CHAPTER 1

Human Resource Management: Gaining a Competitive Advantage

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

LO1 Discuss the roles and activities of a company’s human resource management function. page 5
LO2 Discuss the implications of the economy, the makeup of the labor force, and ethics for company sustainability. page 14
LO3 Discuss how human resource management affects a company’s balanced scorecard. page 27
LO4 Discuss what companies should do to compete in the global marketplace. page 43
LO5 Identify the characteristics of the workforce and how they influence human resource management. page 48
LO6 Discuss human resource management practices that support high-performance work systems. page 49
LO7 Provide a brief description of human resource management practices. page 56
Starbucks: Refocusing on the Brew Using HR Practices

Starbucks, the Seattle-based coffee store, has experienced incredible growth in the past several years by opening more than four stores and adding 200 employees each day. However, Starbucks has had to change its strategy and reposition its brand to cope with the recession that has caused consumers to save more and spend less. Because of its growth goals, the company made poor selection for new stores, cluttered the stores with merchandise, and lost its focus on coffee. Howard Schultz, who returned to the Starbucks chief executive officer (CEO) position in 2008, has supported refocusing the company on coffee by ordering a phaseout of breakfast sandwiches and cutting the number of new store openings. The company has had to change its human resource policies and emphasize certain practices more than others while still trying to preserve its value-and-treat-employees-right approach that is part of the company culture. One of the company's six guiding principles is “to provide a great work environment and treat each other with respect and dignity.”

Starbucks has taken several drastic steps in its human resource practices to ensure that it can survive the sharp decline in its sales. CEO Howard Schultz and other top executives did not earn bonuses in 2008 as a result of the company's poor financial performance. Schultz asked the board of directors to reduce his $1.2 million in base pay to $1. The compensation committee agreed to cut his pay to less than $4 per month in salary, although he will still receive his stock compensation. The committee put the company's new corporate jet up for sale. Starbucks has had to close 300 underperforming stores and layoff 6,700 employees. Starbucks also announced that it would no longer match employees’ contributions to their 401(k) retirement plans. However, Starbucks continues to offers comprehensive health benefits that exceed those provided by other retailers. Although 85 percent of its employees are part-time, they are still eligible for full-time benefits if they work 240 hours a quarter. Less than 30 percent of part-time workers in the United States receive health care, paid sick leave, or eligibility for bonuses or stock options. Starbucks provides all employees and their same-sex or opposite-sex partners comprehensive health benefits that include medical, dental, and vision care as well as tuition reimbursement, stock options, vacation, and the 401(k) retirement plan.

To cope with the economic conditions, Starbucks’ best customers are saving money by making fewer visits to Starbucks each month. To ensure that customers are delighted and coffee served meets high-quality standards, Starbucks went so far as to shut down operations of most of its stores in February 2008 for three and a half hours for a full-day training event. Training is integral for Starbucks to successfully compete in the weak economy in which customers are spending less. The training event, known as “Perfect the Art of Expresso,” was designed to help baristas deliver high-quality expresso. One activity consisted of pulling an expresso shot and then evaluating the process and the product (Was it the right color? Did it take too long or too short a time?). Staff discussions about how the training would benefit customers were held at each store. Employees were told to greet regular customers by their first name and to not resteam milk that had been steamed once. To counter perceptions that Starbucks is the home of the $4 cup of coffee, the company is training baristas to tell customers that the average price of a Starbucks beverage is less than $3 and 90 percent of Starbucks drinks cost less than $4. Baristas are also encouraged to promote to customers its new discounted paring of coffee and breakfast for $3.95.
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Schultz believes that one of Starbucks’ most serious problems is that its successes have left the company too cautious. Part of this is because he is seen as the soul of the company, which causes employees to consider “What will Howard think?” before making decisions. He creates passion but also creates anxiety. Schultz is trying to change his image and at the same time make Starbucks more innovative. When one employee in a California store suggested that he could create better artwork than what was hanging on the walls, Schultz told him to put his pictures up saying, “Don’t ask for permission, ask for forgiveness.”


**Introduction**

Starbucks illustrates the key role that human resource management (HRM) plays in determining the survival, effectiveness, and competitiveness of U.S. businesses. Competitiveness refers to a company’s ability to maintain and gain market share in its industry. Starbucks’ human resource management practices are helping support the company’s business strategy and provide services the customer values. The value of a product or service is determined by its quality and how closely the product fits customer needs.

Competitiveness is related to company effectiveness, which is determined by whether the company satisfies the needs of stakeholders (groups affected by business practices). Important stakeholders include stockholders, who want a return on their investment; customers, who want a high-quality product or service; and employees, who desire interesting work and reasonable compensation for their services. The community, which wants the company to contribute to activities and projects and minimize pollution of the environment, is also an important stakeholder. Companies that do not meet stakeholders’ needs are unlikely to have a competitive advantage over other firms in their industry.

Human resource management (HRM) refers to the policies, practices, and systems that influence employees’ behavior, attitudes, and performance. Many companies refer to HRM as involving “people practices.” Figure 1.1 emphasizes that there are several important HRM practices. The strategy underlying these practices needs to be considered to maximize their influence on company performance. As the figure shows, HRM practices include analyzing and designing work, determining human resource needs (HR planning), attracting potential employees (recruiting), choosing employees (selection), teaching employees how to perform their jobs and preparing them for the future (training and development), rewarding employees (compensation), evaluating their performance (performance management), and creating a positive work environment (employee relations). The HRM practices discussed in this chapter’s opening highlighted how effective HRM practices support business goals and objectives. That is, effective HRM practices are strategic! Effective HRM has been shown to enhance company performance by contributing to employee and customer satisfaction, innovation, productivity, and development of a favorable reputation in the firm’s community. The potential role of HRM in company performance has only recently been recognized.
We begin by discussing the roles and skills that a human resource management department and/or managers need for any company to be competitive. The second section of the chapter identifies the competitive challenges that U.S. companies currently face, which influence their ability to meet the needs of shareholders, customers, employees, and other stakeholders. We discuss how these competitive challenges are influencing HRM. The chapter concludes by highlighting the HRM practices covered in this book and the ways they help companies compete.

What Responsibilities and Roles Do HR Departments Perform?

Only recently have companies looked at HRM as a means to contribute to profitability, quality, and other business goals through enhancing and supporting business operations.

Table 1.1 shows the responsibilities of human resource departments. The average ratio of HR department staff to total number of employees has been 1.0 for every 93 employees served by the department. The median HR department expenditure per employee was $1,409. Labor costs represent approximately 30 percent of company revenue.

The HR department is solely responsible for outplacement, labor law compliance, record keeping, testing, unemployment compensation, and some aspects of benefits administration. The HR department is most likely to collaborate with other company functions on employment interviewing, performance management and discipline, and efforts to improve quality and productivity. Large companies are more likely than small ones to employ HR specialists, with benefits specialists being the most prevalent. Other common specializations include recruitment, compensation, and training and development.

Many different roles and responsibilities can be performed by the HR department depending on the size of the company, the characteristics of the workforce, the industry, and the value system of company management. The HR department may take full responsibility for human resource activities in some companies, whereas in others it may share the roles and responsibilities with managers of other departments such as
Confirming Pages

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Table 1.1
Responsibilities of HR Departments

<table>
<thead>
<tr>
<th>Employment and recruiting</th>
<th>Interviewing, recruiting, testing, temporary labor coordination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and development</td>
<td>Orientation, performance management skills training, productivity enhancement</td>
</tr>
<tr>
<td>Compensation</td>
<td>Wage and salary administration, job descriptions, executive compensation, incentive pay, job evaluation</td>
</tr>
<tr>
<td>Benefits</td>
<td>Insurance, vacation leave administration, retirement plans, profit sharing, stock plans</td>
</tr>
<tr>
<td>Employee services</td>
<td>Employee assistance programs, relocation services, outplacement services</td>
</tr>
<tr>
<td>Employee and community relations</td>
<td>Attitude surveys, labor relations, publications, labor law compliance, discipline</td>
</tr>
<tr>
<td>Personnel records</td>
<td>Information systems, records</td>
</tr>
<tr>
<td>Health and safety</td>
<td>Safety inspection, drug testing, health, wellness</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>International human resources, forecasting, planning, mergers and acquisitions</td>
</tr>
</tbody>
</table>


In some companies the HR department advises top-level management; in others the HR department may make decisions regarding staffing, training, and compensation after top managers have decided relevant business issues.

One way to think about the roles and responsibilities of HR departments is to consider HR as a business within the company with three product lines. Figure 1.2 shows the three product lines of HR. The first product line, administrative services and transactions, is the traditional product that HR has historically provided. The newer HR products—business partner services and the strategic partner role—are the HR functions that are being challenged by top managers to deliver. For example,

Figure 1.2
HR as a Business with Three Product Lines

administrative services and transactions: Compensation, hiring and staffing
- Emphasis: Resource efficiency and service quality

business partner services:
Developing effective HR systems and helping implement business plans, talent management
- Emphasis: Knowing the business and exercising influence—problem solving, designing effective systems to ensure needed competencies

Strategic Partner:
Contributing to business strategy based on considerations of human capital, business capabilities, readiness, and developing HR practices as strategic differentiators
- Emphasis: Knowledge of HR and of the business, competition, the market, and business strategies

consider the expectations and perceptions the CEOs of Hyperion, Revlon, and Air
Products and Chemicals Inc. have for HR. 4 The Hyperion CEO wants his HR leaders
to be able to question the CEO and executive team members and ensure the success
of basic administrative functions, thus the HR team can elevate itself to a higher level
of performance within the company culture and ensure that employees are able to
perform at the highest level. At Revlon, the expectation is that HR can think strate-
gically and innovatively, plan and execute, and have a very strong connection to
the business. The CEO of Air Products and Chemicals believes the HR function is criti-
cal for the long-term success of the company because it can help get people excited
about change, when most are by nature resistant to change.

HR at SYSCO Corporation, the number one food service marketer and distributor
in North America, is successfully delivering business partner services and serving as a
strategic partner. 5 The senior vice president and chief administrative officer is respon-
sible for ensuring that HR strategy is aligned with the business strategy. SYSCO tries
to differentiate itself from competitors in the marketplace by providing value in its
products and customer service to the customer. HR at SYSCO focuses on ensuring
that five processes are in place. These processes stress a common understanding of
the company's mission values and goals, establishment of clear expectations between
employees and managers using the performance management process, operating
within laws, ensuring that employees are inspired to come to work, and giving every
employee the skills and technology needed to contribute to the company. HR, a strate-
gic partner in all of the processes, works together with senior management to develop
programs and guidelines to support the processes. It then markets them to line manag-
ers, who execute and customize the programs for their specific business. To determine
if these processes are working three key dimensions are measured: employee satisfac-
tion, number of employees the company uses per 100,000 cases it sells, and employee
retention data for each function in the company. Top executives meet four times each
year to review the metrics to see if they are consistent with operating expenses and
pretax earnings. For example, since the late 1990s SYSCO has moved the retention
rate for its 10,000 marketing associates from 70 to 82 percent, resulting in more than
$70 million dollars saved per year.

What Competencies Do HR Professionals Need?
HR professionals need to have the six competencies shown in Figure 1.3. These
are the most recent competencies identified by the Human Resource Competency
Study, which has identified HR competencies for more than 15 years. The competen-
cies are shown as a three-tier pyramid with the Credible Activist Competency
the most important for high performance as an HR professional and effective HR
leader. Demonstrating these competencies can help HR professionals show manag-
ers that they are capable of helping the HR function create value, contribute to the
business strategy, and shape the company culture. They also help the HR depart-
ment effectively and efficiently provide the three HR products discussed earlier and
shown in Figure 1.2. Although great emphasis is placed on the strategic role of HR,
effective execution of the operational executor competency—necessary adminis-
trative services filling open jobs, paying employees, benefits enrollment, keeping
employee records, and completing legally required paperwork (such as W-2 forms
and EEO reports)—is still important! As we discuss later in the chapter, technologi-
cal advances have made available e-HRM and human resource information systems,
which make administration of services more efficient and effective and free up time for HR to focus on strategic issues. Successful HR professionals must be able to share information, build trusting relationships, and influence persons both inside and outside the company, including managers, employees, community members, schools, customers, vendors, and suppliers.

Sometimes helping employees can also involve crisis management activities such as those HR professionals had to perform during and following Hurricane Katrina. The Avis executive vice president of human resources was responsible for making sure that employees in Katrina’s path got to safety. Employees were given 1-800 phone numbers to call if they got into trouble. Employees were given release time to

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**Figure 1.3**

Six Competencies for the HR Profession

<table>
<thead>
<tr>
<th>Credible Activist</th>
<th>Cultural Steward</th>
<th>Talent Manager/Organizational Designer</th>
<th>Strategic Architect</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Deliver results with integrity</td>
<td>• Facilitates change</td>
<td>• Develop talent</td>
<td>• Recognize business trends and their impact on the business</td>
</tr>
<tr>
<td>• Share information</td>
<td>• Developing and valuing the culture</td>
<td>• Design reward systems</td>
<td>• Evidence-based HR</td>
</tr>
<tr>
<td>• Build trusting relationships</td>
<td>• Helping employees navigate the culture</td>
<td>• Shape the organization</td>
<td>• Develop people strategies that contribute to the business strategy</td>
</tr>
</tbody>
</table>

**Business Ally**

- Understanding how the business makes money
- Understand language of business

**Operational Executor**

- Implementing workplace policies
- Advancing HR technology
- Administer day-to-day work of managing people

evacuate their families as the storm approached. When employees called in following the storm, they were asked if they needed housing, food, or medical care or if they had missing relatives. HR called emergency shelters to find missing employees and sent trucks with Avis signs throughout the stricken area trying to locate missing employees who had evacuated. Employees were paid their salaries even if they were unable to work, and copayments for medical care were waived.

**How Is the HRM Function Changing?**

The amount of time that the HRM function devotes to administrative tasks is decreasing, and its roles as a strategic business partner, change agent, and employee advocate are increasing. HR managers face two important challenges: shifting their focus from current operations to strategies for the future and preparing non-HR managers to develop and implement human resource practices (recall the role of HR in Starbucks’ success from the chapter-opening story).

The role of HRM in administration is decreasing as technology is used for many administrative purposes, such as managing employee records and allowing employees to get information about and enroll in training, benefits, and other programs. Advances in technology such as the Internet have decreased the HRM role in maintaining records and providing self-service to employees. Self-service refers to giving employees online access to information about HR issues such as training, benefits, compensation, and contracts; enrolling online in programs and services; and completing online attitude surveys. For example, General Motors’ (GM) goal for its e-HR investment was to create an employee-friendly one-stop shop for employees to enroll in benefits, review their HR data, and get certificates for employee car discounts. The portal, known as “mySocrates,” is the place employees go for information about GM. Managers use the system for performance reviews. HR uses it for communications of benefits, training programs, and other programs, which saves time as well as printing and distribution costs. Annual benefits enrollment used to take several days. Now it takes a few minutes.

Outsourcing of the administrative role has also occurred. Outsourcing refers to the practice of having another company (a vendor, third-party provider, or consultant) provide services. One study suggests that 80 percent of companies now outsource at least one HR activity. The HR responsibilities most likely to be outsourced completely include employee assistance and counseling, flexible spending account administration, and background and criminal background checks. Outsource providers such as ADP, Accenture HR Services, Convergys, and Hewitt provide payroll services as well as recruiting, training, record managements, and expatriation. The primary reasons for outsourcing are to save money and spend more time on strategic business issues. One study suggests that 91 percent of U.S. companies have taken steps to standardize their HR processes to prepare for outsourcing.

Examples of strategic business issues that HR might help address include identifying new business opportunities; assessing possible merger, acquisition, or divestiture strategies; or working on recruiting and developing talent. As a result, HR functions related to these areas such as employee development, performance management, communications plans and strategies, policy development and implementation and organizational development are outsourced least frequently. For example, outsourcing payroll and benefits administration is saving the American Stock Exchange in New York $2.8 million per year. When the Canadian Imperial Bank of Commerce
contracted with Electronic Data Systems (EDS) Corporation to take over payroll, benefits administration, and other HR processing for the Toronto-based bank, the bank had 30 incompatible HR systems and had not invested in e-HRM (use of the Web for HR operations). EDS revised the bank's payroll, benefits, executive compensation, and human resources information technology systems, and it created myHR, a Web portal used by managers and employees. Use of EDS has not required any additional costs over the bank's yearly HR budget. When the bank outsourced payroll it cut 200 jobs from its centralized HR staff, leaving the remaining HR staff to focus on strategic issues such as recruiting, training, and union contract negotiations. The centralized staff members moved over to EDS.

Cardinal Health, a provider of health care products, services, and technology, headquartered in Dublin, Ohio, signed a contract with ExcellerateHRO to provide administrative functions. The goal of the outsourcing was to increase the contribution of human resources to strategy and increase the company's global human resource capabilities. Human resource professionals remaining at Cardinal will work in strategic areas such as talent management, organizational effectiveness, and total rewards. In addition, human resource “business partners” placed across the company will focus on strategic activities while establishing new HR operations in the field. Although the outsourcing of HR is expected to grow, many contracts have ended because of lack of understanding of the outsourcing provider's capabilities, failure to reach goals such as anticipated cost reductions, and poor delivery of services. A key aspect of any outsourcing decision is an understanding of the company's vision for HR and an assessment of the costs of performing HR functions within the company compared with the potential savings through outsourcing.

