that unionization and high-wage demands might result in the permanent closing of the plant (but not its relocation). Employers can set forth the union’s record concerning violence and corruption, if appropriate. In fact, the only major restraint is that employers must avoid threats, promises, coercion, and direct interference with workers who are trying to reach a decision. There can be no threat of reprisal or force or promise of benefit.²⁹

Furthermore, the employer (1) cannot meet with employees on company time within 24 hours of an election or (2) suggest to employees that they vote against the union while they are at home or in the employer’s office (although he or she can do so while in their work area or where they normally gather).

NATIONAL EMERGENCY STRIKES The Taft–Hartley Act also allows the U.S. president to intervene in **national emergency strikes**. These are strikes (for example, by railroad workers) that might “imperil the national health and safety.” The president may appoint a board of inquiry and, based on its report, apply for an injunction restraining the strike for 60 days. If the parties don’t reach a settlement during that time, the president can have the injunction extended for another 20 days. During this last period, employees take a secret ballot to ascertain their willingness to accept the employer’s last offer.

PERIOD OF DETAILED REGULATION OF INTERNAL UNION AFFAIRS: THE LANDRUM–GRIFFIN ACT (1959) In the 1950s, Senate investigations revealed unsavory practices on the part of some unions, and the result was the **Landrum–Griffin Act (officially, the *Labor Management Reporting and Disclosure Act*) of 1959**. An overriding aim of this act was to protect union members from possible union wrongdoing. Like Taft–Hartley, it also amended the National Labor Relations (Wagner) Act.

First, the act contains a *bill of rights* for union members. It provides for certain rights in the nomination of candidates for union office. It also affirms a member’s right to sue his or her union and ensures that the union cannot fine or suspend a member without due process.

This act also laid out rules regarding union elections. For example, national and international unions must elect officers at least once every 5 years, using a secret-ballot mechanism. And the act regulates the kind of person who can serve as a union officer. For example, it bars for a time persons convicted of felonies from holding union officer positions.

Senate investigators also discovered flagrant examples of employer wrongdoing. Employers and their “labor relations consultants” had bribed union agents and officers, for example. Landrum–Griffin therefore expanded the list of unlawful employer actions. For example, companies can no longer pay their own employees to entice them not to join the union.

national emergency strikes

Strikes that might “imperil the national health and safety.”

Landrum–Griffin Act of 1959

Also known as the *Labor Management Reporting and Disclosure Act*, this law aimed at protecting union members from possible wrongdoing on the part of their unions.



LEARNING OBJECTIVE 15-3

Present three examples of what a supervisor should or should not do during the union drive and election.

The Union Drive and Election

It is through the union drive and election that a union tries to be recognized to represent employees. To protect themselves and their employers, supervisors need to understand this process. It has five basic steps.³⁰

Step 1. Initial Contact

During the initial contact stage, the union determines the employees’ interest in organizing, and establishes an organizing committee.

The initiative for the first contact between the employees and the union may come from the employees, from a union already representing other employees of the firm, or from another union. In any case, there is an initial contact.

Once an employer becomes a target, a union official usually assigns a representative to assess employee interest. The representative visits the firm to determine if enough employees are interested in a campaign, identifies employees who would make good leaders in the organizing campaign, and creates an organizing committee. The aim is to educate the committee about the benefits of forming a union and the law and procedures for forming a local union.

The union must follow certain rules when it starts contacting employees. The law allows organizers to solicit employees for membership as long as the effort doesn't endanger the performance or safety of the employees. Therefore, much contact takes place off the job, perhaps at home or at places near work. Organizers can also safely contact employees on company grounds during off hours (such as lunch or break time). Yet, in practice, there will be much informal organizing going on at the workplace as employees debate organizing. Sometimes the first inkling management has is the distribution of handbills soliciting union membership.

Much soliciting will be via e-mail, but prohibiting employees from sending pro-union e-mail messages using company e-mail isn't easy. You can't discriminate against union activities. Therefore, prohibiting only union e-mail may violate NLRB rules. And barring workers from using e-mail for all non-work-related topics may be futile if the company actually does little to stop it.

LABOR RELATIONS CONSULTANTS Both management and unions typically use "labor relations consultants." These may be law firms, researchers, psychologists, labor relations specialists, or public relations firms. Some are former union organizers.³¹

For the employer, the consultant's services may range from ensuring that the firm properly fills out routine labor relations forms to managing the union campaign. Unions may use public relations firms to improve their image, or specialists to manage corporate campaigns. (These pressure shareholders and creditors to get management to agree to the union's demands.)

Some say consultants encourage questionable tactics. One tactic is to delay the union vote with lengthy hearings at the NLRB. The longer the delay in the vote, they argue, the more time the employer has to drill anti-union propaganda into the employees.

UNION SALTING Unions are not without creative ways to win elections. The National Labor Relations Board defines **union salting** as "placing of union members on non-union job sites for the purpose of organizing." Critics claim that "salts" interfere with business operations and harass employees.³² The U.S. Supreme Court ruled that union salts are "employees" under the National Labor Relations Act; the NLRB will require that employers pay salts if they fire them for trying to organize.³³ The solution is to know whom you're hiring. However, not hiring someone solely because he or she might be pro-union or a union salt would be discriminatory.³⁴

Unions also use *public pressure*. For example, in the past few years, unions have organized about 5,000 Silicon Valley contract workers (such as Facebook shuttle drivers), most of whom are employed by contractors.³⁵

When the Unite union set out to organize Facebook shuttle workers, they didn't just pressure the employment contractor (Loop Transportation Inc.). Instead, Unite's campaign publicized how Facebook shuttle drivers had to sleep in their cars to make ends meet; news organizations worldwide ran the story. Soon, with Facebook's acquiescence, Loop Transportation signed a contract with the union and boosted drivers' pay.

Step 2. Obtaining Authorization Cards

For the union to petition the NLRB for the right to hold an election, it must show that a sizable number of employees may be interested in organizing. Therefore, the next step for union organizers is to try to get the employees to sign **authorization cards** (see Figure 15-2). Among other things, these usually authorize the union to seek a representation election, and state that the employee has applied to join the union. Thirty percent of the eligible employees in an appropriate bargaining unit must sign before the union can petition the NLRB for an election (although that figure may rise to over

union salting

A union organizing tactic by which workers who are in fact employed full-time by a union as undercover organizers are hired by unwitting employers.

authorization cards

In order to petition for a union election, the union must show that at least 30% of employees may be interested in being unionized. Employees indicate this interest by signing authorization cards.

FIGURE 15-2 Sample Authorization Card

Source: Gary Dessler, *Fundamentals of Human Resource Management*, Pearson Education, 2019.

SAMPLE UNION of AMERICA
Authorization for Representation

I hereby authorize Local 409 of the SAMPLE union to be my exclusive representative for the purposes of collective bargaining with my employer. I understand that my signature on this card may be used to obtain certification of Local 409 as our exclusive bargaining representative without an election.

This card will verify that I have applied for union membership and that effective _____ I hereby authorize you to deduct each pay period from my earnings an amount equal to the regular current rate of monthly union dues and initiation fee.

Employer: _____ **Worksite:** _____

Date: _____ **Name:** _____

Street Address: _____ **City:** _____ **Zip Code:** _____

Home Phone: _____ **Cell Phone:** _____ **Home E-Mail:** _____

Department: _____

Job Title/Classification: _____

Signature: _____

You must print and mail in this authorization card for it to be recognized. Only original cards are valid and should be submitted. Mail to:

SAMPLE UNION of America, Local 409
301 Sample Way
Miami, FL 33101

50% if the employer has agreed to recognize the union if a majority of employees sign the authorization cards).

This is a dangerous time for supervisors. During this stage, both union and management use propaganda. The union claims it can improve working conditions, raise wages, increase benefits, and generally get the workers better deals. Management can attack the union on ethical and moral grounds and cite the cost of union membership. Management can also explain its accomplishments, express facts and opinions, and explain the law applicable to organizing campaigns. However, neither side can threaten, bribe, or coerce employees. And an employer (or supervisor) may not make promises of benefits to employees or make unilateral changes in terms and conditions of employment that were not planned to be implemented prior to the onset of union organizing activity.

STEPS TO TAKE Management can take several steps with respect to the authorization cards. For example, the NLRB ruled an employer might lawfully inform employees of their right to revoke their authorization cards, even when employees have not asked for such information. The employer can also distribute pamphlets that explain just how employees can revoke their cards. However, the law prohibits any material assistance to employees such as postage or stationery.

Similarly, it is an unfair labor practice to tell employees they can't sign a card. What you *can* do is prepare supervisors so they can explain what the card actually authorizes the union to do—including subjecting the employee to union rules. The union, for instance, may force the employee to picket and fine any member who does not comply. Such explanations can be an effective weapon.

One thing managers should *not* do is look through signed authorization cards if confronted with them by union representatives. The NLRB could construe that as an unfair labor practice, as spying on those who signed. Doing so could also later form the basis of a charge alleging discrimination due to union activity, if the firm subsequently disciplines someone who signed a card.

During this stage, unions can picket the company, subject to three constraints: (1) The union must file a petition for an election within 30 days after the start of picketing; (2) the firm cannot already be lawfully recognizing another union; and (3) there cannot have been a valid NLRB election during the past 12 months.

MyLab Management Apply It!

Can you identify what this supervisor did right or wrong with the authorization cards? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise.

Step 3. Hold a Hearing

Once the union collects the authorization cards, one of three things can occur. If the employer chooses *not to contest union recognition* at all, then the parties need no hearing, and a special “consent election” is held. If the employer chooses not to contest the union’s *right to an election*, and/or the scope of the bargaining unit, and/or which employees are eligible to vote in the election, no hearing is needed and the parties can stipulate an election. If an employer *does* wish to contest the union’s right, it can insist on a hearing to determine those issues. An employer’s decision about whether to insist on a hearing is a strategic one. Management bases it on the facts of each case, and on whether it feels it needs more time to try to persuade employees not to elect a union.

Most companies do contest the union’s right to represent their employees, claiming that a significant number don’t really want the union. It is at this point that the NLRB gets involved. The union usually contacts the NLRB, which requests a hearing. It then sends a hearing officer to investigate. The examiner sends both management and union a notice of representation hearing (NLRB Form 852) that states the time and place of the hearing.

The hearing addresses several issues. First, does the record indicate there is enough evidence to hold an election? (For example, did 30% or more of the employees in an appropriate bargaining unit sign the authorization cards?) Second, the examiner decides what the bargaining unit will be. The **bargaining unit** is the group of employees that the union will be authorized to represent and bargain for collectively. If the entire organization is the bargaining unit, the union will represent all nonsupervisory, nonmanagerial, and nonconfidential employees, even though the union may be oriented mostly toward blue-collar workers. (Professional and nonprofessional employees can be included in the same bargaining unit only if the professionals agree.) If your firm disagrees with the examiner’s bargaining unit decision, it can challenge the decision. This will require a separate NLRB ruling.

The NLRB hearing addresses other issues. These include, “Does the employer qualify for coverage by the NLRB?” and “Is the union a labor organization within the meaning of the National Labor Relations Act?”

If the results of the hearing are favorable for the union, the NLRB will order holding an election. It will issue a Notice of Election (NLRB Form 707) to that effect for the employer to post.

Step 4. The Campaign

During the campaign that precedes the election, union and employer appeal to employees for their votes. The union will emphasize that it will prevent unfairness, set up grievance and seniority systems, and improve wages. Union strength, they’ll say, will give employees a greater voice in disciplinary matters and in determining wages and working conditions. Management will stress that improvements like those don’t require unions and that wages are equal to or better than with a union. Management will also emphasize the cost of union dues; the fact that the union is an “outsider”; and that if the union wins, a strike may follow. It can even attack the union on ethical and moral grounds, while insisting that employees will not be as well off and may lose freedom. But neither side can threaten, bribe, or coerce employees.

bargaining unit

The group of employees the union will be authorized to represent.

FIGURE 15-3 Sample NLRB Ballot

UNITED STATES OF AMERICA
National Labor Relations Board

OFFICIAL SECRET BALLOT

FOR CERTAIN EMPLOYEES OF

Do you wish to be represented for purposes of collective bargaining by —

MARK AN "S" IN THE SQUARE OF YOUR CHOICE

YES	NO
<input type="checkbox"/>	<input type="checkbox"/>

DO NOT SIGN THIS BALLOT. Fold and drop in ballot box.
If you spoil this ballot return it to the Board Agent for a new one.

Step 5. The Election

The election occurs within 30 to 60 days after the NLRB issues its Decision and Direction of Election. The election is by secret ballot; the NLRB provides the ballots (see Figure 15-3), voting booth, and ballot box; counts the votes; and certifies the results.

The union becomes the employees' representative if it wins the election, and winning means getting a majority of the votes *cast*, not a majority of the total workers in the bargaining unit. (Also keep in mind that if an employer commits an unfair labor practice, the NLRB may reverse a "no union" election. Supervisors must therefore be careful not to commit unfair practices.)

Several things influence whether the union wins the certification election. Unions have a higher probability of success in geographic areas with a higher percentage of union workers. High unemployment seems to lead to poorer results for the union, perhaps because employees fear that unionization efforts might result in reduced job security or employer retaliation. Unions usually carefully pick the size of their bargaining unit (all clerical employees in the company, only those at one facility, and so on) because the larger the bargaining unit, the smaller the probability of union victory. The more workers vote, the less likely a union victory, probably because more workers who are not strong supporters vote.

How to Lose an NLRB Election

In recent years, unions have won about 69% of elections held each year (and as we'll see, somewhat fewer decertifications).³⁶ According to expert Matthew Goodfellow, there is no sure way employers can win elections, but several sure ways to lose one.³⁷

Reason 1. Asleep at the switch. In one study, in 68% of the companies that lost to the union, executives were caught unaware. In these companies, turnover and absenteeism had increased, productivity was erratic, and safety was poor. Grievance procedures were rare. But ironically when the first reports of authorization cards began trickling in, management usually responded with letters describing the company as "one big family."³⁸

Reason 2. Appointing a committee. Of the losing companies, 36% formed a committee to manage the campaign. The problems here are that: (1) promptness is essential in an election situation, and committees move slowly; (2) most committee members are NLRB neophytes, whose views reflect hope rather than experience; and (3) a committee's decision is usually a compromise decision, not necessarily the most effective one. This expert suggests giving full responsibility to one decisive executive. A human resource director and a consultant or advisor with broad experience in labor relations should assist this person.

Reason 3. Concentrating on money and benefits. In 54% of the elections studied, the company lost because top management concentrated on money and benefits. As Goodfellow says:

Employees may want more money, but quite often, if they feel the company treats them fairly, decently, and honestly, they are satisfied with reasonable, competitive rates and benefits. It is only when they feel ignored, uncared for, and disregarded that money becomes a major issue to express their dissatisfaction.³⁹

Reason 4. Delegating too much to divisions. For companies with plants scattered around the country, unionizing one plant tends to lead to unionizing others. The solution is, don't abdicate all personnel and industrial relations decisions to plant managers.⁴⁰ Dealing effectively with unions—monitoring employees' attitudes, reacting properly when the union appears, and so on—requires centralized guidance from the main office and its human resources staff.

Evidence-Based HR: What to Expect the Union to Do to Win the Election

The other side of the coin is this: What can unions do to boost their chances they'll win the election? A researcher analyzed data from 261 NLRB elections. She found that the best way for unions to win is a "rank-and-file strategy." This includes:⁴¹

1. "Reliance on a slow, underground, person-to-person campaign using house calls, small group meetings, and pre-union associations to develop leadership and union commitment, and prepare workers for employer anti-union strategies before the employer becomes aware of the campaign."
2. The union will focus on building active rank-and-file participation, including an organizing committee reflecting the different interest groups in the bargaining unit.
3. The union will press for a first contract early in the organizing process.
4. The union will use "inside and outside pressure tactics to build worker commitment and compel the employer to run a fair campaign."
5. There will be an emphasis during the organizing campaign on issues such as respect, dignity, and fairness, not just traditional bread-and-butter issues like wages.

The Supervisor's Role

After Target won a unionization election at a New York store, a federal judge overturned it and required a new election. The judge found that Target managers had violated labor law by telling employees they couldn't wear union buttons or distribute flyers, and by threatening to discipline workers who discussed union matters.⁴²

Supervisors are an employer's first line of defense in the unionizing effort. They are often in the best position to sense employee attitude problems, and to discover the first signs of union activity. However, supervisors can also inadvertently undermine their employer's union efforts. Supervisory unfair labor practices could then (1) cause the NLRB to hold a new election after your company has won a previous election, or (2) cause your company to forfeit the second election and go directly to contract negotiation.

For example, one plant superintendent reacted to a union's initial organizing attempt by prohibiting distribution of union literature in the plant's lunchroom. Since solicitation of off-duty workers in nonwork areas is generally legal, the company subsequently allowed the union to post literature on the company's bulletin board and to

distribute literature in nonworking areas inside the plant. However, the NLRB still ruled that the initial act of prohibiting distribution of the literature was an unfair labor practice, one not “made right” by the company’s subsequent efforts. The NLRB used the superintendent’s action as one reason for invalidating an election that the company had won.⁴³ (Today certain “supervisors” may no longer be excluded from the bargaining unit. The employer could trigger an unfair labor practice charge if it tries to use those people to assist in its campaign.)⁴⁴

SOME TIPS Supervisors can use the acronym TIPS to remember what *not* to do during the campaigns.⁴⁵ *Do not* Threaten, Interrogate, make Promises to, or Spy on employees (for instance, do not threaten that you will close or move the business, cut wages, reduce overtime, or lay off employees). FORE outlines what you may do. *You may* give employees Facts (like what signing the authorization card means), express your Opinion about unions, explain factually correct Rules (such as that the law permits permanently replacing striking employees), and share your Experiences about unions. The Know Your Employment Law discussion expands on this.



KNOW YOUR EMPLOYMENT LAW

Rules Regarding Literature and Solicitation

To avoid legal problems, employers need rules governing distribution of literature and solicitation of workers, and should show supervisors how to apply them.⁴⁶ For example:

1. Employers can always bar nonemployees from soliciting employees when the employee is on duty and not on a break.
2. Employers can usually stop employees from soliciting other employees for any purpose if one or both employees are on paid-duty time and not on a break.
3. Most employers (generally not including retail stores, shopping centers, and certain other employers) can bar nonemployees from the building’s interiors and work areas as a right of private property owners.⁴⁷
4. Employers can deny on- or off-duty employees access to interior or exterior areas only if they can show the rule is required for reasons of production, safety, or discipline.

Again, such restrictions are valid only if the employer doesn’t discriminate against the union. Thus, if the employer lets employees collect money for baby gifts, to sell products, or to engage in other solicitation during their working time, it may not be able lawfully to prohibit them from union soliciting during work time. Here is one example of a specific rule aimed at limiting union organizing or activity:

Solicitation of employees on company property during working time interferes with the efficient operation of our business. Nonemployees are not permitted to solicit employees on company property for any purpose. Except in break areas where both employees are on break or off the clock, no employee may solicit another employee during working time for any purpose.⁴⁸ ■

MyLab Management Apply It!

Can you identify what this employer did right or wrong in handling this union organizing campaign? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise.

Decertification Elections: Ousting the Union

Winning an election and signing an agreement don’t necessarily mean that the union is in the company to stay. The same law that grants employees the right to unionize also gives them a way to terminate legally (decertify) their union’s right to represent them. There were 180 such **decertification** elections in one recent year, of which unions won about 39%.⁴⁹ (That’s actually a more favorable win rate for employers than that for the original, representation elections).

decertification

Legal process for employees to terminate a union’s right to represent them.

Decertification campaigns are similar to certification campaigns.⁵⁰ The union organizes membership meetings and house-to-house visits, mails literature into the homes, and uses phone calls, e-mails, NLRB appeals, and (sometimes) threats and harassment to win the election. Employers can't legally start the decertification process, but once started management uses meetings—including one-on-one meetings, small-group meetings, and meetings with entire units—as well as legal or expert assistance, letters, improved working conditions, and subtle or not-so-subtle threats to try to influence the votes.⁵¹

Globalization complicates the employer's union relations challenges, as the accompanying HR Practices Around the Globe feature shows.

■ IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE⁵²

France Comes to the Workers' Aid

Employers planning to expand abroad should ponder the experience of drug maker Sanofi SA in France. Because of the relatively high cost of running its research facility in southwestern France, Sanofi told its researchers there it was closing their facility.⁵³ Employees began staging weekly protests, supported by the French government, which opposes profitable companies slashing jobs. After 9 months, the company was still waiting for a government report on the situation so it could finish negotiating with its unions and try to get some of them other jobs elsewhere. As one Sanofi manager said, "In France, the politics, the labor laws are extremely different than in any other regions. . . . It means that for sites like Toulouse . . . anything you want to do differently gets to be a confrontational issue."⁵⁴

MyLab Management Talk About It 3

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. With government policies like this, how do you think French companies remain competitive with those, say, in the United States?



LEARNING OBJECTIVE 15-4

Illustrate with five examples bargaining that is not in good faith.

collective bargaining

The process through which representatives of management and the union meet to negotiate a labor agreement.

good faith bargaining

Both parties are making every reasonable effort to arrive at agreement; proposals are being matched with counterproposals.

The Collective Bargaining Process

What Is Collective Bargaining?

When and if the union becomes your employees' representative, a day is set for management and labor to meet and negotiate a labor agreement. This agreement will contain specific provisions covering wages, hours, and working conditions.

What exactly is **collective bargaining**? According to the National Labor Relations Act:

For the purpose of [this act,] to bargain collectively is the performance of the mutual obligation of the employer and the representative of the employees to meet at reasonable times and confer in good faith with respect to wages, hours, and terms and conditions of employment, or the negotiation of an agreement, or any question arising thereunder, and the execution of a written contract incorporating any agreement reached if requested by either party, but such obligation does not compel either party to agree to a proposal or require the making of a concession.

In plain language, this means that both management and labor are required by law to negotiate wages, hours, and terms and conditions of employment "in good faith."

What Is Good Faith?

Good faith bargaining is the cornerstone of effective labor-management relations. It means that both parties communicate and negotiate, match proposals with counterproposals, and make a reasonable effort to arrive at an agreement. It does not mean that one party compels another to agree. Nor does it require that either party make any specific concessions (although some may be necessary).⁵⁵

How can you tell if bargaining is *not* in good faith? Here are some examples.⁵⁶

Surface bargaining. Going through the motions of bargaining without any real intention of completing an agreement.

Inadequate concessions. Unwillingness to compromise.

Inadequate proposals and demands. The NLRB considers the advancement of proposals to be a positive factor in determining overall good faith.

Dilatory tactics. The law requires that the parties meet and “confer at reasonable times and intervals.” Obviously, refusal to meet with the union does not satisfy the positive duty imposed on the employer.

Imposing conditions. Attempts to impose conditions that are so onerous or unreasonable as to indicate bad faith.

Making unilateral changes in conditions. This is a strong indication that the employer is not bargaining with the required intent of reaching an agreement.

Bypassing the representative. The duty of management to bargain in good faith involves, at a minimum, recognition that the union representative is the one with whom the employer must deal in conducting negotiations.

Withholding information. An employer must supply the union with information, upon request, to enable it to discuss the collective bargaining issues intelligently.

Of course, requiring good faith bargaining doesn’t mean that negotiations can’t grind to a halt. For example, a few years ago the National Football League accused the Players Association of not bargaining in good faith, using delays to “run out the clock” so that the players could bring suit against the NFL.⁵⁷

The Negotiating Team

Both union and management send negotiating teams to the bargaining table, and both go into the bargaining sessions having “done their homework.”

First, they acquire data on which to build their bargaining positions.⁵⁸ From compensation surveys they compile data on pay and benefits, including comparisons with local pay rates and to rates for similar jobs in the industry. Data on the distribution of the workforce (in terms of age, sex, and seniority, for instance) are important, because it determines benefits. Internal economic data regarding benefits, earnings, and the cost of overtime are important too. Union representatives will have sounded out union members on their desires and conferred with representatives of related unions.

Management will also “cost” the current labor contract and determine the increased cost—total, per employee, and per hour—of the union’s demands. It will use information from grievances and feedback from supervisors to determine what the union’s demands might be, and prepare counteroffers and arguments.⁵⁹ Other popular tactics include attitude surveys to test employee reactions to various sections of the contract that management may feel require change, and informal conferences with local union leaders to discuss the operational effectiveness of the contract and to send up trial balloons on management ideas for change.

Costing the Contract

Collective bargaining experts emphasize the need to cost the union’s demands carefully. One says,

The mistake I see most often is [HR professionals who] enter the negotiations without understanding the financial impact of things they put on the table. For example, the union wants three extra vacation days. That doesn’t sound like a lot, except that in some states, if an employee leaves, you have to pay them for unused vacation time. [So] now your employer has to carry that liability on their books at all times.⁶⁰

Bargaining Items

Labor law sets out categories of specific items that are subject to bargaining: These are mandatory, voluntary, and illegal items.

TABLE 15-1 Illustrative Bargaining Items

Mandatory	Permissible	Illegal
Rates of pay	Indemnity bonds	Closed shop
Hours of employment	Management rights as to union affairs	Separation of employees based on race
Overtime pay	Pension benefits of retired employees	Discriminatory treatment
Holidays	Scope of the bargaining unit	
Vacations	Including supervisors in the contract	
Severance pay	Additional parties to the contract such as the international union	
Pensions	Use of union label	
Insurance benefits	Settlement of unfair labor charges	
Profit-sharing plans	Prices in cafeteria	
Christmas bonuses	Continuance of past contract	
Employee security	Membership of bargaining team	
Job performance	Employment of strikebreaker	
Union security		
Drug testing of employees		

Source: Michael R. Carrell and Christina Heavrin, *Labor Relations and Collective Bargaining: Cases, Practices, and Law*, 6th edition, © 2001. Reprinted by permission of Pearson Education, Inc. Upper Saddle River, NJ.

voluntary (or permissible) bargaining items

Items in collective bargaining over which bargaining is neither illegal nor mandatory—neither party can be compelled against its wishes to negotiate over those items.

Voluntary (or permissible) bargaining items are neither mandatory nor illegal; they become a part of negotiations only through the joint agreement of both management and union. Neither party can compel the other to negotiate over voluntary items. You cannot hold up signing a contract because the other party refuses to bargain on a voluntary item, such as benefits for retirees.

Illegal bargaining items are forbidden by law. A clause agreeing to hire union members exclusively would be illegal in a right-to-work state, for example.

Table 15-1 presents some of the 70 or so **mandatory bargaining items** over which bargaining is mandatory under the law. They include wages, hours, rest periods, layoffs, transfers, benefits, and severance pay. Others, such as drug testing, are added as the law evolves.



illegal bargaining items

Items in collective bargaining that are forbidden by law; for example, a clause agreeing to hire “union members exclusively” would be illegal in a right-to-work state.

mandatory bargaining items

Items in collective bargaining that a party must bargain over if they are introduced by the other party—for example, pay.

Building Negotiating Skills

Hammering out a satisfactory labor agreement requires negotiating skills. Experienced negotiators use *leverage*, *desire*, *time*, *competition*, *information*, *credibility*, and *judgment* to improve their bargaining positions.⁶¹ Things you can *leverage* include *necessity*, *desire*, *competition*, and *time*.⁶² For example, the union knows that an employer who must fill a big order fast (*necessity*) is at a disadvantage.

Similarly, the employer who makes its *desires* too obvious undercuts its position. *Competition* is important too. There is no more convincing ploy than subtly hinting you’ve got an alternative (like shifting services abroad). *Time* (particularly deadlines) can also tilt things for or against you.

“Knowledge is power” when negotiating, so having *information* is advantageous, as is *credibility*. Finally, good negotiators need *judgment*: the ability to “strike the right balance between gaining advantages and reaching compromises, in the substance as well as in the style of [their] negotiating technique.”⁶³

Bargaining Guidelines

Expert Reed Richardson has the following advice for bargainers:

1. Be sure to set clear objectives for every bargaining item, and be sure you understand the reason for each.
2. Do not hurry.
3. When in doubt, caucus with your associates.

4. Be well prepared with firm data supporting your position.
5. Strive to keep some flexibility in your position.
6. Don't concern yourself just with what the other party says and does; find out why.
7. Respect the importance of face saving for the other party.
8. Be alert to the real intentions of the other party—not only for goals, but also for priorities.
9. Be a good listener.
10. Build a reputation for being fair but firm.
11. Learn to control your emotions and use them as a tool.
12. As you make each bargaining move, be sure you know its relationship to all other moves.
13. Measure each move against your objectives.
14. Remember that collective bargaining is a compromise process. There is no such thing as having all the pie.
15. Try to understand the people and their personalities.⁶⁴
16. Remember that excessive bargainer transparency and openness can backfire.⁶⁵



Impasses, Mediation, and Strikes

In collective bargaining, an **impasse** (or stalemate) occurs when the parties are not able to move further toward settlement. This usually occurs because one party is demanding more than the other will offer. For example, after reaching agreement with its unions on many issues after several months of bargaining, the Polk County (Florida) School District declared an impasse. It said that although it had negotiated in good faith with its two unions, it could not reach agreement on several issues, including wages and teacher evaluations.⁶⁶ Sometimes a third party, such as a mediator, can resolve an impasse. If the impasse is not resolved, the union may call a work stoppage, or *strike*.⁶⁷

THIRD-PARTY INVOLVEMENT Negotiators use three types of third-party interventions to overcome an impasse. With **mediation**, a neutral third party tries to assist the principals in reaching agreement. The mediator meets with each party to determine where each stands, and then uses this information to find common ground for bargaining. When Hostess Brands couldn't reach agreement with its unions, its bankruptcy judge had them join him for a mediation session, where he tried (unsuccessfully) to broker a new contract.⁶⁸

In certain situations, as in a national emergency dispute, a **fact finder** is a neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.⁶⁹ Presidential emergency fact-finding boards resolved impasses in certain critical transportation disputes.

Arbitration is the most definitive third-party intervention, because the arbitrator may have the power to determine and dictate the settlement terms. With *binding arbitration*, both parties are committed to accepting the arbitrator's award. With *nonbinding arbitration*, they are not. Arbitration may also be voluntary or compulsory (imposed by a government agency). In the United States, voluntary binding arbitration is the most prevalent.

There are two main topics of arbitration. **Interest arbitration** centers on working out a labor agreement; the parties use it when such agreements do not yet exist or when one or both parties are seeking to change the agreement. **Rights arbitration** really means "contract interpretation arbitration." It usually involves interpreting existing contract terms, for instance, when an employee questions the employer's right to have taken some disciplinary action.⁷⁰ Mediators will often use *alternative dispute resolution* tactics (such as asking if the parties want to take a break, or are willing to set the issue at hand aside temporarily) to head off or deal with an impasse.⁷¹

SOURCES OF THIRD-PARTY ASSISTANCE Various public and professional agencies make arbitrators and mediators available. For example, the American Arbitration Association (AAA) represents and provides the services of thousands of arbitrators and mediators to employers and unions. The U.S. government's Federal Mediation and Conciliation Service provides both arbitrators and mediators (see Figure 15-4).⁷² In addition, most states provide arbitrator and mediation services.

impasse

Collective bargaining situation that occurs when the parties are not able to move further toward settlement, usually because one party is demanding more than the other will offer.

mediation

Intervention in which a neutral third party tries to assist the principals in reaching agreement.

fact finder

A neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.

arbitration

The most definitive type of third-party intervention, in which the arbitrator usually has the power to determine and dictate the settlement terms.

interest arbitration

Arbitration enacted when labor agreements do not yet exist or when one or both parties are seeking to change the agreement.

rights arbitration

Arbitration that interprets existing contract terms, for instance, when an employee questions the employer's right to take some disciplinary action.

FIGURE 15-4 Form to Request Mediation Services

Source: Federal Mediation and Conciliation Service.

**FEDERAL SECTOR LABOR RELATIONS
NOTICE TO FEDERAL MEDIATION AND CONCILIATION SERVICE**

Mail To: Notice Processing Unit
FEDERAL MEDIATION AND CONCILIATION SERVICE
2100 K Street, N.W.
Washington, D.C. 20427

THIS NOTICE IS IN REGARD TO: (MARK "X")

① AN INITIAL CONTRACT (INCLUDED FLRA CERTIFICATION NUMBER) # _____
 A CONTRACT REOPENER REOPENER DATE: _____
 THE EXPIRATION OF AN EXISTING AGREEMENT EXPIRATION DATE: _____

OTHER REQUESTS FOR THE ASSISTANCE OF FMCS IN BARGAINING (MARK "X")

② SPECIFY TYPE OF ISSUE(S) _____

REQUEST FOR GRIEVANCE MEDIATION (SEE ITEM #10) (MARK "X")

③ ISSUE(S) _____

④ NAME OF FEDERAL AGENCY: _____ NAME OF SUBDIVISION OR COMPONENT, IF ANY: _____
 STREET ADDRESS OF AGENCY: _____ CITY: _____ STATE: _____ ZIP: _____
 AGENCY OFFICIAL TO BE CONTACTED: _____ AREA CODE & PHONE NUMBER: _____

⑤ NAME OF NATIONAL UNION OR PARENT BODY: _____ NAME AND/OR LOCAL NUMBER: _____
 STREET ADDRESS: _____ CITY: _____ STATE: _____ ZIP: _____
 UNION OFFICIAL TO BE CONTACTED: _____ AREA CODE & PHONE NUMBER: _____

⑥ LOCATION OF NEGOTIATIONS OR WHERE MEDIATION WILL BE HELD
 STREET ADDRESS: _____ CITY: _____ STATE: _____ ZIP: _____

⑦ APPROX. # OF EMPLOYEES IN BARGAINING UNIT(S) >>> _____ IN ESTABLISHMENT>>> _____

⑧ THIS NOTICE OR REQUEST IS FILED ON BEHALF OF (MARK "X") UNION AGENCY

⑨ NAME AND TITLE OF OFFICIAL(S) SUBMITTING THIS NOTICE OR REQUEST: _____ AREA CODE AND PHONE NUMBER: _____
 STREET ADDRESS: _____ CITY: _____ STATE: _____ ZIP: _____

FOR GRIEVANCE MEDIATION, THE SIGNATURES OF BOTH PARTIES ARE REQUIRED.*

⑩ SIGNATURE (AGENCY) _____ DATE _____ SIGNATURE (UNION) _____ DATE _____

*Except if the unit does not cover FMCS is able to assist. Period of this form will not be acknowledged in writing by FMCS. While use of this form is voluntary, its use will initiate FMCS services to respondents. FMCS requires funds for the collection of information is estimated to average 18 minutes per response, including time for reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of the collection of information, including suggestions for reducing the burden, to FMCS Director of Administrative Services, Washington, D.C. 20427, and to the Office of Management and Budget, Paperwork Reduction Project (2007-0005).

For Instructions, See Back

strike
A withdrawal of labor.

economic strike
A strike that results from a failure to agree on the terms of a contract that involves wages, benefits, and other conditions of employment.

unfair labor practice strike
A strike aimed at protesting illegal conduct by the employer.

wildcat strike
An unauthorized strike occurring during the term of a contract.

sympathy strike
A strike that takes place when one union strikes in support of the strike of another.

STRIKES A strike is a withdrawal of labor. There are four main types of strikes. An **economic strike** results from a failure to agree on the terms of a contract. Unions call **unfair labor practice strikes** to protest illegal conduct by the employer. A **wildcat strike** is an unauthorized strike occurring during the term of a contract. A **sympathy strike** occurs when one union strikes in support of the strike of another union.⁷³ For example, in sympathy with South Korean Hyundai workers, the United Auto Workers organized a rally outside of Hyundai’s technical center in Superior Township, Michigan, and took steps to hold other rallies.⁷⁴

Resisting unions isn’t unique to American employers, of course. For example, in December 2017, the European airline Ryanair suffered its first-ever pilot strike, just after union talks broke down.⁷⁵



Stacy Walsh Rosenstock/Alamy Stock Photo

Picketing is one of the first activities to occur during a strike. The purpose is to inform the public about the labor dispute.

picketing

Having employees carry signs announcing their concerns near the employer's place of business.

The likelihood of and severity of a strike depend partly on the parties' willingness to "take a strike."⁷⁶ The number of major work stoppages (strikes involving 1,000 workers or more) peaked at about 400 per year between 1965 and 1975, and today average around 20.

Picketing, or having employees carry signs announcing their concerns near the employer's place of business, is one of the first activities to appear during a strike. Its purpose is to inform the public about the existence of the labor dispute and often to encourage them to refrain from doing business with the struck employer.

Employers have several options when employees strike. One is to temporarily shut down the affected area and halt operations. A second is to contract out work to blunt the effects of the strike. A third is to continue operations, perhaps using supervisors and other nonstriking workers. A fourth alternative is hiring replacements for the strikers.

Diminished union influence plus competitive pressures now prompt more employers to replace (or consider replacing) strikers with permanent replacement workers. When the United Steel Workers struck refineries, BP quickly began training replacement workers.⁷⁷ And in a labor dispute a few years ago, the NFL implied even they might use replacement players.⁷⁸

Employers generally can replace strikers. In one case known as *Mackay*, the U.S. Supreme Court ruled that although the National Labor Relations Act does prohibit employers from interfering with employees' right to strike, employers still have the right to continue their operations and to replace strikers. Subsequent decisions by the National Labor Relations Board put some limitations on *Mackay*. For example, employers cannot permanently replace strikers who are protesting unfair labor practices; they must rehire strikers who unconditionally apply for reinstatement.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES: STRIKE GUIDELINES

As negotiations between the Hibbing Taconite Steel Plant in Minnesota and the United Steelworkers of America headed toward a deadline, the firm brought in security workers and trailers to house them.

Two experts say that, with a strike imminent, following these guidelines is advisable:

- Pay all striking employees what you owe them on the first day of the strike.
- Secure the facility. Management should control access to the property. Some employers make preparations with special strike security companies to provide security during the strike.⁷⁹
- Notify all customers, and prepare a standard official response to all queries.
- Contact all suppliers and others who will have to cross the picket line. Establish alternative methods of obtaining supplies.
- Arrange for overnight stays in the facility and for delivered meals, if necessary.
- Notify the local unemployment office of your need for replacement workers.
- Photograph the facility before, during, and after picketing. If necessary, install video equipment to monitor picket lines.
- Record all facts concerning strikers' demeanor and activities and such incidents as violence, threats, mass pickets, property damage, or problems.
- Gather the following evidence: number of pickets and their names; time, date, and location of picketing; wording on every sign carried by pickets; and descriptions of picketers' cars and license numbers.⁸⁰ ■

corporate campaign

An organized effort by the union that exerts pressure on the corporation by pressuring the company's other unions, shareholders, directors, customers, creditors, and government agencies, often directly.

OTHER "WEAPONS" Management and labor each have other weapons to break an impasse. The union, for example, may resort to a corporate campaign. A **corporate campaign** is an organized effort by the union to exert pressure on the employer by pressuring the company's other unions, shareholders, corporate directors, customers, creditors, and government agencies.⁸¹ Thus, the union might surprise members of the board of directors by picketing their homes and organizing a **boycott** of the company's banks.⁸²

**TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA****boycott**

The combined refusal by employees and other interested parties to buy or use the employer's products.

Unions Go Digital

When it comes to organizing just about any sort of campaign, communication is king, a fact that hasn't been lost on unions. For example, in one survey, 49% of unions said they used Facebook to communicate with members and employees, 23% used Twitter, and 13% used YouTube.⁸³ About 92% of unions have a Web site, while 78.1% use e-mail newsletters.⁸⁴ The group trying to organize Starbucks workers (the *Starbucks Workers' Union*) started their own Web site (starbucksunion.org).⁸⁵ In another recent campaign, the employer restricted the use of its electronic systems (including e-mail) to "business purposes only." The union filed objections. The NLRB held that nonmanagement employees who normally have access to an employer's e-mail system as part of their jobs may use the system to communicate about union matters when not working, such as during lunch or break times.⁸⁶ ■

inside games

Union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace.

Inside games are union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace or refusing to work overtime.⁸⁷ Inside games are basically strikes—albeit "strikes" in which the company continues to pay the employees. In one inside game at a Caterpillar plant, UAW grievances rose from 22 to 336. This tied up workers and management on company time.⁸⁸

lockout

A refusal by the employer to provide opportunities to work.

For their part, employers can try to break an impasse with lockouts. A **lockout** is a refusal by the employer to provide opportunities to work. It (sometimes literally) locks out employees and prohibits them from doing their jobs (and being paid). Faced with a new contract that might slash their wages by 50%, Canadian Auto Workers Union employees from one Caterpillar plant found themselves locked out after negotiations failed to produce a settlement.⁸⁹

The NLRB views lockouts as an unfair labor practice only when the employer acts for a prohibited purpose. Trying to bring about a settlement on terms favorable to the employer is not a prohibited purpose. Lockouts are not widely used; employers are usually reluctant to cease operations when employees are willing to continue working.

Employers exert other pressure. When Boeing's union resisted accepting new labor concessions at its Washington assembly facility, Boeing began actively considering moving the planned assembly of its new Boeing 777X long-range jet to South Carolina. Boeing's Washington state workers approved a new agreement.⁹⁰

Both employers and unions can seek a court injunction if they believe the other side is causing irreparable harm to the other party. An **injunction** is a court order compelling a party or parties either to resume or to desist from a certain action.⁹¹

injunction

A court order compelling a party or parties either to resume or to desist from a certain action.

The Contract Agreement

The actual contract agreement may be a 20- or 30-page document, or longer. It may contain just general declarations of policy, or detailed rules and procedures. The tendency today is toward the longer contract.

The main sections of a typical contract cover subjects such as these: (1) management rights; (2) union security and automatic payroll dues deduction; (3) grievance procedures; (4) arbitration of grievances; (5) disciplinary procedures; (6) compensation rates; (7) hours of work and overtime; (8) benefits: vacations, holidays, insurance, pensions; (9) health and safety provisions; (10) employee security seniority provisions; and (11) contract expiration date.

MyLab Management Apply It!

What is it like to actually work out problems with the union? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise.



LEARNING OBJECTIVE 15-5

Develop a grievance procedure.

Dealing with Disputes and Grievances

Signing the labor agreement is not the last step in collective bargaining. No labor contract can cover all contingencies and answer all questions. For example, suppose the contract says you can only discharge an employee for “just cause.” You subsequently discharge someone for speaking back to you. Was speaking back to you “just cause?”

The *grievance process* is the process or steps that the employer and union agreed to follow to ascertain whether some action violated the collective bargaining agreement. It is the vehicle for administering the contract day to day. However, this usually involves interpretation only, not negotiating new terms or altering existing ones. The aim is to clarify what those contract points really mean, in the context of addressing grievances regarding things like time off, disciplinary action, and pay. When the Cleveland Browns’ head coach fined one of his players \$1,701 for not paying the hotel’s bill for a \$3 bottle of water, players quickly filed grievances with the NFL.⁹²

Sources of Grievances

In practice, it’s probably easier to list those items that *don’t* precipitate grievances than the ones that do. Employees may use just about anything involving wages, hours, or conditions of employment as the basis of a grievance.

Discipline cases and seniority problems including promotions, transfers, and layoffs would top this list. Others would include grievances growing out of job evaluations and work assignments, overtime, vacations, incentive plans, and holidays.⁹³ Here are three examples of grievances:

- **Absenteeism.** An employer fired an employee for excessive absences. The employee filed a grievance stating that there had been no previous warnings related to excessive absences.
- **Insubordination.** An employee on two occasions refused to obey a supervisor’s order to meet with him, unless a union representative was present at the meeting. As a result, the employee was discharged and subsequently filed a grievance protesting the discharge.
- **Plant rules.** The plant had a posted rule barring employees from eating or drinking during unscheduled breaks. The employees filed a grievance claiming the rule was arbitrary.⁹⁴

Grievances are often symptoms of underlying problems. Sometimes bad relationships between supervisors and subordinates are to blame: This is often the cause of grievances over “fair treatment,” for instance. Organizational factors like ambiguous instructions also cause frustration and grievances. Union activism is another cause; the union may solicit grievances from workers to underscore ineffective supervision. Some people are by their nature dissatisfied and prone to complaints. Discipline and dismissal are two major sources of grievances.

The Grievance Procedure

Most collective bargaining contracts contain a **grievance procedure**. It lists the steps in the procedure, time limits associated with each step, and specific rules such as “all charges of contract violation must be reduced to writing.” Nonunionized employers need such procedures, too.

Grievance procedures differ from firm to firm. Some are simple, two-step procedures. Here, the grievant, union representative, and company representative meet to discuss the grievance. If they don’t find a satisfactory solution, the grievance goes

grievance procedure

Formal process for addressing any factor involving wages, hours, or conditions of employment that is used as a complaint against the employer.

FIGURE 15-5 Sample Online Grievance Form

EMPLOYEE GRIEVANCE FORM

Aggrieved employee _____ Date _____

Department _____ Employee's job title _____

Employee's work email address and/or other contact information _____

Statement of grievance: Briefly state what happened to lead you to grieve, including for instance situation leading to the complaint, who was involved (names and titles), when the occurrence/situation took place (date and time), and where it took place

Why do you consider this a grievance? (please check one) Contract violation Unfair treatment

If you checked contract violation, please list contract articles and sections you believe apply

Aggrieved employee's signature _____ Date _____

HR officer signature _____ Date _____

before a third-party arbitrator, who hears the case, writes it up, and makes a decision. Figure 15-5 shows a grievance form.

At the other extreme, the grievance procedure may contain six or more steps. The first step might be for the grievant and shop steward to meet informally with the supervisor of the grievant to try to find a solution. The next steps involve the grievant and union representatives meeting with higher-level managers. Finally, if top management and the union can't reach agreement, the grievance may go to arbitration.

Guidelines for Handling Grievances

The best way for a supervisor to handle a grievance is to develop a work environment in which grievances don't arise in the first place. Hone your ability to avoid, recognize, diagnose, and correct the causes of potential employee dissatisfaction (such as unfair appraisals or poor communications) before they become grievances.

Given that many factors including union pressures prompt grievances, it would be naïve to think that grievances arise only due to supervisor unfairness. However, there's little doubt that the quality of the interpersonal relations among you and your subordinates will influence your team's grievance rate. The supervisor is on the firing line and must steer a course between treating employees fairly and maintaining management's rights and prerogatives. The HR Tools feature presents some guidelines.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES: HOW TO HANDLE A GRIEVANCE SITUATION

Grievances cost money, in terms of lost work time, productivity, and (possibly) arbitrators' fees. One expert has developed a list of supervisor do's and don'ts as useful guides in handling grievances.⁹⁵ Some critical ones include:

Do:

1. Investigate and handle each case as though it may eventually result in arbitration.
2. Talk with the employee about his or her grievance; give the person a full hearing.
3. Require the union to identify specific contractual provisions allegedly violated.
4. Comply with the contractual time limits for handling the grievance.
5. Visit the work area of the grievance.
6. Determine whether there were any witnesses.
7. Examine the grievant's personnel record.
8. Fully examine prior grievance records.
9. Treat the union representative as your equal.
10. Hold your grievance discussions privately.
11. Fully inform your own supervisor of grievance matters.

Don't:

1. Discuss the case with the union steward alone—the grievant should be there.
2. Make arrangements with individual employees that are inconsistent with the labor agreement.
3. Hold back the remedy if the company is wrong.
4. Admit to the binding effect of a past practice.
5. Relinquish to the union your rights as a manager.
6. Settle grievances based on what is “fair.” Instead, stick to the labor agreement.
7. Bargain over items not covered by the contract.
8. Treat as subject to arbitration claims demanding the discipline or discharge of managers.
9. Give long written grievance answers.
10. Trade a grievance settlement for a grievance withdrawal.
11. Deny grievances because “your hands have been tied by management.”
12. Agree to informal amendments in the contract. ■

MyLab Management Talk About It 4

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion. Write a 30-word guide that summarizes the essence of these do's and don'ts.

LEARNING OBJECTIVE 15-6

Give an example of cooperative labor relations.

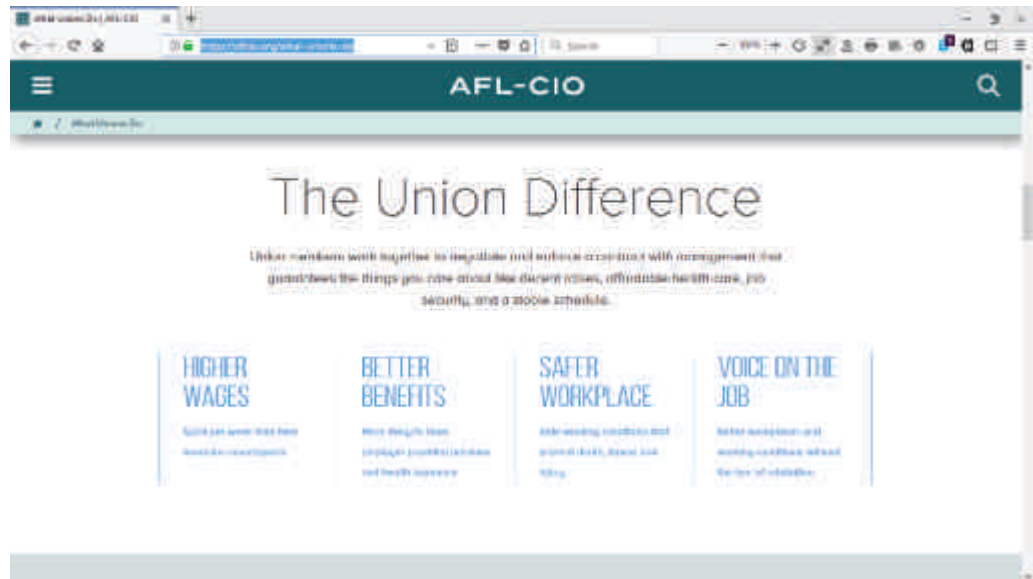
The Union Movement Today and Tomorrow

Union membership has decreased from about 20% of the U.S. workforce in 1983 (when 17.8 million workers belonged to unions) to about 11.1% (just over 14 million workers) recently.⁹⁶

Several factors contributed to the decline. Unions traditionally appealed mostly to blue-collar workers, and the proportion of blue-collar jobs has been decreasing. Globalization increased competition and pressured employers to cut costs and boost productivity, often by shifting production offshore. Other factors pressuring employers and unions included the deregulation of trucking, airlines, and communications, and laws (such as occupational safety) that somewhat reduced the need for unions. Automation displaced still more blue-collar (and other) workers. The poor economy after the 2007–2008 recession triggered public- and private-sector budget cuts and the

The AFL–CIO says unions want higher wages, better benefits, safer workplaces, and to give workers a voice on the job.

Source: <https://aflcio.org/what-unions-do>, accessed January 9, 2018.



loss of about one million public-sector union jobs. And, bankruptcies often end with courts imposing less-favorable contract terms on union employees.⁹⁷ For example, a bankruptcy court judge let Patriot Coal Corp. drastically reduce pay and benefits for thousands of miners, retirees, and dependents.⁹⁸

The net effect has been the permanent layoff of hundreds of thousands of union members, the permanent closing of company plants, the relocation of companies to nonunion settings (either in the United States or abroad), and mergers and acquisitions that eliminated union jobs and affected collective bargaining agreements. That's why union membership as a percentage of people working has dropped by about two-thirds over 50 years, to about 11%.⁹⁹

What Are Unions Doing About It?

Of course, unions aren't sitting idly by. For example, the Change to Win Coalition (representing about 5.5 million workers) will strive, through "innovative campaigns in the private-sector economy . . . to ensure that every working person has a living wage, benefits to support their family and dignity in retirement."¹⁰⁰ The AFL–CIO also continues to press its case, for instance opposing new tax laws that it said would "kill jobs," and opposing a bill that would "slash support for health programs that benefit working families."¹⁰¹

Unions are also increasingly successful organizing new-economy firms. For example, writers at Slate and Salon joined the Writers Guild of America East.¹⁰² Why are these workers unionizing? The companies may be "new," but the reasons are pretty traditional. For example, at Vice Media, fair wages reportedly played a big role. And when the publisher Ziff Davis bought Mashable, it laid off 50 employees; those staying may have read this as a sign that they had to protect themselves.¹⁰³

Unions are also becoming more proactive in coordinating their efforts. For example, to support its efforts to unionize Nissan autoworkers in the United States, the UAW enlisted union members in Brazil to picket Nissan dealerships there.¹⁰⁴ The same is happening in reverse. When Daimler said it was going to phase out producing its "C" cars in Germany and begin producing them in the United States, its German union, IG Metall, began cooperating with the UAW to unionize Daimler's American plants.¹⁰⁵

RECENT TRENDS IN LABOR LAWS As mentioned earlier, support for unions has always ebbed and flowed in America, and the past few years have been no different. For example, in late 2014 the NLRB published its Final Rule on so-called quickie union

elections. By allowing unions to call elections in as little as 13 days after filing a representation petition, labor experts expected this rule to make it more difficult for employers to present their arguments against the union.¹⁰⁶ And after being exempted for many years from having to disclose their participation with each other in a union campaign, employers and their union campaign consultants and attorneys now must report their relationship.¹⁰⁷

Then in 2017 President Trump appointed a Republican labor law attorney for a vacancy on the NLRB; experts assume the board will now move to reverse some of its Obama-era decisions.¹⁰⁸ And in 2018, Republicans in the House of Representatives were pushing for country-wide “right-to-work” legislation.¹⁰⁹

Cooperative Labor–Management Relations

News reports tend to highlight adversarial labor–management relations, but the history of labor–management relations is also sprinkled with cooperation.

For example, more than 50 years ago, General Motors and Toyota created a joint venture they called New United Motor Manufacturing Inc. (NUMMI). NUMMI reopened a former GM plant (in what today produces Tesla automobiles) in Fremont, California. The GM plant had suffered from such poisonous labor relations that GM had to close it. The new partners hoped to merge GM’s marketing expertise with Toyota’s famous team-based management system.¹¹⁰ NUMMI and the UAW agreed that management and labor would work together as a team, give workers a voice in decision making, and build the highest-quality cars at the lowest cost. The plant was soon very successful (although the parties ultimately ended their joint venture).

Since then, many labor–management agreements have included cooperative agreements and clauses, such as a statement of commitment to cooperate, and/or setting up committees to review mutual concerns that arise, and/or guarantees of employment security. But with or without such contractual commitments, there’s little doubt, as one study argues, that unions “that have a cooperative relationship with management can play an important role in overcoming barriers to the effective adoption of practices that have been linked to organizational competitiveness.”¹¹¹ However employers who want to capitalize on that potential must change how they think, by emphasizing a cooperative partnership.¹¹²

Chapter Review

Chapter Section Summaries

- 15-1.** The **labor movement** is important. About 15 million U.S. workers belong to unions—about 11% of the total. Workers unionize not just to get more pay or better working conditions; employer unfairness and the union’s power are also important. Unions aim for union security, and then for improved wages, hours, and working conditions and benefits for their members. Union security options include the closed shop, union shop, agency shop, preferential shop, and maintenance of membership arrangement.
- 15-2.** To understand how to deal with unions, one should understand labor law and **unfair labor practices**. The laws encouraging the union movement included the Norris–LaGuardia and National Labor Relations (Wagner) Acts of the 1930s. These outlawed certain unfair employer

labor practices and made it easier for unions to organize. The Taft–Hartley or Labor Management Relations Act of 1947 addressed keeping unions from restraining or coercing employees, and listed certain unfair union labor practices. In the 1950s, the Landrum–Griffin Act (the Labor Management Reporting and Disclosure Act) further protected union members from possible wrongdoing on the part of their unions.

- 15-3.** When unions begin organizing, any manager may get involved, so one must understand the mechanics of **the union drive and election**. The main steps include initial contact, obtaining authorization cards, holding a hearing, the campaign itself, and the election. Supervisors can follow the acronym TIPS—do not Threaten, Interrogate, make Promises, or Spy. And follow

FORE—provide Facts, express your Opinions, explain factually correct Rules, and share your Experiences.

- 15-4 The employer and union hammer out an agreement via the **collective bargaining process**. The heart of collective bargaining is good faith bargaining, which means both parties must make reasonable efforts to arrive at agreement, and proposals are matched with counterproposals. There are mandatory bargaining items such as pay, illegal bargaining items, and voluntary bargaining items such as benefits for retirees. If things don't go smoothly during bargaining, the parties may utilize third-party intermediaries, including mediators, fact finders, and arbitrators. Strikes represent a withdrawal of labor.

- 15-5. A manager may become involved with **disputes and grievances**. Collective bargaining agreements contain a specific grievance procedure listing the steps in the procedure. The best way to handle a grievance is to create an environment in which grievances don't occur. If one does occur, investigate, handle each case as though it may lead to arbitration, talk with the employee about the grievance, and comply with the contractual grievance-handling time limits.
- 15-6. Union federations, such as Change to Win, continue to be aggressive about organizing workers, and unions are going global, so **cooperative labor relations** is both possible and a sensible aim.

Discussion Questions

- 15-1. Why do employees join unions? What are the advantages and disadvantages of being a union member?
- 15-2. Discuss four sure ways to lose an NLRB election.
- 15-3. Briefly illustrate how labor law has gone through a cycle of repression and encouragement.
- 15-4. Explain in detail each step in a union drive and election.
- 15-5. Define impasse, mediation, and strike, and explain the techniques that are used to overcome an impasse.

Individual and Group Activities

- 15-6. You are the manager of a small manufacturing plant. The union contract covering most of your employees is about to expire. Working individually or in groups, discuss how to prepare for union contract negotiations.
- 15-7. Working individually or in groups, use Internet resources to find situations where company management and the union reached an impasse at some point during their negotiation process, but eventually resolved the impasse. Describe the issues on both sides that led to the impasse. How did they move past the impasse? What were the final outcomes?
- 15-8. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
- 15-9. Several years ago, 8,000 Amtrak workers agreed not to disrupt service by walking out, at least not until a court hearing was held. Amtrak had asked the courts for a temporary restraining order, and the Transport Workers Union of America was actually pleased to postpone its walkout. The workers were apparently not upset at Amtrak, but at Congress for failing to provide enough funding for Amtrak. What, if anything, can an employer do when employees threaten to go on strike, not because of what the employer did, but what a third party—in this case, Congress—has done or not done? What laws would prevent the union from going on strike in this case?



Experiential Exercise

The Organizing Campaign at Sam's Cupcake Shop

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice in dealing with some of the elements of a union-organizing campaign.¹¹³

Required Understanding: You should be familiar with the material covered in this chapter, as well as the following incident, “The Organizing Campaign at Sam’s Cupcake Shop.”

Incident: Sam’s Cupcake Shop sells baked goods (croissants, cupcakes, rolls, cakes, etc.) and serves light meals such as breakfast and salads through its chain of ten small retail stores in the borough of Manhattan, in New York City. Each store is staffed with about 9 employees (plus one manager), some of whom do the cooking and some of whom staff the counter and sell the food items. As with Sam’s other stores, the Sam’s Cupcake Shop on First Avenue is staffed mostly with recent (legal) immigrants to America, all of whom are paid at or just above the minimum wage. Everything at the First Avenue store seemed to be going smoothly, but that apparent tranquility ended abruptly on July 27, 2018. That was the day that Anesha, the First Avenue store’s manager, called Taylor Brooke, Sam’s Cupcake’s human resource manager, to tell her that they had “an employee problem.”

The problem, Anesha said, was that she’d heard from a few employees that the Service Employees International Union was trying to organize Sam’s Cupcake Shop employees. Taylor’s first reaction was one of caution, particularly because food service employees are historically difficult to organize—“they don’t stay in their jobs long enough to unionize them,” to paraphrase one union leader.¹¹⁴ Unfortunately, Anesha said she had

already taken what she called “sensible steps” to blunt the unionization effort. She had, first, explained to her employees that if costs went up because they unionized, then “we’d probably have to close this shop.” She said she also promised better work schedules if they “ignored” the union, and told them they were prohibited from discussing union matters during work time. “And don’t worry” she said to Taylor, “I’ve got a list of the employees who are pushing for the union.”

The more Anesha talked, the more concerned Taylor became, not just with the union but with the possible consequences of Anesha’s efforts. She wondered particularly if Anesha’s actions could cause problems down the road for Sam’s Cupcakes with the NLRB.

She didn’t have long to wait for an answer. The following week pickets from the union and its supporters appeared in front of the First Avenue store carrying signs decrying the company’s “unfair labor practices.” At that point Sam came into Taylor’s office and said, “If they think they can railroad me into giving them big raises they are wrong; I am closing that store down.” Taylor was in a quandary as to how to reply to Sam, and in general, what she should do.

How to Set Up the Exercise/Instructions: Divide the class into groups of several students. Assume that you are labor relations consultants retained by Taylor to identify the problems and issues involved and to advise Taylor and Sam of the company’s rights and obligations, as well as the implications of what’s transpired so far, and finally what to do next. Each group will spend the time allotted discussing the issues. Then, outline those issues, as well as an action plan for Taylor and Sam. What should they do next? Can Sam really close the store down?

If time permits, a spokesperson from each group should list on the board the issues involved and the group’s recommendations.

Application Case

Organizing New Media Employees at Vice Media

Written and copyrighted by Gary Dessler, PhD.

In 2016 Vice Media and the Writers Guild of America (WGA) agreed on a contract covering about 70 people in Vice Media digital businesses.¹¹⁵ In 2017 another 430 Vice Media employees voted to unionize. Many of them work on video content for Vice.com and Vice-branded HBO programs. Some joined the WGA East, and some the Motion Pictures Editors Guild. With “new media” growing fast, what’s happening at Vice Media illustrates the union challenges new media firms face today.

Vice Media began as an edgy magazine in the 1990s. Today, in addition to its print arm, it has morphed into an online news source with channels including Noisey, Garage, and Motherboard, a Viceland cable channel (among others), and mobile platforms. Walt Disney Company made a \$400 million investment in Vice, and Vice Media recently got a \$450 million investment from a private equity firm. Some of this new money will go to developing scripted programming for Vice’s Viceland cable channel and mobile platforms. In any case, it’s obvious that, as at other new-media firms like BuzzFeed and Vox, content creators—writers, editors, and so on—are the lifeblood of the company. That makes labor relations a central issue for companies like these.

For unions, the new-media workforce represents one of the best opportunities in years for union membership to start growing again.

Unions like the WGA are therefore pursuing these employees. In doing so, they're emphasizing the things millennial workers seem to care about the most, not just wage increases, but editorial independence and diversity.

To help unionize firms like these, unions are holding networking events, and headlining them with employees from new-media firms that they've organized. For example, one union let unionized writers from *The Daily Show* explain the advantages of union membership.

Some new-media companies (including Vice Media) were fairly welcoming of the unions, while others were more combative. For example, BuzzFeed's CEO reportedly took a strong stance against the "adversarial" nature of unionization.

Therefore, things don't always go well for new-media employees who do organize. For example, the owner of Gothamist and DNAinfo closed both sites after employees voted to unionize. The owner had warned that it was already running both sites at a loss.

Unions and new-media employers therefore have to understand what new-media employees—many or most of whom are millennials—want from employers. And it turns out that what they want isn't that different from what workers have always wanted. In addition to editorial independence, they want good pay and benefits, fair treatment, and the ability to be heard.

Employers who hoped that the glamour of writing for a fast-growing new-media firm might be enough to keep workers from unionizing were wrong. For one thing (to paraphrase one Vice Media channel editor), after Mashable laid off 50 employees and BuzzFeed fired 100, anxiety began prompting employees to unionize. Many

(or most) of these employees went to good schools and got good jobs, only to find that journalists' average pay is low and turnover is high: Many were on their second or third jobs just a few years after college. It's probably not surprising that one study found that 46% of people 30 and over view unions favorably, while 55% of those 18 to 29 have favorable views.

Furthermore, both the new-media firms and their employees have evolved. For example, many firms, including Vice Media, began as what one writer called the "lawless cowboys" of new media. But as they and their employees aged, the writers and employees wanted more stability.

Questions

- 15-10. The WGA did not have to call a strike at Vice. Why do you think that is? If they struck, what employer tactics would you have suggested to fight back once the strike began?
- 15-11. What do you think accounts for the fact that Vice Media agreed fairly quickly to recognize the union, whereas other new-media firms simply closed down? What does this mean for unions like the WGA?
- 15-12. The organizing campaigns at new-media firms like Vice and BuzzFeed are essentially conflicts between professional and creative people (the WGA) and owners and TV and movie producers. Do you think such conflicts are different in any way than are the conflicts between, say, the United Autoworkers or Teamsters unions against auto and trucking companies? Why?
- 15-13. If you owned a start-up new-media company, how would you react to a union coming in to demand recognition, and why?

Continuing Case

Carter Cleaning Company

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The Grievance

On visiting one of Carter Cleaning Company's stores, Jennifer was surprised to be taken aside by a long-term Carter employee, who met her as she was parking her car. "Murray (the store manager) told me I was suspended for 2 days without pay because I came in late last Thursday," said George. "I'm really upset, but around here the store manager's word seems to be law, and it sometimes seems like the only way anyone can file a grievance is by meeting you or your father like this in the parking lot." Jennifer was very disturbed by this revelation and promised the employee she would look into it and discuss the

situation with her father. In the car heading back to headquarters, she began mulling over what Carter Cleaning Company's alternatives might be.

Questions

- 15-14. Do you think it is important for Carter Cleaning Company to have a formal grievance process? Why or why not?
- 15-15. Based on what you know about the Carter Cleaning Company, outline the steps in what you think would be the ideal grievance process for this company.
- 15-16. In addition to the grievance process, can you think of anything else that Carter Cleaning Company might do to make sure grievances and gripes like this one are expressed and are heard by top management?

Translating Strategy into HR Policies and Practices Case*,§

* The accompanying strategy map for this chapter is in MyLab Management; the overall map on the inside back cover of this text outlines the relationships involved.

Improving Performance at the Hotel Paris

The Hotel Paris's New Labor Relations Practices

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and

boost performance by eliciting the required employee behaviors and competencies.

Lisa Cruz's parents were union members, and she had no strong philosophical objections to unions, per se. However, as the head of HR for the Hotel Paris, she did feel very strongly that her employer should do everything legally possible to remain union-free. She knew that this is what the hotel chain's owners and top executives wanted, and that achieving their strategic goals would be best accomplished by

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staying union-free. Furthermore, the evidence seemed to support their position. At least one study that she'd seen concluded that firms with 30% or more of their eligible workers in unions were in the bottom 10% in terms of performance, while those with 8% to 9% of eligible workers in unions scored in the top 10%.¹¹⁶ The problem was that the Hotel Paris really had no specific policies and procedures in place to help its managers and supervisors deal with union activities. With all the laws regarding what employers and their managers could and could not do to respond to a union's efforts, Lisa knew her company was "a problem waiting to happen." She turned her attention to deciding what steps she and her team should take with regard to labor relations and collective bargaining.

Lisa and the CFO knew that unionization was a growing reality for the Hotel Paris. Some of the hotel chain's U.S. employees were already unionized, and unions in this industry were quite active. For example, as they were surfing the Internet to better gauge the situation, Lisa and the CFO came across the Web site from the Hotel Employees Restaurant Union, Local 26. It describes their success in negotiating a contract at several local hotels including ones managed by the Westin and Hilton chains. The CFO and Lisa agreed that it was important that she and her team develop and institute a new set of policies and practices that would enable the Hotel Paris to deal more effectively with unions.

Together with a labor-management attorney, the team developed a 20-page "What You Need to Know When the Union Calls" manual for Hotel Paris managers and supervisors. This contained three sets of information. First, it provided a succinct outline of *labor relations*

law, particularly as it relates to the company's managers. Second, it laid out a *detailed set of guidelines* regarding what supervisors could and could not do with respect to union-organizing activities. Third, it identified all line supervisors as the company's "*front-line eyes and ears*" with respect to union organizing activity. Here, the manual provided examples of activities that might suggest that a union was trying to organize the hotel's employees, and whom the supervisor should notify.

Lisa and her team also decided to ensure that the company was responsive to its employees' concerns. Lisa and her team believed that many of the steps they'd taken earlier should help. For example, improving salaries and wages, providing financial incentives, and instituting the new ethics, justice, and fairness programs already seemed to be having a measurable effect on employee morale.

Questions

- 15-17. List and briefly describe what you believe are the three most important steps Hotel Paris management can take now to reduce the likelihood unions will organize more of its employees.
- 15-18. Write a detailed two-page outline for a "What You Need to Know When the Union Calls" manual. Lisa will distribute this manual to her company's supervisors and managers, telling them what they need to know about looking out for possible unionizing activity, and how to handle actual organizing process-related supervisory tasks.

MyLab Management

Go to www.pearson.com/mylab/management for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 15-19. Describe important tactics you would expect the union to use during the union drive and election.
- 15-20. Why, would you say, workers join unions, and what would you as a manager do to make it less likely your employees would want to join a union at your workplace?
- 15-21. MyLab Management only—comprehensive writing assignment for this chapter.

PERSONAL INVENTORY ASSESSMENTS



Go to www.pearson.com/mylab/management to complete the Personal Inventory Assessment related to this chapter.

Key Terms

closed shop, 487
 union shop, 487
 agency shop, 487
 preferential shop, 487
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Endnotes

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Breck P. Kent/Shutterstock



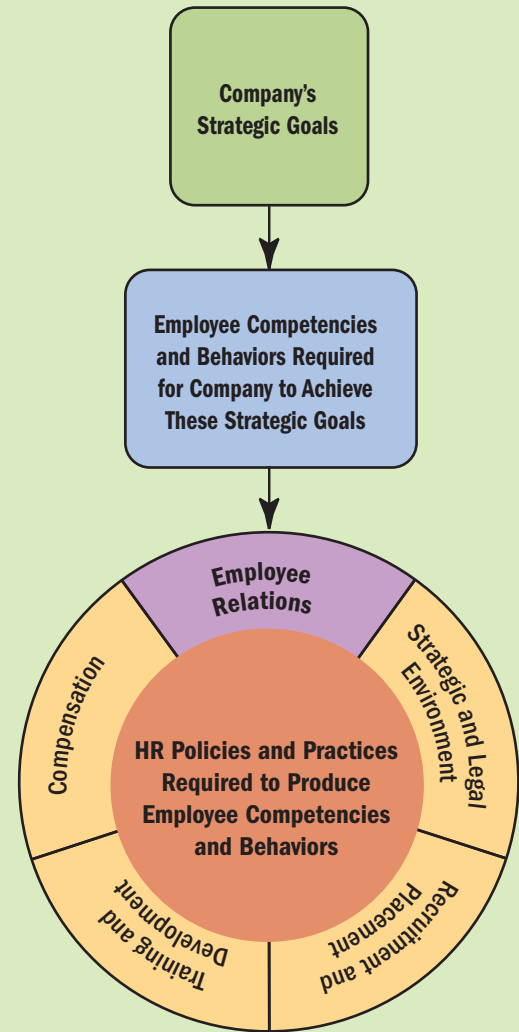
Safety, Health, and Risk Management

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 16-1** Explain the supervisor's role in safety.
- 16-2** Explain the basic facts about safety law and OSHA.
- 16-3** Answer the question, "What causes accidents?"
- 16-4** List and explain five ways to prevent accidents at work.
- 16-5** Describe how one company uses employee engagement to improve workplace safety.
- 16-6** List five workplace health hazards and how to deal with them.
- 16-7** Discuss the prerequisites for a security plan and how to set up a basic security program.

When it comes to safety strategy, the explosion and fire on British Petroleum's (BP's) Deepwater Horizon rig in the Gulf of Mexico back in 2010 still epitomizes what can go wrong. The blast took the lives of 11 workers.² Reports from the scene said a malfunctioning blowout preventer failed to activate, causing the disaster. Past critics of BP's safety practices weren't so sure.



WHERE ARE WE NOW . . .

Over 80% of the workers in one survey ranked workplace safety more important than minimum wages, sick days, and maternity leave.¹ The main purpose of this chapter is to provide you with knowledge managers need to reduce workplace safety and health problems. The main topics we discuss are **Safety and the Manager, Manager's Briefing on Occupational Safety Law, What Causes Accidents, How to Prevent Accidents, Employee Engagement-Based Safety Programs, Workplace Health Hazards—Problems and Remedies, and Occupational Security and Risk Management.**

LEARNING OBJECTIVE 16-1

Explain the supervisor's role in safety.

Introduction: Safety and the Manager

Why Safety Is Important

Several years ago while filming *Star Wars/The Force Awakens*, a hydraulic door on the Millennium Falcon spaceship slammed Harrison Ford. He couldn't work for several weeks, but thankfully wasn't injured seriously.³

Safety and accident prevention concern managers for several reasons, one of which is the staggering number of workplace accidents. For example, in one recent year, at least 5,190 people died at work, up from about 4,800 the year before.⁴ Workplace accidents caused about 2.9 million occupational injuries and illnesses.⁵

Such figures probably underestimate injuries and illnesses by two or three times.⁶ And they ignore the suffering the accidents cause the employee and his or her loved ones.⁷ Safety also affects costs and profits, as the accompanying Profit Center feature illustrates.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Improving Safety Boosts Profits

Many people assume that when employers economize on safety programs the money they save improves profits, but that's not the case. For one thing, poor safety practices raise wage rates, because wage rates are higher on jobs with riskier working conditions, other things equal.⁸ And poor safety and the injuries and illnesses it begets actually drive up costs, including medical expenses, workers' compensation, and lost productivity.⁹

Consider the evidence. One study found a 9.4% drop in injury claims and a 26% average savings on workers' compensation costs over 4 years in companies inspected by California's occupational safety and health agency.¹⁰ A survey of chief financial officers concluded that for every one dollar invested in injury prevention, the employer earns two dollars; 40% said "productivity" was the top benefit of effective workplace safety.¹¹ One forest products company saved over \$1 million over 5 years by investing only about \$50,000 in safety improvements and employee training. In the United States, work-related hearing loss costs employers about \$242 million a year in workers' compensation claims alone, costs that are probably avoidable through earmuffs, earplugs, and training.¹² So one of the easiest ways to cut costs and boost profits is to spend money improving safety. ■

MyLab Management Talk About It 1

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. Assuming this is true, why do so many employers apparently cut corners on safety?

Injuries aren't just a problem in dangerous industries like construction. For example, computers contribute to airtight "sick building" symptoms like headaches. And office work is susceptible to problems like repetitive trauma injuries.

Top Management's Role in Safety

Several years ago an energy company's CEO was convicted over the deaths of 29 workers in a coal mine.¹³ His conviction highlights the fact that the people at the top—the CEO, president, and board members—must set the tone for occupational safety.¹⁴

We will see that reducing accidents often boils down to reducing accident-causing conditions and accident-causing acts. However, telling employees to "work safely" is futile unless everyone knows management takes safety seriously.¹⁵ Historically, for instance, Milliken & Company's accident rate has been lower than that of the chemical industry as a whole. Its safety record largely reflects Milliken's organizational commitment to safety, as reflected in this quote from a Milliken company blog:

We've all heard the saying, "lead by example," and when it comes to creating a successful safety culture, this saying still rings true. In fact, the tone for safety is usually set from the top. Moving safety from "just another program" to an uncompromised value within the organization that everyone respects and follows will ensure its success.¹⁶



The Strategic Context feature further illustrates this.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Deepwater Horizon

To critics of BP's safety practices, the Deepwater Horizon disaster in the Gulf wasn't just due to a malfunctioning blowout preventer.¹⁷ To them, rightly or wrongly, the accident reflected the fact that BP's corporate strategy had long emphasized cost-cutting and profitability at the expense of safety. For example, 5 years earlier, a report by the Chemical Safety Board blamed a huge blast at BP's Texas City, Texas, oil refinery on cost-cutting, and on a safety strategy that aimed to reduce accidents but left in place "unsafe and antiquated equipment." To that board and to some others who studied BP's safety practices, Deepwater was another example of how encouraging safe employee behavior must start at the top, and how top management's strategy can trump even earnest efforts to improve employee safety behaviors.¹⁸ A subsequent movie, *Deepwater Horizon*, depicts a BP executive, visiting the rig and annoyed by drilling delays, pressing the crew to ignore test results that in fact accurately showed the rig about to blow.

MyLab Management Talk About It 2

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete these discussion questions. How would you make the case to BP's management that boosting safety can actually support an "improve profits" strategy? What evidence could you offer?

In sum, employers should institutionalize their commitment with a safety policy, publicize it, and give safety matters high priority. Louisiana-Pacific Corp. starts all meetings with a brief safety message.¹⁹ Georgia-Pacific reduced its workers' compensation costs by requiring that managers halve accidents or forfeit 30% of their bonuses. ABB Inc. requires its top executives to make safety observation tours of the company's facilities, sites, and projects at least quarterly.²⁰

The Supervisor's Role in Accident Prevention

After inspecting a work site in which workers were installing sewer pipes in a 4-foot trench, the Occupational Safety & Health Administration (OSHA) inspector cited the employer for violating the OSHA rule requiring employers to have a "stairway, ladder, ramp or other safe means of egress."²¹ In the event the trench caved in, workers needed a quick way out.²²

As in most such cases, the employer had the primary responsibility for safety, but the local supervisor was responsible for day-to-day inspections. Here, the supervisor did not properly do his daily inspection. The trench did cave in, injuring workers (and, secondarily, costing his company many thousands of dollars).

Whether you're an IT department manager in a *Fortune* 500 company or managing an excavation or dry-cleaning store, daily safety inspections should be part of your routine. As one safety recommendation put it, "a daily walk-through of your workplace—whether you are working in outdoor construction, indoor manufacturing, or any place that poses safety challenges—is an essential part of your work."²³

What to look for depends on the workplace. For example, construction sites and dry-cleaning stores have hazards all their own. But in general, you can use a checklist of unsafe conditions such as the one in Figure 16-6 (pages 529–531) to spot problems. We present another, more extensive checklist in Figure 16-8 (pages 551–554) at the end of this chapter. (Note: Please stop what you are reading and look around where you are now: Can you list four potential safety hazards?)



LEARNING OBJECTIVE 16-2

Explain the basic facts about safety law and OSHA.

Manager's Briefing on Occupational Safety Law

Congress passed the **Occupational Safety and Health Act of 1970**²⁴ "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources."²⁵ The only employers it

Occupational Safety and Health Act of 1970

The law passed by Congress in 1970 “to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources.”

Occupational Safety and Health Administration (OSHA)

The agency created within the Department of Labor to set safety and health standards for almost all workers in the United States.

doesn't cover are self-employed persons, farms in which only immediate members of the employer's family work, and some workplaces already protected by other federal agencies or under other statutes. The act covers federal agencies, but usually not state and local governments.

The act created the **Occupational Safety and Health Administration (OSHA)** within the Department of Labor. OSHA's basic purpose is to administer the act and to set and enforce the safety and health standards that apply to almost all workers in the United States. OSHA has about 2,200 inspectors working from branches around the country.²⁶ Its exact enforcement direction was recently in flux. However, OSHA and many employers continue to emphasize OSHA's cooperative programs, such as its Voluntary Protection Program (VPP). VPP exempts from routine inspections those employers who have OSHA-approved policies and programs *and* below-average injury and illness rates.²⁷

OSHA Standards and Record Keeping

OSHA operates under the “general” standard clause that each employer:

. . . shall furnish to each of his [or her] employees employment and a place of employment which are free from recognized hazards that are causing or are likely to cause death or serious physical harm to his [or her] employees.

To carry out this basic mission, OSHA promulgates detailed legally enforceable standards. (Employers also follow standards from the International Safety Equipment Association and from the American National Standards Institute.)²⁸ Figure 16-1 shows part of the OSHA standard governing scaffold handrails.²⁹

The regulations don't just list standards to which employers should adhere, but “how.” For example, OSHA's respiratory protection standard also covers employee training.

Under OSHA, employers with 11 or more employees must maintain records of and report certain occupational injuries and occupational illnesses. An **occupational illness** is any abnormal condition or disorder caused by exposure to environmental factors associated with employment. This includes acute and chronic illnesses caused by inhalation, absorption, ingestion, or direct contact with toxic substances or harmful agents.

WHAT THE EMPLOYER MUST REPORT Employers must report *all* occupational illnesses. As in Figure 16-2,³⁰ they must also report most occupational injuries, specifically those that result in medical treatment (other than first aid), loss of consciousness, restriction of work (one or more lost workdays), restriction of motion, or transfer to another job.³¹ If an on-the-job accident results in the death of an employee, all employers, regardless of size, must report the accident to the nearest OSHA office. If even one employee is hospitalized for inpatient treatment because of a work-related incident, the employer must notify OSHA within 24 hours.³²

Similarly, OSHA's record-keeping requirements are broad.³³ Examples of recordable conditions include any work-related fatality, any work-related injury or illness that results in loss of consciousness, days away from work, restricted work, or transfer to another job, and any work-related injury or illness requiring medical treatment beyond first aid.

Figure 16-3 shows the OSHA form for reporting occupational injuries or illness.

occupational illness

Any abnormal condition or disorder caused by exposure to environmental factors associated with employment.

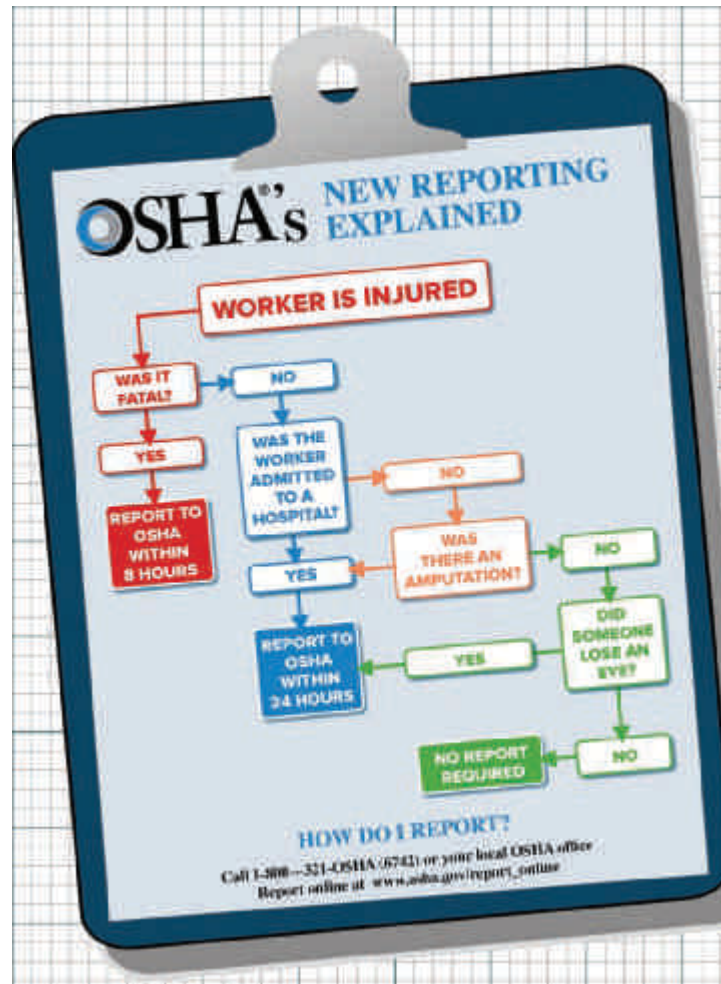
FIGURE 16-1 OSHA Standards Example

Source: From Occupational Safety and Hazard Administration (OSHA). Retrieved from https://www.osha.gov/pls/oshaweb/owadisp.show_document?p_table=STANDARDS&p_id=9720.

Guardrails not less than 2" × 4" or the equivalent and not less than 36" or more than 42" high, with a midrail, when required, of a 1" × 4" lumber or equivalent, and toeboards, shall be installed at all open sides on all scaffolds more than 10 feet above the ground or floor. Toeboards shall be a minimum of 4" in height. Wire mesh shall be installed in accordance with paragraph [a] (17) of this section.

FIGURE 16-2 What Accidents Must Be Reported Under the Occupational Safety and Health Act (OSHA)?

Source: <https://www.osha.gov/recordkeeping2014/blog-OSHA-flow.pdf>.



Inspections and Citations

OSHA enforces its standards through inspections and (if necessary) citations. The inspection is usually unannounced. OSHA may not conduct warrantless inspections without an employer's consent. It may inspect with an authorized search warrant.³⁴ With a limited number of inspectors, OSHA has focused on "fair and effective enforcement," combined with outreach, education and compliance assistance, and OSHA–employer cooperative programs (such as its Voluntary Protection Programs).³⁵

INSPECTION PRIORITIES In inspections, OSHA takes a "worst-first" approach. Priorities include, from highest to lowest, imminent dangers, severe injuries and illnesses, worker complaints, referrals of hazards from other agencies, targeted high-hazard industries inspections, and follow-up inspections.³⁶ In one recent year, OSHA conducted about 32,400 inspections, and there were about 43,500 state inspections.³⁷ OSHA publicly posts employers' safety and health data in an effort to encourage safer practices.³⁸

OSHA conducts an inspection within 24 hours when a complaint indicates an immediate danger, and within 3 working days when a serious hazard exists. For a "nonserious" complaint filed in writing by a worker or a union, OSHA will respond within 20 working days. OSHA handles other nonserious complaints by writing to the employer and requesting corrective action. OSHA told almost 15,000 U.S. employers that because of their higher-than-average injury and illness rates, they may be subject to inspections.³⁹

THE INSPECTION The inspection begins when the OSHA officer arrives at the workplace.⁴⁰ He or she displays credentials and asks to meet an employer representative. (The credentials must include photograph and serial number.) The officer explains

OSHA's FORM 301 Injury and Illness Incident Report



U.S. Department of Labor
Occupational Safety and Health Administration

Form approved OMB no. 1218-0176

Attention: This form contains information relating to employee health and must be used in a manner that protects the confidentiality of employees to the extent possible while the information is being used for occupational safety and health purposes.

This *Injury and Illness Incident Report* is one of the first forms you must fill out when a recordable work-related injury or illness has occurred. Together with the *Log of Work-Related Injuries and Illnesses* and the accompanying *Summary*, these forms help the employer and OSHA develop a picture of the extent and severity of work-related incidents.

Within 7 calendar days after you receive information that a recordable work-related injury or illness has occurred, you must fill out this form or an equivalent. Some state workers' compensation, insurance, or other reports may be acceptable substitutes. To be considered an equivalent form, any substitute must contain all the information asked for on this form. According to Public Law 91-596 and 29 CFR 1904, OSHA's recordkeeping rule, you must keep this form on file for 5 years following the year to which it pertains.

If you need additional copies of this form, you may photocopy and use as many as you need.

Completed by _____

Title _____

Phone (____) _____ Date ____/____/____

Information about the employee

- 1) Full name _____
- 2) Street _____
City _____ State _____ ZIP _____
- 3) Date of birth ____/____/____
- 4) Date hired ____/____/____
- 5) Male
 Female

Information about the physician or other health care professional

- 6) Name of physician or other health care professional _____
- 7) If treatment was given away from the worksite, where was it given?
Facility _____
Street _____
City _____ State _____ ZIP _____
- 8) Was employee treated in an emergency room?
 Yes
 No
- 9) Was employee hospitalized overnight as an inpatient?
 Yes
 No

Information about the case

- 10) Case number from the Log _____ (Transfer the case number from the Log after you record the case.)
- 11) Date of injury or illness ____/____/____
- 12) Time employee began work _____ AM/PM
- 13) Time of event _____ AM/PM
 Check if time cannot be determined

14) What was the employee doing just before the incident occurred?

Describe the activity, as well as the tools, equipment, or material the employee was using. Be specific. Examples: "climbing a ladder while carrying roofing materials"; "spraying chlorine from 'hand sprayer'"; "daily computer key-entry."

15) What happened?

Tell us how the injury occurred. Examples: "When ladder slipped on wet floor, worker fell 20 feet"; "Worker was sprayed with chlorine when gasket broke during replacement"; "Worker developed soreness in wrist over time."

16) What was the injury or illness?

Tell us the part of the body that was affected and how it was affected; be more specific than "hurt," "pain," or "sore." Examples: "strained back"; "chemical burn, hand"; "carpal tunnel syndrome."

17) What object or substance directly harmed the employee?

Examples: "concrete floor"; "chlorine"; "radial arm saw." If this question does not apply to the incident, leave it blank.

18) If the employee died, when did death occur?

Date of death ____/____/____

Public reporting burden for this collection of information is estimated to average 22 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Persons are not required to respond to the collection of information unless it displays a current valid OMB control number. If you have any comments about this burden estimate or any other aspect of this data collection, including suggestions for reducing this burden, contact US Department of Labor, OSHA Office of Statistical Analysis, Room N-3644, 200 Constitution Avenue, NW, Washington, DC 20210. Do not send the completed forms to this office.

FIGURE 16-3 Form Used to Record Occupational Injuries and Illnesses

Source: U.S. Department of Labor.

the visit's purpose, the scope of the inspection, and the standards that apply. An authorized employee representative accompanies the officer during the inspection. The inspector can also stop and question workers (in private, if necessary). The act protects each employee from retaliation for exercising his or her whistleblower rights.⁴¹

OSHA inspectors look for all types of violations, but some areas grab more attention. The five most frequent OSHA inspection violations were for fall protection, hazard communication, scaffolding, respiratory protection, and lockout/tagout.⁴²

Finally, the inspector holds a closing conference with the employer's representative. Here the inspector discusses apparent violations for which OSHA may issue or recommend a **citation** and penalty. At this point, the employer can produce records to show compliance efforts. Figure 16-4 lists a manager's inspection guidelines.

OSHA provides a free On-Site Consultation Program, offering confidential occupational safety and health services to small- and medium-sized businesses. It uses safety experts from state agencies and is completely separate from the OSHA inspection effort; no citations are issued or penalties proposed.⁴³

PENALTIES OSHA can impose penalties. These generally range from \$5,000 up to \$150,000 for willful or repeat serious violations but can be far higher—\$13 million after a tragedy at BP's Texas City plant, for instance.⁴⁴ (The parties settle many OSHA cases before litigation, in "pre-citation settlements.")⁴⁵ OSHA issues the citation and agreed-on penalties simultaneously, after the employer initiates negotiation settlements.⁴⁶ Nonserious violations may carry no penalties.

In general, OSHA calculates penalties based on the gravity of the violation, usually taking into consideration things like the size of the business, the firm's compliance history, and the employer's good faith (although not for willful violations).⁴⁷ OSHA must have a final order from the independent Occupational Safety and Health Review Commission to enforce a penalty.⁴⁸ An employer who files a notice of contest can drag out an appeal for years.⁴⁹ OSHA publicizes its inspection results online. Its Web

citation

Summons informing employers and employees of the regulations and standards that have been violated in the workplace.

FIGURE 16-4 Manager's OSHA Inspection Guidelines

Source: Patricia Polle, "When OSHA Knocks," *Occupational Hazards*, February 2008, pp. 59–61; Robert Grossman, "Handling Inspections: Tips From Insiders," *HR Magazine*, October 1999, pp. 41–50; and "OSHA Inspections," https://www.osha.gov/OshDoc/data_General_Facts/factsheet-inspections.pdf, accessed August 18, 2018

Initial Contact

- Refer the inspector to your OSHA coordinator.
- Check the inspector's credentials.
- Ask why he or she is inspecting. Is it a complaint? Programmed visit? Fatality or accident follow-up? Imminent danger investigation?
- If the inspection is the result of a complaint, the inspector won't identify the complainant, but you are entitled to know whether the person is a current employee.
- Notify your OSHA counsel, who should review all requests from the inspector for documents and information. Your counsel also should review the documents and information you provide to the inspector.

Opening Conference

- Establish the focus and scope of the planned inspection: Does the inspector want to inspect the premises or simply study your records?
- Discuss the procedures for protecting trade-secret areas, conducting employee interviews, and producing documents.
- Show the inspector that you have safety programs in place. He or she may not go to the work floor if paperwork is complete and up-to-date.

Walk-Around Inspection

- Accompany the inspector and take detailed notes.
- If the inspector takes a photo or video, you should too.
- Ask the inspector for duplicates of all physical samples and copies of all test results.
- Be helpful and cooperative, but don't volunteer information.
- To the extent possible, immediately correct any violation the inspector identifies.

site (www.osha.gov) provides easy access to most companies' (or competitors') OSHA enforcement history.⁵⁰

Responsibilities and Rights of Employers and Employees

Both employers and employees have responsibilities and rights under the Occupational Safety and Health Act. *Employers* are responsible for providing “a workplace free from recognized hazards,” for being familiar with mandatory OSHA standards, and for examining workplace conditions to make sure they conform to OSHA standards.⁵¹ Employers have the right to seek advice and off-site consultation from OSHA, request and receive proper identification of the OSHA compliance officer before inspection, and to be advised by the compliance officer of the reason for an inspection.

Employees also have rights and responsibilities, but OSHA can't cite them for violations of their responsibilities. Employees are responsible, for example, for complying with all applicable OSHA standards, for following all employer safety and health rules and regulations, and for reporting hazardous conditions to the supervisor. They have the right to demand safety and health on the job without fear of punishment. Retaliating against employees for reporting injuries or safety problems is illegal (see the OSHA safety poster in Figure 16-5).⁵²

DEALING WITH EMPLOYEE RESISTANCE Although employees are responsible to comply with OSHA standards, they often resist; the employer usually remains liable for any penalties. The refusal of some workers to wear hard hats typifies this problem.

Employers have attempted to defend themselves by citing worker intransigence. In most cases, courts still hold employers liable for workplace safety violations. The independent three-member Occupational Safety and Health Review Commission says employers must make “a diligent effort to discourage, by discipline if necessary, violations of safety rules by employees.”⁵³ Cited for a workplace injury, the employer may claim employee misconduct. The key here is to provide documented evidence that the employee was properly trained to do the job the right way but did not.⁵⁴ But the only sure way to eliminate liability is to make sure that no accidents occur.

Employees have rights and responsibilities under OSHA standards, such as to wear their hard hats, but OSHA can't cite them if they violate their responsibilities.



Polina Petrenko/Shutterstock

FIGURE 16-5 OSHA Safety Poster

Source: From Job Safety and Health: It's the Law! U.S. Department of Labor. www.osha.gov/Publications/osha3165.pdf, accessed September 9, 2018.

OSHA
Occupational Safety and Health Administration
U.S. Department of Labor

Job Safety and Health IT'S THE LAW!

All workers have the right to:

- A safe workplace.
- Raise a safety or health concern with your employer or OSHA, or report a work-related injury or illness, without being retaliated against.
- Receive information and training on job hazards, including all hazardous substances in your workplace.
- Request an OSHA inspection of your workplace if you believe there are unsafe or unhealthy conditions. OSHA will keep your name confidential. You have the right to have a representative contact OSHA on your behalf.
- Participate (or have your representative participate) in an OSHA inspection and speak in private to the inspector.
- File a complaint with OSHA within 30 days (by phone, online or by mail) if you have been retaliated against for using your rights.
- See any OSHA citations issued to your employer.
- Request copies of your medical records, tests that measure hazards in the workplace, and the workplace injury and illness log.

This poster is available free from OSHA.

Employers must:

- Provide employees a workplace free from recognized hazards. It is illegal to retaliate against an employee for using any of their rights under the law, including raising a health and safety concern with you or with OSHA, or reporting a work-related injury or illness.
- Comply with all applicable OSHA standards.
- Report to OSHA all work-related fatalities within 8 hours, and all inpatient hospitalizations, amputations and losses of an eye within 24 hours.
- Provide required training to all workers in a language and vocabulary they can understand.
- Prominently display this poster in the workplace.
- Post OSHA citations at or near the place of the alleged violations.

FREE ASSISTANCE to identify and correct hazards is available to small and medium-sized employers, without citation or penalty, through OSHA-supported consultation programs in every state.

Contact OSHA. We can help.

1-800-321-OSHA (6742) • TTY 1-877-889-5627 • www.osha.gov



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Sitedocs Digital Workplace Safety

Safety compliance usually has been managed centrally, by human resource managers or by a specialized safety unit. However, new digital mobile device–based safety systems now give managers and even employees more influence over safety. For example, the SiteDocs digital safety management system lets the employer digitize, move, store, work with, and access safety documents via mobile devices (iPad) and the Web.⁵⁵ Employees can login via the mobile device and view and complete their safety documentation (such as OSHA reports). These become available immediately to management. This enables management to monitor in real time whether employees are completing their documentation and to identify almost at once workplace hazards and incidents. ■



LEARNING OBJECTIVE 16-3

Answer the question, “What causes accidents?”

unsafe conditions

The mechanical and physical conditions that cause accidents.

What Causes Accidents?

There are three basic causes of workplace accidents: chance occurrences, unsafe conditions, and employees’ unsafe acts. Chance occurrences (such as walking past a tree just when a branch falls) are more or less beyond management’s control. We will therefore focus on unsafe conditions and unsafe acts.

What Causes Unsafe Conditions?

Unsafe conditions are a main cause of accidents. They include⁵⁶

- Improperly guarded equipment
- Defective equipment
- Hazardous procedures around machines or equipment

- Unsafe storage—congestion, overloading
- Improper illumination—glare, insufficient light
- Spills on floors
- Tripping hazards, such as blocked aisles
- Working from heights, including ladders and scaffolds
- Electrical hazards like frayed cords

The solution here is to identify and eliminate the unsafe conditions. The main purpose of OSHA standards is to address such mechanical and physical accident-causing conditions. The employer's safety department (if any) and its human resource managers and top managers should have responsibility for identifying unsafe conditions.

While accidents can happen anywhere, there's little mystery about where the worst ones occur:⁵⁷ around metal and woodworking machines and saws, transmission machinery (like gears), cutting machines, and conveyors. For example, when a conveyor with liquid chocolate suddenly started, it pulled in and mangled the arm of a worker who was cleaning it.⁵⁸

About one-third of industrial accidents occur around forklift trucks, wheelbarrows, and other handling and lifting areas. Construction accounts for a disproportionate share of accidents, with falls the major problem.⁵⁹

SAFETY SCHEDULES AND CLIMATE Work schedules and fatigue also affect accident rates. Accident rates usually don't increase too noticeably during the first 5 or 6 hours of the workday. But after that, the accident rate increases faster. This is due partly to fatigue and partly to the fact that accidents occur more often during night shifts. With reduced headcount and more people with second jobs, employee fatigue is a growing problem.⁶⁰ Many employers therefore take steps to reduce employee fatigue, such as banning mandatory overtime.

The workplace "climate" or psychology is very important. In one classic study in the 1990s, a researcher reviewed the fatal accidents offshore oil workers suffered in the British North Sea.⁶¹ A strong pressure to complete the work as quickly as possible, employees who are under stress, and a poor safety climate—for instance, supervisors who never mentioned safety—were some of the psychological conditions leading to accidents. Similarly, accidents occur more frequently in plants with high seasonal layoff rates, hostility among employees, many garnished wages, and blighted living conditions.

What Causes Unsafe Acts?

Unsafe employee acts (such as running) will undo your efforts to banish unsafe conditions, but there are no easy answers to what causes people to act unsafely.

There is no one explanation for why people behave unsafely. Sometimes the working conditions prompt unsafe acts, as with stressed-out oil rig workers. Sometimes employees don't get the required training, nor learn safe procedures.⁶²

One might assume that some people are just accident prone, but the research isn't clear.⁶³ On closer inspection some "accident repeaters" were just unlucky, or may have been more meticulous about reporting their accidents.⁶⁴ However, there is evidence that people who are impulsive, sensation seeking, extremely extroverted, less agreeable, and less conscientious (in terms of being less fastidious and dependable) do have more accidents.⁶⁵ (*Psychology Today* offers an accident-proneness test for about \$7.00.)⁶⁶

Furthermore, someone accident prone on one job may not be so on another. For example, personality traits that correlate with filing vehicular insurance claims include *entitlement* ("think there's no reason they should not speed"), *impatience* ("were 'always in a hurry'"), *aggressiveness* ("the first to move when the light turns green"), and *distractibility* ("frequently distracted by cell phones, eating, and so on").⁶⁷



HR in Action at the Hotel Paris Lisa and the CFO reviewed their company's safety records, and what they found disturbed them deeply. In terms of every safety-related metric they could find, including accident costs per year, lost time due to accidents, workers' compensation per employee, and number of safety training programs per year, the Hotel Paris compared unfavorably with most other hotel chains and service firms. To see how they handled this, see the case on page 555 of this chapter.



LEARNING OBJECTIVE 16-4

List and explain five ways to prevent accidents at work.

How to Prevent Accidents

In practice, accident prevention boils down to reducing unsafe conditions and reducing unsafe acts. Larger firms generally have a chief safety officer (or “environmental health and safety officer”). But in smaller firms, managers, including those from human resources, plant managers, and first-line managers, share these responsibilities.

Small business safety can be particularly problematical: for example, owners might naively overlook crucial safety activities, such as chemical hazards training. There are no easy solutions. However, the firm’s HR manager should make sure top management (1) understands the potential problem, and (2) actively seeks solutions, such as having OSHA conduct a safety audit and make recommendations.⁶⁸

Reducing Unsafe Conditions

Reducing unsafe conditions (like those OSHA addresses) is the employer’s first line of defense. Safety engineers should design jobs to remove or reduce physical hazards. Supervisors play an important role. Checklists as in Figure 16-6 and Figure 16-8 (pages 529–531 and 551–554, respectively) can help identify and remove potential hazards.

Sometimes the solution for an unsafe condition is obvious, and sometimes it’s not. For example, obvious remedies for slippery floors include keeping them dry, floor mats, and better lighting. Perhaps less obviously, personal safety gear like slip-resistant footwear can also reduce falls. Cut-resistant gloves reduce the hazards of working with sharp objects.⁶⁹ (Hand injuries account for about 1 million emergency department visits annually by U.S. workers.)⁷⁰ Employees can use stop button devices to cut power to machines.⁷¹ *Lockout/tagout* is a formal procedure to disable equipment such as power saws, to avoid unexpected activation. It involves disarming the device and affixing a “disabled” tag to the equipment.⁷² For wearable digital devices such as motion monitors, the employer should determine the device’s usability and ascertain that it won’t cause unanticipated safety problems.⁷³

Reducing unsafe conditions is important in offices too.⁷⁴ For example, get written confirmation that the space meets all building codes; make sure the builder, contractors, and/or landlord follow OSHA standards (for instance, unblocked exits); make sure the lease lets you compel the landlord to fix safety problems; and make sure air ducts are cleaned.



TRENDS SHAPING HR: ROBOTS

With more employees working alongside robots, safety standards are evolving. For example, industrial robots have speed and separation monitoring and safety stops so humans can “hand” them parts without the robot arm hitting them.⁷⁵ Many of the new so-called cobots have digital screen faces with human characteristics. For example, one cobot “glances” in the direction when it’s about to pick something up, to forewarn its human “colleagues.”⁷⁶ ■

JOB HAZARD ANALYSIS A Yale University science student, working late in a lab, was critically injured when her hair was caught in a spinning lathe. **Job hazard analysis** involves a systematic approach to identifying and eliminating such hazards before they cause accidents.⁷⁷

Consider a safety analyst looking at the Yale science lab, with the aim of identifying potential hazards. Performing a job hazard analysis here might involve looking at the situation and asking four questions:

- **What can go wrong?** A student’s hair or clothing could become caught in the lathe, a rotating object that “catches” it and pulls it into the machine.
- **What are the consequences?** The student could receive a severe injury as his or her body part or hair is caught and drawn into the spinning lathe.

job hazard analysis

A systematic approach to identifying and eliminating workplace hazards before they occur.

FIGURE 16-6 Supervisor's Safety Checklist

Source: Office of the Chief Information Officer, United States Department of Commerce, http://ocio.os.doc.gov/s/groups/public/@doc/@os/@ocio/@oitpp/documents/content/dev01_002574.pdf, assessed October 15, 2013.

FORM CD-574
(9/02)

**U.S. Department of Commerce
Office Safety Inspection Checklist for
Supervisors and Program Managers**

Name:	Division:
Location:	Date:
Signature:	

This checklist is intended as a guide to assist supervisors and program managers in conducting safety and health inspections of their work areas. It includes questions relating to general office safety, ergonomics, fire prevention, and electrical safety. Questions which receive a "NO" answer require corrective action. If you have questions or need assistance with resolving any problems, please contact your safety office. More information on office safety is available through the Department of Commerce Safety Office website at <http://ohm.doc.gov/safetyprogram/safety.htm>.

Work Environment

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are all work areas clean, sanitary, and orderly?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is there adequate lighting?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Do noise levels appear high?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is ventilation adequate?

Walking / Working Surfaces

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are aisles and passages free of stored material that may present trip hazards?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are tile floors in places like kitchens and bathrooms free of water and slippery substances?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are carpet and throw rugs free of tears or trip hazards?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are hand rails provided on all fixed stairways?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are treads provided with anti-slip surfaces?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are step ladders provided for reaching overhead storage areas and are materials stored safely?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are file drawers kept closed when not in use?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are passenger and freight elevators inspected annually and are the inspection certificates available for review on-site?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are pits and floor openings covered or otherwise guarded?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are standard guardrails provided wherever aisle or walkway surfaces are elevated more than 48 inches above any adjacent floor or the ground?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is any furniture unsafe or defective?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are objects covering heating and air conditioning vents?

Ergonomics

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are employees advised of proper lifting techniques?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are workstations configured to prevent common ergonomic problems? (Chair height allows employees' feet to rest flat on the ground with thighs parallel to the floor, top of computer screen is at or slightly below eye level, keyboard is at elbow height. Additional information on proper configuration of workstations is available through the Commerce Safety website at http://ohm.doc.gov/safetyprogram/safety.htm)
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are mechanical aids and equipment, such as: lifting devices, carts, dollies provided where needed?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are employees surveyed annually on their ergonomic concerns?

(Continued)

FIGURE 16-6 *Continued*

FORM CD-574
(9/02)

Emergency Information (Postings)

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are established emergency phone numbers posted where they can be readily found in case of an emergency?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are employees trained on emergency procedures?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are fire evacuation procedures/diagrams posted?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is emergency information posted in every area where you store hazardous waste?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is established facility emergency information posted near a telephone?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are the OSHA poster, and other required posters displayed conspicuously?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are adequate first aid supplies available and properly maintained?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are an adequate number of first aid trained personnel available to respond to injuries and illnesses until medical assistance arrives?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is a copy of the facility fire prevention and emergency action plan available on site?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are safety hazard warning signs/caution signs provided to warn employees of pertinent hazards?

Fire Prevention

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are flammable liquids, such as gasoline, kept in approved safety cans and stored in flammable cabinets?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are portable fire extinguishers distributed properly (less than 75 feet travel distance for combustibles and 50 feet for flammables)?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are employees trained on the use of portable fire extinguishers?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are portable fire extinguishers visually inspected monthly and serviced annually?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is the area around portable fire extinguishers free of obstructions and properly labeled?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is heat-producing equipment used in a well ventilated area?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are fire alarm pull stations clearly marked and unobstructed?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is proper clearance maintained below sprinkler heads (i.e., 18" clear)?

Emergency Exits

Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are doors, passageways or stairways that are neither exits nor access to exits and which could be mistaken for exits, appropriately marked "NOT AN EXIT," "TO BASEMENT," "STOREROOM," etc.?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are a sufficient number of exits provided?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are exits kept free of obstructions or locking devices which could impede immediate escape?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are exits properly marked and illuminated?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are the directions to exits, when not immediately apparent, marked with visible signs?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Can emergency exit doors be opened from the direction of exit travel without the use of a key or any special knowledge or effort when the building is occupied?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are exits arranged such that it is not possible to travel toward a fire hazard when exiting the facility?

FIGURE 16-6 Continued

FORM CD-574 (9/02)			
Electrical Systems			
(Please have your facility maintenance person or electrician accompany you during this part of the inspection)			
Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are all cord and cable connections intact and secure?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electrical outlets free of overloads?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is fixed wiring used instead of flexible/extension cords?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is the area around electrical panels and breakers free of obstructions?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are high-voltage electrical service rooms kept locked?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electrical cords routed such that they are free of sharp objects and clearly visible?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are all electrical cords grounded?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electrical cords in good condition (free of splices, frays, etc.)?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electrical appliances approved (Underwriters Laboratory, Inc. (UL), etc.)?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are electric fans provided with guards of not over one-half inch, preventing finger exposures?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are space heaters UL-listed and equipped with shutoffs that activate if the heater tips over?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are space heaters located away from combustibles and properly vented?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	In your electrical rooms are all electrical raceways and enclosures securely fastened in place?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are clamps or other securing means provided on flexible cords or cables at plugs, receptacles, tools, equipment, etc., and is the cord jacket securely held in place?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Is sufficient access and working space provided and maintained about all electrical equipment to permit ready and safe operations and maintenance? (This space is 3 feet for less than 600 volts, 4 feet for more than 600 volts.)
FORM CD-574 (9/02)			
Material Storage			
Yes	No	N/A	
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are storage racks and shelves capable of supporting the intended load and materials stored safely?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are storage racks secured from falling?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	Are office equipment stored in a stable manner, not capable of falling?

- **How could it happen?** The accident could happen as a result of the student leaning too close to the lathe while working at the bench, or walking too close to the lathe, or bending to reach for an article that fell close to the lathe.
- **What are other contributing factors?** Speed is one contributing factor. The problem would occur so quickly that the student would be unable to take evasive action once the lathe ensnared the hair.

The job hazard analysis should provide the basis for creating countermeasures. For example, given the speed with which such a lathe accident would occur, it's unlikely that training by itself would suffice. Instead, the lathe area should be ensconced in its own protective casing, and changes made to ensure that the lathe can't spin unless the student takes action via a foot pedal.

Surprisingly, while workplace injuries are declining, *serious* injuries and fatalities are not. For example, the injury and illness rate dropped by about 40% from 2003 to 2015, but the fatality rate dropped only 15%.⁷⁸

Employers therefore should particularly focus on serious injuries and fatalities. This starts with identifying high hazard events. For example, accidentally cutting one's finger with a knife is not as potentially catastrophic as cutting it by catching it in an automated slicing machine. So first identify such potential high hazard events. Then conduct job hazard analyses, and implement preventive steps.⁷⁹

operational safety reviews

Reviews conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules.

OPERATIONAL SAFETY REVIEWS After Japan’s Fukushima nuclear power plant exploded back in 2011, many wondered if the International Atomic Energy Agency (IAEA) had conducted the necessary operational safety reviews. **Operational safety reviews** (or safety operations reviews) are conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules. For example, under IAEA’s Operational Safety Review Program, “international teams of experts conduct in-depth reviews of operational safety performance at a nuclear power plant.”⁸⁰

PERSONAL PROTECTIVE EQUIPMENT While it can reduce the perils of some unsafe conditions, getting employees to wear personal protective equipment (PPE) like hard hats is famously difficult.⁸¹ Wearability is important. OSHA says it “should fit comfortably, encouraging worker use.”⁸² In addition to providing protection, PPE should fit properly; be easy to care for; be flexible and lightweight; and be maintained in a clean and reliable fashion, for instance. Companies such as Kimberly-Clark are using new fibers and fabrics to design easier-wearing high-tech solutions.⁸³ And it’s not just wearability. For example, some workers resist hearing protection because they’re afraid it may interfere with hearing their colleagues.⁸⁴ It’s therefore important to solicit workers’ opinions.