Traditionally, the HRM department (also known as “Personnel” or “Employee Relations”) was primarily an administrative expert and employee advocate. The department took care of employee problems, made sure employees were paid correctly, administered labor contracts, and avoided legal problems. The HRM department ensured that employee-related issues did not interfere with the manufacturing or sales of products or services. Human resource management was primarily reactive; that is, human resource issues were a concern only if they directly affected the business. Although that still remains the case in many companies that have yet to recognize the competitive value of human resource management, other companies believe that HRM is important for business success and therefore have expanded the role of HRM as a change agent and strategic partner.

Other roles such as practice development and strategic business partnering have increased. One of the most comprehensive studies ever conducted regarding HRM concluded that “human resources is being transformed from a specialized, stand-alone function to a broad corporate competency in which human resources and line managers build partnerships to gain competitive advantage and achieve overall business goals.” HR managers are increasingly included on high-level committees that are shaping the strategic direction of the company. These managers report directly to the CEO, president, or board of directors and propose solutions to business problems.

Consider the role of HR at Google and FedEx Corporation. The Google vice president of HR is part of the company's 13-member management group. He reports to the CEO and works with the rest of the executives to help them achieve their objectives. The HR function is organized around three principles: the HR function wants to (1) be as innovative as the product side of the business, (2) minimize the infrastructure needed to keep the business running by emphasizing that managers and
employees should work together rather than sending employees to HR, and (3) anticipate business needs and be prepared with a plan to meet those needs.

The corporate vice president for human resources at FedEx keeps HR focused on business objectives by setting HR objectives based on those set by the CEO. She oversees different task forces on HR issues to ensure that the operating companies are involved and that HR objectives are consistent across the company. She sits on the nine-member strategic management committee, which includes the CEO, the CEOs from the operating companies, the chief financial officer, and the head of marketing and communications. Also, she manages leadership development for the top 400 positions in the company and oversees a program for high-performing vice presidents that helps them develop a cross-functional perspective of the company. In the program, vice presidents learn about differences in the companies operating units and complete an international assignment in China to increase their understanding of different political environments. The FedEx HR function includes a team at each of four operating companies plus a corporate headquarters team that develops strategy and disseminates it to the operating units.

As part of its strategic role, one of the key contributions that HR can make is to engage in evidence-based HR. Evidence-based HR refers to demonstrating that human resources practices have a positive influence on the company’s bottom line or key stakeholders (employees, customers, community, shareholders). This helps show that the money invested in HR programs is justified and that HR is contributing to the company’s goals and objectives. Evidence-based HR requires collecting data on such metrics as productivity, turnover, accidents, employee attitudes and medical costs and showing their relationship with HR practices. This provides evidence that HR is as important to the business as finance, accounting, and marketing! HR decisions should be made on the basis of data and not just intuition. The chapter opener showed how Starbucks is using turnover and employee satisfaction data as metrics or indicators of the success of its HR programs. Throughout each chapter of the book, we provide examples of evidence-based HR.

Table 1.2 provides several questions that managers can use to determine if HRM is playing a strategic role in the business. If these questions have not been considered, it is highly unlikely that (1) the company is prepared to deal with competitive challenges or (2) human resources are being used to help a company gain a competitive advantage.

**Table 1.2** Questions Used to Determine If Human Resources Are Playing a Strategic Role in the Business

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What is HR doing to provide value-added services to internal clients?</td>
</tr>
<tr>
<td>2. What can the HR department add to the bottom line?</td>
</tr>
<tr>
<td>3. How are you measuring the effectiveness of HR?</td>
</tr>
<tr>
<td>4. How can we reinvest in employees?</td>
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<tr>
<td>5. What HR strategy will we use to get the business from point A to point B?</td>
</tr>
<tr>
<td>6. What makes an employee want to stay at our company?</td>
</tr>
<tr>
<td>7. How are we going to invest in HR so that we have a better HR department than our competitors?</td>
</tr>
<tr>
<td>8. From an HR perspective, what should we be doing to improve our marketplace position?</td>
</tr>
<tr>
<td>9. What’s the best change we can make to prepare for the future?</td>
</tr>
</tbody>
</table>

advantage. The bottom line for evaluating the relationship between human resource management and the business strategy is to consider this question: “What is HR doing to ensure that the right people with the right skills are doing the right things in the jobs that are important for the execution of the business strategy?” We will discuss strategic human resource management in more detail in Chapter 2.

Why have HRM roles changed? Managers see HRM as the most important lever for companies to gain a competitive advantage over both domestic and foreign competitors. We believe this is because HRM practices are directly related to companies’ success in meeting competitive challenges. These challenges and their implications for HRM are discussed later in the chapter.

### The HRM Profession

There are many different types of jobs in the HRM profession. Table 1.3 shows various HRM positions and their salaries. A survey conducted by the Society of Human Resource Management to better understand what HR professionals do found that the primary activities of HR professionals are performing the HR generalist role (providing a wide range of HR services), with fewer involved in other activities such as the HR function at the executive level of the company, training and development, HR consulting, and administrative activities.

HR salaries vary depending on education and experience as well as the type of industry. As you can see from Table 1.3, some positions involve work in specialized areas of HRM like recruiting, training, or labor and industrial relations. HR generalists usually make between $50,000 and $80,000 depending on their experience and education level. Generalists usually perform the full range of HRM activities, including recruiting, training, compensation, and employee relations. Most HR professionals chose HR as a career because they found HR appealing as a career, they wanted to work with people, or they were asked by chance to perform HR tasks and responsibilities.

A college degree is held by the vast majority of HRM professionals, many of whom also have completed postgraduate work. Business typically is the field of study (human resources or industrial relations), although some HRM professionals have degrees in the social sciences (economics or psychology), the humanities, or law. Those who have completed graduate work have master’s degrees in HR management, business management, or a similar field. This is important because to be successful in HR, you need to speak the same language as the other business functions. You have to have

<table>
<thead>
<tr>
<th>POSITION</th>
<th>SALARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top HR executive</td>
<td>$164,500</td>
</tr>
<tr>
<td>Employee benefits manager</td>
<td>91,800</td>
</tr>
<tr>
<td>HR manager</td>
<td>84,500</td>
</tr>
<tr>
<td>Compensation analyst</td>
<td>64,000</td>
</tr>
<tr>
<td>Professional and technical staff recruiter</td>
<td>62,200</td>
</tr>
<tr>
<td>Employee training specialist</td>
<td>58,200</td>
</tr>
<tr>
<td>HR generalist</td>
<td>58,000</td>
</tr>
</tbody>
</table>

credibility as a business leader, which means being able to understand finance and build a business case for HR activities. Professional certification in HRM is less common than membership in professional associations. A well-rounded educational background will likely serve a person well in an HRM position. As one HR professional noted, “One of the biggest misconceptions is that it is all warm and fuzzy communications with the workers. Or that it is creative and involved in making a more congenial atmosphere for people at work. Actually it is both of those some of the time, but most of the time it is a big mountain of paperwork which calls on a myriad of skills besides the ‘people’ type. It is law, accounting, philosophy, and logic as well as psychology, spirituality, tolerance, and humility.”

Many top-level managers and HR professionals believe that the best way to develop the future effective professionals needed in HR is to take employees with a business point of view and train them. For example, United Parcel Services (UPS) wants its leaders to move up in the company with lifelong careers in many different functions. The senior vice president for human resources at UPS started out loading trucks and became a delivery truck driver and delivery supervisor before he moved to several HR positions. He then joined the legal department and served as general counsel before he took the top HR position at UPS. At companies like General Electric, Citigroup, and Baxter Health Care, training programs are used to develop HR professionals’ skills. Also, HR professionals often rotate through job assignments in non-HR functions to help them learn about the business and become more strategic business partners. For example, just several years ago for the first time in company history at General Motors, an HR person reported directly to the company CEO. Many of the transactional activities are being outsourced or performed with the use of technology. GM is trying to develop HR people so that they can take on the role of internal consultants. The company has a global HR curriculum that helps HR employees understand what the goals of HR are, what the changes in HR at GM mean to them, and what the plans are for the HR function. The courses focus on helping HR employees gain business knowledge such as finance, change management skills, and the ability to develop relationships across the company. GM hopes that in the near future HR employees will be able to work with business units to diagnose problems. At the same time HR employees are being trained, top HR managers are working with line managers to help them understand that HR is available to help them with strategy, not transactional work. Line managers are now taking responsibility for some HR activities. For example, GM recently introduced a new compensation plan for employees that was implemented by line managers without any help from HR.

The primary professional organization for HRM is the Society for Human Resource Management (SHRM). SHRM is the world’s largest human resource management association with more than 210,000 professional and student members throughout the world. SHRM provides education and information services, conferences and seminars, government and media representation, and online services and publications (such as HR Magazine). You can visit SHRM’s Web site to see their services at www.shrm.org.

Competitive Challenges Influencing Human Resource Management

Three competitive challenges that companies now face will increase the importance of human resource management practices: the challenge of sustainability, the global challenge, the technology challenge. These challenges are shown in Figure 1.4.
Traditionally, sustainability has been viewed as one aspect of corporate social responsibility related to the impact of the business on the environment. However, we take a broader view of sustainability. Sustainability refers to a company’s ability to make a profit without sacrificing the resources of its employees, the community, or the environment. Company success is based on how well the company meets the needs of its stakeholders. Stakeholders refers to shareholders, the community, customers, employees, and all of the other parties that have an interest in seeing that the company succeeds. Sustainability includes the ability to deal with economic and social changes, practice environmental responsibility, engage in responsible and ethical business practices, provide high-quality products and services, and put in place methods to determine if the company is meeting stakeholders’ needs.

Several changes in the economy have important implications for human resource management. Some key statistics about the economy and the workforce are shown in Table 1.4. These include the changing structure of the economy, the development of e-business, and more growth in professional and service occupations. Growth in these occupations means that skill demands for jobs have changed, with knowledge becoming more valuable. Not only have skill demands changed, but remaining competitive in a global economy requires demanding work hours and changes in traditional employment patterns. The creation of new jobs, aging employees leaving the workforce, slow population growth, and a lack of employees who have the skills needed to perform the jobs in greatest demand means that demand for employees will exceed
**Total employment will increase from 150.6 million in 2006 to 166.2 million by 2016.**

**Professional specialty and service occupations will grow the fastest and add the most jobs from 2006 to 2016.**

**More job openings are expected from the need to replace workers (34 million) than from employment growth in the economy.**

**The 77 million baby boomers (born between 1946 and 1964) will begin to leave the workforce between 2006 and 2016 as they become eligible for retirement.**

**The projected median age of the labor force by 2016 is 42, the highest ever recorded.**

**Immigrants will add 4 million persons to the population by 2016.**

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**Economic Changes**

The U.S. and global economy is currently in a recession. In the United States, the current economic downturn is the worst since the years following World War II. The economy lost 5 million jobs since the beginning of 2008 and the unemployment rate grew to more than 8 percent by March 2009. Most consumers have seen their homes lose value, as well as experienced substantial declines in retirement savings and household wealth, due to collapse of the stock market. The recession has a number of probable causes, including the subprime lending scandals and collapse and failure of major financial institutions such as Bear Sterns, Lehman Brothers, and Merrill-Lynch. All of the bad news has contributed to a lack of confidence in the economy, making it difficult for businesses and consumers to get credit and loans. Most industries have not escaped the crisis, especially retailers, automakers, manufacturing, and construction. Retailers reported record sales declines for the 2008 holiday season as consumers reduced their holiday spending. The Big Three automakers have received bailout money from the government but still face the risk of bankruptcy, which could cause hundreds of thousands of employees to lose their jobs. The highest unemployment rate at the end of 2008 was 15.3 percent in the construction sector as plans for new homes and office buildings are postponed or canceled. The economic slowdown is not limited to the United States. The economies of China and India have slowed, and Europe, Mexico, and Japan have slipped into recession. President Obama proposed—and Congress passed—an economic stimulus plan that is intended to create jobs and increase consumer and investor confidence, although its impact may not be realized for several years.

The implications of this economic period for human resource management are far-reaching. The poor economy means more companies are downsizing their workforces, delaying plans for new operations and growth, and revisiting human resource budgets to cut unnecessary programs and costs. For example, in January 2009 more than 655,000 jobs were lost, including cuts of employees from Pfizer, Texas Instruments, Home Depot, General Motors, Boeing, Alcoa, Andersen, and World Wrestling...
Entertainment. Employees are delaying retirement, and newly retired employees are returning to work out of necessity because of loss of value of their retirement assets (on March 5, 2009, the Dow Jones Industrial Average closed at its lowest point since April 1977). One estimate is that companies plan to cut their training budget more than 10 percent in response to the economic crises. Morale and team-building activities were the most likely targets for budget cuts, followed by professional development, all-staff training, and recruitment.

Despite the budget cuts, many HR departments are helping companies adapt to the poor economic times and prepare them to be well-positioned when business conditions improve. For example, Capital One asks its managers to determine current workloads and staffing needs. HR projects changes in the workforce based on this information. This has allowed Capital One to forecast labor needs with more precision, helping the company to avoid hiring new employees only to have to lay them off. Nucor Corporation implemented a “Share the Pain” program. The program helps Nucor reduce labor costs without reducing productivity by using reduced hours or wages. Isis Pharmaceuticals capitalizes on downturns to recruit and hire top scientific talent at bargain salaries. Xilinx Inc. responded to the economic downturn with salary reductions, mandatory vacations, and a sabbatical program that paid employees a small salary if they went to school or worked for nonprofits. The strategy saved more than $35 million in labor costs.

Both Philips Electronics and Estee Lauder are continuing their talent management efforts. Philips Electronics is cutting its training budget but will continue to offer its Inspire program for high-potential employees, emphasizing business strategy and personal leadership topics. Philips believes that investing in leadership development will help the company weather the recession and prepare for economic recovery. Estee Lauder Companies, the cosmetic maker, realized lower profit and sales, resulting in elimination of more than 2,000 jobs over the next two years. But Lauder is continuing its leadership development programs, which will emphasize innovation and managing change in turbulent business conditions.

The affects of the recession are also worsened by rising health care costs and the economic implications of increasing retiree benefit costs. Companies are under pressure to increase employee productivity to alleviate higher costs such as health care. To control costs, companies have cut employee and retiree health care benefits and pension contributions, increased the employee contribution to pay for these benefits, and even hired and fired employees based on their smoking habits! For example, Scott’s Miracle-Gro Company, the lawn care company, banned smoking and encourages employees to complete a health-risk assessment designed to identify employees who are at risk for heart, cancer, and other diseases. Employees at risk are assigned a health coach, who draws up an action plan that may include recommendations such as exercise or change of diet. Employees who refuse the health assessment pay $40 per month more in health care premiums; at-risk employees who refuse to work with a health coach pay an additional $67 per month. We discuss what companies are doing to offset health care and pension costs in Chapter 13, Employee Benefits.

HR programs and the HR function are under pressure to relate to the business strategy and show a return on investment. Customer focus needs to be included in all HRM practices. New technology combined with economic uncertainty will mean that administrative and transactional HR activities will be delivered via technology, creating less need for HR professionals to provide these activities. The aging workforce combined with reduced immigration because of security concerns may lead
Employers to focus more on retraining employees or encouraging older, skilled workers to delay retirement or work part-time.37

Employment and Occupational Growth Projections and Skill Requirements. The competition for labor is affected by the growth and decline of industries, jobs, and occupations. Competition for labor is also influenced by the number and skills of persons available for full-time work. The labor force is projected to increase 13 million to 166.2 million in 2016. Most growth is expected within service-providing industries in which employment is projected to increase 15.8 million, rising to 130.2 million by 2016.38 Employment in services is expected to account for 86 percent of all jobs. Examples of service-providing industries include educational services, health care, leisure and hospitality, transportation, government, utilities, and wholesale and retail trade. Jobs in goods-producing industries including mining, construction, and manufacturing, are projected to decrease, falling to 21.8 million in 2016.

Table 1.5 shows examples of the projected fastest growing occupations between 2006 and 2016. Professional and related occupations and the services occupational group are expected to add the most jobs and have the fastest growth rate between 2006 and 2016.39 Health care practitioners and technical occupations are projected to add the most jobs (1.4 million), and computer and mathematical occupations are expected to grow the fastest (24.8 percent growth rate). In the services occupation group, by 2016 food preparation and related services are expected to generate the most new jobs, and health care support is expected to grow the fastest (27 percent).