Of course, the manager should require wearing the protective equipment before the accident, not just after it. For example, a combustible dust explosion at a sugar refinery killed 14 employees and burned many others. The employer subsequently required that all employees wear fire-resistant clothing, unfortunately too late for the victims.⁸⁵

Similarly, cold weather means employers should protect their outdoor workers.⁸⁶ This should include, among other things, monitoring temperature and wind chill conditions, making sure workers are supplied with cold-weather apparel, monitoring workers for signs of frostbite, and providing adequate indoor breaks.⁸⁷

But again, reducing unsafe conditions is the first line of defense. OSHA says, “[e]mployers must institute all feasible engineering and work practice controls to eliminate and reduce hazards before using PPE to protect against hazards.”⁸⁸



TRENDS SHAPING HR: LOCATION BEACONS

Beacons—tiny devices that continuously transmit radio signals identifying themselves—are becoming valuable occupational safety tools. Employers use beacons to keep track of employees, particularly if they’re in distress. Others use them to warn employees, such as when they’re too close to a danger zone.⁸⁹ ■


Diversity Counts: Protecting Vulnerable Workers

In designing safe environments, employers need to pay special attention to vulnerable workers, such as young, immigrant, aging, and women workers.⁹⁰ For example, although 14- and 15-year-olds can generally only legally work at jobs like cashier and office work, 16- and 17-year-olds may take jobs like cooking and construction. In one recent year, about 550 16- and 17-year-olds were injured at work.⁹¹ Similarly, as one safety engineering company CEO said, “For decades, women essentially were ignored when it came to designing eye and face protection.” Today, more products are available in smaller sizes.⁹²

With more workers postponing retirement, older workers often fill manufacturing jobs.⁹³ They can do these jobs effectively. However, there are numerous physical changes associated with aging, including loss of strength, loss of muscular flexibility, and reduced reaction time.⁹⁴ The fatality rate for older workers is about three times that of younger workers.⁹⁵ Employers should make special provisions. For example, boost lighting levels and reduce heavy lifting.⁹⁶

One also needs plans for dealing with health issues.⁹⁷ Thus, in the case of a cardiac arrest emergency, early CPR and external defibrillators are essential. These should be available and one or more employees trained to use them.⁹⁸ ■

Reducing Unsafe Acts

While reducing unsafe conditions is the first line of defense, human misbehavior will short-circuit even the best safety efforts.⁹⁹

Sometimes the misbehavior is intentional, but often it's not. For example, distractions contribute to about half of all car accidents. The National Safety Council estimates that cell phone use was involved in 24% of all motor vehicle crashes.¹⁰⁰ (Drivers of commercial interstate motor vehicles are banned from using handheld mobile telephones while driving.)¹⁰¹ At work, not noticing moving or stationary objects or that a floor is wet often causes accidents.¹⁰² And, ironically, "making a job safer with machine guards or PPE lowers people's risk perceptions and thus can lead to [more] at-risk behavior."¹⁰³

Unfortunately, telling employees to "pay attention" isn't enough. First try to eliminate potential risks, such as unguarded equipment. Next, reduce potential distractions such as noise, heat, and stress. Then, carefully screen and train employees, as we explain next.

Reducing Unsafe Acts through Screening

In reducing unsafe acts through screening, the employer's aim is to identify the traits that predict accidents on the job and then test candidates for these traits. For example, the Employee Reliability Index (ERI) measures dimensions such as emotional maturity, conscientiousness, and safe job performance.¹⁰⁴ Employers also use *work sample* tests and tests of *physical abilities* to determine if the person can do the job. Some employers conduct *physical demands assessments* (PDAs). These itemize a job's physical demands, such as "lifting 40 pounds an hour," and "working in 90 degree heat." The employer then uses this to develop more precise screening and training for the job.¹⁰⁵

Behavioral interview questions can also be revealing. For example, ask, "What would you do if your supervisor told you to do something you knew was unsafe?"

Reducing Unsafe Acts through Training

Studies by the Hartford Insurance Company found that injury rates for workers in their first month on the job were four to six times higher than for other workers.¹⁰⁶

Safety training reduces unsafe acts, especially for new employees.¹⁰⁷ Here the employer should instruct employees in safe practices and procedures, warn them of potential hazards, and work to develop a safety-conscious employee attitude. OSHA's standards don't just require training. Employees must demonstrate that they actually learned what to do. (For example, OSHA's respiratory standard requires that each employee demonstrate how to inspect, put on, and remove respirator seals.¹⁰⁸ OSHA has two booklets, *Training Requirements under OSHA* and *Teaching Safety and Health in the Workplace*.) Because temporary workers account for a disproportionate share of workplace accidents, the employer should take particular care to train them.¹⁰⁹

The main aim of safety training is not to meet OSHA training standards, but to impart knowledge and skills to reduce accidents. One study found that the most effective safety training elicited employee engagement.¹¹⁰ The "least engaging" programs included lectures, films, reading materials, and video-based training. "Moderately engaging" programs included computer interface instruction with feedback. "Engaging" ones included behavioral modeling, simulation, and hands-on training.

Employers also use training vendors' online safety programs.¹¹¹ Online safety course and video vendors include, for example, <https://safetyskills.com/>, PureSafety (www.ulworkplace.com), and <https://vividlearningsystems.com/courses>. When the University of California system wanted safety training for its 50,000 employees on 10 different campuses, it developed an online program with Vivid Learning Systems. The 2-hour custom online lab safety course covers OSHA regulations, with exercises for participants.¹¹² OSHA, the National Institute for Occupational Safety and Health (NIOSH), and other private vendors also offer online safety training solutions.¹¹³

Emergency stop devices, such as buttons, override other machine controls to remove power from hazardous machine motion.

Ekkaluck Sangkla/Alamy Stock Photo



Reducing Unsafe Acts through Posters, Incentives, and Positive Reinforcement

Employers also use various tools to motivate worker safety.¹¹⁴ Safety posters are one, but are no substitute for comprehensive safety programs. Employers should combine posters with other techniques (like screening and training) to reduce unsafe conditions and acts, and change the posters often. Posters should be easily visible, legible, and well-lit.¹¹⁵

Incentive programs are also useful. In one survey several years ago, about 75% of U.S. manufacturers surveyed said they had safety incentive programs.¹¹⁶ Most such programs pay incentives for safety-related worker behaviors such as participating in a safety meeting, reporting a near miss, or reporting unsafe conditions.¹¹⁷ Vendors also offer turnkey safety incentive programs. For example, safety incentive programs from \$afety Pay\$ (www.safetypays.com/) include programs for incentivizing employees' safety awareness.

OSHA has argued that such programs don't reduce injuries or illnesses, but only injury and illness *reporting*. OSHA rules prohibit employers from using incentive programs that in any way penalize workers for reporting accidents or injuries.¹¹⁸ OSHA might question any safety incentive payment that is so high that the award might dissuade reasonable workers from reporting safety problems.¹¹⁹

One option (see accompanying Profit Center discussion) is to emphasize behavioral incentives like recognition.¹²⁰ In any case, the incentive program should be part of a comprehensive safety program.¹²¹



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Using Positive Reinforcement

Many employers successfully use *positive reinforcement programs* to improve safety. Such programs provide workers with continuing positive feedback, usually in the form of graphical performance reports and supervisory support, to shape the workers' safety-related behavior.

Researchers introduced one program in a wholesale bakery.¹²² The new safety program included training and positive reinforcement. The researchers set and communicated a reasonable safety goal (in terms of observed incidents performed safely).

Next, employees participated in a 30-minute training session by viewing pairs of slides depicting scenes that the researchers staged in the plant. One slide, for example, showed the supervisor climbing over a conveyor; the parallel slide showed the supervisor walking around the conveyor. After viewing an unsafe act, employees had to describe, “What’s unsafe here?” Then the researchers demonstrated the same incident again but performed in a safe manner, and explicitly stated the safe-conduct rule (“go around, not over or under, conveyors”).

At the conclusion of the training phase, supervisors showed employees a graph with their pretraining safety record (in terms of observed incidents performed safely) plotted. Supervisors then encouraged workers to consider increasing their performance to the new safety goal for their own protection, to decrease costs, and to help the plant get out of its last-place safety ranking. Then the researchers posted the graph and a list of safety rules.

Whenever observers walked through the plant collecting safety data, they posted on the graph the percentage of incidents they had seen performed safely by the group as a whole, thus providing the workers with positive feedback. Workers could compare their current safety performance with both their previous performance and their assigned goal. In addition, supervisors praised workers when they performed selected incidents safely. Safety in the plant subsequently improved markedly. ■

MyLab Management Talk About It 3

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion. List six more unsafe incidents you believe might occur in a bakery, and a “safe manner” for doing each.

Reducing Unsafe Acts by Fostering a Culture of Safety

Employers and supervisors should create a culture of safety by showing they take safety seriously. One study measured safety culture in terms of questions like “my supervisor says a good word whenever he sees the job done according to the safety rules” and “my supervisor approaches workers during work to discuss safety issues.”¹²³

According to one safety expert, a workplace with a safety-oriented culture exhibits:

1. *Teamwork*, in the form of management and employees both involved in safety;
2. Highly visible and interactive *communication and collaboration* on safety matters;

Particularly in situations like this where employees are relatively unsupervised, employers should create a safety-conscious culture by showing that they take safety seriously.

caia image/Alamy Stock Photo



3. A *shared vision* of safety excellence (specifically, an overriding attitude that all accidents and injuries are preventable);
4. *Assignment* of critical safety functions to specific individuals or teams;
5. A *continuous effort* toward identifying and correcting workplace safety problems and hazards;¹²⁴ and,
6. *Encouragement* of incident reporting.¹²⁵

Reducing Unsafe Acts by Creating a Supportive Environment

Supportive supervisors' teams seem to have better safety records. "Organizations can develop a supportive environment by training supervisors to be better leaders, emphasizing the importance of teamwork and social support, and establishing the value of safety."¹²⁶

Reducing Unsafe Acts by Establishing a Safety Policy

The company's written safety policy should emphasize that accident prevention is of the utmost importance, and that the firm will do everything practical to eliminate or reduce accidents and injuries.

Reducing Unsafe Acts by Setting Specific Loss Control Goals

Set specific safety goals to achieve. For example, set safety goals in terms of frequency of lost-time injuries per number of full-time employees.

Reducing Unsafe Acts through Behavior-Based Safety and Safety Awareness Programs

behavior-based safety

Identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors.

Behavior-based safety means identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors. Tenneco Corporation implemented one such program. The firm selected internal consultants from among its quality managers, training managers, engineers, and production workers. After training, the internal consultants identified five critical behaviors for Tenneco's first safety program, such as *Eyes on task: Does the employee watch his or her hands while performing a task?* The consultants made observations and collected data on the behaviors. Then they instituted training programs to get employees to perform these five behaviors properly.¹²⁷

safety awareness program

Program that enables trained supervisors to orient new workers arriving at a job site regarding common safety hazards and simple prevention methods.

Employers also use *safety awareness* programs. In a **safety awareness program** new workers receive critical information regarding the job's common safety hazards and simple prevention methods, often when first arriving at a job site. For example, the Roadway Safety Awareness Program from the American Road & Transportation Builders Association addresses trucker safety issues such as stopping distances required at various speeds.

Reducing Unsafe Acts through Employee Participation

Employee participation plays a central role in safety programs. As OSHA says, "To be effective, any safety and health program needs the meaningful participation of workers and their representatives. . . . Worker participation means that workers are involved in establishing, operating, evaluating, and improving the safety and health program."¹²⁸ Ideally, the employer should encourage all workers to participate, to feel comfortable reporting safety or health concerns, and to have access to the information they need to participate in the program.¹²⁹ The employee engagement section in this chapter illustrates this.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Conducting Safety and Health Audits and Inspections

Safety managers know that good intentions aren't enough: the employer must audit safety compliance. First, line managers should periodically inspect their areas using safety audit/checklists (as in Figure 16-6, pages 529–531), including investigating all accidents and "near misses."

A company/facility-wide safety audit is also in order. OSHA provides a safety self-audit tool.¹³⁰ It contains items to check off, such as “Management implements and communicates a written policy supporting the safety and health program,” and “Management defines specific goals and expectations for the program.”¹³¹

Employers expedite and enable safety audits with mobile digital tools. For example, managers and employees use iAuditor—Safety Audit and Checklist App,¹³² available via iTunes, to facilitate safety audits. iAuditor contains safety checklists and tools that let employers take action depending on the checklist response.¹³³ AssessNET is cloud-based safety software that lets employers remotely manage risk assessments, accident records, and safety audits.¹³⁴ Employees use AssessNET from their desktops and mobile devices. It provides them with quick access to safety records, lets them quickly report hazards, and alerts management of safety incidents.¹³⁵ With safety audits, safety-related metrics would include, for instance, injury and illness rates, workers’ compensation cost per employee, at-risk behavior reduction, and safety training exercises.¹³⁶ Ideally, *trend the audit data* (for instance, to see if accident rates are rising or falling or steady), and *track the corrective actions* through to completion.¹³⁷ ■

Table 16-1 summarizes suggestions for reducing unsafe conditions and acts.

LEARNING OBJECTIVE 16-5

Describe how one company uses employee engagement to improve workplace safety.

Employee Engagement Guide for Managers

Milliken & Company—World-Class Safety through Employee Engagement

Milliken & Company designs, manufactures, and markets chemicals, floor coverings, protective fabrics, and textiles. It has about 7,000 employees in more than 39 facilities around the world. The privately owned Milliken has received widespread recognition for the quality of its innovative products, for its high employee engagement, and for its world-class employee engagement-based safety program. It’s also the only company to consistently rank as a “most ethical company” for 15 years running.¹³⁸ A survey of Milliken’s employees found an 80% positive engagement level, based on questions concerning employees’ commitment, pride in company, and empowerment efforts.¹³⁹ Its extraordinarily low workplace illness and injury rates make it one of the safest companies in which to work.¹⁴⁰

Involvement-Based Employee Engagement

The centerpiece of Milliken’s safety process is its *involvement-based employee engagement* program. For example, employees staff the safety steering and safety subcommittee

TABLE 16-1 Reducing Unsafe Conditions and Acts: A Summary

Reduce Unsafe Conditions

- Identify and eliminate unsafe conditions.
- Use administrative means, such as job rotation.
- Use personal protective equipment.

Reduce Unsafe Acts

- Emphasize top management commitment.
- Emphasize safety.
- Establish a safety policy.
- Reduce unsafe acts through selection.
- Provide safety training.
- Use posters and other propaganda.
- Use positive reinforcement.
- Set specific safety goals to achieve.
- Use behavior-based safety programs.
- Encourage worker participation.
- Conduct safety and health audits and inspections regularly.

system, submit “opportunity for improvement” suggestions weekly, review each of these suggestions, and provide feedback on every suggestion.¹⁴¹ The safety process depends on *cascading goals* deriving from federal, state, and Milliken-based safety guidelines. These goals are translated through weekly meetings into specific metrics (for instance, “accidents per employee hour worked”) to be achieved by each plant’s subcommittees. Each subcommittee then performs weekly *audits*, to ensure compliance and that the plant’s safety activities are continuously improved. Plant employees get checklists to familiarize themselves with the safety measures associated with their machines.¹⁴²

Each Milliken employee’s safety program involvement is quantified, for instance in terms of serving on safety subcommittees, or conducting safety audits.¹⁴³ Also, to help foster engagement, the program *empowers* employees, for instance, by training each to be knowledgeable about OSHA safety regulations. Milliken also trains employees to give and receive peer-to-peer safety comments. Each is authorized to act by providing “constructive feedback” or “appreciative feedback” when observing another employee doing something safely (or not). Milliken’s safety tracking tool helps employees make sure that safety suggestions, safety audit findings, or other safety agenda items are each tracked and finalized; each item gets a number, date, and the name of the responsible Milliken employee.¹⁴⁴ Milliken’s programs are consistent with OSHA’s Voluntary Protection Program, and many of its U.S. facilities are VPP certified.¹⁴⁵

Members of each plant’s employee safety steering committee investigate all safety incidents to identify the causes.¹⁴⁶ Milliken recognizes employees’ safety efforts in formal celebratory events throughout the year, such as having “cheerleaders” provide safety cheers as engineers enter the plant.¹⁴⁷

LEARNING OBJECTIVE 16-6

List five workplace health hazards and how to deal with them.

Workplace Health Hazards: Problems and Remedies

Many workplace hazards aren’t as obvious as slippery floors. Many are unseen hazards that the company may use or produce as part of its production processes. Typical here are chemicals, temperature extremes, biohazards (such as mold and anthrax), and ergonomic hazards (such as misaligned computer screens). OSHA and other safety standards cover many of them.¹⁴⁸

Chemicals and Industrial Hygiene

For example, OSHA standards list exposure limits for about 600 chemicals, such as asbestos and lead. Such hazardous substances require air sampling and other precautionary measures.

Managing such hazards comes under the purview of *industrial hygiene*, and involves recognition, evaluation, and control. First, the facility’s safety officers (often working with supervisors and employees) must *recognize* possible exposure hazards. This typically means conducting plant/facility walk-around surveys, employee interviews, records reviews, and reviews of government (OSHA) and nongovernmental standards.

Once the manager identifies a possible hazard, *evaluation* involves determining how severe it is. This requires measuring the exposure, comparing the measure to some benchmark (such as 0.10 fibers per cubic centimeter for asbestos), and determining if the risk is within standard.¹⁴⁹

Hazard *control* involves eliminating or reducing the hazard. Here personal protective gear should be the *last* option. The employer must first install engineering controls (such as enclosures or ventilation) and administrative controls (including training and improved housekeeping).



KNOW YOUR EMPLOYMENT LAW

Hazard Communication

In, say, a dry cleaning store, it might not be apparent by looking at it that the clear cleaning chemical hydrofluoric acid will eat through glass and blind an unsuspecting worker. Under OSHA’s *hazard communication standard*, “in order to ensure chemical safety in the workplace, information about the identities and hazards of the chemicals must

be available and understandable to workers.” As a result, chemical manufacturers and importers must label and provide hazard safety data sheets to their customers. All employers must have labels and safety data sheets available for their exposed workers, and train workers to handle the chemicals appropriately.¹⁵⁰ ■

■ HR AND THE GIG ECONOMY: TEMP EMPLOYEE SAFETY¹⁵¹

Temp workers in the United States account for as much as five times the workplace fatalities than one might expect.

Why? First, new employees tend to have higher accident rates, and temp or gig workers are often new. Furthermore, temp or gig workers lack some familiar legal employment protections (for example, they generally don’t get unemployment insurance or workers’ compensation).¹⁵² This may in turn prompt some employers to ignore temps’ safety training (on the mistaken assumption that they need not provide it). Temps may also lack the workmates who might otherwise provide safety guidance. Some experts also believe that temp workers often get the “dirtiest most hazardous” jobs.

However, temp/gig workers are covered by occupational health and safety laws, and companies have the same safety obligations to them as to their own employees. For example, the host employer has the primary responsibility for providing temp workers with site-specific hazard communications information and training, and safety training must be identical to what it gives its own employees. As other examples, the host employer must ensure appropriate labeling of chemical containers, and provide appropriate personal protective equipment (PPE). Many host employers hire temps through staffing agencies. According to OSHA, these agencies should, for example, provide generic hazard communications and visit the facility to review the adequacy of its hazard safety processes.



We’ll look at several important workplace hazards next.

Asbestos Exposure at Work and Air Quality

Asbestos is a major source of occupational respiratory disease. Efforts are still underway to rid old buildings of the substance.

OSHA standards require several actions with respect to asbestos. Employers must monitor the air whenever they expect the level of asbestos to rise to one-half the allowable limit (0.10 fibers per cubic centimeter). Engineering controls—walls, special filters, and so forth—are required to maintain a compliant asbestos level. Only then can employers use respirators if additional efforts are required to achieve compliance.

Exposure to asbestos is a major potential source of occupational respiratory disease. Workers need to wear protective clothing and a respirator to remove asbestos from buildings.



Krzysztof Slusarczyk/Shutterstock



Alcoholism and Substance Abuse

About two-thirds of all drug users and people with alcohol disorders are employed.¹⁵³ One estimate around 10 years ago was that about 15% of the U.S. workforce “has either been hung over at work, been drinking shortly before showing up for work, or been drinking or impaired while on the job at least once during the previous year.”¹⁵⁴ Breathalyzer tests detected alcohol in 16% of emergency room patients injured at work.¹⁵⁵ Employee alcoholism may cost U.S. employees about \$226 billion per year, for instance in absenteeism and accidents.¹⁵⁶ Deaths from opioids about tripled in one recent 5-year period.¹⁵⁷

SUBSTANCE ABUSE TESTING Dealing with substance abuse often involves *substance abuse testing*.¹⁵⁸ It’s unusual to find employers who don’t at least test job candidates for substance abuse before formally hiring them. And many states have mandatory random drug testing for high-hazard workers. For example, New Jersey requires random drug testing of electrical workers.¹⁵⁹

Yet there is debate about whether drug tests reduce workplace accidents. One study, in three hotels, concluded that preemployment drug tests seemed to have little effect on workplace accidents. However, a combination of preemployment and random ongoing testing was associated with a significant reduction in workplace accidents.¹⁶⁰

With a tighter U.S. job market and more states legalizing marijuana, many employers are ratcheting down their drug testing programs, at least with respect to marijuana.¹⁶¹ For example, AutoNation recently said it would no longer refuse job offers because someone tested positive for marijuana.

However, employers with critical safety issues (like those with heavy equipment or in transportation) continue to test. Others do as well: Burger King and Ford Motor Company still treat marijuana as illegal. AutoNation continues to bar those who test positive for other illegal drugs. And at factories (particularly with heavy machinery), a zero-tolerance policy remains the rule. One food processing plant randomly tests one employee every month, “and we’re going to move it to two,”¹⁶²

Some applicants or employees may try to evade testing by purchasing “clean” specimens. Several states—including New Jersey, North Carolina, Virginia, Oregon, South Carolina, Pennsylvania, Louisiana, Texas, and Nebraska—have laws making drug-test fraud a crime.¹⁶³ The oral fluid drug test eliminates the “clean specimen” problem.¹⁶⁴ However, given the problem, ongoing random testing is still advisable.

DEALING WITH SUBSTANCE ABUSE Ideally, a drug-free workplace program includes five components:¹⁶⁵

1. A drug-free workplace policy
2. Supervisor training
3. Employee education
4. Employee assistance
5. Drug testing

The policy should state, at a minimum, “The use, possession, transfer, or sale of illegal drugs by employees is prohibited.” It should also explain the policy’s rationale, and the disciplinary consequences. Supervisors should be trained to monitor employees’ performance, and to stay alert to drug-related performance problems. As in Table 16-2, alcohol-related symptoms range from tardiness in the earliest stages of alcohol abuse to prolonged, unpredictable absences in its later stages.¹⁶⁶

Several tools are available to screen for alcohol or drug abuse. The most widely used self-reporting screening instruments for alcoholism are the 4-item CAGE and the 25-item Michigan Alcoholism Screening Test (MAST). The former asks questions like these: Have you ever (1) attempted to Cut back on alcohol, (2) been Annoyed by comments about your drinking, (3) felt Guilty about drinking, (4) had an Eye-opener first thing in the morning to steady your nerves?¹⁶⁷

In general, disciplining, discharge, in-house counseling, and referral to an outside agency are the traditional prescriptions when *current* employees test positive; repeated test failures often incur harsher penalties. However federal and state laws govern what employers can and can’t do.¹⁶⁸ For example federal transportation law basically requires

TABLE 16-2 Observable Behavior Patterns Indicating Possible Alcohol-Related Problems

Alcoholism Stage	Some Possible Signs of Alcoholism Problems	Some Possible Alcoholism Performance Issues
Early	Arrives at work late Untrue statements Leaves work early	Reduced job efficiency Missed deadlines Careless, sloppy work
Middle	Frequent absences, especially Mondays Colleagues mentioning erratic behavior Mood swings Anxiety Late returning from lunch Frequent multiday absences	Accidents Warnings from boss Noticeably reduced performance Many excuses for incomplete assignments or missed deadlines
Advanced	Personal neglect Unsteady gait Violent outbursts Blackouts and frequent forgetfulness Possible drinking on job	Frequent falls, accidents Strong disciplinary actions Basically incompetent performance

Source: Based on Gopal Patel and John Adkins Jr., “The Employer’s Role in Alcoholism Assistance,” *Personnel Journal* 62, no. 7 (July 1983), p. 570; Mary-Anne Enoch and David Goldman, “Problem Drinking and Alcoholism: Diagnosis and Treatment,” *American Family Physician*, February 1, 2002, www.aafp.org/afp/20020201/441.html, accessed July 20, 2008; and Ken Pidd et al., “Alcohol and Work: Patterns of Use, Workplace Culture, and Safety,” www.nisu.flinders.edu.au/pubs/-reports/2006/injcat82.pdf, accessed July 20, 2008; www.ncadd.org/about-addiction/addiction-update/drugs-and-alcohol-in-the-workplace, accessed April 12, 2017; www.opm.gov/policy-data-oversight/worklife/reference-materials/alcoholism-in-the-workplace-a-handbook-for-supervisors/, accessed April 9, 2018.

that a truck driver who fails (or refuses to take) a drug test be immediately removed from driving until successful completion of qualified counseling.¹⁶⁹ And in Vermont and Minnesota, someone who fails a first drug test can’t be fired if he or she completes a rehabilitation program.¹⁷⁰

According to the EEOC, the Americans with Disabilities Act “specifically provides that employers may require an employee who is an alcoholic or who engages in the illegal use of drugs to meet the same standards of performance and behavior as other employees.”¹⁷¹ So, for example, the employer generally need not tolerate substance abuse-related behavior such as absenteeism.¹⁷² However there may be exceptions, such as whether the test results involved prescription drugs or medical marijuana. And suits for invasion of privacy and defamation are always possible. Therefore, it’s prudent to publicize the substance abuse policy and procedures, for instance in the employee manual.¹⁷³

Stress, Burnout, and Depression

Many things about one’s job can be stressful. These include belligerent bosses or colleagues, poor job security, low pay, unpredictable schedules, workplace noise, excessive workloads, inadequate control over job-related decisions, unclear performance expectations, and arrogant customers.¹⁷⁴

Furthermore, personality affects stress. For example, Type A personalities—workaholics who feel driven to meet deadlines—normally place themselves under greater stress. Add to job stress the stress caused by nonjob problems like divorce, and many workers are problems waiting to happen.

Human consequences of job stress include anxiety, depression, anger, cardiovascular disease, headaches, accidents, and even early onset Alzheimer’s disease.¹⁷⁵ One study found that nurses working under excessive pressure had double the risk for heart attacks.¹⁷⁶ For the employer, consequences include diminished performance and increased absenteeism and turnover. One report estimates that work stress costs an extra \$125 to \$190 billion dollars per year in health-care spending.¹⁷⁷

REDUCING JOB STRESS There are several ways to alleviate dysfunctional stress. These range from commonsense remedies (getting more sleep) to biofeedback and meditation. Finding a more suitable job, getting counseling, and planning each day's activities are other sensible responses.¹⁷⁸ In his book *Stress and the Manager*, Dr. Karl Albrecht suggests the following ways for a person to reduce job stress:¹⁷⁹

- Build rewarding, pleasant, cooperative relationships with colleagues and employees.
- Don't bite off more than you can chew.
- Talk to your supervisor, for instance to clear the air if the relationship has become tense.
- Negotiate with your boss for realistic deadlines on important projects.
- Learn as much as you can about upcoming events, and get as much lead time as possible to prepare for them.
- Find time every day for detachment and relaxation.
- Take a walk around the office to keep your body refreshed and alert.
- Find ways to reduce unnecessary noise.
- Reduce the amount of trivia in your job; delegate routine work when possible.
- Limit interruptions.
- Don't put off dealing with distasteful problems.
- Make a constructive "worry list" that includes solutions for each problem.
- Get more and better quality sleep.¹⁸⁰
- Establish boundaries, such as by not checking email from home after 10 P.M.
- Get some support, by speaking with a trusted friend or counselor.

Meditation is an option. Choose a quiet place with soft light and sit comfortably. Then focus your thoughts (for example, count breaths or visualize a calming location such as a beach). When your mind wanders, bring it back to focusing your thoughts on your breathing or the beach.¹⁸¹

WHAT THE EMPLOYER CAN DO Employers and supervisors play roles in reducing stress. Supportive supervisors and fair treatment are important; rein in bullying-prone supervisors. Other steps include reducing personal conflicts on the job and encouraging open communication between management and employees. One hospital in California introduced an on-site concierge service to help its employees reduce work-related stress. It handles tasks like making vacation plans for employees.¹⁸² Some employers use "resilience training" to help employees deal with stress. As one example, "participants consider previous stressful situations in their lives that they have overcome and identify factors that made the situations manageable."¹⁸³

One British firm has a three-tiered employee stress-reduction program.¹⁸⁴ First is *primary prevention*. This focuses on ensuring that things like job designs and work-flows are correct. Second is *intervention*. This includes individual employee assessment, attitude surveys to find sources of stress, and supervisory intervention. Third is *rehabilitation*, which includes employee assistance programs and counseling.

BURNOUT Experts define **burnout** as the total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal. Burnout manifests itself in symptoms like irritability, discouragement, exhaustion, cynicism, entrapment, and resentment.¹⁸⁵

Employers can head off burnout, for instance, by monitoring employees in potentially high-stress jobs.¹⁸⁶ What can a burnout candidate do? First, watch for warning signs such as tiredness, lack of focus, and depressed mood.¹⁸⁷ In his book *How to Beat the High Cost of Success*, Dr. Herbert Freudenberger suggests:

- **Break your patterns.** The more well-rounded your life is, the better protected you are against burnout.
- **Get away from it all periodically.** Schedule occasional periods of introspection where you can get away from your usual routine.¹⁸⁸ Another way to reduce burnout is to (try to) put your job aside once you go home.¹⁸⁹ Similarly, take your vacation time: only about 47% of workers used all their paid vacation days recently.¹⁹⁰

burnout

The total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal.

- **Reassess your goals in terms of their intrinsic worth.** Are the goals you've set for yourself attainable? Are they really worth the sacrifices?
- **Think about your work.** Could you do as good a job without being so intense?
- **Stay active.** One study concluded that “the increase in job burnout and depression was strongest among employees who did not engage in physical activity and weakest to the point of non-significance among those engaging in high physical activity.”¹⁹¹

EMPLOYEE DEPRESSION *Employee depression* is a serious work problem. Experts estimate that depression results in about 200 million lost workdays each year, costing employers \$17 to \$44 billion annually.¹⁹² Depressed people also tend to have worse safety records.¹⁹³

One survey found that while about two-thirds of large firms offered employee assistance programs covering depression, only about 14% of employees with depression said they ever used one.¹⁹⁴ Employers therefore need to train supervisors to identify depression's warning signs and to counsel those who may need such services to use them.¹⁹⁵ Depression is a disease. It does no more good to tell a depressed person to “snap out of it” than it would to tell someone with a heart condition to stop acting tired. Typical depression warning signs (if they last for more than 2 weeks) include persistent sad, anxious, or “empty” moods; sleeping too little; reduced appetite; loss of interest in activities once enjoyed; restlessness or irritability; and difficulty concentrating.¹⁹⁶

Solving Computer-Related Ergonomic Problems

OSHA provides an e-Tool for designing computer workstations.¹⁹⁷ Its prescriptions include, place the monitor directly in front of you, ensure it's at arm's length, and look away from the monitor every 20 minutes while focusing on something at least 20 feet away.¹⁹⁸

NIOSH (the National Institute for Occupational Safety and Health) provides general recommendations. Most relate to *ergonomics* or design of the worker–equipment interface. These include the following:

- Employees should take a 3- to 5-minute break from working at the computer every 20–40 minutes, using the time for other tasks.
- Design maximum flexibility into the workstation so it can be adapted to the person. For example, use adjustable chairs with midback supports. Don't stay in one position too long.
- Reduce glare with devices such as shades over windows and indirect lighting.
- Give workers a preplacement vision exam to ensure properly corrected vision for reduced visual strain.¹⁹⁹
- Allow the user to position his or her wrists at the same level as the elbow.
- Put the screen at or just below eye level, at a distance of 18 to 30 inches from the eyes.
- Let the wrists rest lightly on a pad for support.
- Put the feet flat on the floor or on a footrest.²⁰⁰

Repetitive Motion Disorders

Repetitive motion disorders include carpal tunnel syndrome and tendonitis. They result from too many uninterrupted repetitions of an activity or motion, or from unnatural motions such as twisting the arm or wrist. It affects people who perform repetitive tasks such as assembly line or computer work. Employers can reduce the problem, for instance, with programs to help workers adjust their pace of work.²⁰¹

Sitting

Studies suggest that people who sit a lot are in poorer health, and need to get up and walk around about 30 or 40 times a day; that's why apps (such as iPhone's health app) prompt users to walk around hourly.²⁰² Standing desks and slow treadmills (up to 3–4 miles/hour) are other options.²⁰³

Infectious Diseases

Employers can take steps to prevent the entry or spread of infectious diseases.²⁰⁴ These steps include

1. Monitor the Centers for Disease Control and Prevention (www.cdc.gov) travel alerts.
2. Encourage employees to receive immunizations.
3. Provide daily medical screenings for employees returning from infected areas.
4. Deny access for 10 days to employees or visitors who have had contact with suspected infected individuals.
5. Tell employees to stay home if they have a fever or respiratory system symptoms.
6. Clean work areas and surfaces regularly.
7. Practice hand hygiene, and make sanitizers easily available.
8. Stagger breaks. Offer several lunch periods to reduce overcrowding.²⁰⁵

Workplace Smoking

Smoking is a serious health and cost problem. For employers, costs derive from higher health and fire insurance, increased absenteeism, and reduced productivity (as when smokers take a 10-minute break behind the store).

The manager can probably deny a job to a smoker as long as smoking isn't used as a surrogate for other discrimination.²⁰⁶ Federal laws don't expressly prohibit discrimination against smokers. However, if a majority of a company's smokers also happen to be minorities, antismoking activities could be viewed as discriminatory. Seventeen states and the District of Columbia ban discriminating against smokers.²⁰⁷ Most employers these days ban indoor smoking, often designating small outdoor areas where smoking is permitted. Many states and municipalities now ban indoor smoking in public areas.²⁰⁸ With vaping laws in flux, employers should check the status of their local and state laws.²⁰⁹ NIOSH suggests prohibiting both tobacco smoke and e-cigarettes from the workplace.²¹⁰ While marijuana use is still illegal by federal law, it is legal in about 26 states, some of which have safety standards to protect cannabis industry workers.²¹¹

MyLab Management Apply It!

If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise.



LEARNING OBJECTIVE 16-7

Discuss the prerequisites for a security plan and how to set up a basic security program.

Occupational Security and Risk Management

Workplace *safety* relates to risks of injury or illness to employees. Workplace *security* relates to protecting employees from internal and external security risks such as criminal acts by visitors and terrorism.²¹² The employer's workplace security plans should address things like establishing a formal security team, protecting the firm's intellectual property (for instance, through noncompete agreements), protecting against cyber threats (personnel information can be a "gold mine" for hackers),²¹³ developing crisis management plans, establishing theft and fraud prevention procedures, preventing workplace violence, and installing facility security systems.²¹⁴ Many firms of course also have special handling procedures for mail packages and hold regular emergency evacuation drills.



Enterprise Risk Management

Enterprise risk management is "the process of assessing exposures to loss within an operation and determining how best to eliminate, manage or otherwise reduce the risk of an adverse event from having a negative impact on the business."²¹⁵

Companies face a wide variety of risks, only some of which are OSHA-type direct risks to employees' health and safety. Other risks include, for instance, natural disaster risks, financial risks, and risks to the firm's computer systems. *Human capital risks* rank high. These include safety risks like those we discussed earlier in this chapter but also, for instance, "risks" from unionization and from inadequate staffing plans.²¹⁶

How the employer manages a risk depends on the type of risk. For example, *internal preventable* risks arise from actions within the company and include things like employees' illegal conduct or workplace accidents.²¹⁷ Employers manage these risks with methods such as codes of conduct, disciplinary procedures, and safety rules. *Strategy risks* are risks that managers accept as part of executing their strategies, such as the risk a banker takes that a borrower defaults. Employers manage some strategy risks with independent experts (like those who assess insurance risks) and with in-house experts, like the risk managers who help to oversee banks' loan portfolios. *External risks* come from outside the company and include things like political and natural disasters and terrorism. Managing external risks might involve methods like scenario planning, in which the company endeavors to identify, analyze, and plan for multiple possible eventualities.



Preventing and Dealing with Violence at Work

Violence against employees is an internal preventable risk, and a huge problem.²¹⁸ According to OSHA, homicide is the fourth-leading cause of fatal occupational injuries in the United States.²¹⁹ Customers are often the perpetrators.²²⁰ Many other assaults involve coworkers or a current or a former partner or spouse.²²¹

Workplace violence incidents by coworkers are predictable and avoidable. *Risk Management Magazine* estimates that about 86% of past workplace violence incidents were anticipated by coworkers, who had brought them to management's attention prior to the incidents actually occurring. Yet management usually did little or nothing.²²² Human resource managers can take several steps to reduce workplace violence risks.

HEIGHTEN SECURITY MEASURES Heightened security measures are the first line of defense, whether the violence is from coworkers, customers, or outsiders. According to OSHA, measures should include those in Figure 16-7.

IMPROVE EMPLOYEE SCREENING With about 30% of workplace attacks committed by coworkers, screening out potentially violent applicants is the employer's next line of defense.

Both personal and situational factors correlate with workplace aggression. Men and individuals scoring higher on "trait anger" (the predisposition to respond to situations with hostility) are more likely to exhibit aggression. In terms of the situation, interpersonal injustice and poor leadership can trigger aggression against supervisors.²²³

Employers can screen out potentially violent workers before they're hired. Obtain an employment application, and check the applicant's employment history, education, and references.²²⁴ Sample interview questions include "What frustrates you?" and "Who was your worst supervisor and why?"²²⁵ Certain background circumstances, such as the following, may call for more in-depth background checking:²²⁶

- An unexplained gap in employment
- Incomplete or false information on the résumé or application
- A negative, unfavorable, or false reference
- Prior insubordinate or violent behavior on the job²²⁷
- A criminal history involving harassing or violent behavior
- A prior termination for cause with a suspicious (or no) explanation
- History of drug or alcohol abuse

FIGURE 16-7 How to Heighten Security in Your Workplace

Source: See "Creating a Safer Workplace: Simple Steps Bring Results," *Safety Now* September 2002, pp. 1–2. See also www.osha.gov/OshDoc/data_General_Facts/factsheet-workplaceviolence.pdf, accessed September 22, 2015.

- Improve external lighting.
- Use drop safes to minimize cash on hand.
- Post signs noting that only a limited amount of cash is on hand.
- Install silent alarms and surveillance cameras.
- Increase the number of staff on duty.
- Provide staff training in conflict resolution and nonviolent response.
- Close establishments during high-risk hours late at night and early in the morning.
- Issue a weapons policy; for instance, "firearms or other dangerous or deadly weapons cannot be brought onto the facility either openly or concealed."

- Strong indications of instability as indicated, for example, by frequent job changes or geographic moves
- Lost licenses or accreditations²²⁸
- Past conflicts (especially if violence was involved) with coworkers
- Past convictions for violent crimes

ESTABLISH A ZERO-TOLERANCE POLICY TOWARD WORKPLACE VIOLENCE This should cover all workers and *anyone* who may come in contact with company personnel.²²⁹

USE WORKPLACE VIOLENCE TRAINING You can also train supervisors to notice the clues that typify potentially violent current employees. Common clues include²³⁰

- An act of violence on or off the job
- Erratic behavior evidencing a loss of perception or awareness of actions
- Overly confrontational or antisocial behavior
- Sexually aggressive behavior
- Isolationist or loner tendencies
- Insubordinate behavior with a threat of violence
- Tendency to overreact to criticism
- Exaggerated interest in war, guns, violence, mass murders, catastrophes, and so on
- Commission of a serious breach of security
- Possession of weapons, guns, knives, or like items in the workplace
- Violation of privacy rights of others, such as searching desks or stalking
- Chronic complaining and the raising of frequent, unreasonable grievances
- A retributory or get-even attitude

GUIDELINES FOR FIRING A HIGH-RISK EMPLOYEE When firing a high-risk employee:

- Plan all aspects of the meeting, including its time, location, the people to be present, and agenda.
- Involve security enforcement personnel.
- Conduct the meeting in a room with a door leading to the outside of the building.
- Advise the employee that he or she is no longer permitted onto the employer's property.
- Keep the termination brief and to the point.
- Make sure he or she returns all company-owned property at the meeting.
- Don't let the person return to his or her workstation.
- Conduct the meeting early in the week and early in the morning so he or she has time to meet with employment counselors or support groups.
- Offer as generous a severance package as possible.
- Protect the employee's dignity by not advertising the event.²³¹
- Managers associated with the dismissal should for a time exercise personal caution.²³²
- Employers should consider hiring a security expert to monitor, for a time, the former employee's social media for threats.²³³

VIOLENCE TOWARD WOMEN AT WORK Homicides accounted for 10% of those who died at work in one recent year.²³⁴ Men have more fatal occupational injuries than do women, but the proportion of female victims of assault is much higher. The Gender-Motivated Violence Act (part of the Violence Against Women Act) imposes liabilities on employers whose women employees become violence victims.²³⁵ Of all females murdered at work, more than three-fourths are victims of random criminal violence by assailants unknown to the victims. Family members, coworkers, or acquaintances commit the rest. Tangible security improvements including better lighting, cash-drop boxes, and similar steps can help. Women (and men) should have access to domestic crisis hotlines,²³⁶ and to employee assistance programs.



Securing the Facility

As noted, workplace security relates to protecting employees from internal and external security risks (such as robberies and terrorism). This often starts with facilities security.

In simplest terms, instituting a basic facility security program requires four steps: analyzing the current *level* of risk, and then installing *mechanical*, *natural*, and *organizational* security systems.²³⁷

At one university, threat assessment team members meet periodically to review potential threats to university students and employees.²³⁸ Such teams ideally start with an analysis of the facility's *current level of risk*. Here, start with the obvious. For example, what is the neighborhood like? Is the facility adjacent to railyards, or roads?²³⁹ Does your facility (such as your office building) house other businesses or individuals that might bring unsafe activities? As part of this initial threat assessment, also review these six matters:

1. **Reception area access**, including need for a “panic button”;
2. **Interior security**, including secure restrooms, and better identification of exits;
3. **Authorities' involvement**, in particular emergency procedures developed with local law enforcement;
4. **Mail handling**, including screening and opening mail;
5. **Evacuation**, including evacuation procedures and training; and
6. **Backup systems**, such as storing data off site.

Having assessed the potential current level of risk, the employer then turns to assessing and improving natural, mechanical, and organizational security.²⁴⁰

Natural security means capitalizing on the facility's natural or architectural features to minimize security problems. For example, do too many entrances hamper controlling facility access?

Mechanical security is the utilization of security systems such as locks, intrusion alarms, access control systems, and surveillance systems.²⁴¹ Here make sure to train local employees to use the security devices and that the devices (cameras, and so on) are maintained.²⁴²

Finally, *organizational security* means using good management to improve security. For example, it means properly training and motivating security staff and lobby attendants. Ensure that the security staff has written orders that define their duties,

Many employers install video security cameras to monitor areas in and around their premises.



especially in situations such as fire, elevator entrapment, hazardous materials spills, medical emergencies, hostile intrusions, suspicious packages, civil disturbances, and workplace violence.²⁴³

Remember, however, that facility security *systems* are not enough. In particular, having security personnel who should be watching your monitors staring at their smart phone screens, or guards who should be challenging visitors nonchalantly letting all through, will defeat your systems. At the end of the day, security is as much (or more) an employee selection, training, evaluation, and motivation problem as a mechanical one.



Terrorism

The employer can take several steps to protect its employees and physical assets from the risk of terrorist attack. These steps, now familiar at many workplaces, include the following:

- Screen the identities of everyone entering the premises.²⁴⁴
- Check mail carefully.
- Identify ahead of time a lean interim “crisis organization” that can run the company after a terrorist threat.
- Identify in advance under what conditions you will close the company down, as well as the shutdown process.
- Institute a process to put a crisis management team together.
- Prepare evacuation plans, and make sure exits are well marked and unblocked.
- Designate an employee who will communicate with families and off-site employees.
- Identify an upwind, off-site location near your facility as a staging area for all evacuated personnel.
- Designate in advance several employees who will do headcounts at the staging area.
- Establish an emergency communications procedure, for instance based on text messaging or Twitter.

Cybersecurity

Securing the employer’s physical facility may do little to prevent cyberattacks of the sort that hit Facebook a while ago; similarly, hackers got personal information of about 22 million U.S. federal employees from Office of Personnel Management (OPM) servers.²⁴⁵

Data protection and cybersecurity are specialized areas requiring special expertise. However, some basic guidelines would include: First, *data security is everyone’s responsibility*.²⁴⁶ IT installs firewalls and password systems. However, every employee plays a security role, from the CEO setting policy to first-line employees guarding their passwords. Second, “*old data is bad data*.” In other words, destroy unneeded old personal data (say from five years ago) unless it’s absolutely required. Third, *encrypt*. That includes data in laptops employees carry with them. Fourth, *monitor*. The IT staff should periodically assess cyber risks. Two of many cybersecurity consultants include Kroll,²⁴⁷ and KPMG.²⁴⁸



Business Continuity and Emergency Plans

One source estimates that 40% of companies never reopen after suffering business disruptions from a major catastrophe, so putting a disaster plan in place is imperative.²⁴⁹ Emergency preparedness resources include www.ready.gov and the National Institute for Occupational Safety and Health (www.cdc.gov/niosh/). OSHA requires written emergency action plans.²⁵⁰

To help the employer prepare for potential disasters, the human resource department should develop a plan and identify key responsibilities, make sure all employees are aware of the plan, and train employees regularly.²⁵¹ Such plans should cover *early detection of a problem, methods for communicating the emergency externally, and communications plans for initiating an evacuation*. The initial alarm should come first. The employer should follow that with an announcement providing specific information about the emergency and letting employees know what action they should take.²⁵²

The employer also needs plans for *business continuity* in the event of a disaster. The employer can designate a secure area of the company Web site for emergency employee communications, listing such things as expected hours of operation, facilities opening schedules, and alternative work locations.²⁵³ The disaster plans should include establishing a command center and identifying employees considered essential in the event of a disaster, including responsibilities for each. Business continuity information is available at www.preparemybusiness.org.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Twitter Notifications

Social media such as Twitter are obvious choices for quickly communicating emergency information to large numbers of dispersed individuals. When a tornado hit Bridgeport, Connecticut, a few years ago, the city's administrators used Twitter to tell citizens about things like power outages and blocked roads. The Canadian Red Cross uses social media to publicize preparedness information and respond to questions from affected communities. And emergency managers, utility companies, and the public used social media to share updates on things like shelter locations when Hurricane Sandy struck the Northeast.²⁵⁴ ■

Chapter Review

Chapter Section Summaries

- 16-1. The subject **safety and the manager** concerns managers for several reasons, one of which is the number of workplace accidents. Reducing accidents often boils down to reducing accident-causing conditions and accident-causing acts. However, safety always starts at the top.
- 16-2. Because of this, all managers need to be familiar with **occupational safety law**. The Occupational Safety and Health Act was passed by Congress in 1972 to assure so far as possible every working man and woman in the nation has safe and healthful working conditions, and to preserve human resources. The act created the Occupational Safety and Health Administration (OSHA).
- 16-3. There are three basic **causes of workplace accidents**: chance occurrences, unsafe conditions, and employees' unsafe acts. Unsafe conditions include things like improperly guarded equipment and hazardous procedures. Unsafe acts sometimes reflect personality traits such as impatience and distractibility.
- 16-4. In practice, **how to prevent accidents** boils down to reducing unsafe conditions and reducing unsafe acts. Reducing unsafe conditions is always the first line of defense and includes using checklists and following OSHA standards. There are then several basic approaches to reducing unsafe acts, for instance, through proper selection and placement, training, motivation and positive reinforcement, behavior-based safety, employee participation, and conducting safety and health audits.
- 16-5. The centerpiece of Milliken's safety process is its *involvement-based* employee engagement **program**. Milliken's employees staff the steering and safety subcommittee system, submit "opportunity for improvement" suggestions weekly, review each of these suggestions, and provide feedback on every suggestion.
- 16-6. Most **workplace health hazards** aren't obvious, like unguarded equipment. Typical exposure hazards include, for instance, chemicals, biohazards, and improperly designed equipment. Managing exposure hazards like these comes under the area of industrial hygiene, and involves recognition, evaluation, and control. Stress, burnout, and depression are more serious at work than many people realize, and both the employee and employer can take steps to deal with them. Employers especially need to train supervisors to identify depression's warning signs and to counsel those who may need special services.

16-7. Most employers today have **occupational security and risk management programs**. Heightened security measures are an employer's first line of defense against attacks on workers, and include, for instance, improving external lighting.

Screening can reduce the risk of hiring potentially violent employees. Instituting a basic facility security program involves analyzing the current level of risk, and then installing mechanical, natural, and organizational security systems.

Discussion Questions

- 16-1. Explain how to reduce the occurrence of unsafe acts on the part of your employees.
 16-2. Explain the supervisor's role in safety.
 16-3. Explain what causes unsafe acts.

- 16-4. Describe at least five techniques for reducing accidents.
 16-5. Explain how you would reduce stress at work.

Individual and Group Activities

- 16-6. Working individually or in groups, answer the question, "Is there such a thing as an accident-prone person?"
 16-7. Working individually or in groups, compile a list of the factors at work or in school that create stress for you. What methods do you use for dealing with the stress?
 16-8. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.



- 16-9. A safety journal presented some information about what happens when OSHA refers criminal complaints about willful violations of OSHA standards to the U.S. Department of Justice (DOJ). In one 20-year period, of the 119 cases OSHA referred to the DOJ, only 9 resulted in prison time for at least one of the defendants. "The Department of Justice is a disgrace," charged the founder of an organization for family members of workers killed on the job. One possible explanation for this low conviction rate is that the crime in cases like these is generally a misdemeanor, not a felony, and the DOJ generally tries to focus its attention on felony cases. Given this information, what implications do you think this has for how employers and their managers should manage their safety programs, and why do you take that position?
 16-10. A 315-foot-tall, 2-million-pound crane collapsed on a construction site in East Toledo, Ohio, killing four ironworkers. Do you think catastrophic failures like this are avoidable? If so, what steps would you suggest the general contractor take to avoid a disaster like this?

Experiential Exercise

How Safe Is My University?

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice in identifying unsafe conditions.

Required Understanding: You should be familiar with material covered in this chapter, particularly that on unsafe conditions and that in Figures 16-6 and 16-8.

How to Set Up the Exercise/Instructions: Divide the class into groups of four. Assume that each group is a safety committee retained by your college's or university's

safety engineer to identify and report on any possible unsafe conditions in and around the school building. Each group will spend about 45 minutes in and around the building you are now in for the purpose of identifying and listing possible unsafe conditions. (Make use of the checklists in Figures 16-6 and 16-8.)

Return to the class in about 45 minutes. A spokesperson for each group should list on the board the unsafe conditions you have identified. How many were there? Do you think these also violate OSHA standards? How would you go about checking?

GENERAL		OK	ACTION NEEDED
1. Is the required OSHA workplace poster displayed in your place of business as required where all employees are likely to see it?	<input type="checkbox"/>	<input type="checkbox"/>	
2. Are you aware of the requirement to report all workplace fatalities and any serious accidents (where five or more are hospitalized) to a federal or state OSHA office within 48 hours?	<input type="checkbox"/>	<input type="checkbox"/>	
3. Are workplace injury and illness records being kept as required by OSHA?	<input type="checkbox"/>	<input type="checkbox"/>	
4. Are you aware that the OSHA annual summary of workplace injuries and illnesses must be posted by February 1 and must remain posted until March 1?	<input type="checkbox"/>	<input type="checkbox"/>	
5. Are you aware that employers with 10 or fewer employees are exempt from the OSHA record-keeping requirements, unless they are part of an official BLS or state survey and have received specific instructions to keep records?	<input type="checkbox"/>	<input type="checkbox"/>	
6. Have you demonstrated an active interest in safety and health matters by defining a policy for your business and communicating it to all employees?	<input type="checkbox"/>	<input type="checkbox"/>	
7. Do you have a safety committee or group that allows participation of employees in safety and health activities?	<input type="checkbox"/>	<input type="checkbox"/>	
8. Does the safety committee or group meet regularly and report, in writing, its activities?	<input type="checkbox"/>	<input type="checkbox"/>	
9. Do you provide safety and health training for all employees requiring such training, and is it documented?	<input type="checkbox"/>	<input type="checkbox"/>	
10. Is one person clearly in charge of safety and health activities?	<input type="checkbox"/>	<input type="checkbox"/>	
11. Do all employees know what to do in emergencies?	<input type="checkbox"/>	<input type="checkbox"/>	
12. Are emergency telephone numbers posted?	<input type="checkbox"/>	<input type="checkbox"/>	
13. Do you have a procedure for handling employee complaints regarding safety and health?	<input type="checkbox"/>	<input type="checkbox"/>	
WORKPLACE		OK	ACTION NEEDED
ELECTRICAL WIRING, FIXTURES, AND CONTROLS			
1. Are your workplace electricians familiar with the requirements of the National Electrical Code (NEC)?	<input type="checkbox"/>	<input type="checkbox"/>	
2. Do you specify compliance with the NEC for all contract electrical work?	<input type="checkbox"/>	<input type="checkbox"/>	
3. If you have electrical installations in hazardous dust or vapor areas, do they meet the NEC for hazardous locations?	<input type="checkbox"/>	<input type="checkbox"/>	
4. Are all electrical cords strung so they do not hang on pipes, nails, hooks, etc.?	<input type="checkbox"/>	<input type="checkbox"/>	
5. Is all conduit, BX cable, etc., properly attached to all supports and tightly connected to junction and outlet boxes?	<input type="checkbox"/>	<input type="checkbox"/>	
6. Is there no evidence of fraying on any electrical cords?	<input type="checkbox"/>	<input type="checkbox"/>	
7. Are rubber cords kept free of grease, oil, and chemicals?	<input type="checkbox"/>	<input type="checkbox"/>	
8. Are metallic cable and conduit systems properly grounded?	<input type="checkbox"/>	<input type="checkbox"/>	
9. Are portable electric tools and appliances grounded or double insulated?	<input type="checkbox"/>	<input type="checkbox"/>	
10. Are all ground connections clean and tight?	<input type="checkbox"/>	<input type="checkbox"/>	
11. Are fuses and circuit breakers the right type and size for the load on each circuit?	<input type="checkbox"/>	<input type="checkbox"/>	
12. Are all fuses free of "jumping" with pennies or metal strips?	<input type="checkbox"/>	<input type="checkbox"/>	
13. Do switches show evidence of overheating?	<input type="checkbox"/>	<input type="checkbox"/>	
14. Are switches mounted in clean, tightly closed metal boxes?	<input type="checkbox"/>	<input type="checkbox"/>	
15. Are all electrical switches marked to show their purpose?	<input type="checkbox"/>	<input type="checkbox"/>	
16. Are motors clean and kept free of excessive grease and oil?	<input type="checkbox"/>	<input type="checkbox"/>	
17. Are motors properly maintained and provided with adequate overcurrent protection?	<input type="checkbox"/>	<input type="checkbox"/>	
18. Are bearings in good condition?	<input type="checkbox"/>	<input type="checkbox"/>	
19. Are portable lights equipped with proper guards?	<input type="checkbox"/>	<input type="checkbox"/>	
20. Are all lamps kept free of combustible material?	<input type="checkbox"/>	<input type="checkbox"/>	
21. Is your electrical system checked periodically by someone competent in the NEC?	<input type="checkbox"/>	<input type="checkbox"/>	

**Develop
your own
checklist.**

**These
are only
sample
questions.**

FIGURE 16-8 Self-Inspection Safety and Health Checklist

Source: From OSHA Self-Inspection Checklist for General Industry, from <http://www.safetyhouse.ir/safetyhouse/file/OSHA%20Self-Inspection%20Checklist%20for%20General%20Industry.pdf>, accessed April 10, 2018.

Note: For a more extensive checklist, see "Self-Inspection Checklists," www.osha.gov/Publications/smallbusiness/small-business.html#check, accessed April 10, 2018.

EXITS AND ACCESS

1. Are all exits visible and unobstructed?
2. Are all exits marked with a readily visible sign that is properly illuminated?
3. Are there sufficient exits to ensure prompt escape in case of emergency?
4. Are areas with restricted occupancy posted and is access/egress controlled by persons specifically authorized to be in those areas?
5. Do you take special precautions to protect employees during construction and repair operations?