<table>
<thead>
<tr>
<th>OCCUPATION</th>
<th>EMPLOYMENT CHANGE 2006–2016</th>
<th>MOST SIGNIFICANT EDUCATION OR TRAINING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network systems and data communications analysts</td>
<td>140</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td>Personal and home health care aids</td>
<td>389</td>
<td>Short-term on-the-job training</td>
</tr>
<tr>
<td>Home health care aides</td>
<td>384</td>
<td>Short-term on-the-job training</td>
</tr>
<tr>
<td>Computer software engineering applications</td>
<td>226</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td>Veterinary technologists and technicians</td>
<td>29</td>
<td>Associate degree</td>
</tr>
<tr>
<td>Personal financial advisors</td>
<td>72</td>
<td>Bachelor’s degree</td>
</tr>
<tr>
<td>Makeup artists, theatrical and performance</td>
<td>1</td>
<td>Postsecondary vocational award</td>
</tr>
<tr>
<td>Medical assistants</td>
<td>148</td>
<td>Moderate-term on-the-job training</td>
</tr>
<tr>
<td>Veterinarians</td>
<td>22</td>
<td>First professional degree</td>
</tr>
</tbody>
</table>

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Medical and dental assistants, nurses, and home health aides are examples of health care support occupations. Fishery, forestry, and farming occupations and production occupations are expected to have declines in the number of jobs between 2006 and 2016. The aging of the population and the labor force means that jobs in health care and social assistance services are expected to have the fastest growth rate between 2006 and 2016, adding 4 million new jobs, or 27 percent of all new nonagricultural wage and salary jobs.

Occupations that require a bachelor’s degree or higher for an entry-level position will grow faster than average for all occupations. Eighteen of the 30 of the fastest growing occupations are in professional and related occupations, and 10 are in service occupations. Fifteen of the 30 fastest growing occupations require a bachelor’s degree or higher as their most significant source of education and training. Most of the 30 fastest growing occupations are considered professional and related occupations, which include health care, education, and science-related occupations.

The future U.S. labor market will be both a knowledge economy and a service economy. There will be many high-education professional and managerial jobs and low-education service jobs. Boundaries between knowledge and service work are blurring, creating “technoservice” occupations that combine service technology and software application. Software application engineers, technical support, engineering, and scientific consulting jobs work directly with customers, and customers influence the product design process.

Table 1.6 shows the top 10 content and skill areas that corporate leaders surveyed considered most critical over the next five years. However, new entrants to the workplace lack these and other skills needed for companies to compete in the global economy. A study of American manufacturers conducted by the National Association of Manufacturing found that 36 percent indicated that employees had insufficient reading, writing, and communications skills. Despite the need for high-level skills many job applicants lack the necessary skills. Surveys of employers found that over half reported that high school graduates are deficient in problem solving/critical thinking, written and oral communications, and professionalism/work ethic. Employers are more positive about four-year college graduates, although approximately 25 percent reported they were deficient in written communication, English writing skills, and

<table>
<thead>
<tr>
<th>RANK</th>
<th>BASIC KNOWLEDGE AND APPLIED SKILLS</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Critical thinking/problem solving</td>
<td>77.8%</td>
</tr>
<tr>
<td>2</td>
<td>Information technology application</td>
<td>77.4%</td>
</tr>
<tr>
<td>3</td>
<td>Teamwork/collaboration</td>
<td>74.2%</td>
</tr>
<tr>
<td>4</td>
<td>Creativity/innovation</td>
<td>73.6%</td>
</tr>
<tr>
<td>5</td>
<td>Diversity</td>
<td>67.1%</td>
</tr>
<tr>
<td>6</td>
<td>Leadership</td>
<td>66.9%</td>
</tr>
<tr>
<td>7</td>
<td>Oral communications</td>
<td>65.9%</td>
</tr>
<tr>
<td>8</td>
<td>Professionalism/work ethic</td>
<td>64.4%</td>
</tr>
<tr>
<td>9</td>
<td>Ethics/social responsibility</td>
<td>64.3%</td>
</tr>
<tr>
<td>10</td>
<td>Written communications</td>
<td>64.0%</td>
</tr>
</tbody>
</table>

leadership skills. Eighty percent of the manufacturers reported that they are facing a shortage of experienced workers, especially production workers, machinists, and craft workers. An online poll of members of the American Society for Training and Development found that 97 percent of respondents indicated a current skill gap in their companies.\footnote{41} Also, business leaders such as Bill Gates have expressed their concern at the comparatively low numbers of U.S. students in the science and engineering fields. China graduates about four times the number of engineers as the United States, although they are not all trained at the same level as U.S. engineers.\footnote{44} Japan graduates twice as many engineers and South Korea graduates nearly as many engineers as the United States. This has resulted in a shortage of engineering and other technical professionals.

Companies are involved in training current employees as well as establishing partnerships with schools to help improve the skills of the current and future U.S. workforce. For example, at Whirlpool, building a dishwasher requires that the sheet of steel used on the sides of the machine be the correct width.\footnote{45} Employees must be able to ensure that the steel meets specifications by calibrating equipment, which requires algebra-level math knowledge. Whirlpool is finding that employees lack the math problem-solving skills needed to perform the job. As a result, Whirlpool has developed training programs to improve workforce skills. About 25 percent of the programs focus on remedial skills. IBM, Hewlett-Packard, and Advanced Micro Devices are making efforts to increase the skills of the workforce by investing in local secondary schools.\footnote{46} IBM’s Transition to Teaching program allows employees to take leaves of absences to student teach for three months. Eligible employees must meet certain requirements such as 10 years of service with IBM; a bachelor’s degree in math or science, or a higher degree in a related field; and some experience teaching, tutoring, or volunteering in schools. IBM hopes that many of its experienced employees with math and engineering backgrounds will take advantage of the program, providing high-quality math and science teachers for public schools.

Another way to look at occupational growth is to consider the pay related to the occupation. That is, occupations that are fastest growing provide high pay (average earnings are in the top half of distribution of earnings of all occupations). Examples of these occupations include network systems and data communications analysts, database administrators, physician assistants, software engineers, graphic designers, and structural iron and steel workers.\footnote{47} It is important to notice that the fastest growing and highest paid occupations are not exclusively limited to health or computer-related occupations or occupations which require a college degree. However, employers have a preference for hiring individuals with skills associated with higher levels of education. This also translates into higher earnings for employees.

**Increased Value Placed on Intangible Assets and Human Capital.** Today more and more companies are interested in using intangible assets and human capital as a way to gain an advantage over competitors. A company’s value includes three types of assets that are critical for the company to provide goods and services: financial assets (cash and securities), physical assets (property, plant, equipment), and intangible assets. Table 1.7 provides examples of intangible assets. **Intangible assets** include human capital, customer capital, social capital, and intellectual capital. Intangible assets are equally or even more valuable than financial and physical assets but they are difficult to duplicate or imitate.\footnote{48} By one estimate, up to 75 percent of the source of value in a company is in intangible assets.\footnote{49}
Intangible assets have been shown to be responsible for a company's competitive advantage. Human resource management practices such as training, selection, performance management, and compensation have a direct influence on human and social capital through influencing customer service, work-related know-how and competence, and work relationships. For example, consider companies in the airline industry. Southwest Airlines consistently is profitable and highly ranked in on-time arrivals and other indicators of airline success. One of the distinctions between Southwest Airlines and its competitors is how it treats its employees. For example, Southwest has a policy of no layoffs and was able to maintain this record even during the difficult time for airlines following 9/11. Southwest also emphasizes training and development to provide its employees with skills to perform multiple jobs. This allows Southwest airplanes to be quickly cleaned and serviced at airports because employees have multiple skill sets that can be applied to various aspects of getting an aircraft ready for departure. As a result of these human resource policies, Southwest employees are loyal, productive, and flexible (which contributes to the success of the airline). Other airlines may have similar or greater levels of financial assets and have physical assets that are comparable to Southwest’s (e.g., same type of airplanes, similar gates), but what contributes to Southwest’s success and gives the company a competitive advantage are its intangible assets in the form of human capital. American and United Airlines have similar (or greater!) financial and physical assets but have not been successful trying to compete with Southwest by offering flights on the same routes.

Recognizing the importance of human capital and social capital, John Chambers, Cisco Systems CEO, has transformed the company from one with one or two primary products with most important decisions made by the top 10 people in the company...
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...to one where networks of employee councils and boards and Web 2.0 applications encourage executives to work together. Business unit leaders now share responsibilities for each other’s success. Cisco’s directory is designed to help anyone inside the company find answers to questions, a product demo, or the right person to speak to a customer in any language, anywhere in the world. As a result of this more face-to-face and electronic collaboration, Cisco Systems has been able to get products to market faster.

Intangible assets have been shown to be related to a company’s bottom line. A study by the American Society for Training and Development of more than 500 publicly traded U.S.-based companies found that companies that invested the most in training and development had a shareholder return 86 percent higher than companies in the bottom half and 46 percent higher than the market average. One way companies try to increase intangible assets is through attracting, developing, and retaining knowledge workers. Knowledge workers are employees who contribute to the company not through manual labor, but through what they know about customers or a specialized body of knowledge. Employees cannot simply be ordered to perform tasks; they must share knowledge and collaborate on solutions. Knowledge workers contribute specialized knowledge that their managers may not have, such as information about customers. Managers depend on them to share information. Knowledge workers have many job opportunities. If they choose, they can leave a company and take their knowledge to a competitor. Knowledge workers are in demand because companies need their skills and jobs requiring them are growing (see Tables 1.5 and 1.6).

To completely benefit from employees’ knowledge requires a management style that focuses on developing and empowering employees. Empowering means giving employees responsibility and authority to make decisions regarding all aspects of product development or customer service. Employees are then held accountable for products and services; in return, they share the rewards and losses of the results. For empowerment to be successful, managers must be trained to link employees to resources within and outside the company (people, Web sites, etc.), help employees interact with their fellow employees and managers throughout the company, and ensure that employees are updated on important issues and cooperate with each other. Employees must also be trained to understand how to use the Web, e-mail, and other tools for communicating, collecting, and sharing information.

As more companies become knowledge-based, it’s important that they promote and capture learning at the employee, team, and company levels. At Nissan Motor’s U.S. operations, 16 teams, each with 8 to 16 salaried employees from different departments, meet weekly to discuss issues such as quality, diversity, or supply chain management. The team members, chosen by management, are considered to be high performers who have demonstrated that they are receptive to new ideas. The teams are used to challenge the organization and propose new initiatives to make the company more creative and innovative. For example, as a result of one team’s discussion of how to save money, a proposal for working at home was developed. The team conducted an experiment to determine the benefits of working at home. A pilot study of working at home with 41 employees found that it resulted in reduced operating costs and improved morale, as well as productivity increases for employees who worked at home. As a result, a virtual office initiative is in place at Nissan’s headquarters in Nashville, Tennessee. The company’s employees who analyze market trends and identify concepts for Nissan will work from home in Los Angeles.
In addition to acquiring and retaining knowledge workers, companies need to be able to adapt to change. Change refers to the adoption of a new idea or behavior by a company. Technological advances, changes in the workforce or government regulations, globalization, and new competitors are among the many factors that require companies to change. Change is inevitable in companies as products, companies, and entire industries experience shorter life cycles. For example, Chrysler announced a restructuring plan that will eliminate 11,000 production jobs and 2,000 white-collar jobs as the company sells businesses that do not fit with its car building mission and productivity improvements.

A changing environment means that all employees must embrace a philosophy of learning. A learning organization embraces a culture of lifelong learning, enabling all employees to continually acquire and share knowledge. Improvements in product or service quality do not stop when formal training is completed. Employees need to have the financial, time, and content resources (courses, experiences, development opportunities) available to increase their knowledge. Managers take an active role in identifying training needs and helping to ensure that employees use training in their work. Also, employees should be actively encouraged to share knowledge with colleagues and other work groups across the company using e-mail and the Internet. For a learning organization to be successful requires that teams of employees collaborate to meet customer needs. Managers need to empower employees to share knowledge, identify problems, and make decisions. This allows the company to continuously experiment and improve.

Changes in Employment Expectations. The need for companies to make rapid changes as a result of new technologies, competitors, and customer demands has played a major role in reshaping the employment relationship. New or emergent business strategies that result from these changes cause companies to merge, acquire new companies, grow, and in some cases downsize and restructure. This has resulted in changes in the employment relationship. The psychological contract describes what an employee expects to contribute and what the company will provide in return. Unlike a sales contract, a psychological contract is not written. Traditionally, companies expected employees to contribute time, effort, skills, abilities, and loyalty. In return, companies would provide job security and opportunities for promotion. However, in the new economy a new type of psychological contract is emerging. The competitive business environment demands frequent changes in the quality, innovation, creativeness, and timeliness of employee contributions and the skills needed to provide them. This has led to company restructuring, mergers and acquisitions, layoffs, and longer hours for many employees. Companies demand excellent customer service and high productivity levels. Employees are expected to take more responsibility for their own careers, from seeking training to balancing work and family. In exchange for top performance and working longer hours without job security, employees want companies to provide flexible work schedules, comfortable working conditions, more autonomy in accomplishing work, training and development opportunities, and financial incentives based on how the company performs. Employees realize that companies cannot provide employment security, so they want employability—that is, they want their company to provide training and job experiences to help ensure that employees can find other employment opportunities. The human resource management challenge is how to build a committed, productive workforce in turbulent economic conditions that offer opportunity for financial success but can also quickly turn sour, making every employee expendable.
Concerns with Employee Engagement. Employee engagement refers to the degree to which employees are fully involved in their work and the strength of their commitment to their job and the company. Employees who are engaged in their work and committed to the company they work for give companies competitive advantage including higher productivity, better customer service, and lower turnover. What is the state of employee engagement in U.S. companies? One survey of 50,000 employees across different companies showed that about 13 percent of employees are disengaged, poor performers who put in minimal effort on the job and are likely to leave the organization. Some 76 percent of employees exhibit moderate engagement; that is, they are marginally committed to the company and perform their jobs to the level expected by their manager. Only 11 percent of employees had high levels of engagement: they exhibited strong commitment to the company and were high performers who helped other employees with their work, volunteered for new responsibilities, and were constantly looking for ways to perform their jobs better.

Perhaps the best way to understand engagement is to consider how companies measure employee engagement. Companies measure employees’ engagement levels with attitude or opinion surveys (we discuss these in detail in Chapter 10). Although the types of questions asked on these surveys vary from company to company, research suggests the questions generally measure 10 common themes shown in Table 1.8. As you probably realize after reviewing the themes shown in Table 1.8, employees’ engagement is influenced by how managers treat employees as well as human resource practices such as recruiting, selection, training and development, performance management, work design, and compensation. For example, companies should recruit and select employees who are able to perform the job, are willing to work toward achieving the company strategy, and will react favorably to the work environment. Performance management systems need to provide employees with opportunities to receive performance feedback and recognition for their accomplishments. Compensation including incentives, benefits, and nonfinancial perks such as on-site day care or travel discounts contribute to employee engagement. Training and development gives employees the opportunity for personal growth within the company. Work that is designed to be meaningful and allows employees to use a variety of their skills relates to several different aspects of engagement including satisfaction, intention to stay, pride, and opportunity to perform challenging work.

<table>
<thead>
<tr>
<th>Pride in employer</th>
<th>Satisfaction with employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Satisfaction with the job</td>
<td>Opportunity to perform challenging work</td>
</tr>
<tr>
<td>Recognition and positive feedback from contributions</td>
<td>Personal support from manager</td>
</tr>
<tr>
<td>Effort above and beyond the minimum</td>
<td>Understanding the link between one’s job and the company’s mission</td>
</tr>
<tr>
<td>Prospects for future growth with the company</td>
<td>Intention to stay with the company</td>
</tr>
</tbody>
</table>

Talent Management refers to a systematic planned strategic effort by companies to attracting, retaining, developing and motivating highly skilled employees and managers. Companies report that the most important talent management challenges they face are identifying employees with managerial talent and training and developing them for managerial positions. Many companies do not have employees with the necessary competencies to manage in a global economy. To successfully manage in a global economy, managers need to be self-aware and be able to build international teams, create global management and marketing practices, and interact and manage employees from different cultural backgrounds. Managers contribute to employee engagement by performing basic management functions (planning, organizing, controlling, leading) but also through the use of good communication skill, helping employees develop, and working collaboratively with employees.

For example, consider Schwan Foods and Yum! Brands. Schwan Food company, makers of frozen pizzas and pies, is selecting employees with leadership talent to attend programs involving management classes and coaching sessions. These employees, considered “high-potential” managers, also receive challenging job assignments that require them to capitalize on their skill strengths and develop new skill sets (such as helping to launch a new joint venture in Mexico). Yum! Brands has more than 35,000 KFC, Pizza Hut, and Taco Bell restaurants worldwide. The company needs to develop a large number of managers to meet demands for new restaurants resulting from growth plans, such as to open two KFC restaurants a day in China. To support and sustain global growth in restaurant operations, Yum! is preparing new managers through identifying and assigning them job experiences that involve food innovation, marketing, and developing general management skills.