OK	ACTION NEEDED
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

Develop your own checklist.
These are only sample questions.

FIRE PROTECTION

1. Are portable fire extinguishers provided in adequate number and type?
2. Are fire extinguishers inspected monthly for general condition and operability and noted on the inspection tag?
3. Are fire extinguishers recharged regularly and properly noted on the inspection tag?
4. Are fire extinguishers mounted in readily accessible locations?
5. If you have interior standpipes and valves, are these inspected regularly?
6. If you have a fire alarm system, is it tested at least annually?
7. Are employees periodically instructed in the use of extinguishers and fire protection procedures?
8. If you have outside private fire hydrants, were they flushed within the last year and placed on a regular maintenance schedule?
9. Are fire doors and shutters in good operating condition?
Are they unobstructed and protected against obstruction?
10. Are fusible links in place?
11. Is your local fire department well acquainted with your plant, location, and specific hazards?
12. Automatic sprinklers:
Are water control valves, air, and water pressures checked weekly?
Are control valves locked open?
Is maintenance of the system assigned to responsible persons or a sprinkler contractor?
Are sprinkler heads protected by metal guards where exposed to mechanical damage?
Is proper minimum clearance maintained around sprinkler heads?

OK	ACTION NEEDED
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
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<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

HOUSEKEEPING AND GENERAL WORK ENVIRONMENT

1. Is smoking permitted in designated "safe areas" only?
2. Are NO SMOKING signs prominently posted in areas containing combustibles and flammables?
3. Are covered metal waste cans used for oily and paint-soaked waste?
Are they emptied at least daily?
4. Are paint spray booths, dip tanks, etc., and their exhaust ducts cleaned regularly?
5. Are stand mats, platforms, or similar protection provided to protect employees from wet floors in wet processes?
6. Are waste receptacles provided and are they emptied regularly?
7. Do your toilet facilities meet the requirements of applicable sanitary codes?
8. Are washing facilities provided?
9. Are all areas of your business adequately illuminated?
10. Are floor load capacities posted in second floors, lofts, storage areas, etc.?
11. Are floor openings provided with toe boards and railings or a floor hole cover?
12. Are stairways in good condition with standard railings provided for every flight having four or more risers?
13. Are portable wood ladders and metal ladders adequate for their purpose, in good condition, and provided with secure footing?
14. If you have fixed ladders, are they adequate, and are they in good condition and equipped with side rails or cages or special safety climbing devices, if required?
15. For loading docks:
Are dockplates kept in serviceable condition and secured to prevent slipping?
Do you have means to prevent car or truck movement when dockplates are in place?

OK	ACTION NEEDED
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
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<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

FIGURE 16-8 Continued

MACHINES AND EQUIPMENT

	OK	ACTION NEEDED
1. Are all machines or operations that expose operators or other employees to rotating parts, pinch points, flying chips, particles, or sparks adequately guarded?	<input type="checkbox"/>	<input type="checkbox"/>
2. Are mechanical power transmission belts and pinch points guarded?	<input type="checkbox"/>	<input type="checkbox"/>
3. Is exposed power shafting less than 7 feet from the floor guarded?	<input type="checkbox"/>	<input type="checkbox"/>
4. Are hand tools and other equipment regularly inspected for safe condition?	<input type="checkbox"/>	<input type="checkbox"/>
5. Is compressed air used for cleaning reduced to less than 30 psi?	<input type="checkbox"/>	<input type="checkbox"/>
6. Are power saws and similar equipment provided with safety guards?	<input type="checkbox"/>	<input type="checkbox"/>
7. Are grinding wheel tool rests set to within 1/8 inch or less of the wheel?	<input type="checkbox"/>	<input type="checkbox"/>
8. Is there any system for inspecting small hand tools for burred ends, cracked handles, etc.?	<input type="checkbox"/>	<input type="checkbox"/>
9. Are compressed gas cylinders examined regularly for obvious signs of defects, deep rusting, or leakage?	<input type="checkbox"/>	<input type="checkbox"/>
10. Is care used in handling and storing cylinders and valves to prevent damage?	<input type="checkbox"/>	<input type="checkbox"/>
11. Are all air receivers periodically examined, including the safety valves?	<input type="checkbox"/>	<input type="checkbox"/>
12. Are safety valves tested regularly and frequently?	<input type="checkbox"/>	<input type="checkbox"/>
13. Is there sufficient clearance from stoves, furnaces, etc., for stock, woodwork, or other combustible materials?	<input type="checkbox"/>	<input type="checkbox"/>
14. Is there clearance of at least 4 feet in front of heating equipment involving open flames, such as gas radiant heaters, and fronts of firing doors of stoves, furnaces, etc.?	<input type="checkbox"/>	<input type="checkbox"/>
15. Are all oil and gas fired devices equipped with flame failure controls that will prevent flow of fuel if pilots or main burners are not working?	<input type="checkbox"/>	<input type="checkbox"/>
16. Is there at least a 2-inch clearance between chimney brickwork and all woodwork or other combustible materials?	<input type="checkbox"/>	<input type="checkbox"/>
17. For welding or flame cutting operations:		
Are only authorized, trained personnel permitted to use such equipment?	<input type="checkbox"/>	<input type="checkbox"/>
Have operators been given a copy of operating instructions and asked to follow them?	<input type="checkbox"/>	<input type="checkbox"/>
Are welding gas cylinders stored so they are not subjected to damage?	<input type="checkbox"/>	<input type="checkbox"/>
Are valve protection caps in place on all cylinders not connected for use?	<input type="checkbox"/>	<input type="checkbox"/>
Are all combustible materials near the operator covered with protective shields or otherwise protected?	<input type="checkbox"/>	<input type="checkbox"/>
Is a fire extinguisher provided at the welding site?	<input type="checkbox"/>	<input type="checkbox"/>
Do operators have the proper protective clothing and equipment?	<input type="checkbox"/>	<input type="checkbox"/>

Develop your own checklist.

These are only sample questions.

MATERIALS

	OK	ACTION NEEDED
1. Are approved safety cans or other acceptable containers used for handling and dispensing flammable liquids?	<input type="checkbox"/>	<input type="checkbox"/>
2. Are all flammable liquids that are kept inside buildings stored in proper storage containers or cabinets?	<input type="checkbox"/>	<input type="checkbox"/>
3. Do you meet OSHA standards for all spray painting or dip tank operations using combustible liquids?	<input type="checkbox"/>	<input type="checkbox"/>
4. Are oxidizing chemicals stored in areas separate from all organic material except shipping bags?	<input type="checkbox"/>	<input type="checkbox"/>
5. Do you have an enforced NO SMOKING rule in areas for storage and use of hazardous materials?	<input type="checkbox"/>	<input type="checkbox"/>
6. Are NO SMOKING signs posted where needed?	<input type="checkbox"/>	<input type="checkbox"/>
7. Is ventilation equipment provided for removal of air contaminants from operations such as production grinding, buffing, spray painting and/or vapor degreasing, and is it operating properly?	<input type="checkbox"/>	<input type="checkbox"/>
8. Are protective measures in effect for operations involved with x-rays or other radiation?	<input type="checkbox"/>	<input type="checkbox"/>
9. For lift truck operations:		
Are only trained personnel allowed to operate forklift trucks?	<input type="checkbox"/>	<input type="checkbox"/>
Is overhead protection provided on high lift rider trucks?	<input type="checkbox"/>	<input type="checkbox"/>
10. For toxic materials:		
Are all materials used in your plant checked for toxic qualities?	<input type="checkbox"/>	<input type="checkbox"/>
Have appropriate control procedures such as ventilation systems, enclosed operations, safe handling practices, proper personal protective equipment (such as respirators, glasses or goggles, gloves, etc.) been instituted for toxic materials?	<input type="checkbox"/>	<input type="checkbox"/>

FIGURE 16-8 Continued

EMPLOYEE PROTECTION		OK	ACTION NEEDED
<p>Develop your own checklist.</p> <p>These are only sample questions.</p>	1. Is there a hospital, clinic, or infirmary for medical care near your business?	<input type="checkbox"/>	<input type="checkbox"/>
	2. If medical and first-aid facilities are not nearby, do you have one or more employees trained in first aid?	<input type="checkbox"/>	<input type="checkbox"/>
	3. Are your first-aid supplies adequate for the type of potential injuries in your workplace?	<input type="checkbox"/>	<input type="checkbox"/>
	4. Are there quick water flush facilities available where employees are exposed to corrosive materials?	<input type="checkbox"/>	<input type="checkbox"/>
	5. Are hard hats provided and worn where any danger of falling objects exists?	<input type="checkbox"/>	<input type="checkbox"/>
	6. Are protective goggles or glasses provided and worn where there is any danger of flying particles or splashing of corrosive materials?	<input type="checkbox"/>	<input type="checkbox"/>
	7. Are protective gloves, aprons, shields, or other means provided for protection from sharp, hot, or corrosive materials?	<input type="checkbox"/>	<input type="checkbox"/>
	8. Are approved respirators provided for regular or emergency use where needed?	<input type="checkbox"/>	<input type="checkbox"/>
	9. Is all protective equipment maintained in a sanitary condition and readily available for use?	<input type="checkbox"/>	<input type="checkbox"/>
	10. Where special equipment is needed for electrical workers, is it available?	<input type="checkbox"/>	<input type="checkbox"/>
	11. When lunches are eaten on the premises, are they eaten in areas where there is no exposure to toxic materials, and not in toilet facility areas?	<input type="checkbox"/>	<input type="checkbox"/>
	12. Is protection against the effect of occupational noise exposure provided when the sound levels exceed those shown in the OSHA noise standard?	<input type="checkbox"/>	<input type="checkbox"/>

FIGURE 16-8 Continued

Application Case

The Dangerous Third Shift

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More than 100 years ago, Upton Sinclair wrote his famous book, *The Jungle*, about the outrageous conditions in Chicago-area slaughterhouses. Although slaughterhouse conditions have undoubtedly improved, working in meatpacking plants can still be strikingly dangerous.²⁵⁵

In one such plant, in Kansas, the first two (daytime) work shifts oversee the actual processing of approximately 6,000 cows per day. After that, the third, 11 P.M. shift starts as the sanitation crews arrive. These workers have to wade through slippery conditions, including grease and parts left over from the day shifts' work. The sanitation crew's job is to clean the plant and its machines and conveyors with boiling water and disinfectants.

Several years ago, a female sanitation crew worker was finishing cleaning the belt on one of the conveyors. She had shut down the conveyor when she cleaned it. However, after turning it back on, she noticed she had missed some animal fat dirt below the conveyor. With the belt still moving she reached under it to get the dirt. She lost her

balance and tried to catch herself, but her hand and then her arm were drawn into the machine and completely mangled.

Questions

- 16-11. No doubt many problems contributed to this severe accident. However, if you had to choose just one thing that you would tell the meatpacking company to change, what would it be?
- 16-12. Would it be advisable for them to set up a procedure for screening out accident-prone individuals? Why or why not? If so, how should they screen them?
- 16-13. Write a short position paper on the subject, "What should we do in this plant to get all our employees to behave more safely at work?"
- 16-14. Based on what you learned from this chapter, write a short position paper on the subject, "What should we do to reduce the chances of accidents like this in our meatpacking plant? Please make sure to list at least 5–10 specific things you would suggest.

Continuing Case

Carter Cleaning Company

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The New Safety Program

Employees' safety and health are very important matters in the laundry and cleaning business. Each facility is a small production plant in which machines, powered by high-pressure steam and compressed air, work at high temperatures washing, cleaning,

and pressing garments, often under very hot, slippery conditions. Chemical vapors are produced continually, and caustic chemicals are used in the cleaning process. High-temperature stills are almost continually "cooking down" cleaning solvents in order to remove impurities so that the solvents can be reused. If a mistake is made in this process—like injecting too much steam into the still—a boilover occurs, in which boiling chemical solvent erupts out of the still and over the floor, and on anyone who happens to be standing in its way.

As a result of these hazards and the fact that chemically hazardous waste is continually produced in these stores, several government agencies (including OSHA and the Environmental Protection Agency) have instituted strict guidelines regarding the management of these plants. For example, posters have to be placed in each store notifying employees of their right to be told what hazardous chemicals they are dealing with and what the proper method for handling each chemical is. Special waste-management firms must be used to pick up and properly dispose of the hazardous waste.

A chronic problem the Carters (and most other laundry owners) have is the unwillingness on the part of the cleaning/spotting workers to wear safety goggles. Not all the chemicals they use require safety goggles, but some—like the hydrofluoric acid used to remove rust stains from garments—are very dangerous. The latter is kept in special plastic containers, since it dissolves glass. The problem is that wearing safety goggles can be troublesome. They are somewhat uncomfortable,

and they become smudged easily and thus cut down on visibility. As a result, Jack has always found it almost impossible to get these employees to wear their goggles.

Questions

- 16-15.** How should the firm go about identifying hazardous conditions that should be rectified? Use checklists such as those in Figures 16-6 and 16-8 to list at least 10 possible dry cleaning store hazardous conditions.
- 16-16.** Would it be advisable for the firm to set up a procedure for screening out accident-prone individuals? How should they do so?
- 16-17.** How would you suggest the Carters get all employees to behave more safely at work? Also, how would you advise them to get those who should be wearing goggles to do so?

Translating Strategy into HR Policies and Practices Case*,§

* The accompanying strategy map for this chapter is in MyLab Management; the overall map on the inside back cover of this text outlines the relationships involved.

Improving Performance at the Hotel Paris

The New Safety and Health Program

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance, by eliciting the required employee behaviors and competencies.

While "hazardous conditions" might not be the first thing that comes to mind when you think of hotels, Lisa Cruz knew that hazards and safety were in fact serious issues for the Hotel Paris. Indeed, everywhere you look—from the valets leaving car doors open on the driveways to slippery areas around the pools, to thousands of pounds of ammonia, chlorine, and other caustic chemicals that the hotels use each year for cleaning and laundry, hotels provide a fertile environment for accidents. Obviously, hazardous conditions are bad for the Hotel Paris. They are inhumane for the workers. High accident rates probably reduce employee morale and thus service. And accidents raise the company's costs and reduce its profitability, for instance, in terms of workers' compensation claims and absences. Lisa knew that she had to clean up her firm's occupational safety and health systems, for its employees' well-being, and to achieve the company's strategic goals.

Lisa and the CFO reviewed their company's safety records, and what they found disturbed them. In terms of every safety-related metric they could find, including accident costs per year, lost time due to accidents, workers' compensation per employee, and number of safety training programs per year, the Hotel Paris compared unfavorably with most other hotel chains and service firms. "Just in terms of extra workers' compensation costs, the Hotel Paris must be spending \$500,000 a year more than we should be," said the CFO. And that didn't include lost time due to accidents, or the negative effect accidents had on employee morale, or the cost of litigation (as when, for instance, one guest accidentally burned himself with chlorine that a pool attendant had left unprotected). The CFO authorized Lisa to develop a new safety and health program.

Lisa and her team began by hiring a safety and health consultant, someone who had been an inspector and then manager with OSHA. Based on the analysis, the team then took numerous steps, including the following. First, specially trained teams consisting of someone from Lisa's HR group, the local hotel's assistant manager, and three local hotel employees went through each local hotel "with a fine-tooth comb," as Lisa put it. They used an extensive checklist to identify and eliminate unsafe conditions.

Lisa's team took other steps. They convinced the Hotel Paris's board of directors and chairman and CEO to issue a joint statement emphasizing the importance of safety, and the CEO, during a one-month period, visited each hotel to meet with all employees and emphasize safety. The Hotel Paris also contracted with a safety training company. This firm created special online safety programs for the company's managers, and developed five-day training seminars for the hotels' staffs.

The new programs seem to be effective. Lisa and the CFO were pleased to find, after about a year, that accident costs per year, lost time due to accidents, and workers' compensation expenses were all down at least 40%. And anecdotal evidence from supervisors suggested that employees feel better about the company's commitment to them and were providing better service as a result.

Questions

- 16-18.** Based on what you read in this chapter of Dessler *Human Resource Management*, what's the first step you would have advised the Hotel Paris to take as part of its new safety and health program, and why?
- 16-19.** List 10 specific high-risk areas in a typical hotel you believe Lisa and her team should look at now, including examples of the safety or health hazards that they should look for there.
- 16-20.** Give three specific examples of how the Hotel Paris can use HR practices to improve its safety efforts.
- 16-21.** Write a one-page summary addressing the topic, "How improving safety and health at the Hotel Paris will contribute to us achieving our strategic goals."

MyLab Management

Go to www.pearson.com/mylab/management for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 16-22. Based on everything you read in this chapter, what is Milliken doing “right” that you believe helps to explain why they have such a good safety record?
- 16-23. Describe the steps employers can take to reduce workplace violence.
- 16-24. MyLab Management only—comprehensive writing assignment for this chapter.

PERSONAL INVENTORY ASSESSMENTS



Controlling one's stress is important. Go to www.pearson.com/mylab/management to complete the Personal Inventory Assessment related to this chapter.

Key Terms

Occupational Safety and Health Act of 1970, 521	occupational illness, 521	job hazard analysis, 528	safety awareness program, 536
Occupational Safety and Health Administration (OSHA), 521	citation, 524	operational safety reviews, 532	burnout, 542
	unsafe conditions, 526	behavior-based safety, 536	

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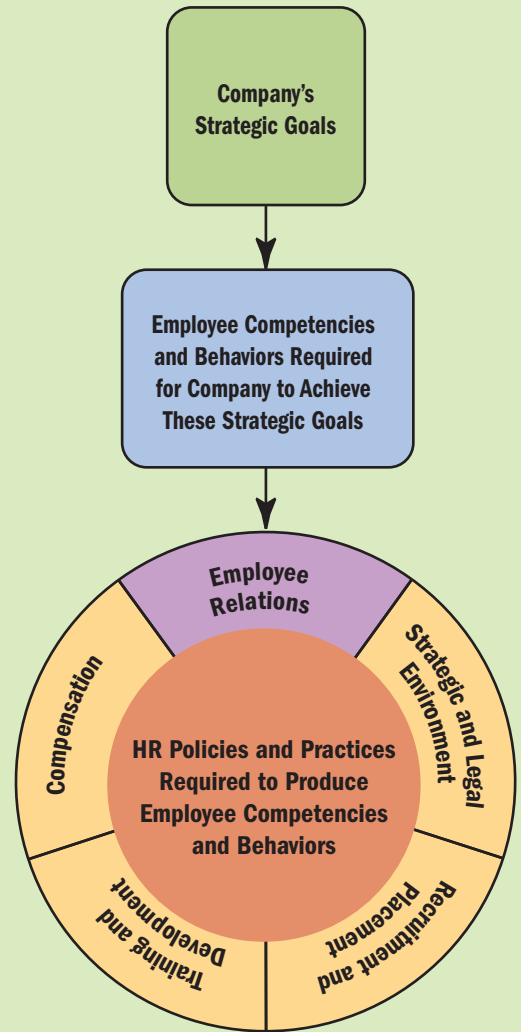
Managing Global Human Resources

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 17-1** **List** the HR challenges of international business.
- 17-2** **Illustrate** with examples how intercountry differences affect HRM.
- 17-3** **List and briefly describe** the main methods for staffing global organizations.
- 17-4** **Discuss** some important issues to keep in mind in training, appraising, and compensating international employees.
- 17-5** **Discuss** similarities and differences in employee engagement around the globe.
- 17-6** **Explain** with examples how to implement a global human resource management program.

Hyundai Capital's strategy includes becoming what it calls a "Global One Company." For example, it is unifying its organizational structure, products and services, and management practices worldwide.¹ Its HR group needed a new human resource strategy to similarly ensure that its human resource practices in countries around the world were standardized. We'll see what they did.



WHERE ARE WE NOW . . .

More managers today are managing people internationally. The purpose of this chapter is to improve your effectiveness at applying your human resource knowledge and skills when global challenges are involved. The topics we'll discuss include **The Manager's Global Challenge, Adapting Human Resource Activities to Intercountry Differences, Staffing the Global Organization, Training and Maintaining Employees Abroad, Employee Engagement Globally, and Managing HR Locally: How to Implement a Global HR System.**

LEARNING OBJECTIVE 17-1

List the HR challenges of international business.

The Manager's Global Challenge

You don't have to dig very far to see how important international business is to companies here and abroad. For example, the total of U.S. imports plus exports rose from \$562 billion in 1980, to about \$5.2 *trillion* recently.² That growth has been great for all sorts of businesses, but also confronts managers with special challenges. For one thing, managers have to formulate and execute their marketing, product, and production plans on a global basis. Ford Motor, for instance, has a strategy aimed at offering similar Ford vehicles globally.

"Going global" also requires addressing international human resource management issues. For example, "Should we staff our local offices in Japan with local or U.S. managers?" And, "How should we appraise and pay our China employees?"

As we'll see in a moment, the challenging thing about managing HR globally is that what works in one country may not work in another. The employer faces an array of political, social, legal, and cultural differences among countries and people abroad. Therefore, for instance, telling employees in Russia that they're "empowered" and should use their initiative may prompt stony silence, while the same suggestion in Canada prompts initiatives and ideas. Distance adds to the challenge. For example, how should Starbucks' chief HR officer, based in Seattle, monitor Starbucks' human resource managers in China? Yet, challenging or not, the employer needs a way to deal with such questions.

international human resource management (IHRM)

The human resource management concepts and techniques employers use to manage the human resource aspects of their international operations, including acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns.

What Is International Human Resource Management?

Employers rely on **international human resource management (IHRM)** to deal with global HR challenges like these.³ We can define IHRM as the human resource management concepts and techniques employers use to manage the human resource aspects of their international operations, including acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns. IHR managers address questions such as "What steps can we take to support the company's global strategy?" "What's the best way for us to pay our expatriate employees?" and "How can we best staff our assignments abroad with global leaders?"⁴

**LEARNING OBJECTIVE 17-2**

Illustrate with examples how intercountry differences affect HRM.

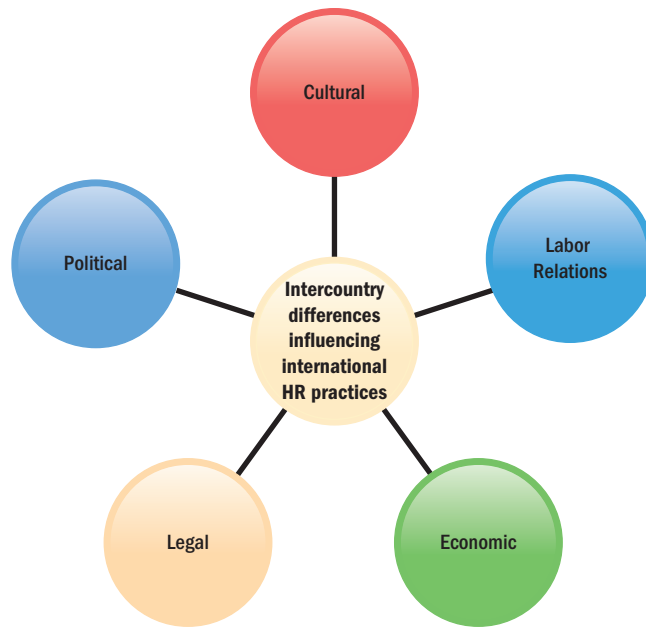
Adapting Human Resource Activities to Intercountry Differences

As we said, the challenges of international human resource management don't just stem from the distances involved (though this is important). The bigger issue is dealing with the cultural, political, legal, and economic differences among countries and their people. The result is that what works in one country might fail in another.

Companies operating only within the United States generally have the luxury of dealing with a relatively limited set of economic, cultural, and legal variables. Economically the United States is a capitalist, competitive society. And while the U.S. workforce reflects a multitude of cultural and ethnic backgrounds, shared values (such as an appreciation for democracy) help to blur cultural differences. Different states and municipalities certainly have their own employment laws. However, a basic federal framework helps produce a predictable set of legal guidelines regarding matters such as employment discrimination and labor relations.

A company operating multiple units abroad doesn't face such homogeneity. For example, minimum legally mandated holidays range from none in the United Kingdom to 5 weeks in Luxembourg. Italy has no formal requirements for employee representatives on boards of directors, but they're usually required in Denmark. The point is that managers have to adapt their human resource policies and practices to the countries in which they're operating. Figure 17-1 sums up critical intercountry differences.

FIGURE 17-1 Critical Intercountry Differences That Influence International HR Practices



Cultural Factors

For example, countries differ widely in their *cultures*—in other words, in the basic values, assumptions, and understandings their citizens share.⁵ Peoples’ values and assumptions tend to drive what they do, and so cultural differences manifest themselves in how people in different countries think and act. For example, one Michelin executive said that when he gives performance feedback in France, employees don’t think it’s necessary to mention what’s right because they know what they’ve done right. He focuses instead on what’s wrong.⁶ That approach would surprise most U.S. employees, so there’s a tendency for U.S. managers to sugarcoat what’s wrong. In China, heads of companies are inclined to see employees as members of their family, but in turn demand much of them.⁷

As another example, one expert says that workers around the world tend to have differing attitudes toward authority and decision making.⁸ With respect to *authority*, countries range from egalitarian to hierarchical. For example, in the more egalitarian United States and Canada, managers emphasize worker empowerment and soliciting input, while in hierarchical countries like Saudi Arabia and Russia authority clearly resides in top managers. Similarly, differences in how they *make decisions* characterize cultures around the world. Thus, in the United States and Mexico, top-down decision making tends to be the rule, while in Sweden and Japan the emphasis is on consensus decisions.

Such differences can cause consternation for multinational employers. For example, employees in hierarchical countries such as Indonesia might react negatively to a manager from the U.S. soliciting their opinions. Similarly, employees in egalitarian countries like Sweden, (where even schoolchildren call their teachers by their first name) might react negatively to a boss from abroad who emphasizes his or her “bossiness.”

THE HOFSTEDE STUDY Studies by Professor Geert Hofstede further illustrate international cultural differences. Hofstede says societies differ in five values, which he calls *power distance*, *individualism*, *masculinity*, *uncertainty avoidance*, and *long-term orientation*. For example, power distance represents the degree to which less-powerful people accept the unequal distribution of power in society.⁹ He concluded that acceptance of such inequality was higher in some countries (such as Mexico) than in others (such as Sweden).¹⁰ In turn, such differences manifest themselves in different behaviors. To see how your country’s culture compares with others, go to <https://geerthofstede.com/culture-geert-hofstede-gert-jan-hofstede/6d-model-of-national-culture/>.



Such cultural differences influence human resource policies and practices. For example, Americans' emphasis on individuality may help explain why European managers have more constraints, such as in dismissing workers.¹¹ As another example, in countries with a history of autocratic rule, employees often had to divulge information. Here, whistle-blower rules are less popular.¹²

Legal Factors

Employers expanding abroad must also be familiar with the labor laws in the countries they're entering. For example, in India, companies with more than 100 workers need government permission to fire anyone.¹³ In Brazil, firing someone without "just cause" could trigger a fine of 4% of the total amount the worker ever earned.¹⁴

Similarly, the U.S. practice of employment at will doesn't exist in Europe, where firing or laying off workers is usually expensive. One firm there hired someone as an independent contractor, only to find later that they owed the person hundreds of thousands of dollars in back taxes and penalties for misclassifying the person.¹⁵ And in many European countries, **works councils**—formal, employee-elected groups of worker representatives—meet monthly with managers on topics ranging from no-smoking policies to layoffs.¹⁶ *Codetermination* is the rule in Germany and several other countries. **Codetermination** means workers have the right to have their own elected representatives on the employer's supervisory board.¹⁷

Economic Systems

Similarly, differences in *economic systems* translate into differences in intercountry HR practices. In *market* economies (such as the United States), governments play a relatively restrained role in deciding what will be produced and sold at what prices. In *planned* economies (such as North Korea), the government decides and plans what to produce and sell at what price. In *mixed* economies (such as China), many companies are still state owned, while others make decisions based on market demand.

Differences in economic systems tend to translate into differences in human resource management policies. For instance, dismissing employees in China or Europe is more difficult than in the United States. Labor costs also vary widely. For example, hourly compensation costs (in U.S. dollars) for production workers range from

works councils

Formal, employee-elected groups of worker representatives.

codetermination

Employees have the legal right to a voice in setting company policies.

Employers need to adapt their HR practices to the cultures of the countries where they do business.



Shafiqul Alam/Alamy Stock Photo



\$2.10 in the Philippines to \$9.46 in Taiwan, \$35.67 in the United States, \$45.79 in Germany, to \$63.86 in Norway.¹⁸

HR Abroad Example: The European Union

To appreciate the employment effects of cultural, economic, and legal differences like these, consider Europe and China. The separate countries of the former European Community (EC) unified into a common market for goods, services, capital, and even labor called the *European Union (EU)*. Tariffs for goods moving across borders from one EU country to another generally disappeared, and employees generally move freely between jobs in EU countries. The introduction of a single currency (the euro) by a subset of EU countries further blurred differences. Despite (or perhaps partly because of) Greece's fiscal problems, EU countries today are discussing moving toward increased economic integration.

Companies doing business in Europe must adjust their human resource policies and practices to EU directives (laws), as well as to country-specific employment laws. The directives are binding on all member countries, but each country can implement them as they wish. Some laws are applied fairly similarly across Europe. For example, Germany has high barriers to dismissal, in Italy poor performance is not a reason for dismissal, and in Norway a dismissal must be justified based on the evidence.¹⁹ (Whirlpool Corporation spent more than 3 years trying to eliminate 500 jobs in Italy, while [for better or worse] it took them less than a year to dismiss 1,000 people in Arkansas.)²⁰ Other details, such as whether job offers must be in writing, and whether there is a mandatory minimum wage (yes in Germany, no in Austria) vary among European countries.²¹

HR Abroad Example: China

For years, employers relied on China's huge workforce to provide products and services at low cost. Part of the reason for the low labor cost was the dearth of labor laws on things like severance pay, minimum wages, and benefits.

But things are changing. For one thing, China's workforce, while still huge, is growing less quickly. For another, China enacted a labor law. This adds many new employment protections for employees, and makes it more expensive for employers in China to implement personnel actions such as layoffs. Multinational companies doing business in China argue that the law will raise labor costs and make it difficult to lay off employees, by instituting new severance package rules.²² Local firms, including the remaining state-owned enterprises, tend to use fewer modern human resource management tools than do private Chinese multinationals like Lenovo, but they must all deal with the fallout of the labor law. There are therefore wide variations in how companies in China deal with HR issues such as the following.²³

RECRUITING Compared to some Western countries, it is still relatively difficult to recruit, hire, and retain good employees. China's employment contract law requires, among many other things, that employers report the names, sexes, identification numbers, and contract terms for all employees they hire within 30 days of hiring to local labor bureaus.²⁴

In China, recruiting effectiveness depends on nonrecruitment human resource management issues. Employees gravitate toward employers that provide the best career advancement training and opportunities.²⁵ Firms like Siemens China, with impressive training and development programs, have the least difficulty attracting good candidates. Poaching employees is a serious matter in China. The employer must verify that the applicant is free to sign a new employment agreement.

SELECTION The dominant employee selection method involves analyzing the applicant's résumé and then interviewing him or her. The ideal way to do this is to institute a structured interview process, as many of the foreign firms in China have done.

COMPENSATION Although many managers endorse performance-based pay in China, other employers, to preserve group harmony, make incentive pay a small part of the pay package. And, as in other parts of Asia, team incentives are advisable.²⁶



LEARNING OBJECTIVE 17-3

List and briefly describe the main methods for staffing global organizations.

LABOR UNIONS Chinese facilities of IBM, PepsiCo, Walmart, and others have seen extensive strikes by Chinese workers.²⁷ Several things may be contributing to the strikes. China's new labor law expands workers' rights. An aging population in China means a diminishing supply of factory workers. And China's government may see the strikes as a way of raising workers' incomes and thus boosting consumer spending. China's All-China Federation of Trade Unions is closely tied to the government.

Staffing the Global Organization

International employers' focus today is increasingly on managing human resource activities locally. In other words, their main concern is on selecting, training, appraising, and managing the in-country employees where they do business. However, deciding whether to fill local positions with local versus expatriate ("imported") employees remains a major concern.



HR in Action at the Hotel Paris On reviewing the data, it was apparent to Lisa and the CFO that the company's global human resource practices were probably inhibiting the Hotel Paris from being the world-class guest services company that it sought to be. To see how they handled this, see the case on page 585 of this chapter.

expatriates (expats)

Noncitizens of the countries in which employees are working.

parent or home-country nationals

Citizens of the country in which the multinational company has its headquarters.

third-country nationals

Citizens of a country other than the parent or the host country.

locals

Citizens of the countries in which employees are working; also called *host-country nationals*.

ethnocentric

Here the company staffs its positions abroad with employees from its headquarters—with parent-country nationals, in other words.

polycentric

Here the company staffs positions abroad with local or host-country employees.

global

The global company aims to attract the best candidates globally, including freely using third-country nationals to staff its positions around the world with the best people available.

International Staffing: Home or Local?

In general, we can staff an international company with *expatriates*, *parent (or home-country) nationals*, *locals (host-country nationals)*, or *third-country nationals*.²⁸ **Expatriates (expats)** are noncitizens of the countries in which they are working. In terms of where they come from, expatriates may also be **parent** or **home-country nationals**, citizens of the country in which the company is headquartered. Expatriates may also be **third-country nationals**—citizens of a country other than the parent or the host country—for example, a French executive working in the Beijing office of IBM. (And not all expatriates are sent there by employers; many recent graduates, academics, and business professionals decide to move, live, and work abroad.)²⁹ **Locals** (also known as *host-country nationals*) work for the company abroad and are citizens of the countries where they are working.

Internationalization Stage, Values, and Staffing Policy

Whether to use expatriates, locals, or some other type generally depends on quantifiable considerations (such as cost). However, it's not just hard facts that influence such decisions. Top management's personal inclinations and the company's stage in internationalization affect these decisions too. As a result, some companies are just more expat-oriented or local-oriented. Experts here distinguish among *ethnocentric*, *polycentric*, or *global* companies.

In an **ethnocentrically** oriented company, the company tends to staff its positions abroad with employees from its headquarters—with parent-country nationals, in other words.³⁰ The **polycentric** company staffs positions abroad with local or host-country employees. And the **global** company aims to attract the best candidates globally, including freely using third-country nationals to staff its positions around the world with the best people available.

The company's stage in internationalization and its managers' inclinations both affect whether the company is inclined toward being ethnocentric, polycentric, or global in its staffing.³¹ Companies new to the international arena may well run their international operations from "international" units within their corporate headquarters.³² Here, the practical need to quickly transfer know-how abroad and to maintain a unified corporate culture and tighter control argue for an ethnocentric approach.³³ The company transfers abroad people (as expatriates) it knows well.

That "international" structure may evolve into a "multinational" structure, where subsidiaries abroad (often with their own HR units) largely control themselves. This tends to favor a polycentric staffing approach, wherein local, host-country employees, who know the local conditions best, staff the company's local positions.

Today, for many companies, the trend is toward being “global” companies. Global companies seek to be fully integrated. For example, a car to be sold throughout the world might be designed in France and manufactured in China and the United States with parts from Japan. Global companies not surprisingly tend to use a global philosophy in staffing its positions around the world, by filling positions with the best people—whether host-country nationals, locals, or third-country nationals.

EXPATS VERSUS LOCALS There are other considerations in using expats over locals. The employer may be unable to find local candidates with the required qualifications. Companies like GE traditionally viewed a successful stint abroad as a required step in developing top managers. Furthermore, home-country managers are already steeped in the firm’s policies and culture, and thus more likely to apply headquarters’ ways of doing things. Expatriates may also find it easier to coordinate with their former colleagues at the company’s parent-country headquarters than would host-country locals.³⁴

However, posting expatriates abroad is expensive, security problems give potential expatriates pause, returning expatriates often leave for other employers within a year or two, and educational facilities are turning out top-quality candidates abroad. As a result, new expatriate postings tend to be down. A survey several years ago found that about 47% of U.S. multinationals were maintaining the size of their expat workforces, 18% were increasing it, and 35% were decreasing it.³⁵ However, about half the global companies in another survey said they were doubling the number of expats they send to fast-growing countries such as China.³⁶

From a practical point of view, most employees will be locals, for good reason. First, the cost of using expatriates is usually far greater than that of local workers.³⁷ Furthermore, in one survey, employers reported a 21% attrition rate for expatriate employees, compared with 10% for their general employee populations.³⁸ Local people will also probably better deal with local political issues than will expatriates.³⁹



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Job Boards Abroad

Although a few U.S.-based job boards (like Indeed, and Monster) are global, most countries have their own major job boards. For instance, there is www.51job.com in China, www.careerone.com.au in Australia and New Zealand, and www.laborum.cl in Latin America.⁴⁰ ■

OTHER SOLUTIONS The choice is not just between expatriate versus local employees. For example, there are “commuter” solutions, involving frequent international travel but no formal relocation.⁴¹

One survey found that about 78% of surveyed employers had some form of “localization” policy. This is a policy of transferring a home-country national employee to a foreign subsidiary as a “permanent transferee.”⁴² For example, U.S. IBM employees originally from India eventually filled many of the 5,000 jobs that IBM shifted from the United States to India. These employees elected to move back to India, albeit at local India pay rates. The human resource team needs to control expat expenses, as the accompanying Profit Center feature explains.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Reducing Expatriate Costs

Given the expense of sending employees abroad for overseas assignments, the employer’s human resource team plays a big role in controlling and reducing expatriate costs. A survey shows some of the steps HR managers are taking to reduce these expenses.⁴³ First, companies are upping the numbers of short-term assignments they make. This lets them use short-term expats to replace some long-term expats (and their families)

who the company must maintain abroad for extended periods. Fifty percent of the companies surveyed are also replacing some expatriate postings with local hires. With an eye on cutting costs, many employers were also reviewing their firms' policies regarding such things as housing, education, and home leave, along with expatriate allowances and premiums (cost-of-living allowance and mobility/quality-of-living premiums).⁴⁴ The bottom line is that there's a lot human resource managers can do to cut costs and boost profits by better managing expat assignments. ■

MyLab Management Talk About It 1

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. What else would you do to cut expat expenses?

OFFSHORING As we explained in Chapter 5, *offshoring*—moving business processes such as manufacturing or call-center operations abroad, and thus having local employees abroad do jobs that the firm's domestic employees previously did in-house—is another staffing option.

IBM Business Consulting Services surveyed employers to see what roles HR was playing in offshoring and overseas site selection decisions.⁴⁵ Here, human resource managers help top management:⁴⁶

- To understand the *local labor markets*, for example, in terms of their size, education levels, and unions.
- To understand how the firm's current *employment-related reputation* in the locale may affect outsourcing to here.
- To decide how much the firm should *integrate the local workforce* into the parent firm's corporate organization. For example, engineers might best become employees. Others (such as call centers) might best remain employees of vendor firms.
- To deal with skill shortages.⁴⁷ This often requires using signing bonuses, higher wages, and improved promotion opportunities.
- To identify how to reduce attrition. This might include more training and development, better compensation, and improved career opportunities.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Using Global Virtual Teams

Advances in telecommunications make it far easier today to carry out international projects and operations using global virtual teams. Global **virtual teams** are groups of geographically dispersed and generally same-level coworkers who meet and interact using information technologies to accomplish an organizational task.⁴⁸ For example, two multinational pharmaceutical companies used a multinational team with members from four continents to address detailed postmerger operational integration problems.

In a Skype and FaceTime world, virtual teams are both practical and popular. Collaborative software systems such as Microsoft NetMeeting conference system,⁴⁹ Cisco WebEx,⁵⁰ and GoToMeeting⁵¹ enable virtual teams to hold live project reviews and discussions, share documents and exhibits, and store the sessions on the project's Web site. Cloud-based tools such as Huddle⁵² allow team members to attend from wherever they are using mobile devices, Microsoft Project lets project team members manage tasks and flag issues and risks,⁵³ and Dropbox⁵⁴ facilitates cloud-based document storage. If necessary, large-screen tools such as Cisco Immersive TelePresence⁵⁵ make it seem as if team members are together in the same room, although they may be thousands of miles apart.

The main challenges virtual teams face are often people related. Challenges include building trust, cohesion, and team identity, and overcoming the isolation among team

virtual teams

Groups of geographically dispersed and generally same-level coworkers who meet and interact using information technologies to accomplish an organizational task.

members. Similarly, if most team members reside in one country, the others may assume that the real power also lays in that country. Here the solution is to stress that the team has a unified goal and a common purpose.⁵⁶ The point is that human resource management plays an important role in such teams' success. Selecting virtual team members for their interpersonal skills, and then training them to deal with potential problems such as conflict avoidance and how to build trust is important. ■

Selecting International Managers

In most respects, screening managers for jobs abroad is similar to screening them for domestic jobs. Candidates need the technical knowledge and skills to do the job, and the required intelligence and people skills. Testing is widely used.

However, foreign assignments are different. The expatriate and his or her family will have to cope with and adapt to colleagues whose culture may be very different from their own. And, there's the stress of being in a foreign land. Ironically, one study a while ago concluded, "Traditionally, most selection of expatriates appears to be done solely on the basis of successful records of job performance in the home country."⁵⁷ The candidate's ability to adapt to a new culture is often secondary. That's exactly opposite from what it should be.

REALISTIC PREVIEWS Ideally, international assignee selection should therefore include *realistic previews*, and *adaptability screening procedures*.⁵⁸ Even in the most familiar countries there will be language barriers, and challenges for the family including homesickness and the need to adapt to new friends. It's important here to both reduce unrealistic expectations and familiarize the expat with potential challenges and benefits.⁵⁹ Realistic previews about what to expect, covering both problems and benefits, are therefore important. Many employers have prospective expat families meet with recently returned expats and their spouses to get that sort of information. Beyond that, social media such as www.linkedin.com (see their global expat network) and www.expatsfinder.com are excellent sources of information, suggestions, support, and employment leads and connections for expats or for those considering a job abroad. A typical link you'll find at those sites is <https://www.linkedin.com/company/aramco-expats>.⁶⁰

adaptability screening

A process that aims to assess the assignees' (and spouses') probable success in handling a foreign transfer.

ADAPTABILITY SCREENING Similarly, with adaptability important, **adaptability screening** should be part of the screening process. Employers often use psychologists for this. Adaptability screening aims to assess the assignee's (and spouse's) probable success in handling the foreign transfer, and to alert them to issues (such as the impact on children) the move may involve. Here, companies often look for overseas candidates whose work and nonwork experience, education, and language skills already demonstrate living and working with different cultures. Even several summers traveling overseas or in foreign study programs can provide some basis to believe the candidate can adjust abroad.

TESTING Selection testing is useful for expat selection. In terms of personality, sociable, outgoing, conscientious people seem more likely to fit into new cultural settings.⁶¹ Similarly, expatriates who are more satisfied with their jobs abroad are more likely to adapt to the foreign assignment.⁶² Employers have used the Overseas Assignment Inventory (OAI) for many years to help assess, select, and develop expatriates for assignments abroad. The OAI is an online assessment that measures attributes crucial for successful adaptation to another culture.⁶³ As another example, expat success also requires an "international mind-set." Employers sometimes measure this with the "Global Mindset Inventory." Sample questions include "Knows how to work well with people from different parts of the world?" And "Enjoys exploring different parts of the world?"⁶⁴



Diversity Counts: Sending Women Managers Abroad

While women represent about half of the middle managers in U.S. companies, they represent only about 20% of managers sent abroad.⁶⁵ That's up from about 3% in the 1980s and 15% in 2005, but still low.⁶⁶ What accounts for this?

For one thing, misperceptions abound.⁶⁷ Line managers make these assignments, and many still probably assume that many women don't want to work abroad, or can't get their spouses to join them. However, a survey of female expatriates found enthusiasm. Why did they take their assignments? "Career development" was number one. Other reasons included "cultural understanding," "gaining experience," "doing something different," "personal goals," and "development learning."⁶⁸

Fear of cultural prejudices against women is another issue. In some cultures, women do have to follow different rules, for instance, in terms of attire. But as one expat said, "Even in the more harsh cultures, once they recognize that the women can do the job . . . it becomes less of a problem."⁶⁹ Safety is another concern. Employers tend to assume that women abroad are more likely to become crime victims. However, most surveyed women expats said that safety was no more an issue with women than it was with men.⁷⁰

Employers can take several steps to identify more women to assign abroad. For example, *formalize a process* for identifying employees who are willing to take assignments abroad. (At Gillette, for instance, supervisors use the performance review to identify the subordinate's career interests, including for assignments abroad.) *Train managers* to understand how their employees really feel about going abroad. And let successful female expats *help recruit* prospective female expats. And provide the expat's spouse with *employment assistance*.⁷¹ ■

LEGAL ISSUES There are various legal considerations when hiring for assignments abroad. For example, as we explained in Chapter 2 (Equal Opportunity), American equal employment opportunity laws, including Title VII, the ADEA, and the ADA, do affect qualified employees of U.S. employers doing business abroad, and foreign firms doing business in the United States or its territories. If equal employment opportunity laws conflict with the laws of the country in which the U.S. employer is operating, the laws of the local country generally take precedence.⁷²

Avoiding Early Expatriate Returns

As a rule, "expatriates typically experience a gradual increase in work adjustment over time."⁷³ However, many expat assignments do fail, usually ending in an early unplanned return. Determining why the foreign assignment of a technically qualified expat failed is a cottage industry, but two factors loom large—the expat's personality, and family pressures.

As noted, a big part of the problem is how they're chosen in the first place. The tendency is to choose expats for their technical expertise and successful work achievements, but going abroad actually requires an expanded skill set (including adaptability). For example, as noted, sociable, outgoing, conscientious people seem more likely to fit into new cultural settings.⁷⁴ Studies also suggest that it's not how different culturally the host country is from the person's home country that causes problems; it's the person's cross-cultural awareness and ability to adapt.⁷⁵ Some people are so culturally at ease that they do fine transferred anywhere; others will fail anywhere.⁷⁶ Careful selection is therefore in order.

Violations of what the expatriate sees as his or her psychological contract with the employer (the unwritten rules, agreements, and expectations governing the person's position abroad) may add to expatriate failure.⁷⁷ Similarly, expatriates who are more satisfied with their jobs abroad are more likely to adapt to the foreign assignment.⁷⁸ Therefore, realistic previews and then monitoring and communicating with the expat are important.

FAMILY PRESSURES However, it is usually not technical or personality factors but family and personal ones that undermine international assignees. One solution here is to provide *realistic previews* of what to expect abroad, careful *screening* (of both the prospective expat and his or her spouse), and improved *orientation* (discussions with recent returnees about the challenges of the foreign posting, for instance). Other suggestions include: *shorten the*

length of the assignment,⁷⁹ and form “global buddy” programs, wherein local managers and their spouses assist new expatriates and their families with advice on things such as office politics, norms of behavior, and emergency medical care.⁸⁰ Most expatriates and their families make use of medical care while abroad; their main concern isn't the cost, but rather the quality of health care.⁸¹ Providing site-specific orientation and language training are also valuable. The HR Tools feature sums up some suggestions.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Some Practical Solutions to the Expatriate Challenge

Expat failure is expensive; managers can take several practical steps to improve the expat's success abroad.

- ✓ *Carefully select* expatriates, using expat-relevant criteria such as sociability and adaptability, rather than just technical skills.
- ✓ *Provide realistic previews* of what to expect abroad, *careful screening* (of both the prospective expat and his or her spouse), *improved orientation*, and *improved benefits packages*.
- ✓ *Shorten the length* of the assignment.
- ✓ *Form “global buddy” programs*. Here local managers assist new expatriates with advice on things such as office politics, norms of behavior, and where to receive emergency medical assistance.⁸²
- ✓ *Use executive coaches* to mentor and work with expatriate managers.⁸³ ■

MyLab Management Talk About It 2

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion topic. Choose one country abroad, and write 200 words on this topic: “Here is what we should cover in our realistic preview to someone we are sending to this country.”



LEARNING OBJECTIVE 17-4

Discuss some important issues to keep in mind in training, appraising, and compensating international employees.

Training and Maintaining Employees Abroad

Orienting and Training Employees on International Assignment

When it comes to the orientation and training required for expatriate success abroad, the practices of many U.S. employers reflect more talk than substance. Executives agree that international assignees do best when they receive the special training (in things like language and culture) that they require. Few provide it.

Many vendors offer packaged predeparture training. In general, the programs use on- and offline lectures, simulations, videos, and readings to prepare trainees. Their offerings illustrate the aim and content of such programs. One program aims to provide the trainee with (1) the basics of the new country's history, politics, business norms, education system, and demographics; (2) an understanding of how cultural values affect perceptions, values, and communications; and (3) examples of why moving to a new country can be difficult, and how to manage these challenges.⁸⁴ Others aim to build cross-cultural understanding, cross-cultural relationships and trust, and one's ability to communicate across cultures.⁸⁵ Global LT's “Living and Working Successfully” courses (<https://global-lt.com/>) “allow expatriate individuals and their families to gain a comprehensive understanding of the culture and business practices of their destination country. This course will help assignees more readily adjust to the work style and culture of an international assignment destination.”⁸⁶

Some employers use returning managers to cultivate the global mind-sets of those departing. For example, Bosch holds regular seminars, where newly arrived returnees pass on their experience to managers and their families going abroad.

ONGOING TRAINING Beyond such predeparture training, many firms provide continuing, in-country cross-cultural, and other training, particularly during the early stages of an overseas assignment.

For example, managers abroad (both expats and locals) continue to need traditional skills-oriented development. At many firms, including IBM, this includes rotating assignments, which help overseas managers grow professionally. IBM and other firms also have management development centers around the world where executives can hone their skills. And classroom programs (such as those at the London Business School or at INSEAD in France) provide overseas executives the educational opportunities (to acquire MBAs, for instance) that stateside colleagues have. PepsiCo encourages expatriates to engage in local social activities, such as table tennis tournaments in China, to help them become acclimated faster to local cultures.⁸⁷ Starbucks brings new management trainees from abroad to its Seattle, Washington, headquarters. This gives them “a taste of the West Coast lifestyle and the company’s informal culture,” as well as the technical knowledge required to manage their local stores.⁸⁸

International development activities can have other, less-tangible benefits. For example, rotating their assignments helps managers form bonds with colleagues around the world. These can help the managers form the informal networks they need to make cross-border decisions more expeditiously.

Ethics and Codes of Conduct

Employers also need to make sure their employees abroad are adhering to their firm’s ethics codes. However, exporting a firm’s ethics rules requires more than giving employees abroad versions of a U.S. employee handbook. For example, few countries abroad adhere to “employment at will.” Therefore, even handbooks that say, “We can fire employees at will” won’t enable one to dismiss employees.⁸⁹ Instead of exporting the employee handbook, some distribute and publicize a global code of conduct.

Often, the employer’s main concern is establishing global standards for adhering to U.S. laws that have cross-border impacts. For example, IBM paid \$10 million to settle accusations that it had bribed Chinese and South Korean officials to get \$54 million in government contracts.⁹⁰ Global employers need global codes of conduct on things like discrimination, harassment, bribery, and Sarbanes–Oxley.

Performance Appraisal of International Managers

Given the high costs of expatriate failure, appraising the expat is important.⁹¹ However, several things complicate appraising an expatriate’s performance. Cultural differences are one. For example, a candid exchange is often the norm in France, but sometimes less so in Japan, where “face” is a concern. Furthermore, the “cultural distance” in terms of basic values and ways of doing things is much wider between some countries (such as between Japan and South Africa) than others (such as between the United States and England). With more people involved, such cultural differences can particularly distort the multisource or “360-degree” feedback one gets from peers and subordinates. Therefore, particularly for expatriate employees, “peer and subordinate ratings should be used for feedback related to development, and only supervisor ratings should be used to make HR administrative decisions such as performance appraisal and merit pay.”⁹²

Furthermore, who does the appraisal? Local managers must have some input, but, again, cultural differences may distort the appraisals. On the other hand, home-office managers may be so out of touch that they can’t provide useful input. The sensible alternative is probably to let both have some input, but most companies probably emphasize the local manager’s opinion. Some suggestions for improving the expatriate appraisal process include the following:

1. Adapt the performance criteria to the local job and situation.
2. Weigh the evaluation more toward the on-site manager’s appraisal than toward the home-site manager’s.
3. If the home-office manager does the appraisal, have him or her use a former expatriate from the same location abroad for advice.

Many global employers bring their international managers together periodically for training seminars.



Cathy Yeulet/123RF

Compensating Managers Abroad

As discussed in Chapter 11 (Compensation), the usual way to formulate expatriate pay is to equalize purchasing power across countries, a technique known as the *balance sheet* approach; about 78% of respondents in one survey used it.⁹³ The basic idea is that each expatriate should enjoy the same standard of living he or she would have at home. Some use a *localization* compensation policy—they pay the incoming expat a salary comparable to what a local person would earn, but supplement that with payments to let the expat maintain his or her home-country standard of living.⁹⁴ In any case, the bottom line is that the pay plan must be competitive enough to get the person to move.

In practice, this usually boils down to building the expatriate's total compensation around five or six separate components. Table 17-1 illustrates the balance sheet approach. In this case, the manager's annual earnings are \$160,000, and she faces a U.S. income tax rate of 28%. (Multiple-nation taxation can be a problem. Respondents often list "tax compliance" as the top challenge in sending employees abroad.)⁹⁵ Other costs are based on the index of living costs abroad published in the "U.S. Department of State Indexes of Living Costs Abroad, Quarters Allowances, and Hardship Differentials," available via the www.state.gov Web site.⁹⁶

To help the expatriate manage his or her home and foreign financial obligations, most employers use a *split pay* approach; they pay, say, half a person's actual pay in home-country currency and half in the local currency.⁹⁷ For compensating *host country*

TABLE 17-1 The Balance Sheet Approach (Assumes U.S. Base Salary of \$160,000)

Annual Expense	Home Assignment Chicago, U.S.	Shanghai, China (US \$ Equivalent)	Allowance
Housing and utilities	\$35,000	\$ 44,800	\$ 9,800
Goods and services	6,000	7,680	1,680
Taxes	44,800	57,344	12,544
Discretionary income	10,000	12,800	2,800
Total	\$95,800	\$122,624	\$26,824

nationals, employers tend to use a similar process to what they use at home, namely methods like job grading to create equitable pay plans adjusted for local market conditions.⁹⁸

Determining pay rates abroad isn't easy. Although there is a wealth of compensation survey data available in the United States, such data are not as easy to come by overseas. Some multinationals therefore conduct their own local annual compensation surveys. For example, Kraft has conducted one of total compensation in Europe. However, most employers abroad do probably purchase one or more of various international salary surveys such as the Call Centre Remuneration Report/Australia, from Aon Hewitt, or the International Salary Survey Database/United Arab Emirates, from Executive Resources Limited.⁹⁹

EXPATRIATE PAY EXAMPLE As one expat pay example, those working for the company CEMEX (a multinational building supplies company)

. . . get foreign service premium equal to a 10% increase in salary. Some get a hardship premium, depending on the country; it ranges from zero in a relatively comfortable posting to, for example, 30% in Bangladesh. We pay for their housing. We pay for their children's schooling up to college. There's home leave—a ticket back to their home country for the entire family once a year. There are language lessons for the spouse. And we gross up the pay of all expats, to take out the potential effects of local tax law. Say you have an executive earning \$150,000. This person would cost close to \$300,000 as an ex-pat.¹⁰⁰

INCENTIVES Employers use various incentives to encourage the employee to take the job abroad.¹⁰¹ For example, **foreign service premiums** are financial payments over and above regular base pay. These typically range from 10% to 30% of base pay, and appear as weekly or monthly salary supplements. **Hardship allowances** compensate expatriates for hard living and working conditions at certain foreign locations. (U.S. diplomats posted to Iraq receive about a 70% boost in base salary, among other incentives.)¹⁰² **Mobility premiums** are typically lump-sum payments to reward employees for moving from one assignment to another. In at least one way, executive compensation systems around the world are becoming more similar.¹⁰³ Specifically, U.S. firms that offer overseas managers long-term incentives often use overall corporate performance criteria (like worldwide profits) when awarding incentive pay.