EVIDENCE-BASED HR

Consider Fabick Caterpillar (CAT), a company that sells, rents, and repairs Caterpillar construction equipment. The company serves construction businesses and contractors in Missouri and southern Illinois and pipeline contractors throughout the world. Fabick CAT has more than 600 employees in 12 locations, each considered a separate operation, with headquarters in Fenton, Missouri. The business that Doug Fabick inherited from his father in 1999 wasn’t in the top 25 percent of CAT dealerships in the United States. Fabick tried to understand how some CAT dealerships around the country performed better than others by studying traditional financial indicators, but he could find no common trend. Fabick conducted several yearly assessments of employee engagement in 2003 and 2004 and the results were not good: only 16 percent of employees were engaged. One parts department had highly engaged employees and Fabick discovered that human resource practices were responsible for success. As a result, Fabick began investing in developing the talents and strengths of parts, service, and operations managers. Managers were trained in how to increase engagement, including how to best select managers and new employees who had the right skills and abilities to succeed in their jobs. The new human resource practices had a major impact on the company’s “bottom line.” When sales groups were divided by engagement level into top half and bottom half and compared, the top half increased their percentage of industry net sales by 24 percent compared to only 8 percent in the lower engagement group. Also, sales groups in the top half had overall customer engagement scores that were 8 percent higher compared to sales groups in the bottom half.
Surveys results suggest that opportunities for career growth, learning, and development and performing exciting and challenging work are some of the most important factors in determining employees, engagement and commitment to their current employer.\textsuperscript{69} It is important to identify employees who want to develop their skills and seek promotions and keep them growing through new job experiences and training. For example, Liz Claiborne tries to avoid turnover of the company’s best employees by creating jobs with growth potential.\textsuperscript{70} These jobs involve new assignments that require employees to apply their skills in different ways or to learn new skills. Sales managers are encouraged to spend more time in operations, where they can learn about product flow, delivery, and other technical processes. This helps sales managers become qualified for general manager jobs. Bristol-Meyers encourages employees in corporate staff positions to exchange jobs with another employee who works in the business units such as the pharmaceutical business.

\textbf{Use of Alternative Work Arrangements.} Alternative work arrangements include independent contractors, on-call workers, temporary workers, and contract company workers. The Bureau of Labor Statistics estimates that alternative work arrangements make up 11 percent of total employment.\textsuperscript{71} There are 10.3 million independent contractors, 2.5 million on-call workers, 1.2 million temporary help agency workers, and approximately 813,000 workers employed by contract firms. Since 2001 the proportion of total employed workers who were independent contractors has increased approximately 6 percent but the proportion is similar for the other alternative arrangements. Contingent workers, or workers who do not expect their jobs to last or who believe their jobs are temporary, account for approximately 2 to 4 percent of total employment.

More workers in alternative employment relationships are choosing these arrangements. Alternative work arrangements can benefit both individuals and employers. More and more individuals don’t want to be attached to any one company. They want the flexibility to work when and where they choose. They may want to work fewer hours to effectively balance work and family responsibilities. Also, individuals who have been downsized may choose alternative work arrangements while they are seeking full-time employment. From the company perspective, it is easier to add temporary employees when they are needed and easier to terminate their employment when they are not needed. Part-time workers can be a valuable source of skills that current employees may not have and are needed for a specific project that has a set completion date. Nike uses 3,700 temporary employees each year as part of its global workforce of 28,000.\textsuperscript{72} The temporary employees help Nike deal with cyclical labor needs during the business cycle and ongoing needs for specialized talent to meet strategic initiatives such as new-product development or retail store concepts. Companies like BMW are using contingent workers to help staff new production lines and also to take over old production lines while permanent employees train for and move to a new production process. Employees who may elect alternative work arrangements include those with a wide range and level of skills such as teachers, engineers, managers, administrative assistants, nurses, and bank tellers.
**Demanding Work, but with More Flexibility.** The globalization of the world economy and the development of e-commerce have made the notion of a 40-hour work week obsolete. As a result, companies need to be staffed 24 hours a day, seven days a week. Employees in manufacturing environments and service call centers are being asked to move from 8- to 12-hour days or to work afternoon or midnight shifts. Similarly, professional employees face long hours and work demands that spill over into their personal lives. Personal digital assistants (PDAs), pagers, and cell phones bombard employees with information and work demands. In the car, on vacation, on planes, and even in the bathroom, employees can be interrupted by work demands. More demanding work results in greater employee stress, less satisfied employees, loss of productivity, and higher turnover—all of which are costly for companies.

Many companies are taking steps to provide more flexible work schedules, protect employees’ free time, and more productively use employees’ work time. Employees consider flexible schedules a valuable way to ease the pressures and conflicts of trying to balance work and nonwork activities. Employers are using flexible schedules to recruit and retain employees and to increase satisfaction and productivity.

Best Buy, the largest consumer electronics outlet in the United States, created a radical new workplace in response to concerns of headquarters’ employees that their managers lacked trust that they would do their work without close supervision and that employee evaluations were being influenced by whether they looked busy and filled up their schedule with meetings that created the appearance of work. The Results-Only Work Environment (ROWE) allows employees to decide how, when, and where they get the job done. Whether they choose to work in the office or somewhere else, salaried employees are required to put in as much time as it takes to do the work. The goal of the experiment is to reshape the workplace, achieve a greater degree of work/life balance, and redefine the nature of work. Physical attendance at meetings is optional. The only requirement is that employees meet productivity goals. When employee relations manager Steve Hance participates in a morning teleconference with co-workers or corporate clients he may be calling in using a cell phone from his fishing boat on a lake or from the woods where he hunts wild turkeys. He says, “No one at Best Buy really knows where I am. Nor do they really care.” Surveys of employees who work in divisions that have converted to ROWE suggest they have improved relationships with family and friends and are more engaged at work. They feel more focused and energized about their work and are more committed to the company. The ROWE and its implications for employee retention are discussed in Chapter 10.

Dow Corning has a no-meetings week once a quarter which allows employees to reduce travel and work without interruptions. The no-meetings weeks allow employees such as Laura Asiala, a global manager, a break from her normal workday, which starts as early as 5 AM and lasts as late as midnight. The no-meetings weeks give her the opportunity to spend evenings with her two sons, free from overseas calls. IBM has “ThinkFridays,” free time on Friday afternoons, which IBM programmers spread across three continents can use to research new technologies or work on papers or patents, free from phone calls, e-mails, and instant messaging.

**Meeting the Needs of Stakeholders, Shareholders, Customers, Employees, and Community**

As we mentioned earlier, company effectiveness and competitiveness are determined by whether the company satisfies the needs of stakeholders. Stakeholders include stockholders (who want a return on their investment), customers (who want a high-quality
product or service), and employees (who desire interesting work and reasonable compensation for their services). The community, which wants the company to contribute to activities and projects and minimize pollution of the environment, is also an important stakeholder.

**Measuring Performance to Stakeholders: The Balanced Scorecard.** The balanced scorecard gives managers an indication of the performance of a company based on the degree to which stakeholder needs are satisfied; it depicts the company from the perspective of internal and external customers, employees, and shareholders. The balanced scorecard is important because it brings together most of the features that a company needs to focus on to be competitive. These include being customer-focused, improving quality, emphasizing teamwork, reducing new product and service development times, and managing for the long term.

The balanced scorecard differs from traditional measures of company performance by emphasizing that the critical indicators chosen are based on the company’s business strategy and competitive demands. Companies need to customize their balanced scorecards based on different market situations, products, and competitive environments.

The balanced scorecard can be useful in managing human resources. Communicating the scorecard to employees gives them a framework that helps them see the goals and strategies of the company, how these goals and strategies are measured, and how they influence the critical indicators. For example, J.P. Morgan Chase used the balanced scorecard to change the behavior of customer service representatives. Before the company implemented the scorecard, if a customer requested a change in a banking service, the representative would have simply met the customer’s need. Based on knowledge of the scorecard, the customer service representative might now ask if the customer is interested in the bank’s other services such as financial planning, mortgages, loans, or insurance.

The balanced scorecard should be used to (1) link human resource management activities to the company’s business strategy and (2) evaluate the extent to which the HRM function is helping the company meet its strategic objectives. Measures of HRM practices primarily relate to productivity, people, and process. Productivity measures involve determining output per employee (such as revenue per employee). Measuring people includes assessing employees’ behavior, attitudes, or knowledge. Process measures focus on assessing employees’ satisfaction with people systems within the company. People systems can include the performance management system, the compensation and benefits system, and the development system. To show that HRM activities contribute to a company’s competitive advantage, managers need to consider the questions shown in Table 1.9 and be able to identify critical indicators or metrics related to human resources. As shown in the last column of Table 1.9, critical indicators of HR practices primarily relate to people, productivity, and processes.

For example, at Tellabs, a company that provides communication service products (such as optical networking) around the world, key results tracked on the balanced scorecard include revenue growth, customer satisfaction, time to market for new products, and employee satisfaction. Every employee has a bonus plan; bonuses are tied to performance as measured by the scorecard. The performance appraisal process measures employee performance according to departmental objectives that support the scorecard. At quarterly meetings, how employee performance is evaluated according to the scorecard is shared with every employee, and the information is also available on the company intranet Web site.
Increasingly, companies are recognizing that social responsibility can help boost a company’s image with customers, gain access to new markets, and help attract and retain talented employees. Companies thus try to meet shareholder and general public demands that they be more socially, ethically, and environmentally responsible. For example, Bill Gates, former chief executive officer and Microsoft Corporation founder, through personal involvement in a charitable foundation dedicated to bringing science and technology to improve lives around the world, has improved Microsoft’s corporate reputation. Whole Foods has been praised as environmentally and socially responsible for its focus on high-quality organic products. Other companies such as Halliburton and BP are viewed less positively due to perceptions that they are responsible for environmental damage or are using political connections to profit from the Iraq war.

Cell phone manufacturers such as Nokia, Motorola, and Palm are introducing phones that have fewer toxic materials and are easily recyclable. This helps these companies improve their image in the marketplace and helps them get better access to global markets in which new rules and laws restrict the amount of toxic substances (such as lead and mercury) in electronics. Virgin Group’s Chairman Richard Branson has pledged to use $3 billion of Virgin’s profit in fighting climate change.

Danone, a company that makes yogurts (Dannon) and mineral waters (Evian), recently invested in a factory in Bangladesh to make a yogurt fortified to help stop malnutrition and priced at seven cents to be affordable. This investment gives Danone access to a large market for its products, demonstrates the company is socially responsible, and at the same time helps alleviate local malnutrition as well as creating jobs.

**Social Responsibility.**
COMPETING THROUGH SUSTAINABILITY
Volunteerism and Going Green Are Reaping Dividends for Employees, Communities, and the Environment

A growing number of companies have made sustainability an important part of their business strategy. For example, at General Mills, volunteerism is one of the ways that the company lives its corporate values. The CEO and senior leaders serve on nonprofit boards and are involved in the community. Five years ago, following General Mills’ acquisition of Pillsbury, company leaders in the Meals Division brought the newly merged team of employees to volunteer for the Perspectives Family Center, which helps families in transition. This resulted from the suggestion that volunteerism could be used to strengthen the new work teams. Meals Division employees support projects such as painting child care center rooms, participating in school supply drives, and delivering Christmas trees. The employees’ involvement was initiated from a business need, but now volunteerism is part of the business. General Mills’ customer service center works with Catholic Charities USA, serving meals to homeless people and working at a shelter for homeless children—teaching them how to maintain a healthy diet, leading fitness activities, and helping with projects such as redecorating rooms in the shelter. Yoplait employees, partners with the Greater Minneapolis Crisis Nursery, help cook meals. Besides helping the community, Steve Sanger, General Mills’ company chairman, believes that employees are developing leadership and other skills.

Pharmaceutical company Novartis supports REPSSI, an African-based philanthropic organization that provides emotional and psychological support to children affected by the HIV/AIDS epidemic. The company’s trainers provide REPSSI’s employees with leadership development training. The charity wants to grow from serving 500,000 children to helping 5 million children by 2011. However, to meet this service goal, REPSSI managers need training in communication skills, providing feedback, intercultural skills, and project management. Novartis transformed its corporate training programs into a form useful for REPSSI. The training content is delivered through instructor-led courses and e-learning. Novartis and training vendor partners, including business schools, send speakers at their own expense to Africa. Instructors are also available for follow-up after each course is completed.

Wal-Mart, frequently criticized because of its labor practices, has been very active in sustainability initiatives. Wal-Mart’s environmental goals are simple and straightforward: to be supplied 100 percent by renewable energy, to create zero waste, and to sell products that sustain our natural resources and the environment. The Personal Sustainability Project (PSP) is a voluntary program that is focused on helping associates integrate sustainability into their own lives by making small changes to everyday habits. The goals relate to improving employees’ own health and wellness as well as the health of the planet. According to figures posted on the company’s Web site, employees have recycled 675,538 pounds of aluminum, 282,476 pounds of glass, 5,953,357 pounds of paper and cardboard, and 3,177,851 pounds of plastic. Also, employees walked, biked, and swam more than 1,109,421 total miles; cooked 368,779 healthy meals; and lost a total combined weight of 184,315 pounds. More than 19,000 employee report they’ve quit or reduced smoking. Beyond supporting associates in their efforts to integrate sustainability into their own lives, the program encourages them to work in teams to undertake projects in their communities. For instance, one store developed a used-tire recycling program; another helped their local community to clean up a wildlife area.

HR professionals play an important role in developing sustainable business practices and programs at Vodaphone and Xcel Energy. For example, at Vodaphone, a telecommunications company, HR helped design a travel reduction program requiring every employee to justify why meetings cannot be replaced with teleconferencing. As a result, each year more than 13,000 flights have been eliminated, resulting in a 5,500-ton reduction in carbon. At Xcel Energy, 33 percent of senior executives’ incentive compensation is linked to environmental goals such as reducing emissions, improving energy efficiency, and developing innovative technologies. Xcel also offers its employees and customers a wind source program in Colorado, Minnesota, and New Mexico. HR professionals provide employees with training on environmental stewardship, including ways to be more energy efficient.

The “Competing through Sustainability” box highlights the sustainable business practices of several companies.

Customer Service and Quality Emphasis
Companies’ customers judge quality and performance. As a result, customer excellence requires attention to product and service features as well as to interactions with customers. Customer-driven excellence includes understanding what the customer wants and anticipating future needs. Customer-driven excellence includes reducing defects and errors, meeting specifications, and reducing complaints. How the company recovers from defects and errors is also important for retaining and attracting customers.

Due to increased availability of knowledge and competition, consumers are very knowledgeable and expect excellent service. This presents a challenge for employees who interact with customers. The way in which clerks, sales staff, front-desk personnel, and service providers interact with customers influences a company’s reputation and financial performance. Employees need product knowledge and service skills, and they need to be clear about the types of decisions they can make when dealing with customers.

To compete in today’s economy, whether on a local or global level, companies need to provide a quality product or service. If companies do not adhere to quality standards, their ability to sell their product or service to vendors, suppliers, or customers will be restricted. Some countries even have quality standards that companies must meet to conduct business there. Total quality management (TQM) is a companywide effort to continuously improve the ways people, machines, and systems accomplish work. Core values of TQM include the following:

- Methods and processes are designed to meet the needs of internal and external customers.
- Every employee in the company receives training in quality.
- Quality is designed into a product or service so that errors are prevented from occurring rather than being detected and corrected.
- The company promotes cooperation with vendors, suppliers, and customers to improve quality and hold down costs.
- Managers measure progress with feedback based on data.

There is no universal definition of quality. The major differences in its various definitions relate to whether customer, product, or manufacturing process is emphasized. For example, quality expert W. Edwards Deming emphasized how well a product or service meets customer needs. Phillip Crosby’s approach emphasizes how well the service or manufacturing process meets engineering standards.
The emphasis on quality is seen in the establishment of the Malcolm Baldrige National Quality Award and the ISO 9000:2000 quality standards. The Baldrige award, created by public law, is the highest level of national recognition for quality that a U.S. company can receive. To become eligible for the Baldrige, a company must complete a detailed application that consists of basic information about the firm as well as an in-depth presentation of how it addresses specific criteria related to quality improvement. The categories and point values for the Baldrige award are found in Table 1.10. The award is not given for specific products or services. Three awards may be given annually in each of these categories: manufacturing, service, small business, education, and health care. All applicants for the Baldrige Award undergo a rigorous examination process that takes from 300 to 1,000 hours. Applications are reviewed by an independent board of about 400 examiners who come primarily from the private sector. One of the major benefits of applying for the Baldrige Award is the feedback report from the examining team noting the company’s strengths and areas for improvement.85

The Baldrige award winners usually excel at human resources practices, including training and development. For example, consider two of the 2007 Baldrige award winners.86 Sharp HealthCare is San Diego County’s largest health care system, serving more than 785,000 people each year. Sharp is a not-for-profit organization that employs 14,000 staff members and 2,600 affiliated physicians; operates seven hospitals,

### Table 1.10

<table>
<thead>
<tr>
<th>Category</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leadership</strong></td>
<td>120</td>
</tr>
<tr>
<td>The way senior executives create and sustain</td>
<td></td>
</tr>
<tr>
<td>corporate citizenship, customer focus, clear</td>
<td></td>
</tr>
<tr>
<td>values, and expectations and promote quality</td>
<td></td>
</tr>
<tr>
<td>and performance excellence</td>
<td></td>
</tr>
<tr>
<td>**Measurement, Analysis, and Knowledge</td>
<td>90</td>
</tr>
<tr>
<td>Management**</td>
<td></td>
</tr>
<tr>
<td>The way the company selects, gathers, analyzes,</td>
<td></td>
</tr>
<tr>
<td>manages, and improves its data, information,</td>
<td></td>
</tr>
<tr>
<td>and knowledge assets</td>
<td></td>
</tr>
<tr>
<td><strong>Strategic Planning</strong></td>
<td>85</td>
</tr>
<tr>
<td>The way the company sets strategic direction,</td>
<td></td>
</tr>
<tr>
<td>how it determines plan requirements, and how</td>
<td></td>
</tr>
<tr>
<td>plan requirements relate to performance</td>
<td></td>
</tr>
<tr>
<td>management</td>
<td></td>
</tr>
<tr>
<td><strong>Workforce Focus</strong></td>
<td>85</td>
</tr>
<tr>
<td>Company's efforts to develop and utilize the</td>
<td></td>
</tr>
<tr>
<td>workforce and to maintain an environment</td>
<td></td>
</tr>
<tr>
<td>conducive to full participation, continuous</td>
<td></td>
</tr>
<tr>
<td>improvement, and personal and organizational</td>
<td></td>
</tr>
<tr>
<td>growth</td>
<td></td>
</tr>
<tr>
<td><strong>Process Management</strong></td>
<td>85</td>
</tr>
<tr>
<td>Process design and control, including customer-</td>
<td></td>
</tr>
<tr>
<td>focused design, product and service delivery,</td>
<td></td>
</tr>
<tr>
<td>support services, and supply management</td>
<td></td>
</tr>
<tr>
<td><strong>Business Results</strong></td>
<td>450</td>
</tr>
<tr>
<td>Company’s performance and improvement in key</td>
<td></td>
</tr>
<tr>
<td>business areas (product, service, and supply</td>
<td></td>
</tr>
<tr>
<td>quality; productivity; and operational</td>
<td></td>
</tr>
<tr>
<td>effectiveness and related financial indicators)</td>
<td></td>
</tr>
<tr>
<td><strong>Customer and Market Focus</strong></td>
<td>85</td>
</tr>
<tr>
<td>Company’s knowledge of the customer, customer</td>
<td></td>
</tr>
<tr>
<td>service systems, responsiveness to customer,</td>
<td></td>
</tr>
<tr>
<td>customer satisfaction</td>
<td></td>
</tr>
<tr>
<td><strong>Total Points</strong></td>
<td>1,000</td>
</tr>
</tbody>
</table>

three medical groups, and 19 outpatient clinics; and manages its own health insurance plan. Sharp HealthCare meets and exceeds patients expectations by providing high-quality care and services that are accessible, convenient, and cost-effective. Sharp has made considerable investment in its employees—including use of yearly employee surveys to gauge the satisfaction and engagement of the workforce, action teams, performance improvement teams—and lean/Six Sigma teams encourage employee participation in creating change and increasing organizational effectiveness. Sharp's training expenditures per employee exceed those of the best-in-class companies (as identified by the American Society for Training and Development). Sharp University offers training programs for developing current and future leaders. It provides each employee with a $1,000 fund to take advantage of educational opportunities offered outside the organization. PRO-TEC Coating Company, located in rural Leipsic, Ohio, is an industry leader in developing high-strength steel that inhibits corrosion. High-strength steel is used mainly in manufacturing cars, trucks, and sport utility vehicles. From 2002–2006, the company produced an estimated 85 percent of the high-strength steel supply in the United States. PRO-TEC’s 236 employees work in self-directed teams and are empowered to use continuous improvement processes to fix problems as they occur. All employees participate in a profit-sharing plan that provides an average annual payout of 15 percent of employees base pay. Surveys, meetings, and management “walkarounds” are some of the methods used to obtain employees feedback. PRO-TEC is committed to lifelong learning for its employees. Employees are given time off to attend classes and reimbursed for tuition and costs of books.

The ISO 9000:2000 standards were developed by the International Organization for Standardization (ISO) in Geneva, Switzerland. ISO 9000 is the name of a family of standards (ISO 9000, 9001, 9004, and 10011) that include requirements for dealing with issues such as how to establish quality standards and document work processes to help companies understand quality system requirements. ISO 9000:2000 has been adopted as a quality standard in nearly 100 countries, including Austria, Switzerland, Norway, Australia, and Japan. The ISO 9000:2000 standards apply to companies in many different industries—for example, manufacturing, processing, servicing, printing, forestry, electronics, steel, computing, legal services, and financial services. ISO 9001 is the most comprehensive standard because it covers product or service design and development, manufacturing, installation, and customer service. It includes the actual specification for a quality management system. ISO 9004 provides a guide for companies that want to improve.

Why are standards useful? Customers may want to check that the product they ordered from a supplier meets the purpose for which it is required. One of the most efficient ways to do this is when the specifications of the product have been defined in an International Standard. That way, both supplier and customer are on the same wavelength, even if they are based in different countries, because they are both using the same references. Today, many products require testing for conformance with specifications or compliance with safety or other regulations before they can be put on many markets. Even simpler products may require supporting technical documentation that includes test data. With so much trade taking place across borders, it may just not be practical for these activities to be carried out by suppliers and customers, but rather by specialized third parties. In addition, national legislation may require such testing to be carried out by independent bodies, particularly when the products concerned have health or environmental implications. One example of an
ISO standard is on the back cover of this book and nearly every other book. On the back cover is something called an ISBN number. ISBN stands for International Standard Book Number. Publishers and booksellers are very familiar with ISBN numbers, because they are the method through which books are ordered and bought. Try buying a book on the Internet, and you will soon learn the value of the ISBN number—there is a unique number for the book you want! And it is based on an ISO standard.

In addition to competing for quality awards and seeking ISO certification, many companies are using the Six Sigma process and lean thinking. The Six Sigma process refers to a process of measuring, analyzing, improving, and then controlling processes once they have been brought within the narrow Six Sigma quality tolerances or standards. The objective of Six Sigma is to create a total business focus on serving the customer, that is, to deliver what customers really want when they want it. For example, at General Electric introducing the Six Sigma quality initiative meant going from approximately 35,000 defects per million operations—which is average for most companies, including GE—to fewer than 4 defects per million in every element of every process GE businesses perform—from manufacturing a locomotive part to servicing a credit card account to processing a mortgage application to answering a phone.

Training is an important component of the process. Six Sigma involves highly trained employees known as Champions, Master Black Belts, Black Belts, and Green Belts who lead and teach teams that are focusing on an ever-growing number of quality projects. The quality projects focus on improving efficiency and reducing errors in products and services. Today GE has over 100,000 employees trained in Six Sigma. Employees are working on more than 6,000 quality projects. Since 1996, when the Six Sigma quality initiative was started, it has produced more than $2 billion in benefits for GE. Training can help companies meet the quality challenge by teaching employees statistical process control and engaging in “lean” processes. Cardinal Fastener & Speciality Company, a Cleveland, Ohio, company, needed to shorten the lead time it required on orders or face losing business to global competition. The company manufactures bolts used in construction, heavy equipment, wind turbine, and other industries. To help improve its competitiveness, Cardinal Fastener engaged in lean thinking, an approach to eliminate “waste.” Lean thinking is a way to do more with less effort, time, equipment, and space, but still provide customers with what they need and want. Part of lean thinking includes training workers in new skills or how to apply old skills in new ways so they can quickly take over new responsibilities or use new skills to help fill customer orders. As a result of lean thinking, machines were moved so that operators could make a bolt or fastener complete from start to finish, resulting in a decrease in the time it takes to make a finished product. Quality is near perfect, and inventory has been reduced 54 percent.

In addition to developing products or providing services that meet customer needs, one of the most important ways to improve customer satisfaction is to improve the quality of employees’ work experiences. Research shows that satisfied employees are more likely to provide high-quality customer service. Customers who receive high-quality service are more likely to be repeat customers. As Table 1.11 shows, companies that are recognized as providing elite customer service emphasize state-of-the-art human resource practices including rigorous employee selection, employee loyalty, training, and keeping employees satisfied by offering generous benefits.

**Six Sigma Process**
System of measuring, analyzing, improving, and controlling processes once they meet quality standards.

**Lean Thinking**
A process used to determine how to use less effort, time, equipment, and space but still meet customers’ requirements.
changing demographics and diversity of the workforce

company performance on the balanced scorecard is influenced by the characteristics of its labor force. the labor force of current employees is often referred to as the internal labor force. employers identify and select new employees from the external labor market through recruiting and selection. the external labor market includes persons actively seeking employment. as a result, the skills and motivation of a company's internal labor force are influenced by the composition of the available labor market (the external labor market). the skills and motivation of a company's internal labor force determine the need for training and development practices and the effectiveness of the company's compensation and reward systems.

three important changes in the demographics and diversity of the workforce are projected. first, the average age of the workforce will increase. second, the workforce will become more diverse in terms of gender and racial composition, and immigration will continue to affect the size and diversity of the workforce.

aging of the workforce. the labor force will continue to age, and the size of the 16–24 youth labor force will decrease to its lowest level in 30 years. figure 1.5 compares the projected distribution of the age of the workforce in 2006 and 2016. the 55 years and older workforce is expected to grow by approximately 47 percent between 2006 and 2016, more than five times the 8.5 percent growth projected for the entire workforce. the labor force participation of those 55 years and older is expected to

internal labor force
labor force of current employees.

external labor market
persons outside the firm who are actively seeking employment.

<table>
<thead>
<tr>
<th>Wegmans</th>
<th>Gives away $59 million in scholarships to 19,000 employees. Senior managers sit side-by-side with employees listening in on phones in the company’s call center.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ritz Carlton</td>
<td>Despite having 20 service standards, front-line employees have flexibility to make customers’ experiences more personal, unusual, and memorable.</td>
</tr>
<tr>
<td>Four Seasons Hotels</td>
<td>No employee gets a job before passing four interviews. Each employee receives a free nights’ stay for himself or herself and a guest, along with free dinner at employee orientation. The free stay helps employees, most of whom otherwise could not afford to stay at the hotel, understand what being a customer feels like. They grade the hotel services such as time for room service to arrive and number of times a phone rings when calling the front desk.</td>
</tr>
<tr>
<td>Cadillac</td>
<td>Performance of repair technicians is carefully monitored to ensure they are not repeating mistakes in repairs. Dealers who maintain good customer service ratings based on customer surveys receive cash rewards.</td>
</tr>
<tr>
<td>Starbucks</td>
<td>Entry-level baristas get 24 hours of training that prepares them to stay calm and courteous in busy times.</td>
</tr>
<tr>
<td>Publix Super Markets</td>
<td>Employees receive bonuses based on their unit's performance and share grants as part of their incentive plans.</td>
</tr>
<tr>
<td>Cabela</td>
<td>Job candidates must pass a difficult 150-question test that measures their outdoor sports expertise.</td>
</tr>
</tbody>
</table>

grow because older individuals are leading healthier and longer lives than in the past, providing the opportunity to work more years; the high cost of health insurance and decrease in health benefits causes many employees to keep working to keep their employer-based insurance or to return to work after retirement to obtain health insurance through their employer; and the trend toward pension plans based on individuals’ contributions to them rather than years of service provides an incentive for older employees to continue working. The aging labor force means companies are likely to employ a growing share of older workers—many in their second or third career. Older people want to work and many say they plan a working retirement. Despite myths to the contrary, worker performance and learning are not adversely affected by aging.  

Older employees are willing and able to learn new technology. An emerging trend is for qualified older workers to ask to work part-time or for only a few months at a time as a means to transition to retirement. Employees and companies are redefining the meaning of retirement to include second careers as well as part-time and temporary work assignments. An aging workforce means that employers will increasingly face HRM issues such as career plateauing, retirement planning, and retraining older workers to avoid skill obsolescence. Companies will struggle with how to control the rising costs of benefits and health care. Companies face competing challenges with older workers. Companies will have to ensure that older workers are not discriminated against in hiring, training, and workforce reduction decisions. At the same time companies will want to encourage retirement and make it financially and psychologically acceptable.

Consider how Borders Group, the bookstore, is capitalizing on older workers through hiring and retention. Because 50 percent of book purchases in the United States are made by customers over 45, Borders believes that older workers can relate better to its customers. To attract and retain older workers, Borders added medical and dental benefits for part-time workers. The company is planning to add a “passport” program, enabling employees to work half-time in one part of the country and half-time at a different store in another part of the country. This accommodates the needs of older employees who may live in warmer climates such as Florida during winter months but in other areas the rest of the year. Some 16 percent of Borders’ employees are over the age of 50, better than 75 percent more than when the program started. Borders’ investment is having a positive impact on retention. The turnover rate for workers over 50 is 10 times less than for those under 30 years old, and turnover has dropped 30 percent since the start of the program.
As many older workers leave the workforce permanently or decide to work part-time, another challenge companies face is how to capture their unique knowledge and expertise so it can be used and shared with remaining employees. To ensure that the expertise of retiring engineers isn’t lost, NASA is using phone interviews to capture their experiences. The engineers have been designated as NASA Discipline Experts because each has been identified by NASA as an expert in a specific field of study such as propulsion or shuttle life support. The experiences captured on audiotape are turned into courses held at universities that offer graduate programs in aeronautics such as the University of Maryland. A similar approach is used at the federal Department of Housing and Urban Development, where many employees are now retirement-eligible. Subject matter experts are identified and trained to conduct workshops or make presentations. The agency uses its own studios to videotape the presentations and broadcast the information to Housing and Urban Development sites across the United States. The video is made available on the company’s internal Web site. When interviewers are used to “capture knowledge,” it is important that they know what questions to ask and how to get the employee to talk about the knowledge. Many experienced employees may not recognize what is special about their personal knowledge and, as a result, have a difficult time speaking about it.

**Increased Diversity of Workforce.** As Figure 1.6 shows, by 2016 the workforce is expected to be 80 percent white, 12 percent African American, 5 percent Asian, and 3 percent other groups, which includes individuals of multiple racial origin, American Indian, Alaskan Native or Native Hawaiian, and other Pacific Islanders. The diversity of the workforce is expected to increase from 2006 to 2016. African Americans, Hispanics, and Asians are projected to increase in the labor force at higher rates than white non-Hispanics. Asians are expected to be one of the fastest growing groups, with a 2.7 percent growth rate between 2006 and 2016. Due to immigration, Asians and Hispanics have been the fastest growing groups in the labor force since 1986, and this is expected to continue through 2016.

**Influence of Immigration.** Many U.S. industries, including meatpacking, construction, farming, and service, rely on immigrants from Mexico and other countries to perform short-term or labor-intensive jobs. Although determining exactly the number of illegal workers in the United States is difficult, estimates are that of the hotel industry’s 1.5 million employees, 150,000 are illegal immigrants, in the roofing industry one in three workers are thought to be illegal immigrants, and one-third of restaurant workers are Hispanic. While the U.S. government is debating how to deal with...
illegal immigration, many companies would face a labor crisis if they were forced to terminate employment of illegal immigrants, many of whom have lived and worked in the United States for years but lack the work authorizations and visas needed to work legally in this country. For example, one landscape company owner employs 60 people, including 40 immigrants. Without their labor, he would be out of business.  Even if employers do check immigrants’ documentation, they have no way of knowing if the documents are real and may not even have a legal obligation to validate work documents. For example, in the California agriculture industry, farmers are required to check only that workers have the necessary papers and then forward the information to the government before putting a worker on the job.

Many employers argue that most of the immigrants are hard-working and loyal and deserve to be granted legal status and citizenship. Others argue that illegal immigrants should be jailed or immediately extradited to their home country. While the national debate over this issue continues it is important to note that many midsized to small companies in the hotel, building cleaning, roofing, poultry, and construction industries could face a severe labor shortage crippling their businesses if immigration reform requires illegal immigrants to quit their jobs or return to their home countries before applying for work permits.  U.S. immigration and customs officials are increasing efforts to stop illegal immigration. Three top executives of a national cleaning service were arrested for allegedly employing illegal immigrants as well as nearly 200 employees believed to be illegal immigrants.

Besides women and minorities another source of diversity in the workforce is disabled workers. Disabled workers can also be a source of competitive advantage. Wiscraft Inc., a Milwaukee company, contracts with companies such as Briggs & Stratton Corporation and Harley-Davidson to do assembly, packaging, and machining work. At least 75 percent of Wiscraft’s employees are legally blind. But the company is not a charity. It competes with other companies for contracts. It receives no subsidies from local, state, or federal governments. Employees have to rely on public transportation or friends or relatives to get to work. Kathy Walters said she could have worked at another company but chose Wiscraft because of its supportive culture. Walters, who is legally blind, believes she would have had trouble finding a job that offered health benefits and paid as well as her job at Wiscraft. The company has received ISO 9001:2000 certification, evidence that it provides high-quality work and can compete internationally.

The heterogeneous composition of the workforce challenges companies to create HRM practices that ensure that the talents, skills, and values of all employees are fully utilized to help deliver high-quality products and services.

Because the workforce is predicted to become more diverse in terms of age, ethnicity, and racial background, it is unlikely that one set of values will characterize all employees. For example, the “Silent Generation,” born between 1925 and 1945, tend to be uncomfortable challenging the status quo and authority. They value income and employment security. “Baby boomers,” born between 1946 and 1964, value unexpected rewards for work accomplishments, opportunities to learn new things, praise, recognition, and time with the manager. “Millennials,” born between 1978 and 1999, love the latest technology, are ambitious and goal-oriented, and seek meaningful work. They want to be noticed, respected, and involved. Millennials work to live while boomers live to work. Companies are being proactive to help employees and managers understand generational differences. A survey conducted at Ernst & Young LLC found that Generation Y employees (born after 1980) want and ask for more frequent and candid feedback than baby boomers (born between 1946 and 1964). As
a result, Ernst and Young developed an online “Feedback Zone” where employees can provide or ask for feedback at any time. Also, the company assigns every employee a mentor and offers training for managers on how to give effective feedback. To make sure employees understand generational differences and how to connect and communicate with employees from different generations, Aflac, the insurance provider, offers a training program called “Connecting Generations.” Aflac believes that employees in all age groups will be more effective if they understand how members of each generation approach their jobs. The program reviews the characteristics of each generation represented in the workplace. It also describes the effects of family and world events on each generation, analyzes their work styles and employment characteristics, and helps show connections to bridge generation gaps.