STEPS IN ESTABLISHING A GLOBAL PAY SYSTEM Balancing global consistency in compensation with local considerations starts with establishing a rewards program that makes sense in terms of the employer's strategic aims.¹⁰⁴ Then the employer turns to more micro issues, such as, is how we're paying our employees abroad competitive?¹⁰⁵ Steps to follow in creating a global pay system include these:¹⁰⁶

- Step 1. Set strategy.** First, formulate longer-term strategic goals, for instance, in terms of improving productivity or boosting market share.
- Step 2. Identify crucial executive behaviors.** Next, list the actions you expect your executives to exhibit in order to achieve these strategic goals.
- Step 3. Global philosophy framework.** Next, step back and ask how you want *each pay component* (salary, bonus, incentives, and so forth) to contribute to prompting those executive actions.
- Step 4. Identify gaps.** Next, ask, "To what extent do our pay plans around the world now support these actions, and what changes if any are required?"
- Step 5. Systematize pay systems.** Next, create more consistent performance assessment practices, and establish consistent job requirements and performance expectations for similar jobs worldwide.
- Step 6. Adapt pay policies.** Finally, review your global pay policies (for setting salary levels, incentives, and so forth). Conduct surveys and analyses to assess local pay practices. Then fine-tune your global pay policies so they make sense for each location.

foreign service premiums

Financial payments over and above regular base pay, typically ranging between 10% and 30% of base pay.

hardship allowances

Payments that compensate expatriates for exceptionally hard living and working conditions at certain locations.

mobility premiums

Typically, lump-sum payments to reward employees for moving from one assignment to another.

Union Relations Abroad

A manager flying either East or West from the United States would most likely land in a country with a much stronger union movement than in the United States. For example, Walmart successfully neutralized unionization attempts in the United States, but had to accept unions in China. And collective bargaining in Western Europe tends to be industry-wide, whereas in the United States it generally occurs at the company or plant level. Furthermore, union recognition in Europe is less restrictive than in the United States. For example, even if one union represents 80% of an employer's workers, another union in Europe can try to organize the other 20%. The bottom line, as noted earlier, is that managers should steel themselves to more vigorous collective bargaining negotiations abroad than they may be used to in the United States.

Safety Abroad

Employers need to address at least two matters in developing their international safety policies and practices.

First is the question of local worker safety. Recently, for instance, at a plant that manufactures iPhone casings not far from Shanghai China, workers reportedly were using noxious chemicals, sometimes without proper personal protective equipment.¹⁰⁷ The United States has often taken the lead in occupational safety. However, other countries have such laws, with which all employers must comply. And in any case, it's hard to make a case for being less safety conscious or fair with workers abroad than you are with those at home.

The second matter is protecting their own international assignees and international travelers. (Legally, employers have a duty of care for protecting international assignees and their dependents and international business travelers.)¹⁰⁸ For example, the threat of terrorism is prompting more employers to use special mobile safety tools to track and communicate with workers in real time.¹⁰⁹ Security firm International SOS provides its clients with online and smart phone tools. These let the client quickly notify employees traveling abroad of potential problems and what to do about them. Many employers use intelligence services for monitoring potential terrorist threats abroad. The head of one intelligence firm estimated such services cost around \$10,000 per year.¹¹⁰ Some employers retain crisis management teams' services. They then call on these teams, for instance, when criminals kidnap one of their managers.

Hiring crisis teams and paying ransoms can be prohibitively expensive for all but the largest firms, so many employers buy kidnapping and ransom (K&R) insurance. Various events may trigger payments under such policies, including kidnapping/hostage situations, extortion, and detention.

The HR Practices Around the Globe feature provides some practical suggestions.

IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Business Travel

Keeping business travelers safe is a specialty all its own, but suggestions here include¹¹¹

- ✓ Provide expatriates with training about the place they're going to, so they're more oriented.
- ✓ Tell them not to draw attention to the fact they're Americans—by wearing T-shirts with American names, for instance.
- ✓ Have travelers arrive at airports as close to departure time as possible and wait in areas away from the main flow of traffic.
- ✓ Equip the expatriate's car and home with security systems.
- ✓ Tell employees to vary their departure and arrival times and take different routes.
- ✓ Keep employees current on crime and other problems by regularly checking, for example, the State Department's travel advisories and warnings at <http://travel.state.gov>.¹¹² Click on "Travel Alerts" and "Country Information."
- ✓ Advise employees to act confident at all times. Body language can attract perpetrators, and those who look like victims often become victimized.¹¹³

Increased terrorism worldwide is causing more employers to use special travel safety tools to track and communicate with workers in real time.¹¹⁴ For example, as noted, International SOS provides its clients with online and smart phone tools.

MyLab Management Talk About It 3

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete these discussion questions. Have you traveled abroad and violated any of these suggestions? Which? Would you do things differently now, knowing what you know?

Repatriation: Problems and Solutions

Too many employers waste the investment they've made in the employees they've sent abroad. For one thing, as we summarized in Table 17.1, a three-year assignment abroad for an employee with a salary of about \$160,000 may cost the employer \$800,000 or more, once extra living costs and taxes, (plus transportation and the person's regular benefits) are added up. Furthermore, losing the returnee also means losing the knowledge and experience he or she gained while abroad.¹¹⁵ One survey several years ago found some employers lost 30% or more of their returning expats (although the attrition rates for most employers were much lower).¹¹⁶

Given the investment, it obviously makes sense to keep such employees with the firm. Formal repatriation programs are useful. For instance, one survey found that of the employers with excessive expat returnee attrition rates, about two-thirds had no formal repatriation plans in place.¹¹⁷ About a quarter of employers don't even know if their recently returned expatriates quit within 12 months of returning.¹¹⁸

STEPS IN REPATRIATION Successful repatriation programs have several characteristics. The best begin before the person is even sent abroad, by making sure he or she sees that the position is an integral part of a sensible career plan.¹¹⁹ Discussions about the return should begin 6–12 or more months before the actual repatriation, and include discussions of the person's next career moves.¹²⁰ It is essential that the expatriate and his or her family not feel that the company has forgotten them.

As an example, one firm has a three-part repatriation program.¹²¹

It is prudent to make sure that the employee always feels that he or she is still "in the loop" with what's happening back at the home office.

TunedIn by Westend61/Shutterstock



First, the firm matches the expat and his or her family with a psychologist trained in repatriation issues. The psychologist meets with the family before they go abroad. The psychologist discusses the challenges they will face abroad, assesses with them how well they think they will adapt to their new culture, and stays in touch with them throughout their assignment.

Second, the program ensures that the employee always feels that he or she is still “in the home-office loop.” For example, the expat gets a mentor, and travels back to the home office periodically for meetings.

Third, once it’s time for the expat employee and his or her family to return home, there’s a formal repatriation service. About six months before the overseas assignment ends, the psychologist and an HR representative meet with the expat and the family to start preparing them for return. For example, they help plan the employee’s next career move, help the person update his or her résumé, and begin putting the person in contact with supervisors back home.¹²²

At the end of the day, probably the simplest thing employers can do to retain the returnee is value the expat’s experience. As one returnee put it: “My company was, in my view, somewhat indifferent to my experience in China as evidenced by a lack of monetary reward, positive increase, or leverage to my career in any way.” Such feelings prompt former expats to look elsewhere.¹²³ Having a system that facilitates keeping track of employees as they move from position to position in a global organization is essential. One reason for returnees’ high attrition rates is that employers simply lose track of their returnees’ new skills and competencies.¹²⁴

LEARNING OBJECTIVE 17-5

Discuss similarities and differences in employee engagement around the globe.

Employee Engagement Guide for Managers

Engagement around the Globe

A survey of employee engagement around the globe provides some useful observations.¹²⁵

On average, the percent of engaged employees (including highly engaged and moderately engaged) was 70% in Latin America, 65% in North America, 61% in Asia/Pacific and Africa/Middle East, and 57% in Europe. The percentage of actively disengaged employees was highest in Europe (19%), lowest in Latin America (12%), and 15%–16% in North America, Asia/Pacific, and Africa/Middle East. The trend was for employee engagement (highly and moderately engaged) in all regions of the world to be converging around the current global average of about 61% of employees engaged. So, workers everywhere are becoming about equally engaged.

What are the top drivers of employee engagement around the globe? Career opportunities was the number-one key driver of employee engagement in all regions of the world, underscoring the universal importance of providing such opportunities. But beyond that point of agreement, the other key drivers varied by geographic area. For example, setting goals/managing performance was the number two key driver of employee engagement in North America but was much less important in Europe; the reputation of the organization was number two in Europe, pay was number two in Asia/Pacific, and recognition was number two in Latin America. So, the management actions that drive engagement vary somewhat by region.

One thing that did not seem to vary much was the global importance of employee engagement. The best-performing companies’ employees were in the top quartile in employee engagement.

LEARNING OBJECTIVE 17-6

Explain with examples how to implement a global human resource management program.

Managing HR Locally: How to Put into Practice a Global HR System

As noted earlier, companies tend to evolve from running their international operations from home-based “international” units, to a “multinational” structure where subsidiaries abroad largely control themselves, to fully unified “global” companies

with a unified management structure worldwide. Here, for instance, a car to be sold worldwide might be designed in France and manufactured in China and the U.S. with parts from Japan.¹²⁶

Being “global” affects how the company organizes and manages its human resource management function. The global firm’s emphasis will likely be on standardizing HR practices worldwide. In practice, technology—and particularly cloud computing—means most employers are moving to such unified global HR functions.¹²⁷ For example, BP recently adopted the cloud-based “Workday HCM” (Human Capital Management) in order to support BP’s global HR modernization strategy.¹²⁸ Among other things, adopting Workday HCM enabled BP to standardize its human capital management processes around the world, and gave employees worldwide access to information such as regarding their benefit status. It also provides top management with better insights into worldwide staffing levels and employee performance. And, it enabled BP’s human resource management staff to transition from doing administrative HR tasks to supporting BP’s strategic initiatives. The Strategic Context feature provides another example.¹²⁹

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Hyundai Capital

Hyundai Capital strategically is moving to what it calls a “Global One Company.” For example, it is unifying its organizational structure, products and services, and management practices worldwide.¹³⁰ To standardize its HR practices globally, it therefore recently moved its human resource management system from one that relied on separate HR systems in areas around the world, to a unified system based on Oracle HCM (Human Capital Management) Fusion Cloud. The new system, for example, enables employees around the globe to update their HR data and access improved training, onboarding, and other talent management tools. Oracle’s system also helps employers adapt to legal and labor relations differences around the world. For example, it handles multiple unique union and worker agreements in different countries, and helps management make local hiring and dismissal decisions consistent with local laws.

MyLab Management Talk About It 4

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete these discussion questions. What problems would you expect Hyundai Capital to face in achieving standardization? How would you suggest they handle them?

Yet, even with cloud-computing, one could reasonably ask, “With the large cross-cultural differences involved, what is the best way to institute a standardized human resource management system in our facilities around the world? A study conducted a number of years ago sheds some light on this. In brief, the study’s results show that employers may have to defer to local managers for fine-tuning human resource management policies.

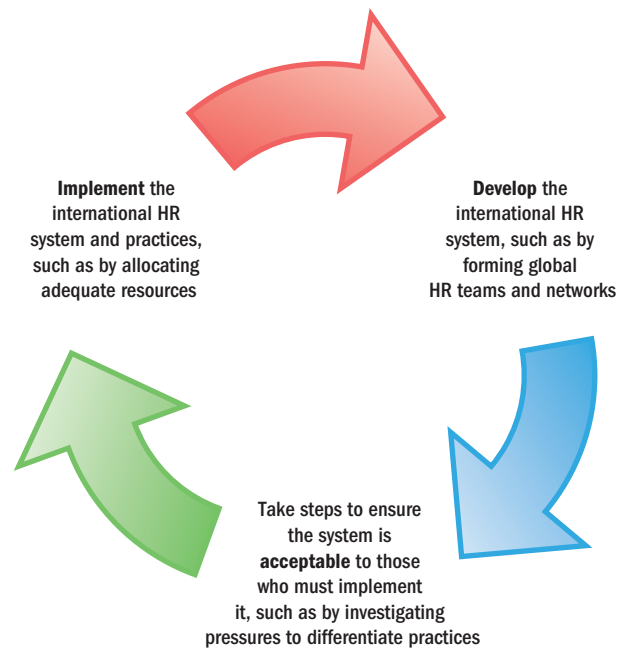
In this study, the researchers interviewed human resource personnel from six global companies—Agilent, Dow, IBM, Motorola, Procter & Gamble, and Shell Oil Co.—as well as international human resources consultants.¹³¹ The study’s overall conclusion was that employers who successfully implement global HR systems do so by applying several best practices. The basic idea is to *develop* systems that are *acceptable* to employees in units around the world, and ones that the employers can *implement* more effectively. Figure 17-2 summarizes this.

Developing a More Effective Global HR System

First, these employers engage in two best practices in *developing* their worldwide human resource policies and practices.

Form global HR networks. To head off resistance, human resource managers around the world should feel part of the firm’s global human resource management team. Treat the local human resource managers as equal partners. For instance, form global teams to develop the new human resources system. Create

FIGURE 17-2 Best Practices for Creating Global HR Systems



“an infrastructure of partners around the world that you use for support, for buy-in, for organization of local activities, and to help you better understand their own systems and their own challenges.”¹³²

Remember that it’s more important to standardize ends and competencies than specific methods. For example, IBM uses a basically standardized recruitment and selection process worldwide. However, “details such as who conducts the interview (hiring manager vs. recruiter), or whether the prescreen is by phone or in person, differ by country.”¹³³

Making the Global HR System More Acceptable

Next, employers engage in three best practices so that the global human resource systems they develop will be *acceptable* to local managers around the world. These practices are

Remember that truly global organizations find it easier to install global systems.

For example, their managers work on global teams, and the firms identify, recruit, and place employees globally. As one Shell manager said, “If you’re truly global, then you are hiring here [the United States] people who are going to immediately go and work in the Hague, and vice versa.”¹³⁴ Doing so makes it easier for managers everywhere to accept the wisdom of having a standardized human resource management system.

Investigate pressures to differentiate and determine their legitimacy. Local managers will insist, “You can’t do that here, because we are different culturally.” These “differences” aren’t usually persuasive. For example, when Dow wanted to implement an online recruitment and selection tool abroad, the hiring managers there said that their managers would not use it. After investigating the supposed cultural roadblocks, Dow successfully implemented the new system.¹³⁵

However, first carefully assess whether the local culture or other differences might in fact undermine the new system. Be knowledgeable about local legal issues, and be willing to differentiate where necessary.

Try to work within the context of a strong corporate culture. Companies that do so find it easier to obtain agreement among far-flung employees. For example, because of how P&G recruits, selects, trains, and rewards them, its managers

have a strong sense of shared values. For instance, new recruits quickly learn to think in terms of “we” instead of “I.” They learn to value thoroughness, consistency, self-discipline, and a methodical approach. Having such global unanimity makes it easier to implement standardized human resource practices.

Implementing the Global HR System

Finally, two best practices helped ensure success in actually *implementing* the globally consistent human resource policies and practices.

“You can’t communicate enough.” “There’s a need for constant contact with the decision makers in each country, as well as the people who will be implementing and using the system.”¹³⁶

Dedicate adequate resources. For example, don’t require the local human resource management offices to implement new job analysis procedures unless the head office provides adequate resources for these additional activities.

MyLab Management Apply It!

How does a company actually go about managing its international human resource management function? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise.

Chapter Review

Chapter Section Summaries

- 17-1. Dealing with global human resource challenges as a manager** isn’t easy. The employer faces an array of political, social, legal, and cultural differences among countries abroad. What works in one country may not work in another.
- 17-2. The need for adapting human resource activities to intercountry differences** influences employers’ HR processes. For example, citizens of different countries adhere to different values, and countries have differing economic systems as well as different legal, political, and labor relations systems.
- 17-3. Staffing the global organization** is a major challenge. Companies may use expatriates, home-country nationals, locals, or third-country nationals. Ethnocentric companies tend to emphasize home-country attitudes, polycentric companies focus more on host-country employees, and global employers try to pick the best candidates from wherever they might be. Selecting employees to successfully work abroad depends on several things, most important on adaptability screening and on making sure that each employee’s spouse and family get the realistic previews and support necessary to make the transition.
- 17-4. After selecting the employees to send abroad,** attention turns to **training and maintaining your expatriate employees.**
- In terms of predeparture preparation, training efforts ideally first cover the impact of cultural differences; then, the focus moves to getting participants to understand how attitudes influence behavior, providing factual knowledge about the target country, and developing skills in areas like language and adjustment.
- In compensating expatriates, most employers use the balance sheet approach; this focuses on four groups of expenses: income taxes, housing, goods and services, and discretionary expenses, and aims to ensure that the employee’s standard of living abroad is about what it would have been at home.
- With terrorism a threat, most employers today take protective measures, including buying kidnapping and ransom insurance.
- Well-thought-out repatriation programs emphasize keeping employees in the loop as far as what’s happening in their home offices, bringing them back to the office periodically, and providing formal repatriation services for the expatriate and his or her family to start preparing them for the return.

- 17-5. The worldwide trend is for employee engagement to converge around the current global average of about 61% of **employees engaged**. Career opportunities was the number-one key driver of employee engagement in all regions of the world, underscoring its universal importance.
- 17-6. With employers increasingly relying on local rather than expatriate employees, it's important for managers to understand **how to implement a global HR system**. The basic approach involves: (1) Develop a more effective global HR system; (2) Make the global HR system more acceptable; and (3) Implement the global system.

Discussion Questions

- 17-1. You are the president of a small business. What are some of the ways you expect “going international” will affect HR activities in your business?
- 17-2. What are some of the specific, uniquely international activities an international HR manager typically engages in?
- 17-3. What intercountry differences affect HRM? Give several examples of how each may affect HRM.
- 17-4. You are the HR manager of a firm that is about to send its first employees overseas to staff a new subsidiary. Your boss, the president, asks you why such assignments often fail, and what you plan to do to avoid such failures. How do you respond?
- 17-5. As an HR manager, what program would you establish to reduce repatriation problems of returning expatriates and their families?

Individual and Group Activities

- 17-6. Working individually or in groups, outline an expatriation and repatriation plan for your professor, whom your school is sending to Bulgaria to teach HR for the next 3 years.
- 17-7. Give three specific examples of multinational corporations in your area. Check on the Internet or with each firm to determine in what countries these firms have operations. Explain the nature of some of their operations, and summarize whatever you can find out about their international employee selection and training HR policies.
- 17-8. Choose three traits useful for selecting international assignees, and create a straightforward test to screen candidates for these traits.
- 17-9. Use a library or Internet source to determine the relative cost of living in five countries as of this year, and explain the implications of such differences for drafting a pay plan for managers being sent to each country.
- 17-10. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning).
- In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
- 17-11. An issue of *HR Magazine* contained an article titled “Aftershocks of War,” which said that soldiers returning to their jobs from Iraq would likely require HR's assistance in coping with “delayed emotional trauma.” The term *delayed emotional trauma* refers to the personality changes such as anger, anxiety, or irritability that exposure to the traumatic events of war sometimes triggers in returning veterans. Assume you are the HR manager for the employer of John Smith, who is returning to work next week after 1 year in Iraq. Based on what you read in this chapter, what steps would you take to help smooth John's reintegration into your workforce?



Experiential Exercise

A Taxing Problem for Expatriate Employees

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Purpose: The purpose of this exercise is to give you practice identifying and analyzing some of the factors that influence expatriates' pay.

Required Understanding: You should be thoroughly familiar with this chapter and with the Web site www.irs.gov.

How to Set Up the Exercise/Instructions: Divide the class into teams of four or five students. Each team member should read the following: One of the trickiest aspects of calculating expatriates' pay relates to the question of

the expatriate's U.S. federal income tax liabilities. Go to the Internal Revenue Service's Web site, <https://www.irs.gov/individuals/international-taxpayers/taxpayers-living-abroad>. Your team is the expatriate-employee compensation task force for your company, and your firm is about to send several managers and engineers to, say, Japan, England, and Hong Kong. What information did you find on the site that will help your team formulate expat tax and compensation policies? Based on that, what are three important things your firm should keep in mind in formulating a compensation policy for employees you're about to send abroad?

Application Case

"Boss, I Think We Have a Problem"

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Central Steel Door Corporation has been in business for about 20 years, successfully selling a line of steel industrial-grade doors. The company had gradually increased its presence from the New York City area, first into New England and then down the Atlantic Coast, then through the Midwest and West, and finally into Canada. The company's basic expansion strategy was always the same: Choose an area, open a distribution center, hire a regional sales manager, and then let that regional sales manager help staff the distribution center and hire local sales reps.

Unfortunately, the company's traditional success in finding sales help did not extend to its overseas operations, when Mel Fisher, president of Central Steel Door, decided to expand his company into Europe. He tried for 3 weeks to find a sales manager by advertising in the *International New York Times*, which is read by businesspeople in Europe and by American expatriates living and working in Europe. Although the ads placed in the *Times* also ran for about a month on the *Times's* Web site, Mr. Fisher so far has received only five applications. One came from a possibly viable candidate, whereas four came from candidates whom Mr. Fisher refers to as "lost souls"—people who seem to have spent most of their time traveling aimlessly from country to country, sipping espresso in sidewalk cafés. When asked what he had done for the last 3 years, one told Mr. Fisher he'd been on a "walkabout."

Other aspects of his international HR activities have been equally problematic. Fisher alienated two of his U.S. sales managers by sending them to Europe to temporarily run the European operations, but neglecting to work out a compensation package that would cover their relatively high living expenses in Germany and Belgium. One ended up staying the better part of the year, and Mr. Fisher was rudely surprised to be informed by the Belgian government that his sales manager owed thousands of dollars in local taxes. The two managers had hired about 10 local people to staff each of the two distribution centers. However, the level of sales was disappointing, so Fisher decided to fire about half the distribution center employees. That's when he got an emergency phone call from his temporary sales manager in Germany: "I've just been told that all these employees should have had written employment agreements and that in any case we can't fire anyone without at least 1 year's notice, and the local authorities here are really up in arms. Boss, I think we have a problem."

Questions

- 17-12. Based on this chapter and the case incident, compile a list of 10 international HR mistakes Mr. Fisher has made so far.
- 17-13. How would you have gone about hiring a European sales manager? Why?
- 17-14. What would you do now if you were Mr. Fisher?

Continuing Case

Carter Cleaning Company

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Going Abroad

Jack Carter decided to take his first long vacation in years and go to Mexico for a month a few years ago. What he found surprised him: He

spent time in Mexico City and was surprised at the dearth of cleaning stores, particularly considering the amount of air pollution. Traveling north, he passed through Juarez, Mexico, and was similarly surprised at the relatively few cleaning stores he found there. As he drove back into Texas, and back toward home, he began to think about whether it would be advisable to consider expanding his chain of stores into Mexico.

Aside from the possible economic benefits, he liked what he saw in Mexico. Starting a new business again also appealed to him. “I guess entrepreneurship is in my blood,” is the way he put it.

As he drove home to have dinner with Jennifer, he began to formulate the questions he would have to ask before deciding whether to expand abroad.

Questions

17-15. Assuming they began by opening just one or two stores in Mexico, what do you see as the main HR-related challenges Jack and Jennifer would have to address?

17-16. How would you go about choosing a manager for a new Mexican store if you were Jack or Jennifer? For instance, would you hire someone locally or send someone from one of your existing stores? Why?

17-17. The cost of living in Mexico is substantially below that of where Carter is now located: How would you go about developing a pay plan for your new manager if you decided to send an expatriate to Mexico?

17-18. Present a detailed explanation of the factors you would look for in your candidate for expatriate manager to run the stores in Mexico.

Translating Strategy into HR Policies and Practices Case^{*,§}

* The accompanying strategy map for this chapter is in MyLab Management; the overall map on the inside back cover of this text outlines the relationships involved.

Improving Performance at the Hotel Paris

Managing Global Human Resources

The Hotel Paris’s competitive strategy is, “To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability.” HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

With hotels in 11 cities in Europe and the United States, Lisa knew that the company had to do a better job of managing its global human resources. For example, there were no formal means of identifying or training management employees for duties abroad (for those going either to the United States or to Europe). As another example, after spending upward of \$200,000 on sending a U.S. manager and her family abroad, they had to return her abruptly when the family complained of missing their friends back home. Lisa knew this was no way to run a multinational business. She turned her attention to developing the HR practices her company required to do business more effectively internationally.

On reviewing the data, it was apparent to Lisa and the CFO that the company’s global human resource practices were probably inhibiting the Hotel Paris from being the world-class guest services company that it sought to be. For example, high-performing service and hotel firms had formal departure training programs for at least 90% of the employees they sent abroad; the Hotel Paris had no such programs. Similarly, with each city’s hotel operating its own local hotel HR information system, there was no easy way for Lisa, the CFO, or the company’s CEO to obtain reports on metrics like turnover, absences, or workers’ compensation costs across all the different hotels. As the CFO summed it up, “If we can’t measure how each hotel is doing in terms of human resource metrics like these, there’s really no way to manage these activities, so there’s no telling how much lost profits and wasted efforts are dragging down each hotel’s performance.” Lisa received approval to institute new global human resources programs and practices.

In instituting these new programs and practices, Lisa had several goals in mind. She wanted an integrated human resource information system (HRIS) that allowed her and the company’s top managers to monitor and assess, on an ongoing basis, the company’s global

performance on strategically required employee competencies and behaviors such as attendance, morale, commitment, and service-oriented behavior. To address this need, she received approval to contract with a company that integrated, via the Internet, the separate hotels’ HR systems, including human resource and benefits administration, applicant tracking and résumé scanning, and employee morale surveys and performance appraisals.

She also contracted with an international HR training company to offer expatriate training for Hotel Paris employees and their families before they left for their foreign assignments, and to provide short-term support after they arrived. That training company also helped create a series of weeklong “Managers’ Seminars.” Held once every 6 months at a different hotel in a different city, these gave selected managers from throughout the Hotel Paris system an opportunity to meet and to learn more about the numerous new HR programs and practices that Lisa and her team had been instituting for the purpose of supporting the company’s strategic aims. With the help of their compensation specialist, Lisa and her team also instituted a new incentive program for each of the company’s local managers, to focus their attention more fully on the company’s service-oriented strategic aims. By the end of the year, the Hotel Paris’s performance on metrics such as percent of expatriates receiving predeparture screening, training, and counseling were at or above those of high-performing similar companies. She and the CFO believed, rightly, that they had begun to get their global HR system under control.

Questions

- 17-19. Provide a one-page summary of what individual hotel managers should know in order to make it more likely incoming employees from abroad will adapt to their new surroundings.
- 17-20. In previous chapters of Dessler *Human Resource Management* you recommended various human resource practices the Hotel Paris should use. Choose one of these, and explain why you believe they could take this program abroad, and how you suggest they do so.
- 17-21. Choose one Hotel Paris human resource practice that you believe is essential to the company specifically for achieving its high-quality-service goal, and explain how you would implement that practice in the firm’s various hotels worldwide.

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MyLab Management

Go to www.pearson.com/mylab/management for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 17-22. What special training do overseas candidates need? In what ways is such training similar to and different from traditional diversity training?
- 17-23. Your boss wants you to transfer from headquarters in Columbus, Ohio, to the firm's Moscow, Russia, office. You're pretty sure you're suited to work abroad, but to be sure you decide to write a short essay based on what you learned in this chapter titled "Why I think I would be successful in an overseas assignment." What would you say in your essay?
- 17-24. MyLab Management only—comprehensive writing assignment for this chapter.

MyLab Management Try It!

How would you apply the concepts and skills you learned in this chapter? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the simulation.

PERSONAL INVENTORY ASSESSMENTS



Expat managers should be interculturally sensitive. Go to www.pearson.com/mylab/management to complete the Personal Inventory Assessment related to this chapter.

Key Terms

international human resource management (IHRM), 564	parent or home-country nationals, 568	polycentric, 568	hardship allowances, 576
works councils, 566	third-country nationals, 568	global, 568	mobility premiums, 576
codetermination, 566	locals, 568	virtual teams, 570	
expatriates (expats), 568	ethnocentric, 568	adaptability screening, 571	
		foreign service premiums, 576	

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18

Managing Human Resources in Small and Entrepreneurial Firms

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 18-1** **Explain** why HRM is important to small businesses and how small business HRM is different from that in large businesses.
- 18-2** **Give** four examples of how entrepreneurs can use Internet and government tools to support the HR effort.
- 18-3** **List** five ways entrepreneurs can use their small size to improve their HR processes.
- 18-4** **Discuss** how you would choose and deal with a professional employer organization.
- 18-5** **Describe** how you would create a start-up human resource system for a new small business.

San Francisco-based apparel company Everlane's strategy involves building its brand around ethical manufacturing and transparency in all they do.¹ For example their Web site shows photos of the factories abroad that make their clothes, they give voice to the factories' workers, and they list for every item its costs, so you can better judge the worth of what you're buying. A strategy like that requires a set of recruitment, selection, and compensation practices that fit. We'll see what they did.



WHERE ARE WE NOW . . .

Small businesses have special human resource management needs. The main purpose of this chapter is to help you apply what you know about human resource management to running a small business. The main topics we'll address include **The Small Business Challenge; Using Internet, Government, and Other Tools to Support the HR Effort; Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality; Using Professional Employer Organizations; and Managing HR Systems, Procedures, and Paperwork.**

LEARNING OBJECTIVE 18-1

Explain why HRM is important to small businesses and how small business HRM is different from that in large businesses.

The Small Business Challenge

There's nothing small about *small business*. About half the people working in the United States today work for small firms.² Small businesses as a group also account for most of the 650,000 or so new businesses created every year,³ as well as for most of America's business growth (small firms grow faster than big ones). And small firms create most of the new jobs in the United States.⁴

Statistically speaking, therefore, many (or most) people graduating from college probably do or will work for small businesses—firms with less than 200 or so employees. Anyone interested in human resource management thus needs to understand how managing human resources in small firms differs from that in huge multinationals.

How Small Business Human Resource Management Is Different

Managing human resources in small firms is different for four main reasons: *size*, *priorities*, *informality*, and the nature of the *entrepreneur*.

SIZE For one thing, it's unusual to find a business under 90 or so employees with a dedicated HR professional.⁵ *As a rule*, it's not until a company reaches about 100 employees that it can afford an HR specialist. Yet even five- or six-person retail shops recruit, select, train, and pay employees. So, it's usually the owner or his or her assistant that does the HR tasks; the bookkeeper might handle payroll, for instance. As a result, SHRM found several years ago that even firms with under 100 employees often spend the equivalent of two or so people's time each year addressing human resource management issues.⁶ Those hours usually come out of the owner's long workday. (However, about 10% of SHRM members work in firms with less than 100 employees, so there are exceptions.)⁷

PRIORITIES At the same time, business realities drive many entrepreneurs (the men and women who provide the vision and “spark” that starts a new business) to focus more on non-HR issues. After studying small e-commerce firms in the United Kingdom, one researcher concluded that, as important as human resource management is, it just wasn't a high priority for these firms:

Given their shortage of resources in terms of time, money, people and expertise, a typical SME [*small- and medium-size enterprise*] manager's organizational imperatives are perceived elsewhere, in finance, production and marketing, with HR of diminished relative importance.⁸

INFORMALITY One effect of this is that human resource management tends to be more informal in smaller firms. Thus, one study analyzed training practices in about 900 family and nonfamily small companies.⁹ Training tended to be informal, with an emphasis on methods like coworker and supervisory on-the-job training.

Such informality isn't just due to a lack of resources, it's a “matter of survival.” Entrepreneurs must react fast to changing competitive conditions. So, there's logic in keeping things like compensation policies flexible. The need for small businesses to adapt quickly often means handling matters like raises, appraisals, and time off “on an informal, reactive basis with a short time horizon.”¹⁰

THE ENTREPRENEUR *Entrepreneurs* are people who create businesses under risky conditions, and starting new businesses is always risky. Entrepreneurs therefore tend to be dedicated and visionary, and somewhat controlling. Researchers believe that small firms' informality partly stems from entrepreneurs' tendency to control things. For example, “Owners tend to want to impose their stamp and personal management style on internal matters, including the primary goal and orientation of the firm, its working conditions and policies, and the style of internal and external communication and how this is communicated to the staff.”¹¹

IMPLICATIONS This combination of small size, priorities, informality, and entrepreneurial tendencies can easily translate into several problems for a small firm’s human resource management practices.¹²

- First, inadequate human resource practices may put small business owners at *legal risk*. For example, Outback Steakhouse long had no human resource department. That changed after an EEOC suit led Outback to pay a \$19 million sex discrimination settlement. They hired an executive-level HR professional. Similar legal risks abound for violating Family Medical Leave Act regulations, and not paying for overtime hours worked, to name a few.
- Second, not having a dedicated HR person can *slow company decisions* and *overwhelm* its managers. After LRN Corp. eliminated its human resource department, tasks like hiring became convoluted as line managers tried to figure out what skills jobs required, and how to find and select the best people. Soon managers were pushing all these decisions up the ladder to the top manager.
- Third, without human resource information systems, paperwork is *time consuming*, and duplication may create *data entry errors*. Employee data (name, address, marital status, and so on) often appears on multiple human resource forms (medical enrollment forms, W-4 forms, and so on). Any personal data change then requires manually changing all forms. This is inefficient, and causes errors.
- Fourth, if the small business can’t efficiently hire, train, appraise, and compensate employees, how will it compete with companies that can? It could be at a *competitive disadvantage*.



Diversity Counts: Necessity and the Entrepreneur

More men than women start new businesses, but according to one study, about 100 million women in 59 countries still started new businesses in one year.¹³ Interestingly, most of the women who did start businesses were not in the developed world. The most likely countries for women to start businesses were in Latin America and sub-Saharan Africa. This may be because in developed economies, women have more career options. In developing economies such as Ghana, necessity infuses a confidence that drives more women to make it on their own. ■

Why HRM Is Important to Small Businesses

A small software start-up experienced turmoil when social media postings from one employee accused another of harassment. The moral, says one expert, is that start-ups can’t assume that all they need is an employee handbook; they also need a functioning HR system.¹⁴

In fact, small firms with effective HR practices do better than those without them. For example, a study in the UK found a direct positive relationship between small companies’ use of formal human resource practices and the companies’ financial performance and labor productivity.¹⁵ An earlier study focused on 168 family-owned high-growth small and medium-size enterprises (SMEs). The successful SMEs placed more emphasis on training and development, performance appraisal, recruitment packages, maintaining morale, and setting competitive compensation levels than did less successful ones.¹⁶

For many small firms, effective human resource management is also required for getting and keeping big customers. For example, to comply with international ISO-9000 quality standards, many large customers check that their small vendors follow the necessary HR standards.¹⁷

We devote this chapter to methods small business managers can use to improve their human resource management practices, starting with Internet and government tools.

LEARNING OBJECTIVE 18-2

Give four examples of how entrepreneurs can use Internet and government tools to support the HR effort.

Using Internet, Government, and Other Tools to Support the HR Effort

No small business need cede the “HR advantage” to big competitors. Knowledgeable small business managers can level the terrain by using Internet-based HR resources, including free online resources from the U.S. government. For example, the Small

Business Administration (SBA) provides (under Manage Your Business) a *Hire and Manage Employees* page, with a list of HR items to address.¹⁸ Other useful sites include the following.

Government Tools for Complying with Employment Laws

Complying with federal (and state and local) employment law is a thorny issue for entrepreneurs. For example, the entrepreneur needs to know, “Must I pay this person overtime?” and, “Must I report this injury?”

Start by knowing which federal employment laws apply. For example, Title VII of the 1964 Civil Rights Act applies to employers with 15 or more employees, while the Age Discrimination in Employment Act of 1967 applies to those with 20 or more.¹⁹ Small business owners will find the legal answers they need to answer questions like these online at federal agencies’ Web sites.

DOL ONLINE ELAWS ADVISORS The U.S. Department of Labor provides “elaws Advisors” (such as its Health Benefits Advisor) for laws covering matters like pay and benefits, and health and safety. Using elaws Advisors is a bit like having an expert for advice, for example “is this employee exempt from overtime pay requirements?”²⁰ Thus, as in Figure 18-1 click “Begin FirstStep-Employment Law Overview Advisor Now.” The wizard takes you through questions like “What best describes the nature of your business?”

Proceeding through the wizard, the owner arrives at “results.” This says, “Based on the information you provided . . . the following employment laws administered by the Department of Labor (DOL) may apply to your business or organization.”²¹ Typically, these laws might include the Consumer Credit Protection Act, Employee

FIGURE 18-1 *FirstStep* Employment Law Advisor

Source: U.S. Department of Labor, <https://webapps.dol.gov/elaws/firststep/>, accessed August 24, 2018.

The screenshot shows the 'elaws' - FirstStep Employment Law Advisor page. The header includes the U.S. Department of Labor logo, social media icons, and a search bar. Below the header, there is a navigation bar with links for 'DOL HOME', 'ELAWS HOME', and 'FIRSTSTEP EMPLOYMENT LAW ADVISOR'. The main content area has a red border and contains the following text:

elaws® - FirstStep Employment Law Advisor

The *FirstStep* Employment Law Advisor helps employers determine which major Federal employment laws administered by the U.S. Department of Labor (DOL) apply to their business or organization, what recordkeeping and reporting requirements they must comply with, and which posters they need to post. The Advisor can help all employers, including non-profit organizations, private sector businesses and government agencies.

If employers already know which Federal employment laws apply to them, the Advisor can quickly provide basic information about how to comply with these laws, including the requirements for recordkeeping, reporting, and posters and other notices. This information can also be printed off as a reference guide.

This Advisor provides three basic starting points depending on your interests and needs:

- [FirstStep - Employment Law Overview Advisor](#) provides a short primer on each law's basic provisions as well as any related recordkeeping, reporting and notice requirements.
- [FirstStep - Recordkeeping, Reporting, and Notices Advisor](#) provides detailed explanations of each law's recordkeeping, reporting and notice requirements.
- [FirstStep - Poster Advisor](#) provides access to short descriptions of DOL poster requirements and links to printable posters.

Please note that the *FirstStep* Employment Law Advisor is intended as a guide on [major DOL laws](#) - It does not cover all laws administered by DOL. In addition, the system will not identify laws administered by other Federal agencies that might be applicable to your business or organization.

You may want to contact your [State Labor Office](#) to obtain information about your state's requirements, or other Federal agencies that enforce employment laws such as the [Equal Employment Opportunity Commission \(EEOC\)](#), the [National Labor Relations Board \(NLRB\)](#), and the [National Mediation Board \(NMB\)](#).

The *FirstStep* Employment Law Advisor is one of a series of [elaws](#) (Employment Laws Assistance for Workers and Small Businesses) Advisors developed by the U.S. Department of Labor (DOL) to help employers and employees understand their rights and responsibilities under Federal employment laws. To view the entire list of [elaws](#) Advisors please visit the [elaws website](#).

At the bottom of the page, there is a red button that says "Begin FirstStep - Employment Law Overview Advisor Now".

Polygraph Protection Act, Fair Labor Standards Act, Immigration and Nationality Act, Occupational Safety and Health Act, Uniformed Services Employment and Reemployment Rights Act, and Whistleblower Act.

A linked DOL site (www.dol.gov/whd/flsa/index.htm) provides information on the Fair Labor Standards Act (FLSA).²² It also contains several specific FLSA “elaws Advisors.” Each provides practical guidance on questions such as when to pay overtime. Figure 18-2 presents, from this Web site, a list of elaws Advisors.²³

EEOC ONLINE TOOLS The U.S. Equal Employment Opportunity Commission administers Title VII of the Civil Rights Act of 1964 (Title VII), the Age Discrimination in Employment Act of 1967 (ADEA), Title I of the Americans with Disabilities Act of 1990 (ADA), and the Equal Pay Act of 1963 (EPA). As the EEOC says, “While the information in this section of our website applies to all employers, it has been specifically designed for small businesses which may not have a human resources department or a specialized EEO staff” (www.eeoc.gov/employers). The site provides small business owners with practical advice. For example, “What should I do when someone files a charge against my company?” Its Web site (www.eeoc.gov/employers) contains important information regarding matters such as:

- How do I determine if my business is covered by EEOC laws?
- Who may file a charge of discrimination with the EEOC?
- Can a small business resolve a charge without undergoing an investigation or facing a lawsuit?

OSHA ONLINE TOOLS FOR SMALL BUSINESSES The DOL’s Occupational Safety and Health Administration site (www.osha.gov) provides specific guidance and checklists for small business managers (see Figure 18-3). OSHA’s site provides, among other things, easy

FIGURE 18-2 Sample DOL elaws Advisors

Source: U.S. Department of Labor, <http://webapps.dol.gov/elaws/>, accessed September 21, 2017.

The screenshot shows the DOL elaws website interface. At the top is the United States Department of Labor logo and a search bar. Below the header is a navigation menu with links: ELAWS HOME, ABOUT ELAWS, ADVISORS BY CATEGORY, MOST REQUESTED ADVISORS, and CONNECT WITH ELAWS. The main content area features a large image of a diverse group of professionals in business attire looking at a laptop. To the right of the image is the heading "About elaws" followed by the text: "The elaws Advisors help employees and employers learn their rights and responsibilities under Federal employment laws." Below this are two columns of advisor lists. The left column is titled "ELAWS ADVISORS BY CATEGORY" and lists: Pay and Benefits, Safety and Health, Posters and Recordkeeping, Youth Employment, Veterans' Issues, Federal Contractor, Mining Industry, and All Advisors. The right column is titled "MOST REQUESTED ELAWS ADVISORS" and lists: Fair Labor Standards Act (FLSA) Advisor, Family and Medical Leave Act (FMLA) Advisor, FirstStep Poster Advisor, Veterans' Preference Advisor, and Uniformed Services Employment and Reemployment Rights Act (USERRA) Advisor. At the bottom, there is a section titled "ALL ELAWS ADVISORS" which lists: Disability Nondiscrimination Law Advisor, Drug-Free Workplace Advisor, ERISA Fiduciary Advisor, Family and Medical Leave Act (FMLA) Advisor, Medical and Disability Related Leave Advisor, MSHA Online Forms Advisor, MSHA Training Plan Advisor, and MSHA Fire Suppression and Fire Protection Advisor.

FIGURE 18-3 OSHA Small Business Web Site

Source: U.S. Department of Labor, <https://www.osha.gov/dcs/smallbusiness/index.html>.

The screenshot shows the OSHA Small Business Web Site. The header includes the United States Department of Labor logo and navigation links. The main content area features a large image of three workers in hard hats and safety vests looking at a laptop. Below the image is a text block about OSHA's Small Business Assistance. To the right is a sidebar with blue buttons for 'Small Business Resources', 'Compliance Assistance Resources', 'Success Stories', 'Cooperative Programs', 'Spanish-Language Resources', and 'External Links'. At the bottom, there are two red boxes: 'On-site Consultation' and 'SHARP' (Safety & Health Assessment and Rating Program), and a blue box for 'Quick Start' compliance assistance.

access to the *OSHA Small Business Handbook*. This contains practical information, including industry-specific safety and accident checklists.

Online Employment Planning and Recruiting Tools

Online tools can make small business owners as effective as their large competitors at writing job descriptions and recruiting applicants. For example, as we saw in Chapter 4 (Job Analysis), O*NET (<http://online.onetcenter.org>) enables business owners to create accurate job descriptions and job specifications quickly.

ONLINE RECRUITING Small business owners can also use the online recruiting tools in Chapter 5 (Recruiting). For example, it's easy to scour LinkedIn.com, and to post jobs on Careerbuilder.com, and on professional associations' job boards. Similarly, the best applicant tracking software does more than track job candidates.²⁴ They also automatically post open jobs to job Web sites. Some, like Bullhorn (www.bullhorn.com/) post jobs to social media sites including LinkedIn, Twitter, and Facebook.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA²⁵

Many small businesses use social media to recruit applicants. For example, LinkedIn lets employers post job openings and facilitates business networking. One recruiter reportedly looks for LinkedIn members who have compelling summaries, excellent recommendations, and memberships in industry groups. On Twitter, recruiters see if a potential candidate has an appropriate username and photos. But also check Twitter for things like the person's status updates and retweets, to see (for instance) if he or she shares useful information. Small business recruiters should also focus on the social

media that makes sense for them. For example, if you're looking for a Facebook marketing expert, look on Facebook. Or look for a photographer on Instagram. And on Facebook and LinkedIn, focus recruiting efforts on industry groups that make sense for your company. Check to see how your competitors use social media, and which communities they use.

Social media recruiting entails risks. For example, conversing with someone whose Facebook profile reveals their ethnic background could expose the employer to a discrimination suit if that applicant isn't hired. And many agree that at the end of the day, social media recruiting can't substitute for in-person interactions. ■

Small Business Employee Selection Tools

Some tests are so easy to use they're particularly helpful for small firms. One is the *Wonderlic Personnel Test* (www.wonderlic.com/), which measures general mental ability. With questions somewhat similar to the SAT, it takes less than 15 minutes to administer. The tester reads the instructions, and keeps time as the candidate works through the 50 problems. The tester scores the test by totaling the number of correct answers. Comparing the person's score with the minimum scores recommended for various occupations shows whether he or she achieved the minimum score for the job in question.

The *Predictive Index* is another example. It measures work-related personality traits, drives, and behaviors—in particular, dominance, extroversion, patience, and blame avoidance. A template makes scoring simple. The Predictive Index program includes 15 standard benchmark personality patterns. For example, there is the “social interest” pattern, for a person who is generally unselfish, congenial, persuasive, patient, and unassuming. This person would be a good personnel interviewer, for instance.

Many vendors, including Wonderlic and Predictive Index, offer online applicant testing and screening services. Wonderlic's service (which costs about \$9,000 per year for a small firm) first provides job analyses for the employer's jobs. Wonderlic then provides a Web site the small business applicants can log into to take one or several selection tests. It will also help set up a testing procedure.

Some other small business recruiting and selection suggestions would include

- **Don't forgot the obvious.** Sometimes the easiest way to get good candidates is a “Help Wanted” sign on the door.

Use online tests, for instance, to test an applicant's typing speed proficiency at Quickbooks, or even ability to sell over the phone.



- **Keep it local, and in the industry.** Use online job boards that target a particular industry or city to minimize irrelevant applicants.²⁶ For example, Jobing.com maintains city-specific job sites in over 19 states.²⁷ Smartrecruiters.com²⁸ lists dozens of job boards for specific industries or types of jobs, such as Dice.com for technical professionals (go to www.smartrecruiters.com, then Marketplace, then Job Boards).
- **Test online.** Use online tests, for instance, to test an applicant's proficiency at QuickBooks, or even at selling over the phone. Vendors include (as a small sample) IBM's Kenexa, eskill.com/, selectivehiring.com, and berkeassessment.com.²⁹
- **Poll your contacts.** Tap friends and employees for recommendations, and use social networking sites such as LinkedIn. One employer says, "I get people vouching for each applicant, so I don't have to spend hours sorting through résumés."³⁰
- **Send a recording.** InterviewStream is one of several vendors that records online video interviews for about \$30 to \$60.³¹ It sends the candidate an e-mail invitation with a link. When he or she clicks the link, a video interviewer asks the company's prerecorded questions. Hiring managers can review the videos at their leisure.³²

The following feature shows how one company recruits employees.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Everlane

Everlane's strategy builds its brand around ethical manufacturing and transparency. For example, ethical manufacturing meant they spent months finding a factory to make their new jeans in Vietnam, choosing it because it recycles 98% of the water used in denim manufacturing. Everlane's Web site lists the material and labor costs of each item they sell.³³

A strategy like that requires recruitment, selection, and compensation practices that fit, so when Everlane decided to emphasize transparency in its hiring no one was surprised. For example, they recently started recruiting job candidates by having them submit 60- to 90-second Snapchat stories, to show why they're a good candidate for Everlane. The idea is to create the story, tweet Everlane your snap code, and save the story before 24 hours run out, and mail it to Everlane.

A big reason they use social media to recruit is that it's likely to attract people who are already following Everlane. It seems to be working. For example, candidates are sending those Snapchat stories, taking them step-by-step through their presentations. That way, Everlane is getting applications from already engaged prospective employees for whom the company's goals resonate. Similarly, Everlane's career Web site page addresses itself to "rule breakers, questioners, and straight A students who skipped out of class." The site's also forthright in laying out Everlane's basic values, such as "everyone can, and should, make a difference," and "the ethical choice is the right one." The result of such recruiting is that Everlane is building a team that's deeply engaged in the company's values and goals.

MyLab Management Talk About It 1

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete this discussion question. What other tools and techniques discussed in this chapter would you recommend Everlane use, and why?

Small Business Training Tools

Small companies can't compete with the training resources of giants like Google. However, as explained in Chapter 7 (Training), online training can provide employee training that used to be beyond most small employers' reach. Online sources (see Chapter 7) range from private vendors (such as www.PureSafety.com and www.skillsoft.com) to the small business administration (www.sba.gov/sitemap) and the National Association of Manufacturers (NAM). The buyer's guide from the Association for Talent Development (www.td.org/) lists many vendors (check under Resources).³⁴ Online learning platforms like Docebo's (www.docebo.com/) make it easy for a company's employees to access off-the-shelf and customized online learning courses and programs.³⁵

Employment Appraisal and Compensation Online Tools

Small employers have easy access to computerized and online appraisal and compensation services. For example, Oracle Corporation's ePerformance³⁶ lets managers formalize the employee's goals and then assess progress toward meeting those goals. The eAppraisal system from Halogen Software³⁷ is another example. SAP Success Factors (www.successfactors.com/en_us.html) provides particularly effective performance management assistance. It facilitates assigning and monitoring goals, helps management provide feedback to employees, and makes it easy to review goal attainment as part of performance appraisal.³⁸

Similarly, lack of easy access to high-priced salary surveys once made it difficult for small businesses to adjust their pay scales. Today, sites like www.salary.com and www.Glassdoor.com make it easy to determine local and national pay rates. Benefits administration packages, as from Zenefits (www.zenefits.com/), make it easy for employees to register for benefits, and to access their insurance and benefits information.³⁹

Employment Safety and Health Tools

Average injury rates for small businesses are somewhat lower than in big companies.⁴⁰ However, most people work for small businesses, so that's still a huge number of total accidents. Small business managers should have a command of the tools and techniques in Chapter 16 (Safety). As also explained there, OSHA provides free services for small employers.⁴¹ These include free on-site safety services for small businesses, and the OSHA Sharp program, a process through which OSHA certifies that small employers have achieved commendable levels of safety awareness.⁴²

LEARNING OBJECTIVE 18-3

List five ways entrepreneurs can use their small size to improve their HR processes.

Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality

Because small businesses need to capitalize on their strengths, it makes sense for them to capitalize on their smallness when dealing with employees. For example, smallness can mean more personal *familiarity* with each employee's strengths, needs, and family situation. And it can mean being *flexible* and *informal* in its human resource management policies and practices.⁴³

Simple, Informal Employee Selection Procedures

In addition to online recruitment and selection tools,⁴⁴ small business managers shouldn't forget simple, low-tech selection aids. For example, the Work Sampling Test we explained in Chapter 6 involves having the candidate show how he or she would actually do one of the job's tasks—such as a marketing candidate spending 30 minutes outlining an ad for a product. The accompanying HR Tools feature presents a more informal selection interview procedure the small business manager may find useful.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

A Streamlined Interviewing Process⁴⁵

The small business owner, pressed for time, may use the following practical, streamlined employment interview process.⁴⁶ One way to do so is to focus on four basic required factors: knowledge and experience, motivation, intellectual capacity, and personality. To proceed this way, interviewing expert John Drake suggests asking the following questions:

- ✓ **Knowledge and experience.** What must the candidate know to perform the job? What experience is necessary to perform the job? For example, ask a combination of situational questions plus open-ended questions to probe the candidate's suitability for the job, such as, "How would you organize such a sales effort?" or "How would you design that kind of Web site?"

- ✓ **Motivation.** What should the person like doing to enjoy this job? Is there anything the person should not dislike? Are there any essential goals or aspirations the person should have? For example, probe such areas as the person's likes and dislikes (for each thing done, what he or she liked or disliked about it).
- ✓ **Intellectual capacity.** Are there any specific intellectual aptitudes required (mathematical, mechanical, and so on)? How complex are the problems the person must solve? What must a person be able to demonstrate intellectually? For example, ask questions that judge such things as complexity of tasks the person has performed, and grades in school.
- ✓ **Personality.** What are the critical personality qualities needed for success on the job (ability to withstand boredom, decisiveness, stability, and so on)? How must the job incumbent handle stress, pressure, and criticism? What kind of interpersonal behavior is required in the job? For example, probe by looking for self-defeating behaviors (aggressiveness, compulsive fidgeting, and so on) and by exploring the person's past interpersonal relationships, such as leading the work team on the last job. Is the candidate personable? Shy? Outgoing?

How to Organize the Interview

- ✓ Have a plan. Devise and use a plan to guide the interview. Drake says that significant areas to touch on include the candidate's:
 - ✓ College experiences
 - ✓ Work experience—summer, part-time
 - ✓ Work experience—full-time (one by one)
 - ✓ Goals and ambitions
 - ✓ Reactions to the job you are interviewing for
 - ✓ Self-assessments (by the candidate of his or her strengths and weaknesses)
 - ✓ Military experiences
 - ✓ Present outside activities⁴⁷
- ✓ Follow your plan. Start with an open-ended question for each topic, such as “Could you tell me about what you did in college?” Then probe for information about the person's knowledge and experience, motivation, intelligence, and personality.

Match the Candidate to the Job

You should now be able to draw conclusions about the person's knowledge and experience, motivation, intellectual capacity, and personality, and to summarize the candidate's strengths and limits. This should provide a rational basis for matching the candidate to the job—one based on the traits and aptitudes the job actually requires. ■

MyLab Management Talk About It 2

If your professor has assigned this, go to the Assignments section of www.pearson.com/mylab/management to complete these discussion questions. List two situational questions (what would you do . . . ?) and two behavioral questions (what did you do . . . ?) that you might ask to unearth insights into the candidate's motivation.

Flexibility in Training

Two things characterize training in small businesses. First, small businesses focus on what the training will do *for their bottom lines*, rather than how employees may benefit.⁴⁸ (Similarly, they focus management development on teaching specific firm-related skills, such as how to sell the firm's products).⁴⁹

Second, a study several years ago in Europe found that small firms were also *relatively informal* in how they trained employees.⁵⁰ This probably isn't surprising, since (as explained in Chapter 8), training experts estimate that on average about 70% of all training is in fact “informal.”

ENCOURAGING INFORMAL TRAINING Given the importance of informal learning, small business managers should take steps to encourage and facilitate it.

Several things contribute to building an environment in which informal learning thrives. Informal learning occurs when employees *have something they need to learn*, are *motivated to learn it*, and are given *the opportunity to learn*.⁵¹ Informal learning tends to take place as *a by-product of employees' other activities*, and so usually occurs during day-to-day conversations, networking, and through teamwork and mentoring.⁵² (To paraphrase one expert, workers learn more over coffee than they do taking courses.)⁵³ The best informal learning also tends to be *goal directed*, as when a manager who needs to recruit an engineer asks LinkedIn group colleagues how to do so; informal learning is thus often *triggered by something at work* that motivates the employee to initiate an informal learning interaction.⁵⁴ And, informal learning occurs best where employees know that top *management encourages and supports* such learning.⁵⁵

Given all this, the small business owner can do several things to encourage and facilitate informal learning. These include

- Make it clear that you encourage employees to learn on the job, particularly when they're faced with a work problem.⁵⁶
- Make high-quality content available. For example, while much on the Internet is free, sometimes the job-relevant content for your company requires a subscription; if so, provide such subscriptions.⁵⁷
- Encourage supervisors to provide informal learning through coaching.⁵⁸
- Offer to cover tuition for special classes.⁵⁹
- Identify online training opportunities.⁶⁰
- Encourage and facilitate (for instance, through a dedicated page on the company intranet) the sharing of best practices.⁶¹
- Send employees to special seminars and meetings for learning and networking.⁶²
- Provide plenty of opportunities for informal learning at work, such as chalkboards at worksites and lunch areas.



Flexibility in Benefits and Rewards

The Family and Work Institute surveyed the benefits practices of about 1,000 small and large companies.⁶³ Not surprisingly, they found that large firms offer more *extensive* benefits packages than do smaller ones. For example, larger employers offered more wellness programs, and asked their employees to pay a smaller share of health premiums than did small firms, on average.

However, small firms offered more flexibility. For example, employees at small employers (50–99 employees) were more likely than large employers (1,000 or more employees) to (1) take time off during the workday to attend to important family or personal needs without loss of pay; (2) have control over when to take breaks; and (3) periodically change starting and quitting times within some range of hours.⁶⁴

Some small businesses also “discovered how to turn tiny into tight-knit, earning employees’ trust by keeping them in the loop on company news and financials, and their loyalty by providing frequent feedback on performance.”⁶⁵ For example, ID Media, with 90 employees, gives all new employees a welcome breakfast on their first day.⁶⁶

Wards Furniture in Long Beach, California, further illustrates this. Many of its 17 employees have been with the firm for 10 to 20 years. Brad Ward, an owner, attributes this partly to his firm’s willingness to adapt to its workers’ needs. For example, workers can share job responsibilities and work part-time from home. As a result, Wards Furniture is a good example of using small size to create valuable work–life benefits such as extra time off, compressed workweeks, schedule flexibility, and recognition for employees.

Here are other examples of what Wards and other small employers can offer:⁶⁷

- **Extra time off.** For example, Friday afternoons off in the summer.
- **Compressed workweeks.** For example, compressed summer workweeks.
- **Bonuses at critical times.** Small business owners are more likely to know what’s happening in their employees’ lives. Use this knowledge to provide special bonuses, for instance, if an employee has a new baby.

At Wards Furniture, workers can share job responsibilities and work part-time from home.

Thomas Barwick/DigitalVision/Getty Images



- **Flexibility.** For example, “If an employee is having a personal problem, help create a work schedule that allows the person to solve problems without feeling like they’re going to be in trouble.”⁶⁸
- **Sensitivity to employees’ strengths and weaknesses.** The small business owner should stay attuned to his or her employees’ strengths, weaknesses, and aspirations. For example, give them an opportunity to train for and move into the jobs they desire.
- **Help them better themselves.** For example, pay employees to take a class to help them develop their job skills.
- **Feed them.** Provide free meals occasionally, perhaps by taking your employees to lunch.
- **Make them feel like owners.** For example, give employees input into major decisions, let them work directly with clients, get them client feedback, share company performance data with them, and let them share in the company’s financial success.
- **Make sure they have what they need to do their jobs.** Having motivated employees is only half the challenge. Also ensure they have the necessary training, procedures, computers, and so on.
- **Constantly recognize a job well done.** Capitalize on your day-to-day interactions with employees to “never miss an opportunity to give your employees the recognition they deserve.”⁶⁹

SIMPLE RETIREMENT BENEFITS About the same percentage of small firms (93%) as large ones (98%) offer defined contribution 401(k) plans, but more large firms (35%) offer *defined benefits* plans than do small firms (15%).⁷⁰

An easy way for small businesses to provide retirement benefits is through a SIMPLE IRA plan.⁷¹ With the SIMPLE (for Savings Incentive Match Plan for Employees) IRA, employers must (and employees may) make contributions to traditional employee IRAs. These plans are for employers or small businesses with 100 or fewer employees and no other retirement plan.

SIMPLE IRAs are inexpensive and easy. The owner contacts an eligible financial institution and fills out several IRS forms.⁷² Most banks, mutual funds, and insurance companies that issue annuity contracts are generally eligible.⁷³ The plan has very low administrative costs. Employer contributions are tax deductible.⁷⁴ A typical employer contribution might match employee contributions dollar for dollar up to 3% of pay. The financial institution usually handles the IRS paperwork and reporting.

Fairness and the Family Business

Most small businesses are “family businesses,” since the owner (and often some employees) are family members.

Being a nonfamily employee here isn’t easy. The tendency is to treat family and nonfamily employees differently. If so, as one writer puts it, “It’s a sure bet that their lower morale and simmering resentments are having a negative effect on your operations and sapping your profits.”⁷⁵ Differential treatment of nonfamily versus family employees is so widespread that it is an area of small business research. Two experts suggest family business owners follow a four-step program to ensure fairness.⁷⁶

- First, the family *commits* to the idea that all employees, family and nonfamily, should be treated fairly and consistently.⁷⁷ Work hard to avoid “any appearance that family members are benefiting unfairly from the sacrifice of others.”⁷⁸ Avoid “any behavior that would lead people to the conclusion that they are demanding special treatment in terms of assignments or responsibilities.”⁷⁹
- Second, the family *communicates* their commitment that all employees are entitled to fair practices.⁸⁰
- Third, before they sign on, all employees must know that they can “freely and safely” *discuss and report* perceived unfair decisions.⁸¹ Particularly inform management applicants as to whether they will have potential for promotion. Make the expectations clear, regarding matters such as the authority the person will have and can attain.⁸²
- Fourth, have a *committee* that meets monthly to correct any alleged unfair decision voiced by family or nonfamily employees.⁸³

LEARNING OBJECTIVE 18-4

Discuss how you would choose and deal with a professional employer organization.

Using Professional Employer Organizations

As we explained in Chapter 13 (Benefits), many small business owners—pressed for time and concerned about the legal pitfalls of personnel blunders—opt to outsource all or most of their human resource functions to vendors. These vendors go by the names *professional employer organizations* (PEOs), *human resource outsourcers* (HROs), or sometimes *employee or staff leasing firms*.

How Do PEOs Work?

PEOs range from specialized payroll companies to ones that handle all an employer’s human resource management needs.

In determining which personnel tasks to outsource, the small business manager has many choices. At a minimum, these firms take over the employer’s payroll tasks. Usually, however, PEOs shoulder most of the employer’s human resources chores. By transferring the client firm’s employees to the PEO’s payroll, PEOs become co-employers of record for the employer’s employees. The PEO can then fold the client’s employees into the PEO’s insurance and benefits program, usually at a lower cost.⁸⁴ The PEO usually handles employee-related activities such as recruiting, hiring (with client firms’ supervisors’ approvals), and payroll and taxes. PEO companies like Paychex (www.paychex.com/) provide payroll, tax, and benefits processing but also handle recruiting and training. Oasis Outsourcing (www.oasisadvantage.com/) can handle the full human resource process for very small companies, ranging from recruitment through selection, training, appraisal, and compensation. ADP total source (<https://totalsource.adp.com/ts/logout.do>) handles payroll processing for thousands of employers, but can also manage the entire HR process, even including initial candidate interviews.⁸⁵

Most PEOs focus on smaller employees, often those with under 100 employees (although some handle clients of 5,000 employees or more).⁸⁶ They typically charge fees of 2% to 4% of a company's payroll; alternatively, some charge monthly per-employee fees of \$40-\$125, depending on the services they provide.⁸⁷

Why Use a PEO?

Some small business owners turn to PEOs to avoid the sorts of personnel-related problems we itemized earlier in this chapter. These were: (1) inadequate human resource practices may put small business owners at *legal risk*; (2) not having a dedicated HR person can slow down company decision making and overwhelm its managers; (3) without human resource information systems, paperwork duplication is time consuming and creates *data entry errors*; and (4) if the small business can't efficiently hire, train, appraise, and compensate employees, it may find itself at a *competitive disadvantage*.

INSURANCE AND BENEFITS However *insurance and benefits* are often the big PEO attraction. Getting health and other insurance is often a problem for smaller firms. That's where employee leasing comes in. The PEO absorbs the client firm's employees as its own. That often enables the PEO to offer larger benefits packages more cheaply than a small business could get on its own.



CAVEATS There are several potential downsides to PEOs. Many employers view their human resource management practices (like training new engineers) as strategic, and aren't inclined to turn them over to outsiders (let alone accept having outsiders be their employees' legal employer). Furthermore, the fact that your (former) employees get their health insurance through the PEO has cons as well as pros.⁸⁸ For example, if the PEO goes out of business, its small business clients may scramble to replace their insurance. And if the PEO decides to switch insurance plans, your own employees may not be pleased with the new health providers. There can also be some tax disadvantages, although 2014's Small Business Efficiency Act reduces these. Figure 18-4 summarizes guidelines for finding and working with PEOs.

FIGURE 18-4 Guidelines for Finding and Working with PEOs

Source: Based on Robert Beck and J. Starkman, "How to Find a PEO That Will Get the Job Done," *National Underwriter* 110, no. 39 (October 16, 2006), pp. 39, 45; Lyle DeWitt, "Advantages of Human Resource Outsourcing," *The CPA Journal* 75, no. 6 (June 2005), p. 13; www.peo.com/dmn, accessed April 28, 2008; Layne Davlin, "Human Resource Solutions for the Franchisee," *Franchising World* 39, no. 10 (October 2007), p. 27; and see, for example, www.adp.com/solutions/employer-services/totalsource/what-is-a-peo.aspx, accessed September 24, 2015.

Employers should choose and manage the PEO relationship carefully. Guidelines for doing so include:

- *Conduct a needs analysis.* Know ahead of time exactly what human resource concerns your company wants to address.
- *Review the services* of all PEO firms you're considering. Determine which can meet all your requirements.
- *Determine if the PEO is accredited.* There is no rating system. However, the Employer Services Assurance Corporation of Little Rock, Arkansas (<https://www.esac.org/>), imposes higher financial, auditing, and operating standards on its members. Also check the National Association of Professional Employer Organizations (www.NAPEO.org), and www.PEO.com.
- Check the provider's bank, credit, insurance, and professional references.
- Understand how the *employee benefits will be funded*. Is it fully insured or partially self-funded? Who is the carrier? Confirm that employers will receive first-day coverage.
- See if under the contract the PEO assumes the *compliance liabilities in the applicable states*.
- *Review the service agreement carefully.* Are the respective parties' responsibilities and liabilities clear?
- Investigate how long the *PEO has been in business*.
- *Check out the prospective PEO's staff.* Do they seem to have the expertise to deliver on its promises?
- Ask, *how will the firm deliver its services?* In person? By phone? Via the Web?
- Ask about upfront fees and how these are determined.
- *Periodically get proof that payroll taxes and insurance premiums are being paid properly* and that any legal issues are handled correctly.

MyLab Management Apply It!

How does a small company actually carry out its human resource management tasks? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the video exercise.

What Is the Alternative?

If it does not want to use a PEO, what should the small business do? Most owners simply handle it all themselves. Some retain HR-savvy consultants who provide, on an hourly basis, the knowledgeable assistance in job analysis, recruiting, selection, and other matters that the small business owner needs. The advent of new HR software that provides services including applicant tracking, automatic recruitment ad placement, online selection testing, and performance management, plus employee data management is another smart option.⁸⁹ The following section looks closer at such software systems.

LEARNING OBJECTIVE 18-5

Describe how you would create a start-up human resource system for a new small business.

Managing HR Systems, Procedures, and Paperwork

Introduction

Consider the paperwork required to run a five-person retail shop. Just to start with, recruiting and hiring an employee might require a help wanted advertising listing, an employment application, an interviewing checklist, various verifications—of education and immigration status, for instance—and a telephone reference checklist. You then might need an employment agreement, confidentiality and noncompetition agreements, and an employer indemnity agreement. To process the new employee you might need a background verification, a new employee checklist, and forms for withholding tax and to obtain new employee data. And to keep track of the employee once on board, you'd need—just to start—a personnel data sheet, daily and weekly time records, an hourly employee's weekly time sheet, and an expense report. Then come all the performance appraisal forms, a disciplinary notice, an employee orientation record, separation notice, and employment reference response.

In fact, this list barely scratches the surface of the policies, procedures, and paperwork you'll need to run the human resource management part of your business. Perhaps with just one or two employees you could track everything in your head, or just write a separate memo for each HR action, placing it in a folder for each worker. But with more employees, you'll need a human resource system comprised of standardized forms. Then as the company grows, you'll computerize various parts of the HR system—payroll, or appraising, for instance.

Basic Components of Manual HR Systems

Very small employers (say, with 10 employees or less) may start with a manual human resource management system. In practice, this generally means obtaining and organizing a set of standardized personnel forms covering each aspect of the HR process—recruitment, selection, training, appraisal, compensation, safety—as well as some means for organizing all this information for each of your employees.

The number of forms you would conceivably need even for a small firm is quite large, as the illustrative list in Table 18-1 shows.⁹⁰ One simple way to obtain a manual system's basic forms is from Web sites (such as www.hr.com/en/free_forms/) or books or CDs that provide compilations of HR forms.⁹¹ The forms can then be adapted from these sources for your particular situation. Office supply stores also sell packages of personnel forms. For example, Office Depot sells packages of personnel forms such as: Application, Employment Interview, Reference Check, Employee Record, Performance Evaluation, Warning Notice, Exit Interview, and Vacation Request, plus a Lawsuit-Prevention Guide.⁹² Also available is a package of Employee Record Folders. Use the folders to maintain a file on each individual employee; on the outside of the pocket is printed a form for recording name, start date, company benefits, and so on.

TABLE 18-1 Some Important Employment Forms

New Employee Forms	Current Employee Forms	Employee Separation Forms
Application	Employee Status Change Request	Retirement Checklist
New Employee Checklist	Employee Record	Termination Checklist
Employment Interview	Performance Evaluation	COBRA Acknowledgment
Reference Check	Warning Notice	Unemployment Claim
Telephone Reference Report	Vacation Request	Employee Exit Interview
Employee Manual Acknowledgment	Probation Notice	
Employment Agreement	Job Description	
Employment Application Disclaimer	Probationary Evaluation	
Employee Secrecy Agreement	Direct Deposit Acknowledgment	
	Absence Report	
	Disciplinary Notice	
	Grievance Form	
	Expense Report	
	401(k) Choices Acknowledgment	
	Injury Report	

OTHER SOURCES Numerous direct-mail catalog companies also sell HR materials. For example, HRdirect (www.hrdirect.com) offers packages of personnel forms.⁹³ These include, for instance, Short- and Long-Form Employee Applications, Applicant Interviews, Employee Performance Reviews, Job Descriptions, Exit Interviews, and Absentee Calendars and Reports. There are also various legal-compliance forms, including standardized Harassment Policy and FMLA Notice forms, as well as posters (for instance, covering legally required postings for matters such as the Americans with Disabilities Act and Occupational Safety and Health Act) available.

Automating Individual HR Tasks

As the small business grows, it becomes impractical to rely on manual HR systems. It is at this point that most small to medium-sized firms begin computerizing individual human resource management tasks.



HR in Action at the Hotel Paris Lisa had managed to install several separate information systems, such as for performance appraisals. However, as she discussed one day over lunch with the CFO, these systems were not integrated. To see how she handled this, see the case on page 611 of this chapter.

PACKAGED SYSTEMS⁹⁴ Web sites such as www.capterra.com/ itemize HR software available from vendors such as Zenefits, Halogen TalentSpace, Fairsail HRIS, and Cezanne HR.⁹⁵ These vendors provide software solutions for virtually all personnel tasks, ranging from benefits management to compensation, compliance, employee relations, outsourcing, payroll, and time and attendance systems.

HRdirect sells software packages for monitoring attendance, employee record keeping, writing employee policy handbooks, and conducting computerized employee appraisals. The sites www.hrdirect.com, www.effortlesshr.com, and others offer software and online solutions for writing employee policy manuals, maintaining employee records (including name, address, marital status, number of dependents, emergency contact and phone numbers, hire date, and job history), writing performance reviews, creating job descriptions, tracking attendance and hours worked for each employee, employee scheduling, writing organizational charts, managing payroll, conducting employee surveys, scheduling and tracking employee training activities, and managing OSHA compliance, often cloud-based.⁹⁶



Human Resource Information Systems (HRIS)

As the company grows, a more comprehensive and integrated system becomes advisable. We can define a Human Resource Information System (HRIS) as human resource software that unifies HR management processes such as applicant tracking, hiring, training, performance management, benefits administration, and payroll into one automated system.⁹⁷ *PC Magazine* recently listed several top HR software packages; they include Gusto (<https://gusto.com/>) BambooHR (www.bamboohr.com/), Namely (www.namely.com/), Sage Business Cloud People (www.sagepeople.com/), Kronos Workforce (www.kronos.com/), and SAP Success Factors (www.successfactors.com/).⁹⁸

As an example, Bamboo HR handles personnel tasks including *applicant tracking* (including automatically sending *recruitment* ads to job boards), *employee time off tracking*, *HR reporting* (in terms of detailed reports on employment levels, and so on), *online employee self on boarding*, and *performance management* in terms of tracking goals and helping managers appraise subordinates based on those goals.⁹⁹ As with Bamboo HR, there are several benefits to be gained by installing an HRIS. The first is improved transaction processing.

Improved Transaction Processing

The day-to-day minutiae of maintaining and updating employee records take an enormous amount of time. Small businesses therefore first adopt HR software packages to manage their personal records. And, by interacting with the company's employee database, these packages also produce employment data-related trend graphs and reports on personnel metrics such as turnover and compensation costs. *PC Magazine* recently rated BambooHR as an “Editor’s choice” for these tasks.¹⁰⁰

Online Self-Processing

HR information systems also facilitate employee self-processing. For example, with systems like that from Zenefits (www.zenefits.com/), “[n]ew hires can self-enroll in medical, dental and vision benefits during onboarding, and employees can easily sign up during open enrollment.”¹⁰¹ Zenefits’ system also facilitates employees signing up for Flexible Spending Accounts: It “makes enrolling a snap, issues all plan participants a debit card, and allows employees to track and manage their funds through our online dashboard.”¹⁰²

Improved Reporting Capability

By integrating numerous individual HR tasks (training records, appraisals, employee personal data, and so on), the HRIS improves HR’s reporting capabilities. For example, reports might be available (company-wide and by department) for health-care cost per employee, pay and benefits as a percent of operating expense, cost per hire, report on training, volunteer turnover rates, turnover costs, time to fill jobs, and return on human capital invested (in terms of training and education fees, for instance).

HR System Integration

Because the HRIS’s software components (record keeping, payroll, appraisal, and so forth) are integrated, they enable the employer to reengineer its HR function. For example, Oracle’s PeopleSoft’s HRIS¹⁰³ electronically routes salary increases, transfers, and other e-forms through the organization to the proper managers for approval. As one person signs off, it’s routed to the next. If someone forgets to process a document, a smart agent issues reminders. The HRIS thus automates what might otherwise be a time-consuming manual process.

HRIS Vendors

Many firms today offer HRIS packages. Capterra.com, mentioned earlier, lists many vendors. The Web site for the International Association for Human Resource Information Management (www.ihrim.org) lists vendors such as Automatic Data Processing, Inc., Business Information Technology, Inc., Human Resource Microsystems, Lawson Software, Oracle Corporation, SAP America, Inc., and many other HRIS vendors. *PC Magazine* provides annual HR Software “Editor’s Choice” lists.¹⁰⁴

There are several practical considerations in choosing a software vendor.¹⁰⁵ For example, does the software provide *software-as-a-service* (SaaS) capability, or must it be kept and managed on the company's in-house servers? Does the package provide an intuitive user interface? Can you integrate it with your existing HR systems? And (particularly if it's stored in the cloud), security—mainly protecting personal data—is essential.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

HR on the Cloud

Most suppliers of human resource management systems, such as ADP, Kronos, Oracle, and SAP, offer cloud-based systems. Particularly for small business owners, the advantages of cloud systems are that the vendors can easily update them with the latest features—saving the small business owner much time and expense—and that the owner and employees can access the information anywhere they are.¹⁰⁶

BambooHR illustrates an HR system especially designed for small and medium-sized businesses (www.bamboohr.com). This system enables authorized managers and employees to securely and remotely access company information on matters like time off and personal information, and to produce reports and/or follow trends on the system's customizable dashboards. It was also designed to be integrated with compatible applications, so it can be integrated with the small business's existing payroll systems, applicant tracking systems, benefits enrollment systems, and performance review systems.¹⁰⁷

As another example, many employers outsource benefits administration to cloud-based services offered by firms like Zenefits. A new employee uses his or her laptop or smartphone to access the Zenefits Web site. He or she can then input personal information and sign documents via a touchscreen, and register for specific benefits.¹⁰⁸ ■

Chapter Review

Chapter Section Summaries

- 18-1.** Many people reading this book will work for or own their own small businesses, so it's important to understand the **small business challenge**. Without effective human resource management, small business owners run the risk that they'll be at a competitive disadvantage or that without the necessary HR expertise they may commit mistakes that lead to litigation.
- 18-2.** Being small, small businesses can particularly capitalize on freely available **Internet and government tools to support their HR efforts**. For example, you can use Department of Labor elaws Advisors to answer overtime questions, the EEOC's Web sites for answers on questions like "How can we resolve the charge?" and the Department of Labor's OSHA Web site to review, for instance, your small business handbook. To better compete, small business owners can also use online recruiting tools like those we discussed in Chapter 5 and training programs available online from companies such as PureSafety.
- 18-3.** Small businesses need to capitalize on their strengths, and in this case, it means capitalizing on **familiarity, flexibility, and informality**. For example, be flexible about extra time off, compressed workweeks, and job enrichment. They can also use relatively informal but still effective employee selection procedures such as a work-sampling test. Informal training methods include online training opportunities, encouraging the sharing of best practices among associates, and sending employees to seminars. Because small businesses are often family businesses, it's important to treat nonfamily members fairly.
- 18-4.** After reviewing all the challenges of managing human resources, many small business owners turn to **using professional employer organizations**. Also called *human resource outsourcers* or *employee* or *staff leasing firms*, these firms generally transfer the client firm's employees to the PEO's own payroll and thus become the employer of record for the employer's employees.

18-5. Small business managers need to understand how their **HR systems, procedures, and paperwork** will evolve. At first, there may be a simple manual human resource management system, for instance, with employee records compiled on forms from office supply companies and maintained in manual files. The

employer then may purchase one or more packaged systems for automating individual HR tasks, for instance, such as applicant tracking and performance appraisal. As companies grow, they will look to integrate the separate systems with a human resource information system.

Discussion Questions

- 18-1. How and why is HR in small businesses different than that in large firms?
- 18-2. Explain why HRM is important to small businesses.
- 18-3. Explain and give at least five examples of ways entrepreneurs can use small size—familiarity,

flexibility, and informality—to improve their HR processes.

- 18-4. Describe with examples how you would create a start-up, paper-based human resource system for a new small business.

Individual and Group Activities

- 18-5. Form teams of five or six persons, each with at least one person who owns or has worked for a small business. Based on their experiences, make a list of the “inadequate-HR risks” the business endured, in terms of competitive disadvantage, lack of specialized HR expertise, workplace litigation, compensation laws compliance, and paperwork/data-entry errors.
- 18-6. You own a small business, and you are confused about which of your employees is eligible for overtime pay. The employees in question include your secretary, two accounting clerks, one engineer, and two inside salespeople. Individually or in groups of four or five students, use the DOL’s Overtime Security Advisor and DOL’s Calculator to determine who gets overtime pay.
- 18-7. You have about 32 employees working in your factory. Working individually or in teams of four or five students, find and create a list of five online sources you could use to provide training to them, at no cost to you or to them.

- 18-8. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team’s questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.



Experiential Exercise

Building an HRIS

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice in creating a human resource management system (HRIS).

Required Understanding: You should be fully acquainted with the material in this chapter.

How to Set Up the Exercise/Instructions: Divide the class into teams of several students. Each team will need access to the Internet.

Assume that the owners of a small business come to you with the following problem. They have a company

with less than 40 employees. They have been taking care of all HR paperwork informally, mostly on slips of paper and with memos. They want you to supply them with a human resource management information system—how computerized it is will be up to you, but they can only afford a budget of \$5,000 upfront (not counting your consulting), and then about \$500 per year for maintenance. You know from your HR training that there are various sources of paper-based and online systems. Write a two-page proposal telling them exactly what your team would suggest, based on its accumulated existing knowledge, and from online research.

Application Case

Netflix Breaks the Rules¹⁰⁹

Written and copyrighted by Gary Dessler, PhD.

Why did Netflix survive as a start-up when the dot-com bubble burst in the late 1990s? Probably because, from the day he started Netflix, founder Reed Hastings believed in breaking the rules. His direct-to-consumer mail and video streaming business model certainly helped Netflix to survive. But the firm's unorthodox human resource management practices helped the company to attract and keep the high producers who design the products that are the firm's lifeblood. Hastings knew that top Silicon Valley workers could choose where they worked, and high pay is pretty much standard throughout the Valley's industries. How to set oneself apart? Hastings and his start-up colleagues believed that a culture that balanced a flexible work environment with few constraints and high responsibility was the answer. They called the policy "Freedom and Responsibility."

Just how unorthodox are the Netflix HR practices? Consider this: As a Netflix professional you get unlimited vacations. One engineer takes 5-week vacations to Europe, because he likes (as he says) to take his time off in big chunks. (An HR officer must approve time off in excess of 30 days annually.) As a Netflix employee, your pay isn't tied to performance appraisals, or even to a compensation plan. Frequent market salary surveys and pay hikes keep everyone's pay aligned with Silicon Valley competitors'. Each employee decides whether to take his or her pay in cash or in Netflix stock. Options vest immediately. Netflix doesn't recruit much at college job fairs, instead hiring mostly highly experienced professionals. There's no training, professional development, or career planning at Netflix (except for legally required training, such as diversity training). You're in charge of your own career.

But with freedom like that comes responsibilities. The company expects its salaried employees to work hard—to "do the jobs of three

or four people," as one report put it. And Netflix doesn't have the "frat party" free-wheeling atmosphere that many dot-coms do. It's an adult environment. Netflix does not coddle underperformers. Yearly 360-degree performance reviews provide "direct and honest feedback." Those that aren't cutting it are quickly let go, but (whenever possible) amicably. Rather than the sorts of litigiousness that often characterize dismissals in other firms (having to prove the person was incompetent, for instance), Netflix writes a check. The company believes that a handsome severance payment helps maintain the person's dignity, makes it easier for supervisors to make tough calls with underperformers, and, of course, minimizes blowback from those it dismisses. It's more like a "no-fault divorce," as one observer put it.

Questions

In many respects, the Netflix HR strategy seems like a dream come true for small businesses. You don't need a pay plan; instead, you just update each person's pay every few months based on market surveys. You offer no training and development. And you don't track vacation time, more or less. If someone's not doing well, you just pay him or her to leave, with no hassles. Netflix seems to have hit upon its own version of "Netflix High-Performance Work Practices." Given that, answer the following questions (please be specific).

- 18-9. What (if anything) is it about Netflix that makes its HR practices work for it?
- 18-10. Would you suggest using similar practices in other businesses, such as, say, a new restaurant? Why?
- 18-11. List the criteria you would use for deciding whether another company is right for Netflix-type HR practices.
- 18-12. What argument would you make in response to the following: "Netflix just lucked out; they'd have done even better with conventional HR practices."

Continuing Case

Carter Cleaning Company

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Cleaning in Challenging Times

As the economic downturn worsened a few years ago, revenues at the Carter stores fell steeply. Many of their customers were simply out of work and didn't need (or couldn't afford) dry cleaning. The Carters actually found themselves giving away some free cleaning services. They started a new program wherein existing customers could get one suit or dress cleaned free each month if they needed it for a job interview.

In the midst of this downturn, the Carters knew they had to get their employment costs under control. The problem was that, realistically, there wasn't much room for cutting staffing in a store. Of course, if a store got very slow, they could double up by having a cleaner/spotter spend some time pressing, or having the manager displace the counter person. But if sales only fell 15% to 20% per store, there really

wasn't much room for reducing employee head count because each store never employed many people in the first place.

The question, therefore, naturally arose as to whether the Carters could cut their employment expenses without dismissing too many people. Jennifer Carter has several questions for you.

Questions

- 18-13. Assume that we don't want to terminate any of our employees. What work-scheduling-related changes could we make that would reduce our payrolls by, say, 20% per week but still keep all our employees on board?
- 18-14. We are currently handling most of our personnel-related activities, such as sign-ons, benefits administration, and appraisals, manually. What specific suggestions would you have for us in terms of using software systems to automate our HR processes?
- 18-15. Suggest at least five free Internet-based sources we could turn to for helping us to lower our total employment costs.

Translating Strategy into HR Policies and Practices Case*,§

*The accompanying strategy map for this chapter is in MyLab Management; the overall map on the inside back cover of this text outlines the relationships involved.

Improving Performance at the Hotel Paris

The New HRIS

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

Challenging economic times in the past few years brought the drawbacks of the Hotel Paris's relatively small size into sharp relief. Large chains like Marriott had vast online reservations capabilities with huge centralized systems that easily and economically handled reservations requests from throughout the world. By comparison, the Hotel Paris still handled reservations much as hotels did 15 years ago, either with separate Web sites for each of their hotel locations, e-mail, or an 800 number.

Their human resource management information systems were similarly primitive. Lisa had managed to install several separate information systems, such as for performance appraisals. However, as she discussed one day over lunch with the CFO, the HR systems were not integrated. Therefore, if an employee changed his or her name, for instance, through marriage, people in Lisa's office had to execute all those name changes manually on all the various employee rosters and benefits plans.

This lack of integration was bad enough in boom times, but was worse as the economy soured. The CFO pointed out to her that the amount of money they were spending on human resource management administration was about 30% higher than it was at larger chains such as Marriott. He understood that large size brings economies of

scale. But he believed there had to be something they could do to reduce the cost of administering human resource management.

Lisa's solution was to get the CFO's approval to have several software consulting firms including IBM, Accenture, and Oracle provide proposals for how to integrate the hotel's HR information systems. After getting the CFO's and CEO's approval, they contracted with one vendor and installed the system.

Questions

- 18-16. Using any benchmark data that you can find, including information from this book, what are some benchmark metrics that Lisa could be using to assess the efficiency of her human resource management operations? To what extent does the Hotel Paris's quality service orientation enter into how Lisa's metrics should compare?
- 18-17. Throughout this book, we've discussed various specific examples of how human resource management departments have been reducing the cost of delivering their services. Keeping in mind the Hotel Paris's quality service orientation, please list and explain with examples how Lisa Cruz could use at least five of these.
- 18-18. Focusing only on human resource information systems for a moment, what sorts of systems would you suggest Lisa consider recommending for the Hotel Paris? Why?
- 18-19. Explain with detailed examples how Lisa can use free online and governmental sources to accomplish at least part of what you propose in your previous answers.
- 18-20. Give three examples of fee-based online tools you suggest Lisa use.
- 18-21. Based on what you read in this chapter of Dessler, *Human Resource Management*, do you suggest Lisa use a PEO? Why?

§ Written and copyrighted by Gary Dessler, PhD.

MyLab Management

Go to www.pearson.com/mylab/management for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 18-22. Explain and give at least four examples of how entrepreneurs can use Internet and government tools to support the HR effort.
- 18-23. This chapter explained that to compete with larger employers, the small business owner should capitalize on familiarity, flexibility, and informality. What does this mean, and how as a small business owner would you do that?
- 18-24. MyLab Management only—comprehensive writing assignment for this chapter.

MyLab Management Try It!

How would you apply the concepts and skills you learned in this chapter? If your professor has assigned this activity, go to the Assignments section of www.pearson.com/mylab/management to complete the simulation.

PERSONAL INVENTORY ASSESSMENTS



Running one's own business requires a knack for knowing how to delegate. Go to www.pearson.com/mylab/management to complete the Personal Inventory Assessment related to this chapter.

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APPENDIX A

HRCI's PHR[®] and SPHR[®] Certification Body of Knowledge

ABOUT THE HR CERTIFICATION INSTITUTE PHR AND SPHR BODY OF KNOWLEDGE

The HRCI PHR (Professional in Human Resources) and SPHR (Senior Professional in Human Resources) exams are created using the Institute's PHR and SPHR Body of Knowledge, which outlines the responsibilities of, and knowledge needed by, today's HR professional. The PHR and SPHR Body of Knowledge is updated periodically to ensure it is consistent with current practices in the HR field. All questions appearing on the exams are linked to the Body of Knowledge's responsibility and knowledge statements. The HRCI organizes its PHR and SPHR Body of Knowledge into six functional areas (such as Functional Area 01: Business Management and Strategy), each listing various responsibilities and knowledge statements. For brevity, we list just the required knowledge items here, alongside the corresponding chapters in this book that address each particular knowledge area. To see the entire Body of Knowledge (including responsibilities), please go to certification-handbook at HRCI.org.

You'll find two numbers after each functional area heading. The first number is the percentage of the PHR exam that is about that topic. The second number is the percentage of the SPHR exam that is about that topic.

Functional Area 01: Business Management and Strategy (PHR: 11%, SPHR: 30%)

Developing, contributing to and supporting the organization's mission, vision, values, strategic goals and objectives; formulating policies; guiding and leading the change process; and evaluating organizational effectiveness as an organizational leader.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

1, 3

2, 11, 14, 15, 16, and Know Your Employment Law features in Chapters 2–16

1, 3, strategic Hotel Paris cases in Chapters 3–18 with in-chapter call-outs, "strategic" chapter openers, and Improving Performance: The Strategic Context features in most chapters

1, 3

12, 14

1, 3, 5

KNOWLEDGE OF

- 01 The organization's mission, vision, values, business goals, objectives, plans and processes
- 02 Legislative and regulatory processes
- 03 Strategic planning process, design, implementation and evaluation
- 04 Management functions, including planning, organizing, directing and controlling
- 05 Corporate governance procedures and compliance (for example: Sarbanes–Oxley Act)
- 06 **SPHR only* Due diligence processes (for example: M&A, divestitures)

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- | | | |
|---------------|----|--|
| 1, 3, 5 | 07 | * <i>SPHR only</i> Transition techniques for corporate restructuring, M&A offshoring and divestitures |
| | 08 | Elements of a cost-benefit analysis during the life cycle of the business (such as scenarios for growth, including expected, economic stressed and worst-case conditions) and the impact to net worth/earnings for short-, mid- and long-term horizons |
| 3, 11, 14 | 09 | Business concepts (for example: competitive advantage, organizational branding, business case development, corporate responsibility) |
| 3, 14, 16, 18 | 10 | Business processes (for example: operations, sales and marketing, data management) |

Functional Area 02: Workforce Planning and Employment (PHR: 24%, SPHR: 17%)

Developing, implementing and evaluating sourcing, recruitment, hiring, orientation, succession planning, retention and organizational exit programs necessary to ensure a workforce's ability to achieve the organization's goals and objectives.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

- 2, 4, 5, 6, 7, and Know Your Employment Law features in Chapters 1–14
- 3, 4, 5, 6, and HR as a Profit Center features in Chapters 1–14
- 5
- 5
- 1, 5
- 3, 4, 5
- 2, 6, 7
- 6
- 6
- 5, 10, 11, 12, 13, 14
- 5, 17, and HR Practices Around the Globe features in Chapters 4–17
- 5, 10, 14
- 4, 5, 6, 7, 8, 9, 10
- 3, 8, 10, 18
- 5
- 15

KNOWLEDGE OF

- 11 Applicable federal laws and regulations related to workforce planning and employment activities (for example: Title VII, ADA, EEOC Uniform Guidelines on Employee Selection Procedures, Immigration Reform and Control Act)
- 12 Methods to assess past and future staffing effectiveness (for example: costs per hire, selection ratios, adverse impact)
- 13 Recruitment sources (for example: employee referral, social networking/social media) for targeting passive, semi-active and active candidates
- 14 Recruitment strategies
- 15 Staffing alternatives (for example: outsourcing, job sharing, phased retirement)
- 16 Planning techniques (for example: succession planning, forecasting)
- 17 Reliability and validity of selection tests/tools/ methods
- 18 Use and interpretation of selection tests (for example: psychological/personality, cognitive, motor/physical assessments, performance, assessment center)
- 19 Interviewing techniques (for example: behavioral, situational, panel)
- 20 Impact of compensation and benefits on recruitment and retention
- 21 **SPHR only* International HR and implications of global workforce for workforce planning and employment
- 22 Voluntary and involuntary terminations, downsizing, restructuring and outplacement strategies and practices
- 23 Internal workforce assessment techniques (for example: skills testing, skills inventory, workforce demographic analysis)
- 24 Employment policies, practices and procedures (for example: orientation, on-boarding and retention)
- 25 Employer marketing and branding techniques
- 26 Negotiation skills and techniques

Functional Area 03: Human Resource Development (PHR: 18%, SPHR: 19%)

Developing, implementing and evaluating activities and programs that address employee training and development, performance appraisal and talent and performance management to ensure that the knowledge, skills, abilities and performance of the workforce meet current and future organizational and individual needs.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

8 and in Know Your Employment Law features in this chapter and Chapters 2–18
5, 8, 9, 10

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HR Practices Around the Globe features in most chapters and Chapter 17 (Global HR)

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KNOWLEDGE OF

- 27 Applicable federal laws and regulations related to HR development activities (for example: Title VII, ADA, Title 17 [Copyright law])
- 28 Career development and leadership development theories and applications (for example: succession planning, dual career ladders)
- 29 Organizational development (OD) theories and applications
- 30 Training program development techniques to create general and specialized training programs
- 31 Facilitation techniques, instructional methods and program delivery mechanisms
- 32 Task/process analysis
- 33 Performance appraisal methods (for example: instruments, ranking and rating scales)
- 34 Performance management methods (for example: goal setting, relationship to compensation, job placements/promotions)
- 35 **SPHR only* Applicable global issues (for example: international law, culture, local management approaches/practices, societal norms)
- 36 Techniques to assess training program effectiveness, including use of applicable metrics (for example: participant surveys, pre- and post-testing)
- 37 Mentoring and executive coaching

Functional Area 04: Compensation and Benefits (PHR: 19%, SPHR: 13%)

Developing/selecting, implementing/administering and evaluating compensation and benefits programs for all employee groups in order to support the organization's goals, objectives and values.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

2, 11, 12, 13, 15, and Know Your Employment Law features

11, 12, 13

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11, 12, 13, 14

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KNOWLEDGE OF

- 38 Applicable federal laws and regulations related to compensation, benefits, and tax (for example: FLSA, ERISA, FMLA, USERRA)
- 39 Compensation and benefits strategies
- 40 Budgeting and accounting practices related to compensation and benefits
- 41 Job evaluation methods
- 42 Job pricing and pay structures
- 43 External labor markets and/or economic factors
- 44 Pay programs (for example: variable, merit)
- 45 **SPHR only* Executive compensation methods
- 46 Noncash compensation methods (for example: equity programs, noncash rewards)
- 47 Benefits programs (for example: health and welfare, retirement, Employee Assistance Programs [EAPs])

11, 12, 13, 17, and HR Around the Globe features

11, 12, 13

48 **SPHR only* International compensation laws and practices (for example: expatriate compensation, entitlements, choice of law codes)

49 Fiduciary responsibilities related to compensation and benefits

Functional Area 05: Employee and Labor Relations (PHR: 20%, SPHR: 14%)

Developing, implementing/administering and evaluating the workplace in order to maintain relationships and working conditions that balance employer/employee needs and rights in support of the organization's goals and objectives.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

2, 10, 14, 15

14 (Building Positive Employee Relations), 15

3, 4, 14

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10, 14, including Know Your Employment Law features

11, 12, 13, 14

3, 14, 15

10, 14, 15, including Know Your Employment Law features

KNOWLEDGE OF

50 Applicable federal laws affecting employment in union and nonunion environments, such as laws regarding antidiscrimination policies, sexual harassment, labor relations, and privacy (for example: WARN Act, Title VII, NLRA)

51 Techniques and tools for facilitating positive employee relations (for example: employee surveys, dispute/ conflict resolution, labor/management cooperative strategies)

52 Employee involvement strategies (for example: employee management committees, self-directed work teams, staff meetings)

53 Individual employment rights issues and practices (for example: employment at will, negligent hiring, defamation)

54 Workplace behavior issues/practices (for example: absenteeism and performance improvement)

55 Unfair labor practices

56 The collective bargaining process, strategies and concepts (for example: contract negotiation, costing and administration)

57 Legal disciplinary procedures

58 Positive employee relations strategies and non-monetary rewards

59 Techniques for conducting unbiased investigations

60 Legal termination procedures

Functional Area 06: Risk Management (PHR: 8%, SPHR: 7%)

Developing, implementing/administering and evaluating programs, procedures and policies in order to provide a safe, secure working environment and to protect the organization from potential liability.

KNOWLEDGE OF

61 Applicable federal laws and regulations related to workplace health, safety, security and privacy (for example: OSHA, Drug-Free Workplace Act, ADA, HIPAA, Sarbanes–Oxley Act)

62 Occupational injury and illness prevention (safety) and compensation programs

63 Investigation procedures of workplace safety, health and security enforcement agencies

64 Return to work procedures (for example: interactive dialog, job modification, accommodations)

65 Workplace safety risks (for example: trip hazards, blood-borne pathogens)

ADDRESSED IN THIS BOOK IN CHAPTER(S):

2, 14, 16, including Know Your Employment Law features

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13, 16

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16	66	Workplace security risks (for example: theft, corporate espionage, sabotage)
14, 16	67	Potential violent behavior and workplace violence conditions
16	68	General health and safety practices (for example: evacuation, hazard communication, ergonomic evaluations)
16	69	Organizational incident and emergency response plans
14, 16	70	Internal investigation, monitoring and surveillance techniques
13, 14, 16	71	Employer/employee rights related to substance abuse
16, 18	72	Business continuity and disaster recovery plans (for example: data storage and backup, alternative work locations, procedures)
14, 16, 18	73	Data integrity techniques and technology (for example: data sharing, password usage, social engineering)
3, 4, 5, 18, and Trends Shaping HR: Digital and Social Media and Improving Performance Through HRIS features in Chapters 3–16	74	Technology and applications (for example: social media, monitoring software, biometrics)
	75	Financial management practices (for example: procurement policies, credit card policies and guidelines, expense policies)

CORE KNOWLEDGE

3, 8	76	Needs assessment and analysis
13, 18	77	Third-party or vendor selection, contract negotiation and management, including development of requests for proposals (RFPs)
9, 10, 14	78	Communication skills and strategies (for example: presentation, collaboration, sensitivity)
2, 4, 6, 9, 15, 16, 18, and Know Your Employment Law features in Chapters 2–16	79	Organizational documentation requirements to meet federal and state guidelines
8	80	Adult learning processes
8, 12, 13, 14	81	Motivation concepts and applications
8	82	Training techniques (for example: virtual, classroom, on-the-job)
	83	Leadership concepts and applications
	84	Project management concepts and applications
2 and Diversity features in most chapters	85	Diversity concepts and applications (for example: generational, cultural competency, learning styles)
14	86	Human relations concepts and applications (for example: emotional intelligence, organizational behavior)
1, 14	87	Ethical and professional standards
3–18 plus Trends Shaping HR: Digital and Social Media and Improving Performance Through HRIS features in most chapters	88	Technology to support HR activities (for example: HR Information Systems, employee self-service, E-learning, applicant tracking systems)
1, 3, and HR as a Profit Center features in most chapters	89	Qualitative and quantitative methods and tools for analysis, interpretation and decision-making purposes (for example: metrics and measurements, cost/benefit analysis, financial statement analysis)
8	90	Change management theory, methods and application
4	91	Job analysis and job description methods
4, 5, 18	92	Employee records management (for example: electronic/paper, retention, disposal)

3, 4, Improving Performance: The Strategic Context features in most chapters, a continuing strategic Hotel Paris case with in-chapter callouts in Chapters 3–16, and “strategic” chapter openers	93	Techniques for forecasting, planning and predicting the impact of HR activities and programs across functional areas
1, 4	94	Types of organizational structures (for example: matrix, hierarchy)
3	95	Environmental scanning concepts and applications (for example: Strengths, Weaknesses, Opportunities and Threats [SWOT], and Political, Economic, Social and Technological [PEST])
8, 14	96	Methods for assessing employee attitudes, opinions and satisfaction (for example: surveys, focus groups/panels)
	97	Budgeting, accounting and financial concepts
16	98	Risk-management techniques

About the Society for Human Resource Management (SHRM) Body of Competency & Knowledge® Model and Certification Exams

In 2011, SHRM began a program of research involving thousands of HR professionals to identify the critical competencies needed for success as an HR professional. This research led to the development of the SHRM Competency Model, which defines eight key behavioral competencies (*Ethical Practice, Leadership & Navigation, Business Acumen, Relationship Management, Communication, Consultation, Critical Evaluation, and Global & Cultural Effectiveness*) and one technical competency (*HR Expertise*). The SHRM Competency Model provides HR professionals with a comprehensive roadmap for developing the capabilities they need to advance their careers and improve their effectiveness in the workplace.

The SHRM Body of Competency & Knowledge® (SHRM BoCK®), which is based on the SHRM Competency Model outlines the content of SHRM's certification examinations, the SHRM Certified Professional (SHRM-CP®) exam for early-career and mid-level practitioners, and the SHRM Senior Certified Professional (SHRM-SCP®) exam for senior-level and executive practitioners.

In brief, the SHRM Body of Competency & Knowledge® model is based on a foundation of 15 “HR functional areas” such as HR Strategic Planning, and Talent Acquisition, which SHRM then groups into three main domains—People, Organization, and Workplace. The SHRM Body of Competency & Knowledge® model then layers, on top of these 15 functional knowledge areas, eight behavioral competencies, such as *Leadership & Navigation, Business Acumen, and Ethical Practice*.

The HR competencies and knowledge that are assessed on the SHRM-CP® and SHRM-SCP® exams are detailed in the SHRM BoCK®, which consists of the following two sections: Section 1: Behavioral Competencies, and Section 2: HR Expertise (HR Knowledge).

SECTION 1: BEHAVIORAL COMPETENCIES

Behavioral competencies describe the behaviors and attributes necessary for HR professionals to operate with a strategic mindset and perform effectively in the workplace. They facilitate the application of technical knowledge (i.e., *HR Expertise*), which may be defined as the principles, practices and functions of effective HR management (see Section 2). Successful HR professionals must understand the behavioral components of HR practice in addition to being in command of technical HR knowledge.

Originally published as The SHRM Body of Competency and Knowledge. © 2014, Society for Human Resource Management, Alexandria, VA. Used with permission. All rights reserved. <https://www.shrm.org/certification/Documents/SHRM-BoCK-FINAL.pdf>, accessed September 14, 2018.

Organizing Framework of Behavioral Competency Clusters

CLUSTER	COMPETENCY	DEFINITION
Leadership	Leadership & Navigation	The knowledge, skills, abilities, and other characteristics (KSAOs) needed to navigate the organization and accomplish HR goals, to create a compelling vision and mission for HR that aligns with the strategic direction and culture of the organization, to lead and promote organizational change, to manage the implementation and execution of HR initiatives, and to promote the role of HR as a key business partner.
	Ethical Practice	The KSAOs needed to maintain high levels of personal and professional integrity, and to act as an ethical agent who promotes core values, integrity and accountability throughout the organization.
	Relationship Management	The KSAOs needed to create and maintain a network of professional contacts within and outside of the organization, to build and maintain relationships, to work as an effective member of a team, and to manage conflict while supporting the organization.
Interpersonal	Communication	The KSAOs needed to effectively craft and deliver concise and informative communications, to listen to and address the concerns of others, and to transfer and translate information from one level or unit of the organization to another.
	Global & Cultural Effectiveness	The KSAOs needed to value and consider the perspectives and backgrounds of all parties, to interact with others in a global context, and to promote a diverse and inclusive workplace.
	Business Acumen	The KSAOs needed to understand the organization's operations, functions and external environment, and to apply business tools and analyses that inform HR initiatives and operations consistent with the overall strategic direction of the organization.
Business	Consultation	The KSAOs needed to work with organizational stakeholders in evaluating business challenges and identifying opportunities for the design, implementation and evaluation of change initiatives, and to build ongoing support for HR solutions that meet the changing needs of customers and the business.
	Critical Evaluation	The KSAOs needed to collect and analyze qualitative and quantitative data, and to interpret and promote findings that evaluate HR initiatives and inform business decisions and recommendations.

SECTION 2: HR EXPERTISE (HR KNOWLEDGE)

Technical HR knowledge (i.e., *HR Expertise*) is defined as the principles, practices and functions of effective HR management. Its application is facilitated by behavioral competencies (see Section 1). Successful HR professionals must be in command of both technical HR knowledge and the behavioral components of HR practice. This approach, which is supported by SHRM research (see Introduction), emphasizes the critical and integrated roles played by technical HR knowledge (**what you know**) **and** by behavioral competencies (how you **apply** what you know) in contributing to effective HR practice.

Functional Area #1: HR Strategic Planning

Definition: *HR Strategic Planning* involves the activities necessary for developing, implementing and managing the strategic direction required to achieve organizational success and to create value for stakeholders.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

1, 3, strategic Hotel Paris cases in Chapters 3–18 with in-chapter call-outs, “strategic” chapter openers, and Improving Performance: The Strategic Context features in most chapters

1, 3, strategic Hotel Paris cases in Chapters 3–18 with in-chapter call-outs, “strategic” chapter openers, and Improving Performance: The Strategic Context features in most chapters

1, 3, strategic Hotel Paris cases in Chapters 3–18 with in-chapter call-outs, “strategic” chapter openers, and Improving Performance: The Strategic Context features in most chapters

1, 3, strategic Hotel Paris cases in Chapters 3–18 with in-chapter call-outs, “strategic” chapter openers, and Improving Performance: The Strategic Context features in most chapters

KEY CONCEPTS:

- Approaches to project management (e.g., traditional, Lean Six Sigma, agile, critical chain) and processes (e.g., initiating, planning and design, launching/executing, monitoring and controlling, closing).
- Concepts of systems thinking (e.g., related parts, input-process-output) and components of an organizational system (e.g., interdependence, necessity of feedback, differentiation of units).
- Organizational mission, vision and values, and their relation to strategic management and planning.
- Project planning, monitoring and reporting methods and tools (e.g., critical path analysis, Gantt charts, variance analysis, outcome monitoring).
- Project leadership, governance and structures (e.g., team roles, team management, work breakdown structures).
- Role of strategic management and planning in creating and sustaining competitive advantage.

- Strategic planning analysis frameworks (e.g., PESTLE analysis, SWOT analysis, industry analysis, scenario planning, growth-share matrix).

- Strategic planning process (e.g., formulation, goal-setting, implementation, evaluation).

- Systems theory and input-process-output models.

PROFICIENCY INDICATORS

For All HR Professionals

For Advanced HR Professionals

- Uses the perspective of systems thinking to understand how the organization operates.
- Informs business decisions with knowledge of the strategy and goals of HR and the organization.
- Develops and implements an individual action plan for executing HR’s strategy and goals.
- Uses benchmarks, industry metrics and workforce trends to understand the organization’s market position and competitive advantage.
- Informs HR leadership of new or overlooked opportunities to align HR’s strategy with the organization’s.
- Provides HR leadership with timely and accurate information required for strategic decision making.

- Identifies the ways in which the HR function can support the organization’s strategy and goals.
 - Engages other business leaders in strategic analysis and planning.
 - Evaluates HR’s critical activities in terms of value added, impact and utility, using cost-benefit analysis, revenue, profit-and-loss estimates and other leading or lagging indicators.
 - Provides HR-focused expertise to other business leaders when formulating the organization’s strategy and goals.
 - Develops and implements HR strategy, vision and goals that align with and support the organization’s strategy and goals.
 - Ensures that HR strategy creates and sustains the organization’s competitive advantage.
-

Functional Area #2: Talent Acquisition

Definition: *Talent Acquisition* encompasses the activities involved in building and maintaining a workforce that meets the needs of the organization.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

- 8
- 5
- 4, 5, 11
- 4
- 6
- 6,11
- 1, 8, 9, 10, 11, 14, 15, 16
- 5
- 2, 6, 7
- 3, 4, 5, 6

KEY CONCEPTS:

- Approaches to employee onboarding.
- Approaches to sourcing (e.g., external talent pipelines).
- Employment categories (e.g., salaried/ hourly, contract, temporary, interns).
- Job analysis and identification of job requirements
- Job offer contingencies (e.g., background investigations, credit checks).
- Job offer negotiations (e.g., salary).
- Methods for creating and maintaining a positive employer value proposition (EVP) and employment brand.
- Methods for external and internal employee recruitment (e.g., job ads, career fairs).
- Methods for selection assessment (e.g., ability, job knowledge, non-cognitive tests, assessment centers, interviews).
- Talent acquisition metrics (e.g., cost per hire, time to fill).

PROFICIENCY INDICATORS

For All HR Professionals

- Understands the talent needs of the organization or business unit.
- Uses a wide variety of talent sources and recruiting methods to attract qualified applicants.
- Uses technology (e.g., social media, applicant tracking software [ATS]) to support effective and efficient approaches to sourcing and recruiting employees.
- Promotes and uses the EVP and employment brand for sourcing and recruiting applicants.
- Uses the most appropriate hiring methods to best evaluate a candidate’s technical skills, organizational fit and alignment with the organization’s competencies needs.
- Conducts appropriate pre-employment screening.
- Implements effective onboarding and orientation programs for new employees.
- Designs job descriptions to meet the organization’s resource needs.

For Advanced HR Professionals

- Analyzes staffing levels and projections, to forecast workforce needs.
- Develops strategies for sourcing and acquiring a workforce that meets the organization’s needs.
- Establishes an EVP and employment brand that supports recruitment of high-quality job applicants.
- Designs and oversees effective strategies for sourcing, recruiting and evaluating qualified job candidates.
- Designs and oversees employee onboarding and assimilation processes.
- Designs and oversees valid and systematic programs for assessing the effectiveness of talent acquisition activities that meet the organization’s needs.

Functional Area #3: Employee Engagement & Retention

Definition: *Employee Engagement & Retention* refers to activities aimed at retaining high-performing talent, solidifying and improving the relationship between employees and the organization, creating a thriving and energized workforce, and developing effective strategies to address appropriate performance expectations from employees at all levels.

ADDRESSED IN THIS BOOK IN SPECIAL EMPLOYEE ENGAGEMENT GUIDE FOR MANAGERS FEATURES IN CHAPTERS 3–16, AND IN THE FOLLOWING CHAPTERS:

- 1, 10, 11, 12, 13, 14, 15, 16
- 9, 10, 11, 12, 14
- 14

KEY CONCEPTS:

- Approaches to developing and maintaining a positive organizational culture (e.g., learning strategies, communication strategies, building values).
- Approaches to recognition (e.g., performance or service awards).
- Creation, administration, analysis and interpretation of employee attitude surveys.

Special engagement features in Chapters 1–16, and Chapter 14

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Engagement features in Chapters 1–6, and Chapter 14

11, 12, 14

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8, 10, 14

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13, 14

- Creation, planning and management of employee engagement activities.
- Employee lifecycle phases (e.g., recruitment, integration, development, departure).
- Employee retention concepts (e.g., causes of turnover) and best practices (e.g., realistic job previews [RJP]).
- Influence of culture on organizational outcomes (e.g., organizational performance, organizational learning, innovation).
- Interventions for improving job attitudes.
- Job attitude theories and basic principles (e.g., engagement, satisfaction, commitment).
- Job enrichment/enlargement principles and techniques.
- Key components of, and best practices associated with, performance management systems.
- Methods for assessing employee attitudes (e.g., focus groups, stay interviews, surveys).
- Principles of effective performance appraisal (e.g., goal setting, giving feedback).
- Retention and turnover metrics (e.g., voluntary turnover rate).
- Types of organizational cultures (e.g., authoritarian, mechanistic, participative, learning, high performance).
- Workplace flexibility programs (e.g., telecommuting, alternative work schedules).

PROFICIENCY INDICATORS

For All HR Professionals

- Designs, administers, analyzes and interprets surveys of employee attitudes (e.g., engagement, job satisfaction) and culture.
- Administers and supports HR and organizational programs designed to improve employee attitudes and culture (e.g., social events, telecommuting policies, recognition, job enlargement/enrichment, workplace flexibility).
- Identifies program opportunities to create more engaging or motivating jobs (e.g., job enrichment/enlargement).
- Monitors changes in turnover and retention metrics, and ensures that leadership is aware of such changes.
- Coaches supervisors on creating positive working relationships with their employees.
- Trains stakeholders on use of organization's performance management systems (e.g., how to enter performance goals, make ratings).
- Helps stakeholders understand the elements of satisfactory employee performance and performance management.
- Implements and monitors processes that measure effectiveness of performance management systems.