Most employees, however, value several aspects of work regardless of their background. Employees view work as a means to self-fulfillment—that is, a means to more fully use their skills and abilities, meet their interests, and allow them to live a desirable life-style. One report indicated that employees who are given opportunities to fully use and develop their skills receive greater job responsibilities, believe the promotion system is fair, and have a trustworthy manager who represents the employees’ best interests are more committed to their companies. Fostering these values requires companies to develop HRM practices that provide more opportunity for individual contribution and entrepreneurship. Because many employees place more value on the quality of nonwork activities and family life than on pay and production, employees will demand more flexible work policies that allow them to choose work hours and locations where work is performed.

The implications of the changing labor market for managing human resources are far-reaching. Because labor market growth will be primarily in female and minority populations, U.S. companies will have to ensure that employees and human resource management systems are free of bias to capitalize on the perspectives and values that women and minorities can contribute to improving product quality, customer service, product development, and market share. Managing cultural diversity involves many different activities, including creating an organizational culture that values diversity, ensuring that HRM systems are bias-free, facilitating higher career involvement of women, promoting knowledge and acceptance of cultural differences, ensuring involvement in education both within and outside the company, and dealing with employees’ resistance to diversity. Table 1.12 presents ways that managing cultural diversity can provide a competitive advantage. Traditionally, in many U.S. companies the costs of poorly managing cultural diversity were viewed mainly as increased legal fees associated with discrimination cases. However, as Table 1.12 illustrates, the implications of successfully managing a diverse workforce go beyond legal concerns. How diversity issues are managed has implications for creativity, problem solving, retaining good employees, and developing markets for the firm’s products and services. To successfully manage a diverse workforce, managers must develop a new set of skills, including:

1. Communicating effectively with employees from a wide variety of cultural backgrounds.
2. Coaching and developing employees of different ages, educational backgrounds, ethnicity, physical ability, and race.
3. Providing performance feedback that is based on objective outcomes rather than values and stereotypes that work against women, minorities, and handicapped persons by prejudging these persons’ abilities and talents.
4. Creating a work environment that makes it comfortable for employees of all backgrounds to be creative and innovative.
5. Recognizing and responding to generational issues.

Diversity is important for tapping all employees’ creative, cultural, and communication skills and using those skills to provide competitive advantage as shown in Table 1.12. For example, the Latino Employee Network at Frito-Lay played a key role during the development of Doritos Guacamole Flavored Tortilla Chips. The chips generated more than $500 million in sales during their first year, making this one of the most successful product launches in the company’s history. Network members provided feedback on the taste and packaging to ensure that the product would be seen as authentic in the Latino community. Texas Instruments (TI) was interested in hiring a talented engineer but she was reluctant to accept employment because she feared the Dallas location would not welcome an Indian woman. Representatives of TI’s Indian Diversity Initiative spoke with her and shared their experiences. The Indian-American employee network was key in making her decision to join the company.

The retail grocer Safeway’s market share is being challenged by specialty grocers and big-box stores such as Wal-Mart and Target. To beat the competition Safeway

### Table 1.12

<table>
<thead>
<tr>
<th>Argument Type</th>
<th>Advantage Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cost argument</td>
<td>As organizations become more diverse, the cost of a poor job in integrating workers will increase. Those who handle this well will thus create cost advantages over those who don’t.</td>
</tr>
<tr>
<td>2. Employee attraction and retention argument</td>
<td>Companies develop reputations on favorability as prospective employers for women and ethnic minorities. Those with the best reputations for managing diversity will win the competition for the best personnel. As the labor pool shrinks and changes composition, this edge will become increasingly important.</td>
</tr>
<tr>
<td>3. Marketing argument</td>
<td>For multinational organizations, the insight and cultural sensitivity that members with roots in other countries bring to the marketing effort should improve these efforts in important ways. The same rationale applies to marketing to subpopulations within domestic operations.</td>
</tr>
<tr>
<td>4. Creativity argument</td>
<td>Diversity of perspectives and less emphasis on conformity to norms of the past (which characterize the modern approach to management of diversity) should improve the level of creativity.</td>
</tr>
<tr>
<td>5. Problem-solving argument</td>
<td>Heterogeneity in decisions and problem-solving groups potentially produces better decisions through a wider range of perspectives and more thorough critical analysis of issues.</td>
</tr>
<tr>
<td>6. System flexibility argument</td>
<td>An implication of the multicultural model for managing diversity is that the system will become less determinate, less standardized, and therefore more fluid. The increased fluidity should create greater flexibility to react to environmental changes (i.e., reactions should be faster and cost less).</td>
</tr>
</tbody>
</table>

invested in programs to attract, develop, and retain its best talent and to position the company as an employer of choice. Because 70 percent of its customers are women, Safeway wanted to broaden the diversity of its workforce to better reflect its customers. Male leaders had been the norm in the retail grocery industry, but Safeway took initiatives to help women and women of color advance into management. The initiatives included the CEO speaking regularly with employees about diversity issues in live discussions and taped satellite broadcasts sent weekly to store managers. Employees have access to DVDs featuring interviews with successful employees who are women and people of color. The company ensures that all employees who qualify for its Retail Leadership Program (RLP), including women who work part-time and used flextime to coordinate work schedules with family responsibilities, have the same opportunities for coaching, development, and advancement as employees who work traditional hours. A women’s leadership network sponsors development meetings between high-potential women and executives who suggest new job opportunities that can help them advance to the next level. Every Safeway manager is expected to mentor his or her own employees. The women’s programs have been very successful. Since 2000, the number of women store managers has increased by 42 percent, including an increase of 31 percent of white women and 92 percent of women of color. The number of women who completed the RLP program increased by 37 percent. Safeway has won national recognition as a company that promotes the career advancement of women and minorities. Independent financial analysts have concluded that the advancement of women and minorities has increased the company’s sales and earnings.

The bottom line is that to gain a competitive advantage, companies must harness the power of the diverse workforce. These practices are needed not only to meet employee needs but to reduce turnover costs and ensure that customers receive the best service possible. The implication of diversity for HRM practices will be highlighted throughout this book. For example, from a staffing perspective, it is important to ensure that tests used to select employees are not biased against minority groups. From a work design perspective, employees need flexible schedules that allow them to meet nonwork needs. From a training perspective, it is clear that all employees need to be made aware of the potential damaging effects of stereotypes. From a compensation perspective, new benefits such as elder care and day care need to be included in reward systems to accommodate the needs of a diverse workforce.

Legal and Ethical Issues

Five main areas of the legal environment have influenced human resource management over the past 25 years. These areas are equal employment opportunity legislation, employee safety and health, employee pay and benefits, employee privacy, and job security. Attention is likely to continue to be paid to age, race, and religious discrimination, and discrimination against physically challenged employees.

There is also likely to be continued discussion about legislation to prohibit discrimination by employers and health insurers against employees based on their genetic makeup. Advances in medicine and genetics allow scientists to predict from DNA samples a person’s likelihood of contracting certain diseases. To reduce health care costs, companies may want to use this information to screen out job candidates or reassign current employees who have a genetic predisposition to a disease that is triggered by exposure to certain working conditions. The Genetic Information Non-discrimination Act of 2008 is the first federal law prohibiting health insurers from denying coverage or charging higher premiums based on genetic information. It also
prohibits companies from using genetic information to make hiring, firing, and other job placement decisions.

The number of court battles over company policies to reduce health care and other benefits costs is likely to increase. Many companies (such as IBM, Microsoft, and Harrah’s Entertainment) are calculating the health care premiums that employees pay on the basis of their health and habits and participation in wellness programs (e.g., counseling, weight loss, smoking cessation, physical fitness). For example, Scott’s Miracle-Gro has an antismoking policy designed to improve employee health and cut medical costs. A two-week employee of Scott’s Miracle-Grow who was fired when his drug test detected nicotine in his blood is suing the company, claiming that Scott’s antismoking policy is discriminatory because the company fired him before he was eligible for health benefits and had the opportunity to take advantage of the company’s wellness program.

Although women and minorities are advancing into top management ranks, “glass ceilings” are still keeping women and minorities from getting the experiences necessary to move to top management positions. A survey showed that women held only 10 percent of all of the corporate officer positions in the Fortune top 50 companies. We are likely to see more challenges to sex and race discrimination focusing on lack of access to training and development opportunities that are needed to be considered for top management positions.

An area of litigation that will continue to have a major influence on HRM practices involves job security. As companies are forced to close plants and lay off employees because of restructuring, technology changes, or financial crisis, cases dealing with the illegal discharge of employees have increased. The issue of what constitutes employment at will—that is, employment that can be terminated at any time without notice—will be debated. As the age of the workforce increases, the number of cases dealing with age discrimination in layoffs, promotions, and benefits will likely rise. Employers’ work rules, recruitment practices, and performance evaluation systems will need to be revised to ensure that these systems do not falsely communicate employment agreements the company does not intend to honor (such as lifetime employment) or discriminate on the basis of age.

Recent court rulings in discrimination and privacy cases suggest that companies need to pay more attention to extant electronic records and voice mails, where they might be found, and what the information contained in the records is used for. Courts are likely to react negatively to informal nonstandardized communications of performance evaluations, pay raises, and other decisions from managers to employees using e-mail and voice mails.

Many decisions related to managing human resources are characterized by uncertainty. Ethics can be considered the fundamental principles by which employees and companies interact. These principles should be considered in making business decisions and interacting with clients and customers. As a result of corporate scandals at Enron, Arthur Andersen, Tyco International, and WorldCom Inc., current interests in ethics focus on transparency and honesty in accounting systems as well as criminal behavior.

Ethical, successful companies can be characterized by four principles. First, in their relationships with customers, vendors, and clients, these companies emphasize mutual benefits. Second, employees assume responsibility for the actions of the company. Third, such companies have a sense of purpose or vision the employees value and use in their day-to-day work. Finally, they emphasize fairness; that is, another person’s interests count as much as their own.
Corporate scandals such as those at Enron and WorldCom have increased attention on preventing illegal and unethical behavior by managers and executives. The Sarbanes-Oxley Act of 2002 sets strict rules for corporate behavior and sets heavy fines and prison terms for noncompliance: organizations are spending millions of dollars each year to comply with regulations under the Sarbanes-Oxley Act, which imposes criminal penalties for corporate governing and accounting lapses, including retaliation against whistle-blowers reporting violations of Security and Exchange Commission rules. Due to Sarbanes-Oxley and new Security and Exchange Commission regulations that impose stricter standards for disclosing executive pay, corporate boards are paying more attention to executive pay as well as issues like leadership development and succession planning. This has resulted in an increase in the number of HR executives and individuals with HR expertise who are being asked to serve on corporate boards to provide data and analysis. For example, a CEO or chief financial officer (CFO) who falsely represents company finances may be fined up to $1 million and/or imprisoned for up to 10 years. The penalty for willful violations is up to $5 million and/or 20 years imprisonment. The law requires CEOs and CFOs to certify corporate financial reports, prohibits personal loans to officers and directors, and prohibits insider trading during pension fund blackout periods. A “blackout” is any period of more than three consecutive business days during which the company temporarily stops 50 percent or more of company plan participants or beneficiaries from acquiring, selling, or transferring an interest in any of the company’s equity securities in the pension plan. The law also requires retention of all documents relevant to a government investigation.

The law also has a number of provisions that directly affect the employer–employee relationship. For example, the act prohibits retaliation against whistle-blowers (individuals who have turned in the company or one of its officers for an illegal act) and government informants. To comply with the act, every employer will need to issue new policies. For example, the act requires all public companies to develop a code of ethics for senior financial officers. HR professionals will need to document the fact that employees have received these policies and have attended training to ensure their compliance with the act. Because of the potential liability for retaliation in the context of discrimination and harassment, policies should include assurances that an employee will not be retaliated against for making a complaint or for serving as a witness. Executive compensation programs will need to be reviewed and modified to ensure that the program is in compliance with the no personal loans and no sales of pension funds during blackout periods provisions.

One way for companies to cope with the responsibilities under Sarbanes-Oxley when a whistle-blowing complaint is made is through use of an ombudsman. British Petroleum America created an ombudsman position to make sure that concerns and complaints from employees, especially regarding safety, are heard. The ombudsman is a former U.S. district court judge who is recognized for independence and integrity, so employees can be comfortable expressing their concerns. The ombudsman’s job is to find the facts and resolve problems in as considerate, fair, thoughtful a way as possible. The position was developed in response to the lack of attention that managers paid to employees’ complaints about pipeline corrosion and other problems at an oil field in Alaska that caused BP to shut down production, leading to a rise in oil prices.

Nationwide Insurance has a confidential employee “helpline.” Many of the calls require interaction between the company’s three-person ethics staff and much larger HR staff. As is typical for most such help lines, about two-thirds of the calls concern
issues squarely in HR’s bailiwick—conflicts with co-workers, for example, or treatment by supervisors or sexual harassment. The reason, says Pat Hendey, director of associate relations, is that “a lot of times employees don’t know who to call, but they always seem to be able to find the ethics hotline. What they like is that they can do it anonymously.”

HR investigates many concerns, including employee allegations of internal conflicts of interest. The rest of the helpline cases are delegated to internal security, legal, and other departments for investigation. The ethics staff handles the legwork for only about 5 percent of the cases that come in via the helpline. HR relies on ethics officers to look into issues such as potential conflicts of interest. For example, the ethics officers have checked out employees who would like to run a business or who want to go out and teach a particular course with a competitor. What brings HR and ethics into even closer quarters at Nationwide than at other companies is that Nationwide has moved beyond a compliance-based stance on ethics toward a “value-based” approach where expectations and transmission of ethical behavior become integral to the company culture. To promote an ethical culture, HR and the ethics office collaborate on activities such as the ethics office’s periodic communications blitzes.

Human resource managers must satisfy three basic standards for their practices to be considered ethical. First, HRM practices must result in the greatest good for the largest number of people. Second, employment practices must respect basic human rights of privacy, due process, consent, and free speech. Third, managers must treat employees and customers equitably and fairly. Throughout the book we highlight ethical dilemmas in human resource management practices.

The Global Challenge

Companies are finding that to survive they must compete in international markets as well as fend off foreign corporations’ attempts to gain ground in the United States. To meet these challenges, U.S. businesses must develop global markets, use their practices to improve global competitiveness, and better prepare employees for global assignments.

Every business must be prepared to deal with the global economy. Global business expansion has been made easier by technology. The Internet allows data and information to be instantly accessible and sent around the world. The Internet, e-mail, and video conferencing enable business deals to be completed between companies thousands of miles apart.

Globalization is not limited to any particular sector of the economy, product market, or company size. Companies without international operations may buy or use goods that have been produced overseas, hire employees with diverse backgrounds, or compete with foreign-owned companies operating within the United States.

Businesses around the world are attempting to increase their competitiveness and value by increasing their global presence, often through mergers and acquisitions. The “Competing through Globalization” box shows how Merck KGaA successfully completed its acquisition of Serono by focusing on creating a shared culture.

Entering International Markets

Many companies are entering international markets by exporting their products overseas, building manufacturing facilities or service centers in other countries, entering into alliances with foreign companies, and engaging in e-commerce. Developing...
nations such as Taiwan, Indonesia, and China may account for more than 60 percent of the world economy by 2020.\textsuperscript{126} For example, Coca-Cola is trying to build a global juice business through deals in Latin America, Russia, and China.\textsuperscript{127} Power Curbers Inc., a small North Carolina manufacturer, sells construction-related machinery to more than 70 countries, including Australia, China, Central America, and western Europe. Its equipment helped complete the Eurotunnel under the English Channel. Technical Materials, a 250-employee Rhode Island company, has been exporting high-technology materials systems to China. At Texas Instruments (TI) with approximately 30,000 employees worldwide, 80 percent of sales come from customers outside the United States. More than 50 percent of the wireless phones sold worldwide contain TI’s digital signal processing.

Global companies are struggling both to find and retain talent employees, especially in emerging markets. Companies are moving into China, India, eastern Europe, the Middle East, Southeast Asia, and Latin America, but the demand for talented employees exceeds supply. Also, companies often place successful U.S. managers in charge of overseas operations, but these managers lack the cultural understanding necessary to attract, motivate, and retain talented employees. To cope with these problems, companies are taking actions to better prepare their managers and their families for overseas assignments and to ensure that training and development opportunities are available for global employees. Cross-cultural training prepares employees and their families to understand the culture and norms of the country they are being relocated to and to return to their home country after the assignment. Cross-cultural training is discussed in Chapter 10.

IBM obtains more than two-thirds of its revenue from outside the United States and is seeking to build team leadership in order to compete in emerging markets around the world. IBM’s Corporate Service Program donates the time and service of about 600 employees for projects in countries such as Turkey, Romania, Ghana, Vietnam, the Phillipines, and Tanzania.\textsuperscript{128} The goal of the program is to develop a leadership team that learns about the needs and culture of these countries, at the same time providing valuable community service. For example, eight IBM employees from five countries traveled to Timisoara, Romania. Each employee was assigned to help a different company or nonprofit organization. One software-development manager helped GreenForest, a manufacturer of office, hotel, school, and industrial furniture, reach its goal of cutting costs and becoming more efficient by recommending computer equipment and systems needed to increase production and exports to western Europe. Another employee worked with a nonprofit organization that offers services to disabled adults. Besides benefiting the companies, the employees have also found that the experience has helped them understand cultural differences, improve their communication and teamwork skills, and gain insights on global marketing and strategy.

AP Moller-Maersk Group is a world leader in shipping, transportation, and logistics.\textsuperscript{129} AP Moller-Maersk has very selective hiring as well as extensive training and development practices. In its entry-level Maersk International Shipping Education program, one employee is hired for approximately 200 applicants. The new employees receive job assignments that help them understand the entire company and its global operations, not just one functional area. The company also provides extensive coaching and assessment of managerial potential and provides regular feedback to keep employees focused on the things they need to do to reach their career goals.
Offshoring

Offshoring refers to the exporting of jobs from developed countries, such as the United States, to countries where labor and other costs are lower. India, Canada, China, Russia, Ireland, Mexico, Brazil, and the Philippines are some of the destination countries for offshored jobs. Why are jobs offshored? The main reason is labor costs. Workers in other countries earn a fraction of the wages of American workers performing the same job. For example, Indian computer programmers receive about
$10 an hour compared to $60 per hour earned by U.S. programmers. Other reasons include the availability of a highly skilled and motivated workforce. Both India and China have high numbers of engineering and science graduates. China graduated 325,000 engineers in 2004, five times as many as the United States. Each year, India graduates 2 million English-speaking students with strong technical and quantitative skills. Finally, cheap global telecommunications costs allow companies with engineers 6,000 miles away to complete design work and interact with other engineers as if they were located in the office down the hall.

Initially, offshoring involved low-skilled manufacturing jobs with repeatable tasks and specific guidelines for how the work was to be completed. Offshoring now includes high-skilled manufacturing jobs and is also prevalent in the service and information technology sectors, for example, telephone call center, accounting bookkeeping and payroll, legal research, software engineers, architecture, and design.

For example, in contrast to computer and printer manufacturer Hewlett-Packard, which hired its first foreign workers 20 years after its founding in 1939, search engine Google employed people outside the United States just three years after its 1998 start. OfficeTiger, which provides business services to banks, insurance companies, and other clients, has 200 employees in the United States and 2,000 in southern India. Whether its clients need typesetting or marketing research, Indian employees can submit their work over the Internet. Because Indian workers are generally paid only one-fifth U.S. earnings for comparable jobs, OfficeTiger offers attractive prices. The company is growing and expects that two-thirds of its future hires will be in India, Sri Lanka, and countries other than the United States. Regardless of company size, talent comparable to that in the United States is available at lower costs overseas. Gen3Partners, a Boston-based product innovation company, has a research and development lab in St. Petersburg, Russia, with 90 scientists and engineers, all with advanced degrees. Russia has a tradition of scientific excellence, and comparable talent costs less than in the United States. For small companies such as Cobalt Group, a Seattle, Washington, automotive online services company, labor costs for its 50 research and development engineers who work in a technology center in India are about one-third of the U.S. costs.

However, as a result of 9/11 and concerns that American employees should get the first chance at U.S. jobs, immigration rules have made it difficult for immigrants to seek employment. Also, visa limits have restricted the number of highly skilled professionals and technical employees who can work in the United States. A maximum of 65,000 H1B visas, which allow a U.S. company to employ a foreign worker for up to six years, are made available each year, and all are taken on the first day they are available. For example, for fiscal year 2009 which began in October 2008, the U.S. Citizenship and Immigration Services received 163,000 applications for the 65,000 H1B visas. The U.S. Senate is considering legislation that would impact immigrant employment.

Although companies may be attracted to offshoring because of potential lower labor costs, several other issues have emerged that are also important. First, can employees in the offshored locations provide a level of customer service the same as or higher than customers receive from U.S. operations? Second, would offshoring demoralize U.S. employees such that the gains from offshoring would be negated by lower motivation, lower satisfaction, and higher turnover? Third, are local managers adequately trained to motivate and retain offshore employees? Fourth, what is the potential effect, if any, of political unrest in the countries in which operations are offshored? Fifth, what effect would offshoring have on the public image of the company? Would
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customers or potential customers avoid purchasing products or services because they believe offshoring costs U.S. employees their jobs? Would offshoring have an adverse effect on recruiting new employees?

Because of the disadvantages of offshoring discussed above and the total costs of working with different languages, cultures, and time zones, many companies are onshoring, or moving jobs to rural America. Onshoring may be most attractive to companies that have brands tied to the United States because they fear the political fallout related to offshoring. Dell opened a call center in Twins Falls, Idaho, after closing one in India because of customer complaints. US Bank considered opening a call center in India but decided against it because of the bad publicity that would have resulted. US Bank chose instead to put the call center in Coeur d’Alene, Idaho, where the 500 new jobs would reduce the area’s unemployment rate and make a difference in the quality of life in the community.

There is considerable debate whether offshoring results in loss of jobs for Americans or actually creates new jobs. Smaller entrepreneurial companies are finding that offshoring helps them expand their business. For example, Xpitax, a 50-employee company in Braintree, Massachusetts, helps small accounting firms transfer the work of preparing clients’ tax forms to a team of accountants in India. Trained in U.S. tax law, the accountants are paid the same wages per day as an American accountant can earn in one hour. The returns are prepared in 12 to 24 hours. Companies such as GE Medical Systems are hiring highly skilled Indian engineers at lower wages than U.S. engineers receive (a top engineering graduate from India earns about one-eighth of U.S. starting pay) enabling the company to create better research and development teams to speed up product launches and prototype development and to upgrade quality. This will allow GE Medical Systems and other companies to cut research and development costs, introduce new products, and save or create new jobs in the United States.

The Technology Challenge

Technology has reshaped the way we play (e.g., games on the Internet), communicate (e.g., cell phones), plan our lives (e.g., electronic calendars that include Internet access), and where we work (e.g., small, powerful personal computers allow us to work at home, while we travel, and even while we lie on the beach!). The Internet has created a new business model—e-commerce, in which business transactions and relationships can be conducted electronically. The Internet is a global collection of computer networks that allows users to exchange data and information. Seventy-nine percent of adults, approximately 178 million, go online, spending an average of 11 hours a week on the Internet. Seventy-two percent access the Internet from home, while 37 percent do so from work. For example, customers can now read The Wall Street Journal and many local newspapers online. They can send online greeting cards from Blue Mountain Arts. Through the Web you can purchase clothes, flowers, and airline tickets and even have someone pick up groceries for you. Companies can connect with job candidates across the world on www.monster.com, and employees can connect with friends, family, and co-workers using MySpace at www.myspace.com.

How and Where People Work

Advances in sophisticated technology along with reduced costs for the technology are changing many aspects of human resource management. Technological advances in electronics and communications software have made possible mobile technology

Onshoring
Exporting jobs to rural parts of the United States.
such as personal digital assistants (PDAs) and iPods as well as improving the Internet. The Internet and the Web allow employees to send and receive information as well as to locate and gather resources, including software, reports, photos, and videos. The Internet gives employees instant access to experts whom they can communicate with and to newsgroups, which are bulletin boards dedicated to specific areas of interest, where employees can read, post, and respond to messages and articles. Internet sites also have home pages—mailboxes that identify the person or company and contain text, images, sounds, and video.

For example, Willow CSN is a provider of home-based call center agents (Cyber-Agents). Willow contracts with businesses such as Office Max, whose call centers need more employees at certain hours. The CyberAgents choose the shifts they want to work on a Web site. They work a variable number of hours ranging from 10 to 32 hours per week and are paid based on the number of calls they answer. They take calls at home using the same software and equipment as the agents at the client’s call center. The agents are monitored and calls recorded just as though they were working in a traditional call center. They can get help from supervisors or co-workers in an online chat room.

Robotics, computer-assisted design, radio frequency identification, and nanotechnology are transforming manufacturing. Technology has also made equipment easier to operate, helping companies cope with skill shortages and allowing older workers to postpone retirement. For example, consider working a grader construction vehicle (which is used to smooth and level dirt on roadways and other construction projects). Older vehicle models required operating as many as 15 levers in addition to a steering wheel and several foot pedals. As a result, working the grader usually left operators with sore backs and shoulders at the end of the day. Caterpillar’s latest version of the grader includes redesigned controls that use only two joysticks and eliminate the physical demands of pushing pedals and turning a steering wheel. Besides reducing the physical demands, the redesign of the grader without a steering wheel resulted in operators having better visibility of the steel blade and switches for lights, windshield wipers, and the parking brake could be grouped together in one place in the cab.

Technology is pushing the boundaries of artificial intelligence, speech synthesis, wireless communications, and networked virtual reality. Realistic graphics, dialogue, and sensory cues can now be stored onto tiny, inexpensive computer chips. These advances have the potential for freeing workers from going to a specific location to work and from traditional work schedules. For example, a recent survey found that 37 percent of employers offer telecommuting on a part-time basis and 23 percent on a full-time basis. Telecommuting has the potential to increase employee productivity, encourage family-friendly work arrangements, and help reduce traffic and air pollution. But at the same time technologies may result in employees being on call hours a day, seven days a week. Many companies are taking steps to provide more flexible work schedules to protect employees’ free time and to more productively use employees’ work time. For example, employees at Sun Microsystems can work almost anywhere and anytime because their work and information are available online. Under Sun’s iWork program, which uses both flexible hours and flexible workspaces, employees can work in several different locations. They may use Sun’s flexible offices located in 12 drop-in centers, as well as 115 other locations around the world. The locations of the drop-in centers help employees reduce the amount of time they spend commuting to a central location. This also helps employees set up flexible arrangements where they can go to and from work to pick up and drop off family members, perhaps finishing work at home. They may also receive approval to work at home.
Most employees are happy with the flexibility the program gives them including the convenience of choosing a location and the greater personal control over how to balance work and personal time. Sun is saving money by reducing office space and the expenses related to a traditional office arrangement.

**High-Performance Work Systems**

New technology causes changes in skill requirements and work roles and often results in redesigning work structures (e.g., using work teams). High-performance work systems maximize the fit between the company’s social system (employees) and its technical system. For example, computer-integrated manufacturing uses robots and computers to automate the manufacturing process. The computer allows the production of different products simply by reprogramming the computer. As a result, laborer, material handler, operator/assembler, and maintenance jobs may be merged into one position. Computer-integrated manufacturing requires employees to monitor equipment and troubleshoot problems with sophisticated equipment, share information with other employees, and understand the relationships between all components of the manufacturing process. Consider the changes Canon Inc., known for office imaging, computer peripherals, and cameras, has made to speed up the development and production process. Canon is using a procedure called concurrent engineering, where production engineers work together with designers. This allows them to more easily exchange ideas to improve a product or make it easier to manufacture. Canon also now has production employees work in “cells,” where they perform multiple tasks and can more easily improve the production process. Previously, employees worked in an assembly line controlled by a conveyor belt. The new cell system requires lower parts inventory and less space, cutting factory operating and real estate costs. Also, employees are more satisfied working in cells because they feel more responsibility for their work.

**Working in Teams.** Through technology, the information needed to improve customer service and product quality becomes more accessible to employees. This means that employees are expected to take more responsibility for satisfying the customer and determining how they perform their jobs. One of the most popular methods for increasing employee responsibility and control is work teams. Work teams involve employees with various skills who interact to assemble a product or provide a service. Work teams may assume many of the activities usually reserved for managers, including selecting new team members, scheduling work, and coordinating activities with customers and other units in the company. To give teams maximum flexibility, cross-training of team members occurs. Cross-training refers to training employees in a wide range of skills so they can fill any of the roles needed to be performed on the team.

Use of new technology and work designs such as work teams needs to be supported by specific human resource management practices. These practices include the following actions:

- Employees choose or select new employees or team members.
- Employees receive formal performance feedback and are involved in the performance improvement process.
- Ongoing training is emphasized and rewarded.
- Rewards and compensation are linked to company performance.
- Equipment and work processes encourage maximum flexibility and interaction between employees.
Employees participate in planning changes in equipment, layout, and work methods. Employees understand how their jobs contribute to the finished product or service.

**Changes in Skill Requirements.** High-performance work systems have implications for employee selection and training. Employees need job-specific knowledge and basic skills to work with the equipment created with the new technology. Because technology is often used as a means to achieve product diversification and customization, employees must have the ability to listen and communicate with customers. Interpersonal skills, such as negotiation and conflict management, and problem-solving skills are more important than physical strength, coordination, and fine-motor skills—previous job requirements for many manufacturing and service jobs. Although technological advances have made it possible for employees to improve products and services, managers must empower employees to make changes.

**Working in Partnerships.** Besides changing the way that products are built or services are provided within companies, technology has allowed companies to form partnerships with one or more other companies. Virtual teams refer to teams that are separated by time, geographic distance, culture and/or organizational boundaries and that rely almost exclusively on technology (e-mail, Internet, videoconferencing) to interact and complete their projects. Virtual teams can be formed within one company whose facilities are scattered throughout the country or the world. A company may also use virtual teams in partnerships with suppliers or competitors to pull together the necessary talent to complete a project or speed the delivery of a product to the marketplace. PricewaterhouseCoopers’s learning and education department has 190 employees who are located in 70 offices in different cities. These employees work together on virtual teams that range in size from 5 to 50 people. Shared databases are used for background information and developing work, each office has videoconferencing, software is used to track calendars and connect employees via their personal computers to their virtual teams.

Software developers are positioning employees around the world with clusters of three or four facilities, six to eight hours apart, to keep projects moving 24 hours a day. The intent is to increase productivity and reduce project completion time by allowing employees to focus continuously on projects through using highly talented engineers who can work in their own time zone and location without having to move to a different country or work inconvenient hours. Also, globally distributed projects can draw on employees from many different cultures, backgrounds, and perspectives helping to produce services and products that can better meet the needs of global customers. The challenges are how to organize work so that teams in different locations and different work shifts can share task with minimum interaction.

Employees must be trained in principles of employee selection, quality, and customer service. They need to understand financial data so they can see the link between their performance and company performance.

**Changes in Company Structure and Reporting Relationships.** The traditional design of U.S. companies emphasizes efficiency, decision making by managers, and dissemination of information from the top of the company to lower levels. However, this structure will not be effective in the current work environment, in which personal computers give employees immediate access to information needed to complete customer orders or modify product lines. In the adaptive organizational structure, employees are in a constant state of learning and performance improvement. Employees are free to move wherever they are needed in the company. The adaptive...
organization is characterized by a core set of values or a vital vision that drives all organizational efforts.\textsuperscript{153} Previously established boundaries between managers and employees, employees and customers, employees and vendors, and the various functions within the company are abandoned. Employees, managers, vendors, customers, and suppliers work together to improve service and product quality and to create new products and services. Line employees are trained in multiple jobs, communicate directly with suppliers and customers, and interact frequently with engineers, quality experts, and employees from other functions.

Consider the case of Putnam Investments, where the company culture and organizational structure may have contributed to unethical behavior.\textsuperscript{154} Putnam has taken several steps in response to a corporate scandal in which portfolio managers were violating company policies by rapidly trading funds and allowing certain clients to do the same. The company believed that the unethical and illegal behavior was a result of a rigid hierarchical organizational structure and a hypercompetitive business environment. To create a more relaxed culture better for collaboration and reduced focus on short-term gains the CEO prepared guiding principles for the company including personal integrity, mutual respect, and the highest professional standards. Putnam reduced its staff to flatten the organization and give employees more autonomy and independence in their jobs. The flatter structure has provided more opportunities for retail and institutional portfolio managers to cross-sell investment products. To create a more collegial environment, dress is now business casual. Also, to increase employee involvement when developing human resource policies and practices Putnam now has an employee advisory council, which meets four time a year with the CEO.