For Advanced HR Professionals

- In collaboration with other leaders, defines an organizational strategy to create an engaged workforce.
 - Implements best practices for employee retention in HR programs, practices and policies (e.g., RJP, career development programs, employee socialization).
 - Communicates to other senior leaders the results of surveys of employee attitudes and culture.
 - Designs and oversees an action plan to address the findings of employee attitude surveys.
 - Designs and oversees HR and organizational programs designed to improve employee attitudes (e.g., social events, telecommuting policies, recognition, job enlargement/enrichment, workplace flexibility).
 - Holistically monitors the organization's metrics on employee attitudes, turnover and retention, and other information about employee engagement and retention.
 - Designs and oversees best practices-based employee performance management systems that meet the organization's talent management needs.
 - Designs and oversees processes to measure the effectiveness of performance management systems.
-

Functional Area #4: Learning & Development

Definition: *Learning & Development* activities enhance the knowledge, skills, abilities and other characteristics (KSAOs) and competencies of the workforce in order to meet the organization’s business needs.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

- 8, 9, 10
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- 8, 9
- 8, 14
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- 3 and HR as a Profit Center features in many chapters
- 10

KEY CONCEPTS:

- Approaches to coaching and mentoring (e.g., formal, informal mentorship programs).
- Career development.
- Developmental assessments (e.g., 360s).
- Knowledge-sharing techniques and facilitation.
- Learning and development approaches and techniques (e.g., e-learning, leader development).
- Learning and development program design and implementation (e.g., ADDIE model).
- Learning evaluation (e.g., Kirkpatrick 4-level model).
- Learning theories (e.g., adult learning theory).
- Needs analysis types (e.g., person, organizational, training, cost-benefit) and techniques (e.g., surveys, observations, interviews).
- Organizational analysis (e.g., performance analysis).
- Techniques for career development (e.g., career pathing, career mapping).

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
<ul style="list-style-type: none"> • Uses best practices to evaluate data on gaps in competencies. • Creates individual development plans (IDPs) in collaboration with supervisors and employees. • Uses best practices to develop and deliver learning and development activities that close gaps in employees’ competencies and skills. • Uses all available resources (e.g., vendors) to develop and deliver effective learning and development programs. • Creates internal social networks to facilitate knowledge-sharing among employees. • Administers and supports programs to promote knowledge transfer. 	<ul style="list-style-type: none"> • Designs and oversees efforts to collect data on critical gaps in competencies. • Provides guidance to identify and develop critical competencies that meet the organization’s talent needs. • Monitors the effectiveness of programs for emerging leaders and leadership development. • Creates long-term organizational strategies to develop talent. • Creates strategies to ensure the retention of organizational knowledge.

Functional Area #5: Total Rewards

Definition: *Total Rewards* refers to the design and implementation of compensation systems and benefit packages, which employers use to attract and retain employees.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

- 11
- 11, 18
- 11
- 11, 12, 13, 17
- 11

KEY CONCEPTS:

- Approaches to gathering compensation- and benefits-related market and competitive intelligence (e.g., remuneration surveys).
- Basic accounting and financial knowledge for managing payroll (e.g., total compensation statements).
- Compensation philosophies.
- Compensation plans for common and special workforce groups (e.g., domestic, global/expatriate, executive, sales).
- Job evaluation for determining compensation and benefits.

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 - 13
 - 11, 12, 13
 - 11, 12, 13
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 - 10, 13
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- Leave plans and approaches (e.g., vacation, holiday, sick, paid/unpaid leave).
 - Other benefits (e.g., disability, unemployment insurance, employee assistance programs, family, flex, wellness programs).
 - Other compensation (e.g., deferred compensation, direct/indirect compensation, stock options).
 - Pay practices and issues (e.g., pay increases, base pay, pay levels, banding, variable pay).
 - Remuneration and labor market data collection and interpretation.
 - Remuneration data analysis (e.g., comparable worth, determining compensation, internal alignment, external competitiveness).
 - Retirement planning and benefits (e.g., pension plans).
 - Total rewards metrics and benchmarks.

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
<ul style="list-style-type: none"> • Collects, compiles and interprets compensation and benefits data from various sources (e.g., remuneration surveys, labor market trends). • Implements appropriate pay, benefit, incentive, separation and severance systems and programs. • Complies with best practices for and laws and regulations governing compensation and benefits. • Differentiates between government-mandated, government-provided and voluntary benefit approaches. • Performs accurate job evaluations to determine appropriate compensation. 	<ul style="list-style-type: none"> • Designs and oversees organizational compensation and benefits philosophies, strategies and plans that align with the organization’s strategic direction and talent needs. • Designs and oversees executive compensation approaches that directly connect individual performance to organizational success. • Ensures the internal equity of compensation systems.

Functional Area #6: Structure of the HR Function

Definition: *Structure of the HR Function* encompasses the people, processes, theories and activities involved in the delivery of HR-related services that create and drive organizational effectiveness.

When necessary, HR professionals should be able to recognize opportunities to improve HR operations or structure in response to such factors as changes in the workforce, globalization and organizational restructuring.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

- 1, 4
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- 1, 4, 5, 6
- 1, 3
- 1
- 1, 13, 18

KEY CONCEPTS:

- Approaches to HR operational integration (i.e., how HR structures work together).
- Approaches to HR function/service models (e.g., centralized vs. decentralized).
- Approaches to HR structural models (e.g., Center of Excellence [COE], shared services).
- Elements of the HR function (e.g., recruiting, talent management, compensation, benefits).
- HR-function metrics (e.g., HR staff per fulltime employee, customer satisfaction, key performance indicators, balanced scorecard).
- HR staff roles, responsibilities and functions (e.g., generalists, specialists, HR business partners).
- Outsourcing of HR functions.

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
<ul style="list-style-type: none"> Adapts work style to fit the organization's HR service model (e.g., centralized vs. decentralized), to ensure timely and consistent delivery of services to stakeholders. Seeks feedback from stakeholders to identify opportunities for HR function improvements. Acts as HR point-of-service contact for key stakeholders within a division or group. Provides consultation on HR issues to all levels of leadership and management. Coordinates with other HR functions to ensure timely and consistent delivery of services to stakeholders. Ensures that outsourced and/or automated HR functions are integrated with other HR activities. Analyzes and interprets key performance indicators to understand the effectiveness of the HR function. 	<ul style="list-style-type: none"> Designs and implements the appropriate HR service model for the organization (e.g., centralized vs. decentralized), to ensure efficient and effective delivery of services to stakeholders. Creates long-term goals that address feedback from stakeholders identifying opportunities for HR function improvements. Ensures that all elements of the HR function (e.g., recruiting, talent management, compensation and benefits, learning and development) are aligned and integrated, and provide timely and consistent delivery of services to stakeholders. Identifies opportunities to improve HR operations by outsourcing work or implementing technologies that automate HR functions (e.g., time, payroll). Designs and oversees programs to collect, analyze and interpret key performance indicators (e.g., balanced scorecard) to evaluate the effectiveness of HR activities in supporting organizational success.

Functional Area #7: Organizational Effectiveness & Development

Definition: *Organizational Effectiveness & Development* concerns the overall structure and functionality of the organization, and involves measurement of long- and short-term effectiveness and growth of people and processes, and implementation of necessary organizational change initiatives.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

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8
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1, 3

KEY CONCEPTS:

- Application of behavioral assessments (e.g., personality assessments).
- Intergroup dynamics (e.g., intergroup conflict).
- Intragroup dynamics (e.g., group formation, identity, cohesion, structure, influence on behavior).
- Organizational design structures and approaches (e.g., customer, functional, geographic, matrix, program).
- Organizational performance theories, structures, and approaches.

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
<ul style="list-style-type: none"> Ensures that key documents and systems (e.g., job postings and descriptions, performance management systems) accurately reflect workforce activities. Supports change initiatives to increase the effectiveness of HR systems and processes. Identifies areas in the organization's structures, processes and procedures that need change. Provides recommendations for eliminating barriers to organizational effectiveness and development. Collects and analyzes data on the value of HR initiatives to the organization. 	<ul style="list-style-type: none"> Aligns HR's strategy and activities with the organization's mission, vision, values and strategy. Regularly monitors results against performance standards and goals in support of the organization's strategy. Establishes measurable goals and objectives to create a culture of accountability. Consults on, plans and designs organizational structures that align with the effective delivery of activities in support of the organization's strategy. Assesses organizational needs to identify critical competencies for operational effectiveness. Designs and oversees change initiatives to increase the effectiveness of HR systems and processes. Ensures that HR initiatives demonstrate measurable value to the organization.

Functional Area #8: Workforce Management

Definition: *Workforce Management* refers to HR practices and initiatives that allow the organization to meet its talent needs (e.g., workforce planning, succession planning) and close critical gaps in competencies.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

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5, 8, 10

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5, 10

KEY CONCEPTS:

- Analysis of labor supply and demand.
- Approaches to restructuring (e.g., mergers and acquisitions, downsizing).
- Best practices and techniques for knowledge management, retention and transfer.
- Leadership development and planning (e.g., high-potential development programs).
- Succession planning programs and techniques.
- Techniques for organizational need-gap analysis (e.g., examination of HR records, interviews, focus groups).
- Workforce planning approaches, techniques and analyses (e.g., attrition, gap and solution, implementation and evaluation, reduction in force, supply and demand, workforce profile).

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
<ul style="list-style-type: none"> • Identifies gaps in workforce competencies and misalignment of staffing levels. • Implements approaches (e.g., buy or build) to ensure that appropriate workforce staffing levels and competencies exist to meet the organization's goals and objectives. • Plans short-term strategies to develop workforce competencies that support the organization's goals and objectives. • Administers and supports approaches (e.g., succession plans, high-potential development programs) to ensure that the organization's leadership needs are met. • Supports strategies for restructuring the organization's workforce (e.g., mergers and acquisitions, downsizing). 	<ul style="list-style-type: none"> • Evaluates how the organization's strategy and goals align with future and current staffing levels and workforce competencies. • Develops strategies to maintain a robust workforce that has the talent to carry out the organization's current and future strategy and goals. • Coordinates with business leaders to create strategies (e.g., succession planning, leadership development, training) that address the organization's leadership needs. • Develops strategies for restructuring the organization's workforce (e.g., mergers and acquisitions, downsizing).

Functional Area #9: Employee & Labor Relations

Definition: *Employee & Labor Relations* refers to any dealings between the organization and its employees regarding the terms and conditions of employment.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

1, 2, 14

15

14, 15

10, 14, 15

11, 14, 15

KEY CONCEPTS:

- Approaches to retaliation prevention.
- Approaches to union-organization relations (e.g., collective bargaining, contract negotiation, contract administration process).
- Causes of and methods for preventing and addressing strikes, boycotts and work stoppages.
- Disciplinary procedures and approaches.
- Employment rights, standards and concepts (e.g., labor rights, living wage and fair wage concepts, standard workday), according to the International Labor Organization (ILO).

10, 14, 15	• Techniques for disciplinary investigations.
15	• Techniques for grievance and complaint resolution.
14	• Types and development of compliance and ethics programs (e.g., design, implementation, performance measures).
2, 14, 15	• Types and structures of organized labor (e.g., unions, works councils, trade union federations, other employee collectives).
15	• Types of alternative dispute resolution (ADR) (e.g., mediation, arbitration) and their advantages and disadvantages.
15	• Unfair labor practices, according to the ILO.
	• Unionization approaches, methods and management (e.g., acceptance, avoidance strategies).

PROFICIENCY INDICATORS

For All HR Professionals

- Supports interactions with union and other employee representatives.
- Supports the organization's interests in union-management activities.
- Assists and supports the organization in the collective bargaining process.
- Participates in or facilitates ADR processes (e.g., arbitration, mediation).
- Makes recommendations for addressing other types of employee representation (e.g., governmental, legal).
- Develops and implements workplace policies, handbooks and codes of conduct.
- Provides guidance to employees on the terms and implications of their employment agreement and the organization's policies and procedures (e.g., employee handbook).
- Consults managers on how to supervise difficult employees, handle disruptive behaviors and respond with the appropriate level of corrective action.
- Conducts investigations into employee misconduct and suggests disciplinary action when necessary.
- Manages employee grievance and discipline processes.
- Resolves workplace labor disputes internally.

For Advanced HR Professionals

- Manages interactions and negotiations with union and other employee representatives (e.g., governmental, legal).
 - Serves as the primary representative of the organization's interests in union-management activities (e.g., negotiations, dispute resolution).
 - Manages the collective bargaining process.
 - Consults on and develops an effective organized labor strategy (e.g., avoidance, acceptance, adaptation) to achieve the organization's desired impact on itself and its workforce.
 - Educates employees, managers and leaders at all levels about the organization's labor strategy (e.g., avoidance, acceptance, adaptation and its impact on the achievement of goals and objectives).
 - Educates employees at all levels about changes in the organization's policies.
 - Coaches and counsels managers on how to operate within the parameters of organizational policy, labor agreements and employment agreements.
 - Oversees employee investigations and discipline.
-

Functional Area #10: Technology Management

Definition: *Technology Management* involves the use of existing, new and emerging technologies to support the HR function, and the development and implementation of policies and procedures governing the use of technologies in the workplace.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

Trends Shaping HR: Digital and Social Media features in many chapters, 11

Trends Shaping HR: Digital and Social Media features in many chapters, 18

Trends Shaping HR: Digital and Social Media features in many chapters, 18

18 and Improving Performance Through HRIS features in many chapters

KEY CONCEPTS:

- Approaches to electronic self-service for basic HR and people management functions (e.g., scheduling, timekeeping, benefit enrollment).
- Data and information management (e.g., data integrity, confidentiality, security, disclosure).
- HRIS capabilities and use.
- Policies and procedures for procurement.

18, Trends Shaping HR: Digital and Social Media features, and Improving Performance Through HRIS features in many chapters

5, 6, 18 and Improving Performance Through HRIS features in many chapters

- Policies and practices for technology and social media use (e.g., bring-your-own-device, websites, computers for personal activity).
- Software for recruiting and applicant tracking.

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
<ul style="list-style-type: none"> • Implements and uses technology solutions that support or facilitate delivery of effective HR services and storage of critical employee data. • Implements HRIS that integrate with and complement other enterprise information systems. • Develops and implements organizational standards and policies for maintaining confidentiality of employee data. • Uses technologies in a manner that protects workforce data. • Provides guidance to stakeholders on effective standards and policies for use of technologies in the workplace (e.g., social media, corporate and personal e-mail, internet messaging). • Coordinates and manages vendors implementing HR technology solutions. • Uses technologies that collect, access and analyze data and information, in order to understand business challenges and recommend evidence-based solutions. 	<ul style="list-style-type: none"> • Evaluates and implements technology solutions that support the achievement of HR’s strategic direction, vision and goals. • Evaluates and selects vendors to provide HR technology solutions. • Designs and implements technology systems that optimize and integrate HR functional areas. • Develops and implements technology-driven self-service approaches that enable managers and employees to perform basic people-related transactions (e.g., scheduling, timekeeping, compensation administration, benefit enrollment, information changes).

Functional Area #11: HR in the Global Context

Definition: *HR in the Global Context* focuses on the role of the HR professional in managing global workforces to achieve organizational objectives.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

17, and HR Around the Globe features in many chapters

17, and HR Around the Globe features in many chapters

KEY CONCEPTS:

- Best practices for international assignments (e.g., approaches and trends, effective performance, health and safety, compensation adjustments, employee repatriation, socialization).
- Requirements for moving work (e.g., co-sourcing, near-shoring, offshoring, on-shoring).

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
<ul style="list-style-type: none"> • Addresses global issues that influence day-to-day HR activities and makes recommendations for business solutions. • Maintains up-to-date knowledge of global political, economic, social, technological, legal and environmental (PESTLE) factors and their influence on the organization’s workforce. • Administers and supports HR activities associated with a global workforce. • Implements and conducts audits of global HR practices. • Maintains knowledge of global HR trends and best practices. • Balances with local needs the organization’s desire for standardization of HR programs, practices and policies. • Builds relationships with global stakeholders. • Manages the day-to-day activities associated with international (i.e., expatriate) assignments. 	<ul style="list-style-type: none"> • Recognizes and responds to global issues that influence the organization’s human capital strategy. • Consults with business leaders on global PESTLE factors and their influence on the organization’s workforce. • Develops a comprehensive organizational strategy that addresses global workforce issues. • Consults with business leaders to define global competencies and embed them throughout the organization. • Identifies opportunities to achieve efficiencies and cost savings by moving work (e.g., offshoring, on-shoring, near-shoring). • Designs and oversees programs for international (i.e., expatriate) assignments that support the organization’s human capital strategy.

Functional Area #12: Diversity & Inclusion

Definition: *Diversity & Inclusion* encompasses activities that create opportunities for the organization to leverage the unique backgrounds and characteristics of all employees to contribute to its success.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

2, 5, 6, 7, Know Your Employment Law, and Diversity features

2 and Diversity features

2, 6, 7, 10

2, 10, 17, and Diversity features

2

KEY CONCEPTS:

- Approaches to developing an inclusive workplace (e.g., best practices for diversity training).
- Approaches to managing a multi-generational/aging workforce.
- Demographic barriers to success (e.g., glass ceiling).
- Issues related to acceptance of diversity, including international differences (i.e., its acceptance in foreign nations or by employees from foreign nations).
- Workplace accommodations (e.g., disability, religious, transgender, veteran, active-duty military).

PROFICIENCY INDICATORS

For All HR Professionals

- Provides mentoring, training, guidance and coaching on cultural differences and practices to employees at all levels of the organization.
- Consults with managers about distinctions between performance issues and cultural differences.
- Develops and maintains knowledge of current trends and HR management best practices relating to D&I.
- Contributes to development and maintenance of an organizational culture that values a diverse and inclusive workforce (e.g., conducts diversity training).
- Identifies opportunities to enhance the fairness of organizational policies and procedures to all employees (e.g., removes demographic barriers to success).
- Identifies and implements workplace accommodations.
- Demonstrates support to internal and external stakeholders for the organization's D&I efforts.

For Advanced HR Professionals

- Incorporates D&I goals into all HR programs, practices and policies.
- Advocates for incorporation of diversity goals into the organization's strategic plan.
- Develops, implements and oversees, in conjunction with other business leaders, enterprise-wide programs, practices and policies that lead to a diverse workforce.
- Designs and oversees HR programs, practices and policies supporting the development and maintenance of an organizational culture that values and promotes a diverse and inclusive workforce.
- Designs and oversees HR programs, practices and policies that encourage employees to take advantage of opportunities for working with those who possess a diverse set of experiences and backgrounds.
- Ensures that HR staff members have up-to-date knowledge of current trends and HR management best practices relating to D&I.

Functional Area #13: Risk Management

Definition: *Risk Management* is the identification, assessment and prioritization of risks, and the application of resources to minimize, monitor and control the probability and impact of those risks accordingly.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

16

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16

16

KEY CONCEPTS:

- Approaches to a drug-free workplace (e.g., testing, treatment of substance abuse).
- Approaches to qualitative and quantitative risk assessment (e.g., single loss expectancy, annualized loss expectancy).
- Business recovery and continuity-of-operations planning.
- Emergency and disaster (e.g., communicable disease, natural disaster, severe weather, terrorism) preparation and response planning.

- 16 • Enterprise risk management processes and best practices (e.g., understand context, identify risks, analyze risks, prioritize risks) and risk treatments (e.g., avoidance, reduction, sharing, retention).
- 16, 18 • Legal and regulatory compliance auditing and investigation techniques.
- 16 • Quality assurance techniques and methods.
- 16 • Risk sources (e.g., project failures) and types (e.g., hazard, financial, operational, strategic).
- 16, 18, and Improving Performance Through HRIS features • Security concerns (e.g., workplace violence, theft, fraud, corporate espionage, sabotage, kidnapping and ransom) and prevention.
- 16 • Workplace/occupational injury and illness prevention (e.g., identification of hazards), investigations and accommodations.

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
<ul style="list-style-type: none"> • Monitors political, economic, social, technological, legal and environmental (PESTLE) factors and their influence on the organization. • Administers and supports HR programs, practices and policies that identify and/or mitigate workplace risk. • Implements crisis management, contingency and business continuity plans for the HR function and the organization. • Communicates critical information about risks (e.g., safety and security) and risk mitigation to employees at all levels. • Conducts due diligence investigations to evaluate risks and ensure legal and regulatory compliance. • Conducts workplace safety and health-related investigations (e.g., investigates workplace injuries). • Audits risk management activities and plans. • Maintains and ensures accurate reporting of internationally accepted workplace health and safety standards. • Incorporates into business cases the anticipated level of risk. 	<ul style="list-style-type: none"> • Develops, implements and oversees formal and routinized processes for monitoring the organization’s internal and external environments, to identify potential risks. • Monitors and evaluates macro-level labor market, industry and global trends for their impact on the organization. • Examines potential threats to the organization and guides senior leadership accordingly. • Develops, implements and oversees a comprehensive enterprise risk management strategy. • Develops crisis management, contingency, and business continuity plans for the HR function and the organization. • Communicates critical information about risks (e.g., safety and security) and risk mitigation to senior-level employees and external stakeholders. • Ensures that risk management activities and plans are audited and that the results inform risk mitigation strategies. • Oversees workplace safety- and health-related investigations and reporting. • Establishes strategies to address workplace retaliation and violence. • Leads after-action debriefs following significant workplace incidents (e.g., those involving employee safety and security). • Evaluates the anticipated level of risk associated with strategic opportunities.

Functional Area #14: Corporate Social Responsibility

Definition: *Corporate Social Responsibility* represents the organization’s commitment to operate in an ethical and sustainable manner by engaging in activities that promote and support philanthropy, transparency, sustainability and ethically sound governance practices.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

KEY CONCEPTS:

- 14 • Approaches to community inclusion and engagement (e.g., representation on community boards, joint community projects, employee volunteerism).
- 14 • Creating shared value (e.g., definition, best practices).
- 14 • Developing CSR-related volunteer programs (e.g., recruiting and organizing participants).

- 1, 3, 14,
 - Organizational philosophies and policies (e.g., development, integration into the organization).
- 14
 - Principles of corporate citizenship and governance.
- 14
 - Steps for corporate philanthropy and charitable giving (e.g., selecting recipients, types, donation amounts).

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
<ul style="list-style-type: none"> • Acts as a professional role model and representative of the organization when interacting with the community. • Engages in community-based volunteer and philanthropic activities. • Identifies and promotes opportunities for HR and the organization to engage in CSR activities. • Helps staff at all levels understand the societal impact of business decisions and the role of the organization’s CSR activities in improving the community. • Maintains transparency of HR programs, practices and policies, where appropriate. • Coaches managers to achieve an appropriate level of transparency in organizational practices and decisions. • Identifies opportunities for incorporation of environmentally responsible business practices, and shares them with leadership. 	<ul style="list-style-type: none"> • Serves as a leader in community-based volunteer and philanthropic organizations. • Develops CSR strategies that reflect the organization’s mission and values. • Ensures that the organization’s CSR programs enhance the employee value proposition and have a beneficial impact on HR programs (e.g., recruitment and retention) and/or contribute to the organization’s competitive advantage. • Creates CSR program activities that engage the organization’s workforce and the community at large. • Coordinates with other business leaders to integrate CSR objectives throughout the organization. • Coordinates with other business leaders to develop and implement appropriate levels of corporate self-governance and transparency. • Develops, with other business leaders, strategies that encourage and support environmentally responsible business decisions.

Functional Area #15: U.S. Employment Law & Regulations

Important note: *Only examinees residing within the United States will be tested on these topics; examinees residing outside the U.S. will not be tested on it. All laws and regulations referenced are subject to change.*

Definition: *U.S. Employment Law & Regulations* refers to the knowledge and application of all relevant laws and regulations in the United States relating to employment—provisions that set the parameters and limitations for each HR functional area and for organizations overall.

ADDRESSED BY KNOW YOUR EMPLOYMENT LAW FEATURES IN MOST CHAPTERS AS WELL AS IN THE FOLLOWING CHAPTERS:

KEY CONCEPTS:

Below are six broad categories of U.S. laws, regulations and Supreme Court cases relating to employment, with selected examples. (Please note that this is **not** an exhaustive list of categories or examples.) State, municipal and other local-level laws, regulations and cases are not included.

- 11
 - **Compensation** *Examples:* Employee Retirement Income Security Act of 1974 (ERISA); Fair Labor Standards Act of 1938 (FLSA; Wage-Hour Bill; Wagner–Connery Wages and Hours Act) and amendments; Equal Pay Act of 1963 (amending FLSA); Lilly Ledbetter Fair Pay Act of 2009; *Ledbetter v. Goodyear Tire & Rubber Co.* (2007).
- 14, 15
 - **Employee relations** *Examples:* Labor Management Relations Act of 1947 (LMRA; Taft–Hartley Act); National Labor Relations Act of 1935 (NLRA; Wagner Act; Wagner–Connery Labor Relations Act); *NLRB v. Weingarten* (1975); *Lechmere, Inc. v. NLRB* (1992).

- 16 • **Job safety and health** *Examples:* Drug-Free Workplace Act of 1988; Guidelines on Sexual Harassment; Occupational Safety and Health Act of 1970.
- 2 • **Equal employment opportunity** *Examples:* Age Discrimination in Employment Act of 1967 (ADEA) and amendments; Americans with Disabilities Act of 1990 (ADA) and amendments; Civil Rights Acts; Equal Employment Opportunity Act of 1972; Uniform Guidelines on Employee Selection Procedures (1978) (29 CFR Part 1607); *Griggs v. Duke Power Co.* (1971); *Phillips v. Martin Marietta Corp.* (1971).
- 13 • **Leave and benefits** *Examples:* Family and Medical Leave Act of 1993 (FMLA; expanded 2008, 2010); Patient Protection and Affordable Care Act (ACA; “Obamacare”); *National Federation of Independent Business v. Sebelius* (2012).
- 2, 6, 7 • **Miscellaneous protection laws** *Examples:* Employee Polygraph Protection Act of 1988; Genetic Information Nondiscrimination Act of 2008 (GINA).

PROFICIENCY INDICATORS

For All HR Professionals

For Advanced HR Professionals

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| <ul style="list-style-type: none"> • Maintains a current working knowledge of relevant domestic and global employment laws. • Ensures that HR programs, practices and policies align and comply with laws and regulations. • Coaches employees at all levels in understanding and avoiding illegal and noncompliant HR-related behaviors (e.g., illegal terminations or discipline, unfair labor practices). • Brokers internal or external legal services for interpretation of employment laws. | <ul style="list-style-type: none"> • Maintains current, expert knowledge of relevant domestic and global employment laws. • Establishes and monitors criteria for organizational compliance with laws and regulations. • Educates and advises senior leadership on HR-related legal and regulatory compliance issues. • Oversees fulfillment of compliance requirements for HR programs, practices and policies. • Ensures that HR technologies facilitate compliance and reporting requirements (e.g., tracking employee accidents, safety reports). |
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Comprehensive Cases

BANDAG AUTOMOTIVE*

Jim Bandag took over his family's auto supply business in 2012, after helping his father, who founded the business, run it for about 10 years. Based in Illinois, Bandag employs about 300 people, and distributes auto supplies (replacement mufflers, bulbs, engine parts, and so on) through two divisions, one that supplies service stations and repair shops, and a second that sells retail auto supplies through five "Bandag Automotive" auto supply stores.

Jim's father, and now Jim, have always endeavored to keep Bandag's organization chart as simple as possible. The company has a full-time controller, managers for each of the five stores, a manager who oversees the distribution division, and Jim Bandag's executive assistant. Jim (along with his father, working part-time) handles marketing and sales.

Jim's executive assistant administers the firm's day-to-day human resource management tasks, but the company outsources most HR activities to others, including an employment agency that does its recruiting and screening, a benefits firm that administers its 401(k) plan, and a payroll service that handles its paychecks. Bandag's human resource management systems consist almost entirely of standardized HR forms purchased from an HR supplies company. These include forms such as application and performance appraisal forms, as well as an "honesty" test Bandag uses to screen the staff that works in the five stores. The company performs informal salary surveys to see what other companies in the area are paying for similar positions, and use these results for awarding annual merit increases (which in fact are more accurately cost-of-living adjustments).

Jim's father took a fairly paternal approach to the business. He often walked around speaking with his employees, finding out what their problems were, and even helping them out with an occasional loan—for instance, when he discovered that one of their children was sick, or for part of a new home down payment. Jim, on the other hand, tends to be more abrupt, and does not enjoy the same warm relationship with the employees as did his father. Jim is not unfair or dictatorial. He's just very focused on improving Bandag's financial performance, and so all his decisions, including his HR-related decisions, generally come down to cutting costs. For example, his knee-jerk reaction is usually to offer fewer days off rather than more, fewer benefits rather than more, and to be less flexible when an employee needs, for instance, a few extra days off because a child is sick.

It's therefore perhaps not surprising that over the past few years Bandag's sales and profits have increased markedly, but that the firm has found itself increasingly enmeshed in HR/equal employment-type issues. Indeed, Jim now finds himself spending a day or two a week addressing HR problems. For example, Henry Jaques, an employee at one of the stores, came to Jim's executive assistant and told her he was "irate" about his recent firing and was probably going to sue. Henry's store manager stated on his last performance appraisal that Henry did the technical aspects of his job well, but that he had "serious problems interacting with his coworkers." He was continually arguing with them, and complaining to the store manager about working conditions. The store manager had told Jim that he had to fire Henry because he was making "the whole place poisonous," and that (although he felt sorry because he'd heard rumors that Henry suffered from some mental illness) he felt he had to go. Jim approved the dismissal.

* Written and copyrighted by Gary Dessler, PhD.

Gavin was another problem. Gavin had worked for Bandag for 10 years, the last two as manager of one of the company's five stores. Right after Jim Bandag took over, Gavin told him he had to take a Family and Medical Leave Act medical leave to have hip surgery, and Jim approved the leave. When Gavin returned from leave, Jim told him that his position had been eliminated. Bandag had decided to close his store and open a new, larger store across from a shopping center about a mile away, and had appointed a new manager in Gavin's absence. However, the company did give Gavin a (nonmanagerial) position in the new store as a counter salesperson, at the same salary and with the same benefits as he had before. Even so, "This job is not similar to my old one," Gavin insisted. "It doesn't have nearly as much prestige." His contention is that the FMLA requires that the company bring him back in the same or equivalent position, and that this means a supervisory position, similar to what he had before he went on leave. Jim said no, and they seem to be heading toward litigation.

In another sign of the times at Bandag, the company's controller, Miriam, who had been with the company for about six years, went on pregnancy leave for 12 weeks in 2012 (also under the FMLA), and then received an additional three weeks' leave under Bandag's extended illness days program. Four weeks after she came back, she asked Jim Bandag if she could arrange to work fewer hours per week, and spend about a day per week working out of her home. He refused, and about two months later fired her. Jim Bandag said, "I'm sorry, it's not anything to do with your pregnancy-related requests, but we've got ample reasons to discharge you—your monthly budgets have been several days late, and we've got proof you may have forged documents." She replied, "I don't care what you say your reasons are; you're really firing me because of my pregnancy, and that's illegal."

Jim felt he was on safe ground as far as defending the company for these actions, although he didn't look forward to spending the time and money that he knew it would take to fight each. However, what he learned over lunch from a colleague undermined his confidence about another case that Jim had been sure would be a "slam dunk" for his company. Jim was explaining to his friend that one of Bandag's truck maintenance service people had applied for a job driving one of Bandag's distribution department trucks, and that Jim had turned him down because the worker was deaf. Jim (whose wife has occasionally said of him, "No one has ever accused Jim of being politically correct") was mentioning to his friend the apparent absurdity of a deaf person asking to be a truck delivery person. His friend, who happens to work for UPS, pointed out that the U.S. Court of Appeals for the Ninth Circuit had recently decided that UPS had violated the Americans with Disabilities Act by refusing to consider deaf workers for jobs driving the company's smaller vehicles.

Although Jim's father is semiretired, the sudden uptick in the frequency of such EEO-type issues troubled him, particularly after so many years of labor peace. However, he's not sure what to do about it. Having handed over the reins of the company to his son, he was loath to inject himself back into the company's operational decision making. On the other hand, he was afraid that in the short run these issues were going to drain a great deal of Jim's time and resources, and that in the long run they might be a sign of things to come, with problems like these eventually overwhelming Bandag Automotive. He comes to you, who he knows consults in human resource management, and asks you the following questions.

Questions

1. Given Bandag Automotive's size, and anything else you know about it, should we reorganize the human resource management function, and if so, why and how?
2. What, if anything, would you do to change and/or improve upon the current HR systems, forms, and practices that we now use?

3. Do you think that the employee whom Jim fired for creating what the manager called a poisonous relationship has a legitimate claim against us, and if so, why and what should we do about it?
4. Is it true that we really had to put Gavin back into an equivalent position, or was it adequate to just bring him back into a job at the same salary, bonuses, and benefits as he had before his leave?
5. Miriam, the controller, is basically claiming that the company is retaliating against her for being pregnant, and that the fact that we raised performance issues was just a smokescreen. Do you think the EEOC and/or courts would agree with her, and, in any case, what should we do now?
6. An employee who is deaf has asked us to be one of our delivery people and we turned him down. He's now threatening to sue. What should we do, and why?
7. In the previous 10 years, we've had only one equal employment complaint, and now in the last few years we've had four or five. What should I do about it? Why?

Based generally on actual facts, but Bandag is a fictitious company. Bandag source notes: "The Problem Employee: Discipline or Accommodation?" *Monday Business Briefing*, March 8, 2005; "Employee Says Change in Duties after Leave Violates FMLA," *BNA Bulletin to Management*, January 16, 2007, p. 24; "Manager Fired Days After Announcing Pregnancy," *BNA Bulletin to Management*, January 2, 2007, p. 8; "Ninth Circuit Rules UPS Violated ADA by Barring Deaf Workers from Driving Jobs," *BNA Bulletin to Management*, October 17, 2006, p. 329.

ANGELO'S PIZZA*

Angelo Camero was brought up in the Bronx, New York, and basically always wanted to be in the pizza store business. As a youngster, he would sometimes spend hours at the local pizza store, watching the owner knead the pizza dough, flatten it into a large circular crust, fling it up, and then spread on tomato sauce in larger and larger loops. After graduating from college as a marketing major, he made a beeline back to the Bronx, where he opened his first Angelo's Pizza store, emphasizing its clean, bright interior; its crisp green, red, and white sign; and his all-natural, fresh ingredients. Within five years, Angelo's store was a success, and he had opened three other stores and was considering franchising his concept.

Eager as he was to expand, his four years in business school had taught him the difference between being an entrepreneur and being a manager. As an entrepreneur/small business owner, he knew he had the distinct advantage of being able to personally run the whole operation himself. With just one store and a handful of employees, he could make every decision and watch the cash register, check in the new supplies, oversee the takeout, and personally supervise the service.

When he expanded to three stores, things started getting challenging. He hired managers for the two new stores (both of whom had worked for him at his first store for several years) and gave them only minimal "how to run a store"—type training, on the assumption that, having worked with him for several years, they already knew pretty much everything they needed to know about running a store. However, he was already experiencing human resource management problems, and he knew there was no way he could expand the number of stores he owned, or (certainly) contemplate franchising his idea, unless he had a system in place that he could clone in each new store to provide the managers (or the franchisees) with the necessary management knowledge and expertise to run their stores. Angelo had no training program in place for teaching his store managers how to run their stores. He simply (erroneously, as it turned out) assumed that by working with him they would learn how to do things on the job. Since Angelo had no system in place, the new managers were, in a way, starting off below zero when it came to how to manage a store.

* Written and copyrighted by Gary Dessler, PhD.

There were several issues that particularly concerned Angelo. Finding and hiring good employees was number one. He'd read the new National Small Business Poll from the National Federation of Independent Business Education Foundation. It found that 71% of small business owners believed that finding qualified employees was "hard." Furthermore, "the search for qualified employees will grow more difficult as demographic and education factors" continue to make it more difficult to find employees. Similarly, reading the *Kiplinger Letter* one day, he noticed that just about every type of business couldn't find enough good employees to hire. Small firms were particularly in jeopardy; the *Letter* said that giant firms can outsource many (particularly entry-level) jobs abroad, and larger companies can also afford to pay better benefits and to train their employees. Small firms rarely have the resources or the economies of scale to allow outsourcing or to install the big training programs that would enable them to take untrained new employees and turn them into skilled ones.

Although finding enough employees was his biggest problem, finding enough honest ones scared him even more. Angelo recalled from one of his business school courses that companies in the United States are losing a total of well over \$400 billion a year in employee theft. As a rough approximation, that works out to about \$9 per employee per day and about \$12,000 lost annually for a typical company. Furthermore, it was small companies like Angelo's that were particularly in the crosshairs, because companies with fewer than 100 employees are particularly prone to employee theft. Why are small firms particularly vulnerable? Perhaps they lack experience dealing with the problem. More importantly: Small firms are more likely to have a single person doing several jobs, such as ordering supplies and paying the delivery person. This undercuts the checks and balances managers often strive for to control theft. Furthermore, the risk of stealing goes up dramatically when the business is largely based on cash. In a pizza store, many people come in and buy just one or two slices and a cola for lunch, and almost all pay with cash, not credit cards.

And, Angelo was not just worried about someone stealing cash. They can steal your whole business idea, something he learned from painful experience. He had been planning to open a store in what he thought would be a particularly good location, and was thinking of having one of his current employees manage the store. Instead, it turned out that this employee was, in a manner of speaking, stealing Angelo's brain: what Angelo knew about customers, suppliers, where to buy pizza dough, where to buy tomato sauce, how much everything should cost, how to furnish the store, where to buy ovens, store layout—everything. This employee soon quit and opened up his own pizza store, not far from where Angelo had planned to open his new store.

That he was having trouble hiring good employees, there was no doubt. The restaurant business is particularly brutal when it comes to turnover. Many restaurants turn over their employees at a rate of 200% to 300% per year—so every year, each position might have a series of two to three employees filling it. As Angelo said, "I was losing two to three employees a month," adding, "We're a high-volume store, and while we should have about six employees per store [to fill all the hours in a week], we were down to only three or four, so my managers and I were really under the gun."

The problem was bad at the hourly employee level: "We were churning a lot at the hourly level," said Angelo. "Applicants would come in, my managers or I would hire them and not spend much time training them, and the good ones would leave in frustration after a few weeks, while often it was the bad ones who'd stay behind." But in the last two years, Angelo's three company-owned stores also went through a total of three store managers—"They were just blowing through the door," as Angelo put it, in part because, without good employees, their workday was brutal. As a rule, when a small business owner or manager can't find enough employees (or an employee doesn't show up for work), about 80% of the time the owner or manager does the job himself or herself. So, these managers often ended up working seven days a week, 10 to 12 hours a day, and many just burned out in the end. One

night, working three jobs himself with customers leaving in anger, Angelo decided he'd never just hire someone because he was desperate again, but would start doing his hiring more rationally.

Angelo knew he should have a more formal screening process. As he said, "If there's been a lesson learned, it's much better to spend time up front screening out candidates who don't fit than to hire them and have to put up with their ineffectiveness." He also knew that he could identify many of the traits that his employees needed. For example, he knew that not everyone has the temperament to be a waiter (he has a small pizza/Italian restaurant in the back of his main store). As Angelo said, "I've seen personalities that were off the charts in assertiveness or overly introverted, traits that obviously don't make a good fit for a waiter or waitress."

As a local business, Angelo recruits by placing help wanted ads in two local newspapers, and he's been "shocked" at some of the responses and experiences he's had in response to the ads. Many of the applicants left voicemail messages (Angelo or the other workers in the store were too busy to answer), and some applicants Angelo "just axed" on the assumption that people without good telephone manners wouldn't have very good manners in the store, either. He also quickly learned that he had to throw out a very wide net, even if hiring only one or two people. Many people, as noted, he eliminated from consideration because of the messages they left, and about half the people he scheduled to come in for interviews didn't show up. He'd taken courses in human resource management, so (as he said) "I should know better," but he hired people based almost exclusively on a single interview (he occasionally made a feeble attempt to check references). In total, his HR approach was obviously not working. It wasn't producing enough good recruits, and the people he did hire were often problematic.

What was he looking for? Service-oriented courteous people, for one. For example, he'd hired one employee who used profanity several times, including once in front of a customer. On that employee's third day, Angelo had to tell her, "I think Angelo's isn't the right place for you," and he fired her. As Angelo said, "I felt bad, but also knew that everything I have is on the line for this business, so I wasn't going to let anyone run this business down." Angelo wants reliable people (who'll show up on time), honest people, and people who are flexible about switching jobs and hours as required. He calls his management style "trust and track." "I coach them and give them goals, and then carefully track results."

Angelo's Pizza business has only the most rudimentary human resource management system. Angelo bought several application forms at a local Office Depot, and rarely uses other forms of any sort. He uses his personal accountant for reviewing the company's books, and Angelo himself computes each employee's paycheck at the end of the week and writes the checks. Training is entirely on-the-job. Angelo personally trained each of his employees. For those employees who go on to be store managers, he assumes that they are training their own employees the way that Angelo trained them (for better or worse, as it turns out). Angelo pays "a bit above" prevailing wage rates (judging by other help wanted ads), but probably not enough to make a significant difference in the quality of employees whom he attracts. If you asked Angelo what his reputation is as an employer, Angelo, being a candid and forthright person, would probably tell you that he is a supportive but hard-nosed employer who treats people fairly, but whose business reputation may suffer from disorganization stemming from inadequate organization and training. He approaches you to ask you several questions.

Questions

8. My strategy is to (hopefully) expand the number of stores and eventually franchise, while focusing on serving only high-quality fresh ingredients. What are three specific human resource management implications of my strategy (including specific policies and practices)?
9. Identify and briefly discuss five specific human resource management errors that I'm currently making.

10. Develop a structured interview form that we can use for hiring (1) store managers, (2) wait staff, and (3) counter people/pizza makers.
11. Based on what you know about Angelo's, and what you know from having visited pizza restaurants, write a one-page outline showing specifically how you think Angelo's should go about selecting employees.

Based generally on actual facts, but Angelo's Pizza is a fictitious company. Angelo's Pizza source notes: Dino Berta, "People Problems: Keep Hiring from Becoming a Crying Game," *Nation's Business News*, 36, no. 20, May 20, 2002, pp. 72–74; Ellen Lyon, "Hiring, Personnel Problems Can Challenge Entrepreneurs," *Patriot-News*, October 12, 2004; Rose Robin Pedone, "Businesses' \$400 Billion Theft Problem," *Long Island Business News*, 27, July 6, 1998, pp. 1B–2B; "Survey Shows Small-Business Problems with Hiring, Internet," *Providence Business News*, 16, September 10, 2001, pp. 1B; "Finding Good Workers Is Posing a Big Problem as Hiring Picks Up," *Kiplinger Letter*, 81, February 13, 2004; Ian Mount, "A Pizzeria Owner Learns the Value of Watching the Books," *The New York Times*, October 25, 2012, p. B8.

ALPHABET (GOOGLE)*

Fortune magazine named Google the best of the 100 best companies to work for, and there is little doubt why. Among the benefits it offers are free shuttles equipped with Wi-Fi to pick up and drop off employees from San Francisco Bay Area locations, unlimited sick days, annual all-expense-paid ski trips, free gourmet meals, five on-site free doctors, \$2,000 bonuses for referring a new hire, free flu shots, a giant lap pool, on-site oil changes, on-site car washes, volleyball courts, TGIF parties, free on-site washers and dryers (with free detergent), Ping-Pong and foosball tables, and free famous people lectures. For many people, it's the gourmet meals and snacks that make Google stand out. For example, one human resources director loves the Irish oatmeal with fresh berries at the company's Plymouth Rock Cafe, near Google's "people operations" group. "I sometimes dream about it," she says. Engineer Jan Fitzpatrick loves the raw bar at Google's Tapis restaurant, down the road on the Google campus. Then, of course, there are the stock options—each new employee gets about 1,200 options to buy Google shares (recently worth about \$480 per share). In fact, dozens of early Google employees ("Googlers") are already multimillionaires thanks to Google stock. The recession several years ago did prompt Google and other firms to cut back on some of these benefits (cafeteria hours are shorter today, for instance), but Google still pretty much leads the benefits pack.

For their part, Googlers share certain traits. They tend to be super smart, team oriented (teamwork is the norm, especially for big projects), and driven. *Fortune* describes them as people who "almost universally" see themselves as the most interesting people on the planet, and who are happy-go-lucky on the outside, but type A—highly intense and goal directed—on the inside. They're also super-hardworking (which makes sense, since it's not unusual for engineers to be in the hallways at 3 A.M. debating some new mathematical solution to a Google search problem). They're so team oriented that when working on projects, it's not unusual for Google team members to give up their larger, more spacious offices and to crowd into a small conference room, where they can "get things done." Historically, Googlers generally graduate with great grades from the best universities, including Stanford, Harvard, and MIT. For many years, Google wouldn't even consider hiring someone with less than a 3.7 average—while also probing deeply into the why behind any B grades. Google also doesn't hire lone wolves, but wants people who work together and people who also have diverse interests (narrow interests or skills are a turnoff at Google). Google also wants people with growth potential. The company is expanding so fast that it needs to hire people who are capable of being promoted multiple times—it's only, the company says, by hiring such overqualified people that it can be sure that the employees will be able to keep up as Google and their own departments expand.

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The starting salaries are highly competitive. Experienced engineers start at about \$130,000 a year (plus about 1,200 shares of stock options, as noted), and new MBAs can expect between \$80,000 and \$120,000 per year (with smaller option grants). Software engineering managers average about \$217,000 per year. Most recently, Google had about 72,000 staff members, up from its beginnings with just three employees in a rented garage.

Of course, in a company that's grown from 3 employees to 72,000 and from zero value to hundreds of billions of dollars, it may be quibbling to talk about "problems," but there's no doubt that such rapid growth does confront Google's management, and particularly its "people operations" group, with some big challenges. Let's look at these.

For one, Google, as noted earlier, is a 24-hour operation, and with engineers and others frequently pulling all-nighters to complete their projects, the company needs to provide a package of services and financial benefits that supports that kind of lifestyle, and that helps its employees maintain an acceptable work-life balance.

As another challenge, Google's enormous financial success is a two-edged sword. Although Google usually wins the recruitment race when it comes to competing for new employees against competitors like Microsoft or Facebook, Google does need some way to stem a rising tide of retirements. Most Googlers are still in their 20s and 30s, but many have become so wealthy from their Google stock options that they can afford to retire. One 27-year-old engineer received a million-dollar founder's award for her work on the program for searching desktop computers, and wouldn't think of leaving "except to start her own company." Similarly, a former engineering vice president retired (with his Google stock profits) to pursue his love of astronomy. The engineer who dreamed up Gmail retired at the age of 30.

Another challenge is that the work involves not only long hours but can also be very tense. Google is a very numbers-oriented environment. For example, consider a typical weekly Google user interface design meeting. Seated around a conference table are about a dozen Googlers, tapping on laptops. During the 2-hour meeting, the head of search products needs to evaluate various design proposals, ranging from minor tweaks to a new product's entire layout. She's previously given each presentation an allotted amount of time, and a large digital clock on the wall ticks off the seconds. The presenters must quickly present their ideas, but also handle questions such as "what do users do if the tab is moved from the side of the page to the top?" Furthermore, it's all about the numbers—no one at Google would ever say, for instance, "the tab looks better in red"—you need to prove your point. Presenters must come armed with usability experiment results, showing, for instance, that a certain percentage preferred red or some other color. While the presenters are answering these questions as quickly as possible, the digital clock is ticking, and when it hits the allotted time, the presentation must end, and the next team steps up to present. It is a tough and tense environment, and Googlers must have done their homework.

Growth can also undermine the "outlaw band that's changing the world" culture that fostered the services that made Google famous. Even cofounder Sergi Brin agrees that Google risks becoming less "zany" as it grows. To paraphrase one of its top managers, the hard part of any business is keeping that original innovative, small business feel even as the company grows. Several years ago (in 2015) Google appointed Sundar Pichai its new CEO.

Creating the right culture is especially challenging now that Google is truly global. For example, Google works hard to provide the same employee benefits every place it does business around the world, but it can't exactly match its benefits in every country because of international laws and international taxation issues. Yet offering the same benefits everywhere is more important than it might initially appear. All those benefits make life easier for Google staff, and help them achieve a work-life balance. Achieving the right work-life balance is the centerpiece of Google's culture, but this also becomes more challenging as the company grows. On the one hand, Google expects all of its employees to work super hard; on the other hand, it realizes that it needs to help them maintain a healthy balance.

As one manager says, Google acknowledges “that we work hard but that work is not everything.”

Recruitment is another challenge. While Google certainly doesn't lack applicants, attracting the right applicants is crucial if Google is to continue to grow successfully. Working at Google requires a special set of traits, and screening employees is easier if it recruits the right people to begin with. For instance, Google needs to attract people who are very smart, love to work, have fun, can handle the stress, and who also have outside interests and flexibility.

As the company grows internationally, it also faces the considerable challenge of recruiting and building staff overseas. For example, Google introduced a new vertical market-based structure across Europe to attract more business advertisers to its search engine. (By vertical market-based structure, Google means focusing on key vertical industry sectors such as travel, retail, automotive, and technology.) To build these industry groupings abroad from scratch, Google promoted its former head of its U.S. financial services group to be the vertical markets director for Europe; he moved there several years ago. Google then had to find heads for each of its vertical industry groups for all of its key European territories. Each of these vertical market heads then have to educate their market sectors (retailing, travel, and so on) so Google can attract new advertisers. Google already has offices around the world.

However, probably the biggest challenge Google faces is evolving its employee selection system, given that the company must hire thousands of people per year. When Google started in business, job candidates typically suffered through a dozen or more in-person interviews, and the standards were so high that even applicants with years of great work experience often got turned down if they had just average college grades. But more recently, even Google's cofounders acknowledged to security analysts that setting such an extraordinarily high bar for hiring was holding back Google's expansion. For Google's early years, one of the company's cofounders interviewed nearly every job candidate before he or she was hired, and even today one of them still reviews the qualifications of everyone before he or she gets a final offer.

The experience of one candidate illustrates what Google was up against. A 24-year-old is interviewed for a corporate communications job at Google. Google first made contact with the candidate in May, and then, after two phone interviews, invited him to headquarters. There he had separate interviews with about six people and was treated to lunch in a Google cafeteria. They also had him turn in several “homework” assignments, including a personal statement and a marketing plan. In August, Google invited the candidate back for a second round, which it said would involve another four or five interviews. In the meantime, he decided he'd rather work at a start-up, and accepted another job at a new Web-based instant messaging provider.

Google's head of “people operations” says that Google is trying to strike the right balance between letting Google and the candidate get to know each other while also moving quickly. To that end, Google administered a survey to all Google's current employees in an effort to identify the traits that correlate with success at Google. In the survey, employees responded to questions relating to about 300 variables, including their performance on standardized tests, how old they were when they first used a computer, and how many foreign languages they speak. The Google survey team then went back and compared the answers against the 30 or 40 job performance factors they keep for each employee. They thereby identified clusters of traits that Google might better focus on during the hiring process. Google also moved from the free-form interviews it used in the past to a more structured process.

Questions

12. What do you think of the idea of Google correlating personal traits from the employees' answers on the survey to their performance, and then using that as the basis for screening job candidates? In other words, is it or is it not a good idea? Please explain your answer.

13. The benefits that Google pays obviously represent an enormous expense. Based on what you know about Google and on what you read in this book, how would you defend all these benefits if you're making a presentation to the security analysts who were analyzing Google's performance?
14. If you wanted to hire the brightest people around, how would you go about recruiting and selecting them? How does your proposed approach compare with how Google actually does it (based on this case and anything else you recall reading about Google in this book)?
15. To support its growth and expansion strategy, Google wants (among other traits) people who are very bright and who work hard, often round-the-clock, and who are flexible and maintain a decent work-life balance. List five specific HR policies or practices that you think Google has implemented or should implement to support its strategy, and explain your answer.
16. What sorts of factors do you think Google will have to take into consideration as it tries transferring its culture and reward systems and way of doing business to its operations abroad?
17. Given the sorts of values and culture Google cherishes, briefly describe four specific activities you suggest it pursue during new-employee orientation.

Source: Notes for Google: "Google Brings Vertical Structure to Europe," *New Media Age*, August 4, 2005, p. 2; Debbie Lovewell, "Employer Profile—Google: Searching for Talent," *Employee Benefits*, October 10, 2005, p. 66; "Google Looking for Gourmet Chefs," *Internet Week*, August 4, 2005; Douglas Merrill, "Google's 'Googley' Culture Kept Alive by Tech," *eWeek*, April 11, 2006; Robert Hof, "Google Gives Employees Another Option," *BusinessWeek Online*, December 13, 2005; Kevin Delaney, "Google Adjusts Hiring Process as Needs Grow," *The Wall Street Journal*, October 23, 2006, pp. B1, B8; Adam Lishinsky, "Search and Enjoy," *Fortune*, January 22, 2007, pp. 70–82; www.nypost.com/seven/10302008/business/frugal_google_cuts_perks_136011.htm, accessed July 12, 2009; Adam Bryant, "The Quest to Build a Better Boss," *New York Times*, March 13, 2011, pp. 1, 7; Mark C. Crowley, "Not a Happy Accident: How Google Deliberately Designs Workplace Satisfaction," www.fastcompany.com/3007268/where-are-they-now/not-happy-accident-how-google-deliberately-designs-workplace-satisfaction, accessed September 16, 2014; Google salaries in the United States, <https://www.indeed.com/cmp/Google/salaries>, accessed May 8, 2018; <https://www.recode.net/2017/7/24/16022210/alphabet-google-employment-employees-doubled-headcount>, accessed May 8, 2018; <http://fortune.com/best-companies/2017/google/>, accessed May 8, 2018.

MUFFLER MAGIC*

Muffler Magic is a fast-growing chain of 25 automobile service centers in Nevada. Originally started 20 years ago as a muffler repair shop by Ronald Brown, the chain expanded rapidly to new locations, and as it did so Muffler Magic also expanded the services it provided, from muffler replacement to oil changes, brake jobs, and engine repair. Today, one can bring an automobile to a Muffler Magic shop for basically any type of service, from tires to mufflers to engine repair.

Auto service is a tough business. The shop owner is basically dependent upon the quality of the service people he or she hires and retains, and the most qualified mechanics find it easy to pick up and leave for a job paying a bit more at a competitor down the road. It's also a business in which productivity is very important. The single largest expense is usually the cost of labor. Auto service dealers generally don't just make up the prices that they charge customers for various repairs; instead, they charge based on standardized industry rates for jobs like changing spark plugs or repairing a leaky radiator. Therefore, if someone brings a car in for a new alternator and the standard number of hours for changing the alternator is an hour, but it takes the mechanic 2 hours, the service center's owner may end up making less profit on the transaction.

Quality is a persistent problem as well. For example, "rework" has recently been a problem at Muffler Magic. A customer recently brought her car to a Muffler Magic to have the car's brake pads replaced, which the service center did for her. Unfortunately, when she left she drove only about two blocks before she discovered that she had no brake power at all. It was simply fortuitous that she was going so

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slowly she was able to stop her car by slowly rolling up against a parking bumper. It subsequently turned out that the mechanic who replaced the brake pads had failed to properly tighten a fitting on the hydraulic brake tubes and the brake fluid had run out, leaving the car with no braking power. In a similar problem the month before that, a (different) mechanic replaced a fan belt, but forgot to refill the radiator with fluid; that customer's car overheated before he got four blocks away, and Muffler Magic had to replace the whole engine. Of course problems like these not only diminish the profitability of the company's profits, but, repeated many times over, have the potential for ruining Muffler Magic's word-of-mouth reputation.

Organizationally, Muffler Magic employs about 300 people, and Ron runs his company with eight managers, including himself as president, a controller, a purchasing director, a marketing director, and the human resource manager. He also has three regional managers to whom the eight or nine service center managers in each area of Nevada report. Over the past two years, as the company has opened new service centers, company-wide profits have diminished rather than increased. In part, these diminishing profits probably reflect the fact that Ron Brown has found it increasingly difficult to manage his growing operation. ("Your reach is exceeding your grasp" is how Ron's wife puts it.)

The company has only the most basic HR systems in place. It uses an application form that the human resource manager modified from one that he downloaded from the Web, and the standard employee status change request forms, sign-on forms, I-9 forms, and so on, that it purchased from a human resource management supply house. Training is entirely on-the-job. Muffler Magic expects the experienced technicians that it hires to come to the job fully trained; to that end, the service center managers generally ask candidates for these jobs basic behavioral questions that hopefully provide a window into these applicants' skills. However, most of the other technicians hired to do jobs like rotating tires, fixing brake pads, and replacing mufflers are untrained and inexperienced. They are to be trained by either the service center manager or by more experienced technicians, on-the-job.

Ron Brown faces several HR-type problems. One, as he says, is that he faces the "tyranny of the immediate" when it comes to hiring employees. Although it's fine to say that he should be carefully screening each employee and checking his or her references and work ethic, from a practical point of view, with 25 centers to run, the centers' managers usually just hire anyone who seems to be breathing, as long as he or she can answer some basic interview questions about auto repair, such as, "What do you think the problem is if a 2001 Camry is overheating, and what would you do about it?"

Employee safety is also a problem. An automobile service center may not be the most dangerous type of workplace, but it is potentially dangerous. Employees are dealing with sharp tools, greasy floors, greasy tools, extremely hot temperatures (for instance, on mufflers and engines), and fast-moving engine parts including fan blades. There are some basic things that a service manager can do to ensure more safety, such as insisting that all oil spills be cleaned up immediately. However, from a practical point of view, there are few ways to get around many of the problems—such as when the technician must check out an engine while it is running.

With Muffler Magic's profits going down instead of up, Brown's human resource manager has taken the position that the main problem is financial. As he says, "You get what you pay for" when it comes to employees, and if you compensate technicians better than your competitors do, then you get better technicians, ones who do their jobs better and stay longer with the company—and then profits will rise. So, the HR manager scheduled a meeting between himself, Ron Brown, and a professor of business who teaches compensation management at a local university. The HR manager has asked this professor to spend about a week looking at each of the service centers, analyzing the situation, and coming up with a compensation plan that will address Muffler Magic's quality and productivity problems. At this meeting, the professor makes three basic recommendations for changing the company's compensation policies.

Number one, she says that she has found that Muffler Magic suffers from what she calls “presenteeism”—in other words, employees drag themselves into work even when they’re sick, because the company does not pay them if they are out; the company offers no sick days. In just a few days the professor couldn’t properly quantify how much Muffler Magic is losing to presenteeism. However, from what she could see at each shop, there are typically one or two technicians working with various maladies like the cold or flu, and it seemed to her that each of these people was probably really only working about half of the time (although they were getting paid for the whole day). So, for 25 service centers per week, Muffler Magic could well be losing 125 or 130 personnel days per week of work. The professor suggests that Muffler Magic start allowing everyone to take three paid sick days per year, a reasonable suggestion. However, as Ron Brown points out, “Right now, we’re only losing about half a day’s pay for each employee who comes in and who works unproductively; with your suggestion, won’t we lose the whole day?” The professor says she’ll ponder that one.

Second, the professor recommends putting the technicians on a skill-for-pay plan. Basically, she suggests the following. Give each technician a letter grade (A through E) based upon that technician’s particular skill level and abilities. An “A” technician is a team leader and needs to show that he or she has excellent diagnostic troubleshooting skills, and the ability to supervise and direct other technicians. At the other extreme, an “E” technician would typically be a new apprentice with little technical training. The other technicians fall in between those two levels, based on their individual skills and abilities.

In the professor’s system, the “A” technician or team leader would assign and supervise all work done within his or her area but generally not do any mechanical repairs himself or herself. The team leader does the diagnostic troubleshooting, supervises and trains the other technicians, and test drives the car before it goes back to the customer. Under this plan, every technician receives a guaranteed hourly wage within a certain range, for instance:

A tech	=	\$25–\$30 an hour
B tech	=	\$20–\$25 an hour
C tech	=	\$15–\$20 an hour
D tech	=	\$10–\$15 an hour
E tech	=	\$8–\$10 an hour

Third, to directly address the productivity issue, the professor recommends that each service manager calculate each technician-team’s productivity at the end of each day and at the end of each week. She suggests posting the running productivity total conspicuously for daily viewing. Then, the technicians as a group get weekly cash bonuses based upon their productivity. To calculate productivity, the professor recommends dividing the total labor hours billed by the total labor hours paid to technicians; in other words, total labor hours billed *divided by* total hours paid to technicians.

Having done some homework, the professor says that the national average for labor productivity is currently about 60%, and that only the best-run service centers achieve 85% or greater. By her rough calculations, Muffler Magic was attaining about industry average (about 60%—in other words, they were billing for only about 60 hours for each 100 hours that they actually had to pay technicians to do the jobs). (Of course, this was not entirely the technicians’ fault. Technicians get time off for breaks and for lunch, and if a particular service center simply didn’t have enough business on a particular day or during a particular week, then several technicians may well sit around idly waiting for the next car to come in.) The professor recommends setting a labor efficiency goal of 80% and posting each team’s daily productivity results in the workplace to provide them with additional feedback. She recommends that if at the end of a week the team is able to boost its productivity ratio from the current 60% to 80%, then that team would get an additional

10% weekly pay bonus. After that, for every 5% boost of increased productivity above 80%, technicians would receive an additional 5% weekly bonus. So, if a technician's normal weekly pay is \$400, that employee would receive an extra \$40 at the end of the week when his team moves from 60% productivity to 80% productivity.

After the meeting, Ron Brown thanked the professor for her recommendations and told her he would think about it and get back to her. After the meeting, on the drive home, Ron was pondering what to do. He had to decide whether to institute the professor's sick leave policy, and whether to implement the professor's incentive and compensation plan. Before implementing anything, however, he wanted to make sure he understood the context in which he was making his decision. For example, did Muffler Magic really have an incentive pay problem, or were the problems more broad? Furthermore, how, if at all, would the professor's incentive plan impact the quality of the work that the teams were doing? And should the company really start paying employees for sick days? Ron Brown had a lot to think about.

Questions

18. Write a one-page summary outline listing three or four recommendations you would make with respect to each HR function (recruiting, selection, training, and so on) that you think Ron Brown should be addressing with his HR manager.
19. Develop a 10-question structured interview form Ron Brown's service center managers can use to interview experienced technicians.
20. If you were Ron Brown, would you implement the professor's recommendation addressing the presenteeism problem—in other words, start paying for sick days? Why or why not?
21. If you were advising Ron Brown, would you recommend that he implement the professor's skill-based pay and incentive pay plan as is? Why? Would you implement it with modifications? If you would modify it, please be specific about what you think those modifications should be, and why.

Based generally on actual facts, but Muffler Magic is a fictitious company. This case is based largely on information in Drew Paras, "The Pay Factor: Technicians' Salaries Can Be the Largest Expense in a Server Shop, as Well as the Biggest Headache. Here's How One Shop Owner Tackled the Problem," *Motor Age*, November 2003, pp. 76–79; see also Jennifer Pellet, "Health Care Crisis," *Chief Executive*, June 2004, pp. 56–61; "Firms Press to Quantify, Control Presenteeism," *Employee Benefits*, December 1, 2002.

BP TEXAS CITY*

When British Petroleum's (BP) Horizon oil rig exploded in the Gulf of Mexico in 2010, it triggered tragic reminders for experts in the safety community. In March 2005, an explosion and fire at BP's Texas City, Texas, refinery killed 15 people and injured 500 people in the worst U.S. industrial accident in more than 10 years. That disaster triggered three investigations: one internal investigation by BP, one by the U.S. Chemical Safety Board, and an independent investigation chaired by former U.S. Secretary of State James Baker and an 11-member panel that was organized at BP's request.

To put the results of these three investigations into context, it's useful to understand that under its current management, BP had pursued, for the past 10 or so years before the Texas City explosion, a strategy emphasizing cost-cutting and profitability. The basic conclusion of the investigations was that cost-cutting helped compromise safety at the Texas City refinery. It's useful to consider each investigation's findings.

The Chemical Safety Board's (CSB) investigation, according to Carol Merritt, the board's chair, showed that "BP's global management was aware of problems with maintenance, spending, and infrastructure well before March 2005." Apparently,

* Written and copyrighted by Gary Dessler, PhD.

faced with numerous earlier accidents, BP did make some safety improvements. However, it focused primarily on emphasizing personal employee safety behaviors and procedural compliance, and thereby reducing safety accident rates. The problem (according to the CSB) was that “catastrophic safety risks remained.” For example, according to the CSB, “unsafe and antiquated equipment designs were left in place, and unacceptable deficiencies in preventive maintenance were tolerated.” Basically, the CSB found that BP’s budget cuts led to a progressive deterioration of safety at the Texas City refinery. Said Merritt, “In an aging facility like Texas City, it is not responsible to cut budgets related to safety and maintenance without thoroughly examining the impact on the risk of a catastrophic accident.”

Looking at specifics, the CSB said that a 2004 internal audit of 35 BP business units, including Texas City (BP’s largest refinery), found significant safety gaps they all had in common, including, for instance, a lack of leadership competence, and “systemic underlying issues” such as a widespread tolerance of noncompliance with basic safety rules and poor monitoring of safety management systems and processes. Ironically, the CSB found that BP’s accident prevention effort at Texas City had achieved a 70% reduction in worker injuries in the year before the explosion. Unfortunately, this simply meant that individual employees were having fewer accidents. The larger, more fundamental problem was that the potentially explosive situation inherent in the depreciating machinery remained.

The CSB found that the Texas City explosion followed a pattern of years of major accidents at the facility. In fact, there had apparently been an average of one employee death every 16 months at the plant for the last 30 years. The CSB found that the equipment directly involved in the most recent explosion was an obsolete design already phased out in most refineries and chemical plants, and that key pieces of its instrumentation were not working. There had also been previous instances where flammable vapors were released from the same unit in the 10 years prior to the explosion. In 2003, an external audit had referred to the Texas City refinery’s infrastructure and assets as “poor” and found what it referred to as a “checkbook mentality,” one in which budgets were not sufficient to manage all the risks. In particular, the CSB found that BP had implemented a 25% cut on fixed costs between 1998 and 2000 and that this adversely impacted maintenance expenditures and net expenditures, and refinery infrastructure. Going on, the CSB found that in 2004, there were three major accidents at the refinery that killed three workers.

BP’s own internal report concluded that the problems at Texas City were not of recent origin, and instead were years in the making. It said BP was taking steps to address them. Its investigation found “no evidence of anyone consciously or intentionally taking actions or making decisions that put others at risk.” Said BP’s report, “The underlying reasons for the behaviors and actions displayed during the incident are complex, and the team has spent much time trying to understand them—it is evident that they were many years in the making and will require concerted and committed actions to address.” BP’s report concluded that there were five underlying causes for the massive explosion:

- A working environment had eroded to one characterized by resistance to change, and a lack of trust.
- Safety, performance, and risk-reduction priorities had not been set and consistently reinforced by management.
- Changes in the “complex organization” led to a lack of clear accountabilities and poor communication.
- A poor level of hazard awareness and understanding of safety resulted in workers accepting levels of risk that were considerably higher than at comparable installations.
- Adequate early warning systems for problems were lacking, and there were no independent means of understanding the deteriorating standards at the plant.

The report from the BP-initiated but independent 11-person panel chaired by former U.S. Secretary of State James Baker contained specific conclusions and

recommendations. The Baker panel looked at BP's corporate safety oversight, the corporate safety culture, and the process safety management systems at BP at the Texas City plant as well as at BP's other refineries.

Basically, the Baker panel concluded that BP had not provided effective safety process leadership and had not established safety as a core value at the five refineries it looked at (including Texas City).

Like the CSB, the Baker panel found that BP had emphasized personal safety in recent years and had in fact improved personal safety performance, but had not emphasized the overall safety process, thereby mistakenly interpreting "improving personal injury rates as an indication of acceptable process safety performance at its U.S. refineries." In fact, the Baker panel went on, by focusing on these somewhat misleading improving personal injury rates, BP created a false sense of confidence that it was properly addressing process safety risks. It also found that the safety culture at Texas City did not have the positive, trusting, open environment that a proper safety culture required. The Baker panel's other findings included the following.

- BP did not always ensure that adequate resources were effectively allocated to support or sustain a high level of process safety performance.
- BP's refinery personnel are "overloaded" by corporate initiatives.
- Operators and maintenance personnel work high rates of overtime.
- BP tended to have a short-term focus and its decentralized management system and entrepreneurial culture delegated substantial discretion to refinery plant managers "without clearly defining process safety expectations, responsibilities, or accountabilities."
- There was no common, unifying process safety culture among the five refineries.
- The company's corporate safety management system did not make sure there was timely compliance with internal process safety standards and programs.
- BP's executive management either did not receive refinery-specific information that showed that process safety deficiencies existed at some of the plants, or did not effectively respond to any information it did receive.

The Baker panel made several safety recommendations for BP, including the following.

1. The company's corporate management must provide leadership on process safety.
2. The company should establish a process safety management system that identifies, reduces, and manages the process safety risks of the refineries.
3. The company should make sure its employees have an appropriate level of process safety knowledge and expertise.
4. The company should involve "relevant stakeholders" in developing a positive, trusting, and open process safety culture at each refinery.
5. BP should clearly define expectations and strengthen accountability for process safety performance.
6. BP should better coordinate its process safety support for the refining line organization.
7. BP should develop an integrated set of leading and lagging performance indicators for effectively monitoring process safety performance.
8. BP should establish and implement an effective system to audit process safety performance.
9. The company's board should monitor the implementation of the panel's recommendations and the ongoing process safety performance of the refineries.
10. BP should transform itself into a recognized industry leader in process safety management.¹

¹ These findings and the following suggestions are based on "BP Safety Report Finds Company's Process Safety Culture Ineffective," *Global Refining & Fuels Report*, January 17, 2007.

In making its recommendations, the panel singled out the company's chief executive at the time, Lord Browne, by saying, "In hindsight, the panel believes if Browne had demonstrated comparable leadership on and commitment to process safety [as he did for responding to climate change] that would have resulted in a higher level of safety at refineries."

Overall, the Baker panel found that BP's top management had not provided "effective leadership" on safety. It found that the failings went to the very top of the organization, to the company's chief executive, and to several of his top lieutenants. The Baker panel emphasized the importance of top management commitment, saying, for instance, that "it is imperative that BP leadership set the process safety tone at the top of the organization and establish appropriate expectations regarding process safety performance." It also said BP "has not provided effective leadership in making certain its management and U.S. refining workforce understand what is expected of them regarding process safety performance."

Lord Browne, the chief executive, stepped down about a year after the explosion. About the same time, some BP shareholders were calling for the company's executives and board directors to have their bonuses more closely tied to the company's safety and environmental performance in the wake of Texas City. In October 2009, OSHA announced it was filing the largest fine in its history for this accident, for \$87 million, against BP. One year later, BP's Horizon oil rig in the Gulf of Mexico exploded, taking 11 lives. In September 2014, the U.S. District judge presiding over negligence claims in the ensuing case found BP guilty of gross negligence, basically reckless and extreme behavior; the company will appeal his ruling.

Questions

22. The text defines ethics as "the principles of conduct governing an individual or a group," and specifically as the standards one uses to decide what his or her conduct should be. To what extent do you believe that what happened at BP is as much a breakdown in the company's ethical systems as it is in its safety systems, and how would you defend your conclusion?
23. Are the Occupational Safety and Health Administration's standards, policies, and rules aimed at addressing problems like the ones that apparently existed at the Texas City plant? If so, how would you explain the fact that problems like these could have continued for so many years?
24. Since there were apparently at least three deaths in the year prior to the major explosion, and an average of about one employee death per 16 months for the previous 10 years, how would you account for the fact that mandatory OSHA inspections missed these glaring sources of potential catastrophic events?
25. The text lists numerous suggestions for "how to prevent accidents." Based on what you know about the Texas City explosion, what do you say Texas City tells you about the most important three steps an employer can take to prevent accidents?
26. Based on what you learned in Chapter 16, would you make any additional recommendations to BP over and above those recommendations made by the Baker panel and the CSB? If so, what would those recommendations be?
27. Explain specifically how strategic human resource management at BP seems to have supported the company's broader strategic aims. What does this say about the advisability of always linking human resource strategy to a company's strategic aims?

Source: Notes for BP Texas City: Sheila McNulty, "BP Knew of Safety Problems, Says Report," *Financial Times*, October 31, 2006, p. 1 "CBS: Documents Show BP Was Aware of Texas City Safety Problems," *World Refining & Fuels Today*, October 30, 2006; "BP Safety Report Finds Company's Process Safety Culture Ineffective," *Global Refining & Fuels Report*, January 17, 2007; "BP Safety Record Under Attack," *Europe Intelligence Wire*, January 17, 2007; Mark Hofmann, "BP Slammed for Poor Leadership on Safety, Oil Firm Agrees to Act on Review Panel's Recommendations," *Business Intelligence*, January 22, 2007, p. 3 "Call for Bonuses to Include Link with Safety Performance," *Guardian*, January 18, 2007, p. 24 www.bp.com/genericarticle.do?categoryId=9005029&contentId=7015905, accessed July 12, 2009; Steven Greenhouse, "BP Faces Record Fine for '05 Blast,"

The New York Times, October 30, 2009, pp. 1, 6; Kyle W. Morrison, "Blame to Go Around," *Safety & Health*, 183, no. 3, March 2011, p. 40 Ed Crooks, "BP Had Tools to End Spill Sooner, Court Told," www.ft.com/cms/s/0/40d7b076-2ae8-11e3-8fb8-00144feab7de.html?ftcamp=published_links%2Frss%2Fhome_uk%2Ffeed%2F%2Fproduct#axzz2gZshHFOc, accessed October 2, 2013; Daniel Gilbert and Justin Scheck, "Judge Hammers BP for Gulf Disaster," *The Wall Street Journal*, September 5, 2014, pp. B1, B2.

GLOSSARY

- 4/5ths rule** Federal agency rule that a minority selection rate less than 80% (4/5ths) of that for the group with the highest rate is evidence of adverse impact.
- 401(k) plan** A defined contribution plan based on section 401(k) of the Internal Revenue Code.
- action learning** A training technique by which management trainees are allowed to work full-time analyzing and solving problems in other departments.
- adaptability screening** A process that aims to assess the assignees' (and spouses') probable success in handling a foreign transfer.
- adverse impact** The overall impact of employer practices that result in significantly higher percentages of members of minorities and other protected groups being rejected for employment, placement, or promotion.
- affirmative action** Steps that are taken for the purpose of eliminating the present effects of past discrimination.
- Age Discrimination in Employment Act of 1967 (ADEA)** The act prohibiting arbitrary age discrimination and specifically protecting individuals over 40 years old.
- agency shop** A form of union security in which employees who do not belong to the union must still pay union dues on the assumption that union efforts benefit all workers.
- alternation ranking method** Ranking employees from best to worst on a particular trait, choosing highest, then lowest, until all are ranked.
- alternative dispute resolution or ADR program** Grievance procedure that provides for binding arbitration as the last step.
- alternative staffing** The use of nontraditional recruitment sources.
- Americans with Disabilities Act (ADA)** The act requiring employers to make reasonable accommodations for disabled employees; it prohibits discrimination against disabled persons.
- analytics** Using tools like statistical techniques to examine data, in order to draw cause-effect conclusions from that data.
- annual bonus** Plans that are designed to motivate short-term performance of managers and that are tied to company profitability.
- applicant tracking systems (ATS)** Online systems that help employers attract, gather, screen, compile, and manage applicants.
- application form** The form that provides information on education, prior work record, and skills.
- appraisal interview** An interview in which the supervisor and subordinate review the appraisal and make plans to remedy deficiencies and reinforce strengths.
- apprenticeship training** A structured process by which people become skilled workers through a combination of classroom instruction and on-the-job training.
- arbitration** The most definitive type of third-party intervention, in which the arbitrator usually has the power to determine and dictate the settlement terms.
- artificial intelligence** Using technology (particularly computers) to carry out tasks in a way that we would consider "human" or "smart".
- authority** The right to make decisions, direct others' work, and give orders.
- authorization cards** In order to petition for a union election, the union must show that at least 30% of employees may be interested in being unionized. Employees indicate this interest by signing authorization cards.
- bargaining unit** The group of employees the union will be authorized to represent.
- behavior-based safety** Identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors.
- behavior modeling** A training technique in which trainees are first shown good management techniques in a film, are asked to play roles in a simulated situation, and are then given feedback and praise by their supervisor.
- behavior modification** Using contingent rewards or punishment to change behavior.
- behavioral interview** A series of job-related questions that focus on how the candidate reacted to actual situations in the past.
- behaviorally anchored rating scale (BARS)** An appraisal method that aims at combining the benefits of narrative critical incidents and quantified ratings by anchoring a quantified scale with specific narrative examples of good and poor performance.
- benchmark job** A job that is used to anchor the employer's pay scale and around which other jobs are arranged in order of relative worth.
- benefits** Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.
- bias** The tendency to allow individual differences such as age, race, and sex to affect the appraisal ratings employees receive.
- bona fide occupational qualification (BFOQ)** Requirement that an employee be of a certain religion, sex, or national origin where that is reasonably necessary to the organization's normal operation. Specified by the 1964 Civil Rights Act.
- boycott** The combined refusal by employees and other interested parties to buy or use the employer's products.
- broadbanding** Consolidating salary grades and ranges into just a few wide levels or "bands," each of which contains a relatively wide range of jobs and salary levels.
- burnout** The total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal.
- business process reengineering** Redesigning business processes, usually by combining steps, so that small multifunction process teams using information technology do the jobs formerly done by a sequence of departments.
- cafeteria benefits plan** Individualized tax-qualified plans allowed by employers to accommodate employee preferences for benefits.

candidate-order (or contrast) error An error of judgment on the part of the interviewer due to interviewing one or more very good or very bad candidates just before the interview in question.

career The occupational positions a person has had over many years.

career development The lifelong series of activities that contribute to a person's career exploration, establishment, success, and fulfillment.

career management The process for enabling employees to better understand and develop their career skills and interests, and to use these skills and interests more effectively.

career planning The deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics and establishes action plans to attain specific goals.

case study method A development method in which the manager is presented with a written description of an organizational problem to diagnose and solve.

cash balance plans Plans under which the employer contributes a percentage of employees' current pay to employees' pension plans every year, and employees earn interest on this amount.

central tendency A tendency to rate all employees the same way, such as rating them all average.

citation Summons informing employers and employees of the regulations and standards that have been violated in the workplace.

Civil Rights Act of 1991 (CRA 1991) The act that places the burden of proof back on employers and permits compensatory and punitive damages.

classes Grouping jobs based on a set of rules for each group or class, such as amount of independent judgment, skill, physical effort, and so forth, required. Classes usually contain similar jobs.

closed shop A form of union security in which the company can hire only union members. This was outlawed in 1947 but still exists in some industries (such as printing).

coaching Educating, instructing, and training subordinates.

codetermination Employees have the legal right to a voice in setting company policies.

collective bargaining The process through which representatives of management and the union meet to negotiate a labor agreement.

college recruiting Sending an employer's representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class.

compa ratio Equals an employee's pay rate divided by the pay range midpoint for his or her pay grade.

comparable worth The concept by which women who are usually paid less than men can claim that men in comparable rather than in strictly equal jobs are paid more.

compensable factor A fundamental, compensable element of a job, such as skills, effort, responsibility, and working conditions.

competency-based job analysis Describing the job in terms of measurable, observable, behavioral competencies (knowledge, skills, and/or behaviors) that an employee doing that job must exhibit to do the job well.

competency-based pay Where the company pays for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.

competency model A graphic model that consolidates, usually in one diagram, a precise overview of the competencies (the knowledge, skills, and behaviors) someone would need to do a job well.

competitive advantage Any factors that allow an organization to differentiate its product or service from those of its competitors to increase market share.

competitive strategy A strategy that identifies how to build and strengthen the business's long-term competitive position in the marketplace.

compressed workweek Schedule in which employee works fewer but longer days each week.

construct validity A test that is construct valid is one that demonstrates that a selection procedure measures a construct and that construct is important for successful job performance.

content validity A test that is content valid is one that contains a fair sample of the tasks and skills actually needed for the job in question.

controlled experimentation Formal methods for testing the effectiveness of a training program, preferably with before-and-after tests and a control group.

corporate campaign An organized effort by the union that exerts pressure on the corporation by pressuring the company's other unions, shareholders, directors, customers, creditors, and government agencies, often directly.

corporate-level strategy Type of strategy that identifies the portfolio of businesses that, in total, comprise the company and the ways in which these businesses relate to each other.

criterion validity A type of validity based on showing that scores on the test (predictors) are related to job performance (criterion).

critical incident method Keeping a record of uncommonly good or undesirable examples of an employee's work-related behavior and reviewing it with the employee at predetermined times.

cross training Training employees to do different tasks or jobs than their own; doing so facilitates flexibility and job rotation.

Davis-Bacon Act (1931) A 1931 law that sets wage rates for laborers employed by contractors working for the federal government.

decertification Legal process for employees to terminate a union's right to represent them.

deferred profit-sharing plan A plan in which a certain amount of profits is credited to each employee's account, payable at retirement, termination, or death.

defined benefit pension plan A plan that contains a formula for determining retirement benefits.

defined contribution pension plan A plan in which the employer's contribution to employees' retirement savings funds is specified.

diary/log Daily listings made by workers of every activity in which they engage along with the time each activity takes.

digital dashboard Presents the manager with desktop graphs and charts, and shows a computerized picture of where the company stands on all those metrics from the HR scorecard process.

- direct financial payments** Pay in the form of wages, salaries, incentives, commissions, and bonuses.
- discrimination** Taking specific actions toward or against a person based on the person's group.
- dismissal** Involuntary termination of an employee's employment with the firm.
- disparate rejection rates** A test for adverse impact in which it can be demonstrated that there is a discrepancy between rates of rejection of members of a protected group and of others.
- distributive justice** Refers to a system of distributing rewards and discipline in which the actual results or outcomes are evenhanded and fair.
- diversity** The variety or multiplicity of demographic features that characterize a company's workforce, particularly in terms of race, sex, culture, national origin, handicap, age, and religion.
- downsizing** The process of reducing, usually dramatically, the number of people employed by a firm.
- early retirement window** A type of offering by which employees are encouraged to retire early, the incentive being liberal pension benefits plus perhaps a cash payment.
- earnings-at-risk pay plan** Plan that puts some portion of employees' normal pay at risk if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.
- economic strike** A strike that results from a failure to agree on the terms of a contract that involves wages, benefits, and other conditions of employment.
- Electronic Communications Privacy Act (ECPA)** The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications.
- electronic performance monitoring (EPM)** Having supervisors electronically monitor the amount of computerized data an employee is processing per day, and thereby his or her performance.
- electronic performance support systems (EPSS)** Sets of computerized tools and displays that automate training, documentation, and phone support; integrate this automation into applications; and provide support that's faster, cheaper, and more effective than traditional methods.
- employee assistance program (EAP)** A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.
- employee compensation** All forms of pay or rewards going to employees and arising from their employment.
- employee orientation** A procedure for providing new employees with basic background information about the firm.
- employee recruiting** Finding and/or attracting applicants for the employer's open positions.
- employee relations** The activity that involves establishing and maintaining the positive employee-employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.
- Employee Retirement Income Security Act (ERISA)** The 1974 law that provides government protection of pensions for all employees with company pension plans. It also regulates vesting rights (employees who leave before retirement may claim compensation from the pension plan); signed into law by President Ford to require that pension rights be vested and protected by a government agency, the PBGC.
- employee stock ownership plan (ESOP)** A qualified, tax deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees. The corporation contributes shares of its own stock to a trust in which additional contributions are made annually. The trust distributes the stock to employees on retirement or separation from service.
- employment engagement** The extent to which an organization's employees are psychologically involved in, connected to, and committed to getting their jobs done.
- Equal Employment Opportunity Commission (EEOC)** The commission, created by Title VII, empowered to investigate job discrimination complaints and sue on behalf of complainants.
- Equal Pay Act of 1963** The act requiring equal pay for equal work, regardless of sex; specifically, a 1963 amendment to the Fair Labor Standards Act designed to require equal pay for women doing the same work as men.
- ethics** The principles of conduct governing an individual or a group; specifically, the standards you use to decide what your conduct should be; the study of standards of conduct and moral judgment; also the standards of right conduct.
- ethnocentric** Here the company staffs its positions abroad with employees from its headquarters—with parent-country nationals, in other words.
- ethnocentrism** The tendency to view members of other social groups less favorably than members of one's own group.
- executive coach** An outside consultant who questions the executive's associates in order to identify the executive's strengths and weaknesses, and then counsels the executive so he or she can capitalize on those strengths and overcome the weaknesses.
- exit interviews** Interviews with employees who are leaving the firm, conducted for obtaining information about the job or related matters, to give the employer insight about the company.
- expatriates (expats)** Noncitizens of the countries in which employees are working.
- expectancy chart** A graph showing the relationship between test scores and job performance for a group of people.
- expectancy** A person's expectation that his or her effort will lead to performance.
- fact finder** A neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.
- fair day's work** Output standards devised based on careful, scientific analysis.
- Fair Labor Standards Act (1938)** This 1938 act provides for minimum wages, maximum hours, overtime pay, and child labor protection. The law, amended many times, covers most employees.
- fair treatment** Reflects concrete actions, such as "employees are treated with respect," and "employees are treated fairly."
- family-friendly (or work-life) benefits** Benefits such as child care that make it easier for employees to balance their work and family responsibilities.

Federal Violence Against Women Act of 1994 The act that provides that a person who commits a crime of violence motivated by gender shall be liable to the party injured.

financial incentives Financial rewards paid to workers whose production exceeds some predetermined standard.

flextime A work schedule in which employees' workdays are built around a core of midday hours, and employees determine, within limits, what other hours they will work.

forced distribution method Similar to grading on a curve; predetermined percentages of ratees are placed in various performance categories.

foreign service premiums Financial payments over and above regular base pay, typically ranging between 10% and 30% of base pay.

functional strategy A strategy that identifies the broad activities that each department will pursue in order to help the business accomplish its competitive goals.

gainsharing plan An incentive plan that engages employees in a common effort to achieve productivity objectives and share the gains.

gender-role stereotypes The tendency to associate women with certain (frequently nonmanagerial) jobs. On the other hand, diversity can be an engine of performance, as the following feature shows.

global The global company aims to attract the best candidates globally, including freely using third-country nationals to staff its positions around the world with the best people available.

golden parachute A payment companies make in connection with a change in ownership or control of a company.

good faith bargaining Both parties are making every reasonable effort to arrive at agreement; proposals are being matched with counterproposals.

good-faith effort strategy An affirmative action strategy that emphasizes identifying and eliminating the obstacles to hiring and promoting women and minorities, and increasing the minority or female applicant flow.

grade definition Written descriptions of the level of, say, responsibility and knowledge required by jobs in each grade. Similar jobs can then be combined into grades or classes.

grades A job classification system like the class system, although grades often contain dissimilar jobs, such as secretaries, mechanics, and firefighters. Grade descriptions are written based on compensable factors listed in classification systems.

graphic rating scale A scale that lists a number of traits and a range of performance for each. The employee is then rated by identifying the score that best describes his or her level of performance for each trait.

graphology The use of handwriting analysis to determine the writer's personality characteristics and moods, and even illnesses, such as depression.

grievance procedure Formal process for addressing any factor involving wages, hours, or conditions of employment that is used as a complaint against the employer.

group life insurance Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.

halo effect In performance appraisal, the problem that occurs when a supervisor's rating of a subordinate on one trait biases the rating of that person on other traits.

hardship allowances Payments that compensate expatriates for exceptionally hard living and working conditions at certain locations.

health maintenance organization (HMO) A prepaid health-care system that generally provides routine round-the-clock medical services as well as preventive medicine in a clinic-type arrangement for employees, who pay a nominal fee in addition to the fixed annual fee the employer pays.

high-performance work system (HPWS) A set of human resource management policies and practices that promote organizational effectiveness.

HR audit An HR audit is an analysis of the completeness, efficiency, and effectiveness of the organization's HR functions, including its HR policies, practices, processes, and relevant metrics.

HR scorecard A process for assigning financial and nonfinancial goals or metrics to the human resource management-related chain of activities required for achieving the company's strategic aims and for monitoring results.

human resource management (HRM) The process of acquiring, training, appraising, and compensating employees, and of attending to their labor relations, health and safety, and fairness concerns.

human resource metrics The quantitative gauge of a human resource management activity, such as employee turnover, hours of training per employee, or qualified applicants per position.

illegal bargaining items Items in collective bargaining that are forbidden by law; for example, a clause agreeing to hire "union members exclusively" would be illegal in a right-to-work state.

impasse Collective bargaining situation that occurs when the parties are not able to move further toward settlement, usually because one party is demanding more than the other will offer.

in-house development center A company-based method for exposing prospective managers to realistic exercises to develop improved management skills.

indirect financial payments Pay in the form of financial benefits such as insurance.

injunction A court order compelling a party or parties either to resume or to desist from a certain action.

inside games Union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace.

instrumentality The perceived relationship between successful performance and obtaining the reward.

insubordination Willful disregard or disobedience of the boss's authority or legitimate orders; criticizing the boss in public.

interest arbitration Arbitration enacted when labor agreements do not yet exist or when one or both parties are seeking to change the agreement.

interest inventory A personal development and selection device that compares the person's current interests with those of others now in various occupations so as to determine the preferred occupation for the individual.

international human resource management (IHRM) The human resource management concepts and techniques employers

- use to manage the human resource aspects of their international operations, including acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns.
- intrinsic motivation** Motivation that derives from the pleasure someone gets from doing the job or task.
- job aid** A set of instructions, diagrams, or similar methods available at the job site to guide the worker.
- job analysis** The procedure for determining the duties and skill requirements of a job and the kind of person who should be hired for it.
- job classification (or job grading)** A method for categorizing jobs into groups.
- job descriptions** A list of a job's duties, responsibilities, reporting relationships, working conditions, and supervisory responsibilities—one product of a job analysis.
- job enlargement** Assigning workers additional same-level activities.
- job enrichment** Redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition.
- job evaluation** A systematic comparison done in order to determine the worth of one job relative to another.
- job hazard analysis** A systematic approach to identifying and eliminating workplace hazards before they occur.
- job instruction training (JIT)** Listing each job's basic tasks, along with key points, in order to provide step-by-step training for employees.
- job posting** Publicizing an open job to employees (often by literally posting it on bulletin boards) and listing its attributes, like qualifications, supervisor, working schedule, and pay rate.
- job-related interview** A series of job-related questions that focus on relevant past job-related behaviors.
- job-requirements matrix** A more complete description of what the worker does and how and why he or she does it; it clarifies each task's purpose and each duty's required knowledge, skills, abilities, and other characteristics.
- job rotation** A management training technique that involves moving a trainee from department to department to broaden his or her experience and identify strong and weak points; systematically moving workers from one job to another.
- job sharing** Allows two or more people to share a single full-time job.
- job specifications** A list of a job's "human requirements," that is, the requisite education, skills, personality, and so on—another product of a job analysis.
- Landrum–Griffin Act of 1959** Also known as the *Labor Management Reporting and Disclosure Act*, this law aimed at protecting union members from possible wrongdoing on the part of their unions.
- layoff** An employer sending employees home due to a lack of work; this is typically a temporary situation.
- lifelong learning** Provides employees with continuing learning experiences over their tenure with the firm, with the aims of ensuring they have the opportunity to learn the skills they need to do their jobs and to expand their occupational horizons.
- line authority** Traditionally gives managers the right to issue orders to other managers or employees.
- line manager** A manager who is authorized to direct the work of subordinates and is responsible for accomplishing the organization's tasks.
- locals** Citizens of the countries in which employees are working; also called *host-country nationals*.
- lockout** A refusal by the employer to provide opportunities to work.
- machine learning** Software that can improve its own performance and learn on its own.
- management assessment center** A simulation in which management candidates are asked to perform realistic tasks in hypothetical situations and are scored on their performance. It usually also involves testing and the use of management games.
- management development** Any attempt to improve current or future management performance by imparting knowledge, changing attitudes, or increasing skills.
- management game** A development technique in which teams of managers compete by making computerized decisions regarding realistic but simulated situations.
- management process** The five basic functions of planning, organizing, staffing, leading, and controlling.
- manager** Someone who is responsible for accomplishing the organization's goals, and who does so by managing the efforts of the organization's people.
- managing** To perform five basic functions: planning, organizing, staffing, leading, and controlling.
- managing diversity** Maximizing diversity's potential benefits while minimizing its potential barriers.
- mandatory bargaining items** Items in collective bargaining that a party must bargain over if they are introduced by the other party—for example, pay.
- market-competitive pay plan** Pay plan where pay rates are equitable both internally (based on each job's relative value) and externally (in other words when compared with what other employers are paying).
- market-competitive pay system** A pay system in which the employer's actual pay rates are competitive with those in the relevant labor market.
- mass interview** A panel interviews several candidates simultaneously.
- mediation** Intervention in which a neutral third party tries to assist the principals in reaching agreement.
- mentoring** Advising, counseling, and guiding.
- merit pay (merit raise)** Any salary increase awarded to an employee based on his or her individual performance.
- miniature job training and evaluation** Training candidates to perform several of the job's tasks, and then evaluating the candidates' performance prior to hire.
- mission statement** Summarizes the answer to the question, "What business are we in?"
- "mixed-motive" case** A discrimination allegation case in which the employer argues that the employment action taken was motivated not by discrimination, but by some nondiscriminatory reason such as ineffective performance.
- mobility premiums** Typically, lump-sum payments to reward employees for moving from one assignment to another.
- national emergency strikes** Strikes that might "imperil the national health and safety."

National Labor Relations (or Wagner) Act This law banned certain types of unfair practices and provided for secret-ballot elections and majority rule for determining whether a firm's employees want to unionize.

National Labor Relations Board (NLRB) The agency created by the Wagner Act to investigate unfair labor practice charges and to provide for secret-ballot elections and majority rule in determining whether a firm's employees want a union.

negligent hiring Hiring workers with questionable backgrounds without proper safeguards.

negligent training A situation where an employer fails to train adequately, and the employee subsequently harms a third party.

Norris-LaGuardia Act of 1932 This law marked the beginning of the era of strong encouragement of unions and guaranteed to each employee the right to bargain collectively "free from interference, restraint, or coercion."

occupational illness Any abnormal condition or disorder caused by exposure to environmental factors associated with employment.

Occupational Safety and Health Act of 1970 The law passed by Congress in 1970 "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources."

Occupational Safety and Health Administration (OSHA) The agency created within the Department of Labor to set safety and health standards for almost all workers in the United States.

Office of Federal Contract Compliance Programs (OFCCP) This office is responsible for implementing the executive orders and ensuring compliance of federal contractors.

on-demand recruiting services (ODRS) Services that provide short-term specialized recruiting to support specific projects without the expense of retaining traditional search firms.

on-the-job training (OJT) Training a person to learn a job while working on it.

operational safety reviews Reviews conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules.

organization A group consisting of people with formally assigned roles who work together to achieve the organization's goals.

organization chart A chart that shows the organizationwide distribution of work, with titles of each position and interconnecting lines that show who reports to and communicates with whom.

organization-wide incentive plan Incentive plan in which all or most employees can participate.

organizational climate The perceptions a company's employees share about the firm's psychological environment, for instance, in terms of things like concern for employees' well-being, supervisory behavior, flexibility, appreciation, ethics, empowerment, political behaviors, and rewards.

organizational culture The characteristic values, traditions, and behaviors a company's employees share.

organizational development A special approach to organizational change in which employees themselves formulate and implement the change that's required.

outplacement counseling A formal process by which a terminated person is trained and counseled in the techniques of self-appraisal and securing a new position.

paired comparison method Ranking employees by making a chart of all possible pairs of the employees for each trait and indicating which is the better employee of the pair.

panel interview An interview in which a group of interviewers questions the applicant.

parent or home-country nationals Citizens of the country in which the multinational company has its headquarters.

pay (or rate) ranges A series of steps or levels within a pay grade, usually based upon years of service.

pay (or wage) grade A pay grade is composed of jobs of approximately equal difficulty.

pay-for-performance Any plan that ties pay to some measure of performance, such as productivity or profitability.

Pension Benefits Guarantee Corporation (PBGC) Established under ERISA to ensure that pensions meet vesting obligations; also insures pensions should a plan terminate without sufficient funds to meet its vested obligations.

pension plans Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.

performance analysis Verifying that there is a performance deficiency and determining whether that deficiency should be corrected through training or through some other means (such as transferring the employee).

performance appraisal Evaluating an employee's current and/or past performance relative to his or her performance standards.

performance appraisal process A three-step appraisal process involving (1) setting work standards, (2) assessing the employee's actual performance relative to those standards, and (3) providing feedback to the employee with the aim of helping him or her to eliminate performance deficiencies or to continue to perform above par.

performance management The *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*.

personnel replacement charts Company records showing present performance and promotability of inside candidates for the most important positions.

picketing Having employees carry signs announcing their concerns near the employer's place of business.

piecework A system of pay based on the number of items processed by each individual worker in a unit of time, such as items per hour or items per day.

point method The job evaluation method in which a number of compensable factors are identified and then the degree to which each of these factors is present on the job is determined.

polycentric Here the company staffs positions abroad with local or host-country employees.

polygraph A device that measures physiological changes like increased perspiration, on the assumption that such changes reflect lying.

portability Instituting policies that enable employees to easily take their accumulated pension funds when they leave an employer.

- portfolio careers** Careers based on using one's skills to create a livelihood from multiple income sources, often from a several jobs paying different rates.
- position analysis questionnaire (PAQ)** A questionnaire used to collect quantifiable data concerning the duties and responsibilities of various jobs.
- position replacement card** A card prepared for each position in a company to show possible replacement candidates and their qualifications.
- preferential shop** Union members get preference in hiring, but the employer can still hire nonunion members.
- Pregnancy Discrimination Act** An amendment to Title VII of the Civil Rights Act that prohibits sex discrimination based on "pregnancy, childbirth, or related medical conditions."
- problem-solving teams** Teams that identify and research work processes and develop solutions to work-related problems.
- procedural justice** Refers to just procedures in the allocation of rewards or discipline, in terms of the actual procedures being evenhanded and fair.
- process chart** A workflow chart that shows the flow of inputs to and outputs from a particular job.
- productivity** The ratio of outputs (goods and services) divided by the inputs (resources such as labor and capital).
- profit-sharing plan** A plan whereby employees share in the company's profits.
- programmed learning** A systematic method for teaching job skills, involving presenting questions or facts, allowing the person to respond, and giving the learner immediate feedback on the accuracy of his or her answers.
- promotion** Advancement to a position of increased responsibility.
- protected class** Persons such as minorities and women protected by equal opportunity laws, including Title VII.
- qualified individuals** Under ADA, those who can carry out the essential functions of the job.
- quality circle** A special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.
- ranking method** The simplest method of job evaluation that involves ranking each job relative to all other jobs, usually based on overall difficulty.
- ratio analysis** A forecasting technique for determining future staff needs by using ratios between, for example, sales volume and number of employees needed.
- reality shock** Results of a period that may occur at the initial career entry when the new employee's high job expectations confront the reality of a boring or otherwise unattractive work situation.
- recruiting yield pyramid** The historical arithmetic relationships between recruitment leads and invitees, invitees and interviews, interviews and offers made, and offers made and offers accepted.
- reliability** The consistency of scores obtained by the same person when retested with the identical tests or with alternate forms of the same test.
- restricted policy** Another test for adverse impact, involving demonstration that an employer's hiring practices exclude a protected group, whether intentionally or not.
- reverse discrimination** Claim that due to affirmative action quota systems, white males are discriminated against.
- right to work** A term used to describe state statutory or constitutional provisions banning the requirement of union membership as a condition of employment.
- rights arbitration** Arbitration that interprets existing contract terms, for instance, when an employee questions the employer's right to take some disciplinary action.
- role-playing** A training technique in which trainees act out parts in a realistic management situation.
- safety awareness program** Program that enables trained supervisors to orient new workers arriving at a job site regarding common safety hazards and simple prevention methods.
- salary survey** A survey aimed at determining prevailing wage rates. A good salary survey provides specific wage rates for specific jobs. Formal written questionnaire surveys are the most comprehensive, but telephone surveys and newspaper ads are also sources of information.
- savings and thrift plan** Plan in which employees contribute a portion of their earnings to a fund; the employer usually matches this contribution in whole or in part.
- Scanlon plan** An incentive plan developed in 1937 by Joseph Scanlon and designed to encourage cooperation, involvement, and sharing of benefits.
- scatter plot** A graphical method used to help identify the relationship between two variables.
- scientific management movement** Management approach based on improving work methods through observation and analysis.
- self-managing/self-directed work team** A small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who basically run themselves with little or no outside supervision, usually for the purpose of accomplishing a specific task or mission.
- severance pay** A one-time payment some employers provide when terminating an employee.
- sexual harassment** Harassment on the basis of sex that has the purpose or effect of substantially interfering with a person's work performance or creating an intimidating, hostile, or offensive work environment.
- sick leave** Provides pay to an employee when he or she is out of work because of illness.
- situational interview** A series of job-related questions that focus on how the candidate would behave in a given situation.
- situational test** A test that requires examinees to respond to situations representative of the job.
- social responsibility** Refers to the extent to which companies should and do channel resources toward improving one or more segments of society other than the firm's owners or stockholders.
- Social Security** Federal program that provides three types of benefits: retirement income at the age of 62 and thereafter, survivor's or death benefits payable to the employee's dependents regardless of age at time of death, and disability benefits payable to disabled employees and their dependents. These benefits are payable only if the employee is insured under the Social Security Act.
- staff authority** Gives a manager the right to advise other managers or employees.

staff manager A manager who assists and advises line managers.

standard hour plan A plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. Similar to piecework payment but based on a percent premium.

Standard Occupational Classification (SOC) Classifies all workers into one of 23 major groups of jobs that are subdivided into minor groups of jobs and detailed occupations.

stereotyping Ascribing specific behavioral traits to individuals based on their apparent membership in a group.

stock option The right to purchase a stated number of shares of a company stock at today's price at some time in the future.

straight piecework An incentive plan in which a person is paid a sum for each item he or she makes or sells, with a strict proportionality between results and rewards.

strategic human resource management Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

strategic management The process of identifying and executing the organization's strategic plan by matching the company's capabilities with the demands of its environment.

strategic plan The company's plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage.

strategy A course of action the company can pursue to achieve its strategic aims.

strategy-based metrics Metrics that specifically focus on measuring the activities that contribute to achieving a company's strategic aims.

strategy map A strategic planning tool that shows the "big picture" of how each department's performance contributes to achieving the company's overall strategic goals.

stress interview An interview in which the applicant is made uncomfortable by a series of often rude questions. This technique helps identify hypersensitive applicants and those with low or high stress tolerance.

strictness/leniency The problem that occurs when a supervisor has a tendency to rate all subordinates either high or low.

strike A withdrawal of labor.

structured (or directive) interview An interview following a set sequence of questions.

structured sequential interview An interview in which the applicant is interviewed sequentially by several persons; each rates the applicant on a standard form.

structured situational interview A series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job.

succession planning The ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.

suggestion teams Temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity.

supplemental pay benefits Benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.

supplemental unemployment benefits Provide for a "guaranteed annual income" in certain industries where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.

sympathy strike A strike that takes place when one union strikes in support of the strike of another.

Taft-Hartley Act of 1947 Also known as the *Labor Management Relations Act*, this law prohibited unfair union labor practices and enumerated the rights of employees as union members. It also enumerated the rights of employers.

talent management The goal-oriented and integrated process of planning, recruiting, developing, managing, and compensating employees.

task analysis A detailed study of a job to identify the specific skills required.

task statement Written item that shows *what* the worker does on one particular job task; *how* the worker does it; the *knowledge, skills, and aptitudes required* to do it; and the *purpose of the task*.

team (or group) incentive plan A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.

terminate at will In the absence of a contract, either the employer or the employee can terminate at will the employment relationship.

termination interview The interview in which an employee is informed of the fact that he or she has been dismissed.

test validity The accuracy with which a test, interview, and so on, measures what it purports to measure or fulfills the function it was designed to fill.

the cloud Refers to placing software programs and services on vendors' remote servers, from which they can then deliver these programs and services seamlessly to employees' digital devices.

third-country nationals Citizens of a country other than the parent or the host country.

Title VII of the 1964 Civil Rights Act The section of the act that says an employer cannot discriminate on the basis of race, color, religion, sex, or national origin with respect to employment; specifically, it makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.

tokenism When a company appoints a small group of women or minorities to high-profile positions, rather than more aggressively seeking full representation for that group.

training The process of teaching new or current employees the basic skills they need to perform their jobs.

transfers Reassignments to similar positions in other parts of the firm.

trend analysis Study of a firm's past employment needs over a period of years to predict future needs.

- unclear standards** An appraisal that is too open to interpretation.
- unemployment insurance (or compensation)** Provides benefits if a person is unable to work through some fault other than his or her own.
- unfair labor practice strike** A strike aimed at protesting illegal conduct by the employer.
- Uniform Guidelines** Guidelines issued by federal agencies charged with ensuring compliance with equal employment federal legislation explaining recommended employer procedures in detail.
- union salting** A union organizing tactic by which workers who are in fact employed full-time by a union as undercover organizers are hired by unwitting employers.
- union shop** A form of union security in which the company can hire nonunion people, but they must join the union after a prescribed period of time and pay dues. (If they do not, they can be fired.)
- unsafe conditions** The mechanical and physical conditions that cause accidents.
- unstructured (or nondirective) interview** An unstructured conversational-style interview in which the interviewer pursues points of interest as they come up in response to questions.
- unstructured sequential interview** An interview in which each interviewer forms an independent opinion after asking different questions.
- valence** The perceived value a person attaches to the reward.
- variable pay** Any plan that ties pay to productivity or profitability, usually as one-time lump payments.
- video-based simulation** A situational test in which examinees respond to video simulations of realistic job situations.
- virtual classroom** Teaching method that uses special collaboration software to enable multiple remote learners, using their PCs or laptops, to participate in live audio and visual discussions, communicate via written text, and learn via content such as PowerPoint slides.
- virtual teams** Groups of geographically dispersed and generally same-level coworkers who meet and interact using information technologies to accomplish an organizational task.
- vision statement** A general statement of the firm's intended direction; it shows, in broad terms, "what we want to become."
- Vocational Rehabilitation Act of 1973** The act requiring certain federal contractors to take affirmative action for disabled persons.
- voluntary (or permissible) bargaining items** Items in collective bargaining over which bargaining is neither illegal nor mandatory—neither party can be compelled against its wishes to negotiate over those items.
- wage curve** Shows the relationship between the value of the job and the average wage paid for this job.
- Walsh-Healey Public Contract Act (1936)** A 1936 law that requires minimum wage and working conditions for employees working on any government contract amounting to more than \$10,000.
- Web 2.0 learning** Training that uses online technologies such as social networks, virtual worlds (such as Second Life), and systems that blend synchronous and asynchronous delivery with blogs, chat rooms, bookmark sharing, and tools such as 3-D simulations.
- wildcat strike** An unauthorized strike occurring during the term of a contract.
- work samples** Actual job tasks used in testing applicants' performance.
- work sampling technique** A testing method based on measuring performance on actual basic job tasks.
- work sharing** Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.
- workers' compensation** Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.
- workflow analysis** A detailed study of the flow of work from job to job in a work process.
- workforce (or employment or personnel) planning** The process of deciding what positions the firm will have to fill, and how to fill them
- works councils** Formal, employee-elected groups of worker representatives.

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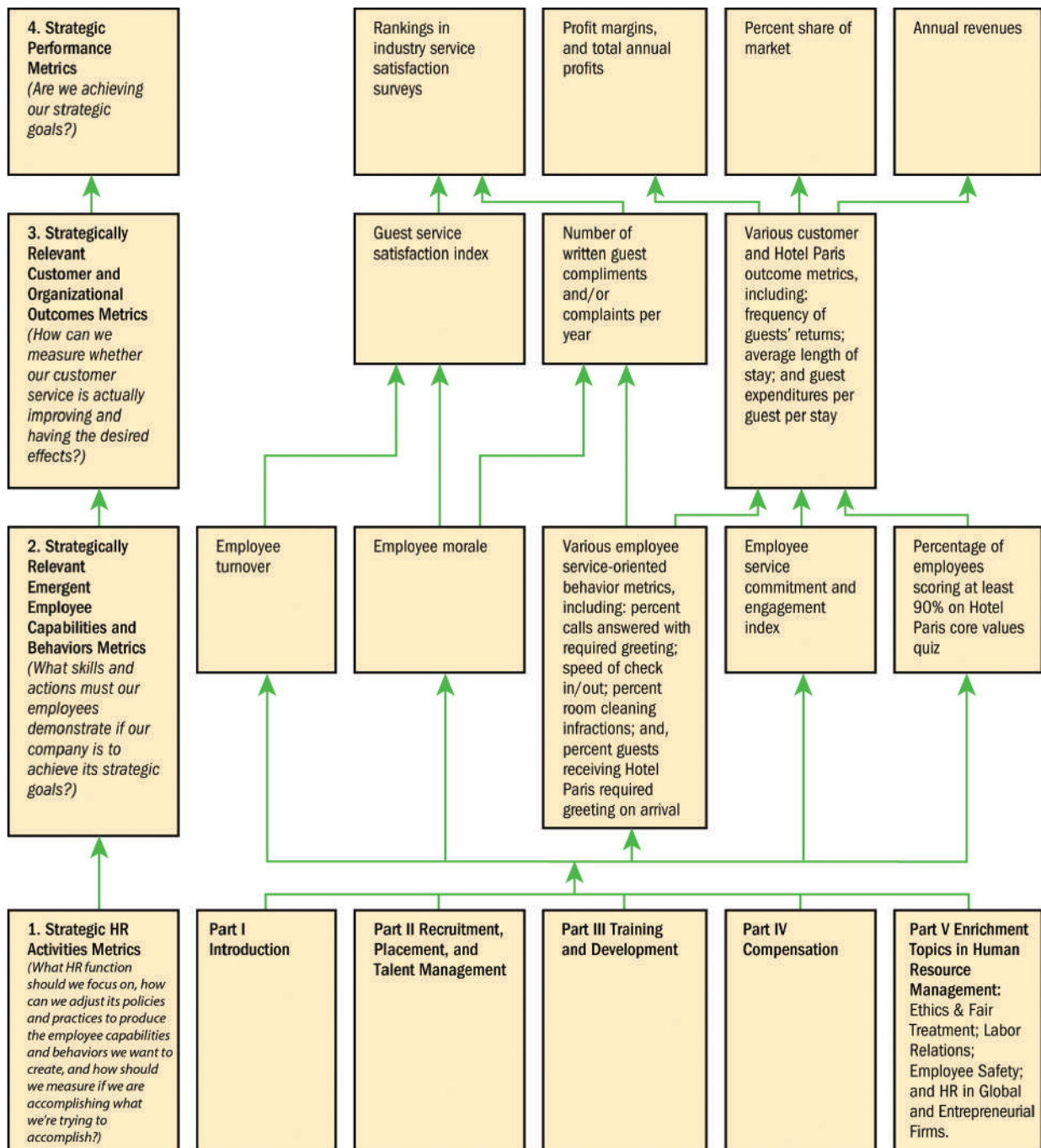
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HR Scorecard for Hotel Paris International

Note: An abbreviated example showing selected HR practices and outcomes aimed at implementing the competitive strategy, "To use superior guest services to differentiate the Hotel Paris properties and thus increase the length of stays and the return rate of guests, and thus boost revenues and profitability and help the firm expand geographically.

The specialized strategy map for each chapter's Hotel Paris case is in the chapter's accompanying MyLab Management.