**Increased Use and Availability of e-HRM and Human Resource Information Systems.** Electronic human resource management (e-HRM) refers to the processing and transmission of digitized information used in HRM, including text, sound, and visual images from one computer or electronic device to another. New technologies and advances in software, including avatars, collaborative social networks, and mobile technologies such as personal digital assistants and iPods, are influencing training, development, work design, recruiting, and other aspects of HR. Table 1.13 shows the implications of e-HRM. For example, Capital One, a financial service company, uses an audio learning program that allows employees to learn through their iPods at their

<table>
<thead>
<tr>
<th>HRM PRACTICE</th>
<th>IMPLICATIONS OF e-HRM</th>
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<tbody>
<tr>
<td>Analysis and design of work</td>
<td>Employees in geographically dispersed locations can work together in virtual teams using video, e-mail, and the Internet.</td>
</tr>
<tr>
<td>Recruiting</td>
<td>Post job openings online; candidates can apply for jobs online.</td>
</tr>
<tr>
<td>Training</td>
<td>Online learning can bring training to employees anywhere, anytime.</td>
</tr>
<tr>
<td>Selection</td>
<td>Online simulations, including tests, videos, and e-mail, can measure job candidates’ ability to deal with real-life business challenges.</td>
</tr>
<tr>
<td>Compensation and benefits</td>
<td>Employees can review salary and bonus information and seek information about and enroll in benefit plans.</td>
</tr>
</tbody>
</table>
own convenience. The company has also developed a mobile audio learning channel. The channel supplements competency-based and leadership and management programs and other existing company training courses. It is also used to ensure that employees receive information when they need it. The Federal Aviation Administration (FAA) has 50,000 employees spread throughout the country. Proposals that required input from employees spread throughout the country took years to complete. New software allows the FAA to create virtual shared workspaces for employees. FAA employees and industry experts can now interact in virtual “rooms” to debate ideas and work on shared documents. The virtual rooms have saved the FAA more than $3 million in travel costs and $2 million in employee time, and they have reduced the time needed for most proposals to become rules to one year. United Parcel Service (UPS) implemented a software system that each evening maps out the next day’s schedule for its drivers. The software designs each route to minimize the number of left turns, reducing the time and gas that drivers waste at traffic lights. Customers get their packages on time and drivers can make it home in the evening for dinner.

Companies continue to use human resource information systems to store large quantities of employee data including personal information, training records, skills, compensation rates, absence records, and benefits usages and costs. A human resource information system (HRIS) is a computer system used to acquire, store, retrieve, and distribute information related to a company’s human resources. An HRIS can support strategic decision making, help the company avoid lawsuits, provide data for evaluating policies and programs, and support day-to-day HR decisions. Florida Power & Light Company, based in Juno Beach, Florida, uses HRIS applications to provide information to employees and to support decision making by managers. More than 10,000 employees in 20 states can use the information system to learn about their benefits. Managers use the system to track employees’ vacation and sick days and to make changes in staffing and pay. Using the HRIS, managers can request the HRIS system to automatically prepare a personnel report; they no longer have to contact the HR department to request one. The “Competing through Technology” box shows how Aetna Corporation has used software to help in talent management.

The use of company intranets, a network that uses Internet tools but limits access to authorized users in the company, and Web portals designed to serve as gateways to the Internet that highlight links to relevant information are becoming common practice. As we mentioned earlier in the chapter (in the discussion of how HR’s role in administration is decreasing), company intranets and Web portals allow employees and managers online access to information about HR issues, offer self-enrollment programs, and provide feedback through surveys (self-service). Employees can look up workplace policies and information about training programs and enroll online, choose benefits and change salary deductions, and review employment contracts. Self-service at Mapics, a software developer based in Atlanta, allows managers and employees to keep track of vacation time. This helps with scheduling and enables managers to encourage employees to use their remaining vacation time. Mapics changed its vacation policy to require that employees take their vacation time or lose it at the end of the year. Before self-service, Mapics lacked reliable information on company vacation time, resulting in a liability of a million dollars worth of accrued, unused vacation time. Self-service improved management and employee satisfaction with HR services at the same time it cut costs.

More sophisticated systems extend management applications to decision making in areas such as compensation and performance management. Managers can
Aetna Corporation is one of the nation’s leaders in health care; dental, pharmacy, group life, and disability insurance; and employee benefits. Aetna is dedicated to helping people achieve health and financial security by providing easy access to safe, cost-effective, high-quality health care and protecting their finances against health-related risks. Aetna’s vision is to earn the distinction, financially and by reputation, of being the preferred benefits company in all aspects of our business.

An important part of Aetna’s business strategy is to foster a culture of inclusion that grows a diverse talent pool and recognizes and rewards the contributions of each of the company’s more than 35,000 employees while allowing them to do their best work. At Aetna Corporation, the CEO and the HR director work together to realize this aspect of the business strategy by creating a comprehensive talent management system that will help all employees reach their full potential. Ronald Williams, Aetna’s chairman and CEO, spends about 30 percent of his time on people issues, focusing on turnover, succession, and loss of talent. Williams often seeks information about talent management from his HR director. He is interested in questions such as, “How do we know our managers are assessing and developing individuals?” As a result, Williams asked his HR director to build a system that would help managers identify, train, and track talent throughout the company. Williams believes it is essential to manage the entire talent pool of the company, not just the top performers, to be competitive.

HR is loading data about Aetna’s 34,000 employees into a talent management system accessible to both employees and managers. Information about every job and employee will soon be accessible with only a click of the mouse. Information in the talent management system comes from HR, managers, and employees. HR managers provide the information that connects individual employees to job descriptions and related skills and competencies. The job descriptions in the database identify the critical competencies and skills needed for each position. Employees provide their own background information, work history, and skills inventory and provide information on development plans and career goals. Managers rate their employees on skills and competencies. Employees will be able to see their manager’s ratings and comments on their job performance and potential.

Managers, employees, and HR professionals can all update information as job descriptions, employee skill sets, or performance ratings change. The system, called Talent Manager, can provide reports and analyses of employees at all levels. HR can identify solid performers, at-risk employees, and possible job–employee mismatches. Also, HR and managers can analyze talent needs and surpluses of each of Aetna’s five job families: nursing, clinical, actuarial, operational, and underwriting. Managers and HR professionals can see all information related to each job within the organization, including up-to-date job descriptions, competencies required for success, and the pipeline or “bench” of candidates ready to move into a job. Also, Talent Manager can increase employees’ awareness of job openings and allow managers to identify potential job candidates. Previously, employees learned of job opportunities from job postings. Using Talent Manager, they can express their interest in open positions and provide their qualifications to hiring managers. Talent Manager allows managers in any of Aetna’s four companies to identify employees with specific skills or competencies who may be a good fit for a job opening by using key terms such as “speaks Portuguese” or “has worked in India” to searching the system.

schedule job interviews or performance appraisals, guided by the system to provide the necessary information and follow every step called for by the procedure.\textsuperscript{161} One of the most creative uses of Internet technology is the development of HR dashboards. An HR dashboard is a series of indicators or metrics that managers and employees have access to on the company intranet or human resource information system. For example, Cisco Systems views building talent as a priority so it has added to its dashboard of people measures a metric to track how many people move and the reasons why.\textsuperscript{162} This allows Cisco to identify divisions that are developing new talent.

**Competitiveness in High-Performance Work Systems.** Unfortunately, many managers have tended to consider technological and structural innovations independent of each other. That is, because of immediate demands for productivity, service, and short-term profitability, many managers implement a new technology (such as a networked computer system) or a new work design (like service teams organized by product) without considering how a new technology might influence the efficiency or effectiveness of the way work is organized.\textsuperscript{163} Without integrating technology and structure, a company cannot maximize production and service.

Human resource management practices that support high-performance work systems are shown in Table 1.14. The HRM practices involved include employee selection, performance management, training, work design, and compensation. These practices are designed to give employees skills, incentives, knowledge, and autonomy. Research studies suggest that high-performance work practices are usually associated with increases in productivity and long-term financial performance.\textsuperscript{164} Research also suggests that it is more effective to improve HRM practices as a whole, rather than focus on one or two isolated practices (such as the pay system or selection system).\textsuperscript{165} There may be a best HRM system, but whatever the company does, the practices must be aligned with each other and be consistent with the system if they are to positively affect company performance.\textsuperscript{166} We will discuss this alignment in more detail in Chapters 2 and 16.

Consider how human resource management practices support the high-performance work system at the Global Engineering Manufacturing Alliance (GEMA) plant in Dundee, Michigan.\textsuperscript{167} The plant is more automated and employs fewer workers than most engine plants, 275 compared with 600 to 2,000 employees at other engine plants. The goal of the plant is to be the most productive engine plant in the world. The UAW endorsed the high-performance workplace because it recognized that the company needs to be competitive to avoid losing jobs. The implications of this work system for labor relations is discussed in Chapter 14.

The plant’s hourly employees rotate jobs and shifts, increasing the company’s flexibility. The plant’s culture emphasizes problem solving and that anyone can do anything, anytime, anywhere. Everyone has the same title: team member or team leader. By rotating jobs the plant wants to keep workers motivated in their work and avoid injuries. Team leaders and engineers don’t stay in their offices; they are expected to work on the shop floor as part of six-person teams. Contractors are also seen as part of the team, working alongside assembly workers and engineers and wearing the same uniforms. Most auto plants have a day and night shift with senior workers usually choosing to work the day shift. At GEMA, employees rotate shifts in crews of three, working 10 hours per day, four days per week, alternating between days and nights. Every third week of their rotation they get five days off in addition to any vacation time. Counseling is available...
### Chapter 1  Human Resource Management: Gaining a Competitive Advantage

#### Table 1.14
How HRM Practices Support High-Performance Work Systems

<table>
<thead>
<tr>
<th>Staffing</th>
<th>• Employees participate in selecting new employees, e.g., peer interviews.</th>
</tr>
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</table>
| Work Design | • Employees understand how their jobs contribute to the finished product or service.  
| | • Employees participate in planning changes in equipment, layout, and work methods.  
| | • Work may be organized in teams.  
| | • Job rotation used to develop skills.  
| | • Equipment and work processes are structured and technology is used to encourage flexibility and interaction between employees.  
| | • Work design allows employees to use a variety of skills.  
| | • Decentralized decision making, reduced status distinctions, information sharing.  
| | • Increased safety. |
| Training | • Ongoing training emphasized and rewarded.  
| | • Training in finance and quality control methods. |
| Compensation | • Team-based performance pay.  
| | • Part of compensation may be based on company or division financial performance. |
| Performance Management | • Employees receive performance feedback and are actively involved in the performance improvement process. |


to help employees adjust to the rotating work schedule. The work schedule allows the plant to be in operation 21 hours per day, 6 days per week, 294 days a year. But employees work only 196 days a year. The alternating shifts also help employees to know and work with each other and salaried employees, who work only during daytime.

To hire employees who could work in a team environment emphasizing problem solving and flexibility, GEMA recruited using local newspapers within 70 miles of Dundee. GEMA worked with local civil rights organizations to find diverse candidates. Nonexempt employees whose wages start at $21 and increase to $30 within five years must have a two-year technical degree, a skilled journeyman’s card, or five years experience in advanced machining.

Job candidates have to make it through a difficult screening process that takes 12 hours. The process requires candidates to take tests, participate in team activities in which they confront challenges facing the plant (e.g., process in the plant is inefficient), and interviews with operations managers and team leaders. When the plant is ahead of its production schedule employees receive training in class and on the shop floor in topics such as how to assemble an engine to math skills.

GEMA gives employees access to technology that helps them monitor productivity. Large electronic screens hanging from the plant ceiling provide alerts of any
machinery parts that are ending their lifespan and need to be replaced before they malfunction. A performance management system available on personal computers, as well as a display board, alerts employees to delays or breakdowns in productivity. This is different from most engine plants where only managers have access to this information. The technology empowers all employees to fix problems, not just managers or engineers. GEMA provides rewards and bonuses for employees who develop innovative problem solutions.

Meeting Competitive Challenges through HRM Practices

We have discussed the global, stakeholder, new economy, and high-performance work system challenges U.S. companies are facing. We have emphasized that management of human resources plays a critical role in determining companies’ success in meeting these challenges. HRM practices have not traditionally been seen as providing economic value to the company. Economic value is usually associated with equipment, technology, and facilities. However, HRM practices have been shown to be valuable. Compensation, staffing, training and development, performance management, and other HRM practices are investments that directly affect employees’ motivation and ability to provide products and services that are valued by customers. Research has shown that companies that attempt to increase their competitiveness by investing in new technology and becoming involved in the quality movement also invest in state-of-the-art staffing, training, and compensation practices. Figure 1.7 shows examples of human resource management practices that help companies deal with the three challenges. For example, to meet the sustainability challenge, companies need to identify through their selection processes whether prospective employees value customer relations and have the levels of interpersonal skills necessary to work with fellow employees in teams. To meet all three challenges, companies need to capitalize on the diversity of values, abilities, and perspectives that employees bring to the workplace.

HRM practices that help companies deal with the competitive challenges can be grouped into the four dimensions shown in Figure 1.8. These dimensions include the human resource environment, acquiring and preparing human resources, assessment and development of human resources, and compensating human resources. In addition, some companies have special issues related to labor–management relations, international human resource management, and managing the human resource function.

Managing the Human Resource Environment

Managing internal and external environmental factors allows employees to make the greatest possible contribution to company productivity and competitiveness. Creating a positive environment for human resources involves

- Linking HRM practices to the company’s business objectives—that is, strategic human resource management.
- Ensuring that HRM practices comply with federal, state, and local laws.
- Designing work that motivates and satisfies the employee as well as maximizes customer service, quality, and productivity.
Acquiring and Preparing Human Resources

Customer needs for new products or services influence the number and type of employees businesses need to be successful. Terminations, promotions, and retirements also influence human resource requirements. Managers need to predict the number and type of employees who are needed to meet customer demands for products and services.

Global Challenge

- HRM strategy is matched to business strategy.
- Knowledge is shared.
- Work is performed by teams.
- Pay systems reward skills and accomplishments.
- Selection system is job-related and legal.
- Flexibility in where and when work is performed.
- Employee engagement is monitored.

Sustainability Challenge

- Continuous learning environment is created.
- Discipline system is progressive.
- Customer satisfaction and quality are evaluated in the performance management system.
- Skills and values of a diverse workforce are valued and used.
- Technology is used to reduce the time for administrative tasks and to improve HR efficiency and effectiveness.

Technology Challenge

- Continuous learning environment is created.
- Discipline system is progressive.
- Customer satisfaction and quality are evaluated in the performance management system.
- Skills and values of a diverse workforce are valued and used.
- Technology is used to reduce the time for administrative tasks and to improve HR efficiency and effectiveness.

Dimensions of HRM Practices

Managing the human resource environment
Acquiring and preparing human resources
Assessment and development of human resources
Compensating human resources

Competitiveness

figure 1.7
Examples of How HRM Practices Can Help Companies Meet Competitive Challenges

figure 1.8
Major Dimensions of HRM Practices Contributing to Company Competitiveness
Managers must also identify current or potential employees who can successfully deliver products and services. This area of human resource management deals with

- Identifying human resource requirements—that is, human resource planning, recruiting employees, and selecting employees.
- Training employees to have the skills needed to perform their jobs.

**Assessment and Development of Human Resources**
Managers need to ensure that employees have the necessary skills to perform current and future jobs. As we discussed earlier, because of new technology and the quality movement, many companies are redesigning work so that it is performed by teams. As a result, managers and employees may need to develop new skills to succeed in a team environment. Companies need to create a work environment that supports employees’ work and nonwork activities. This area of human resource management addresses

- Measuring employees’ performance.
- Preparing employees for future work roles and identifying employees’ work interests, goals, values, and other career issues.
- Creating an employment relationship and work environment that benefits both the company and the employee.

**Compensating Human Resources**
Besides interesting work, pay and benefits are the most important incentives that companies can offer employees in exchange for contributing to productivity, quality, and customer service. Also, pay and benefits are used to reward employees’ membership in the company and attract new employees. The positive influence of new work designs, new technology, and the quality movement on productivity can be damaged if employees are not satisfied with the level of pay and benefits or believe pay and benefits are unfairly distributed. This area of human resource management includes

- Creating pay systems.
- Rewarding employee contributions.
- Providing employees with benefits.

**Special Issues**
In some companies, employees are represented by a labor union. Managing human resources in a union environment requires knowledge of specific laws, contract administration, and the collective bargaining process.

Many companies are globally expanding their business through joint ventures, mergers, acquisitions, and establishing new operations. Successful global expansion depends on the extent to which HRM practices are aligned with cultural factors as well as management of employees sent to work in another country. Human resource management practices must contribute to organizational effectiveness.

Human resource management practices of both managers and the human resource function must be aligned and contribute to the company’s strategic goals. The final chapter of the book explains how to effectively integrate human resource management practices.
Organization of This Book

The topics in this book are organized according to the four areas of human resource management and special issues. Table 1.15 lists the chapters covered in the book.

The content of each chapter is based on academic research and examples of effective company practices. Each chapter includes examples of how the human resource management practice covered in the chapter helps a company gain a competitive advantage by addressing sustainability, global, and technological challenges. Also, each chapter includes an example of a company that demonstrates how HR practices add value (evidence-based HR).

A Look Back

Starbucks is trying to retain customers in a recessionary economic period.

Questions

1. What HR practices do you believe are most critical for Starbucks to maintain the coffee experience and customer service it’s known for?
2. Do you think the culture and HR practices Starbucks is using during the recession would also help the bottom line at companies in other industries such as health care, manufacturing, or research and development? Explain why or why not.
3. Could Starbucks be as successful without its current HR practices? Explain.

Please see the Video Case and Case Study that correspond to this chapter online at www.mhhe.com/noe7e.
Summary

This chapter introduced the roles and activities of a company’s human resource management function and emphasized that effective management of human resources can contribute to a company’s business strategy and competitive advantage. HR can be viewed as having three product lines: administrative services, business partner services, and strategic services. To successfully manage human resources, individuals need personal credibility, business knowledge, understanding of the business strategy, technology knowledge, and the ability to deliver HR services. Human resource management practices should be evidence-based, that is, based on data showing the relationship between the practice and business outcomes related to key company stakeholders (customers, shareholders, employees, community). In addition to contributing to a company’s business strategy, human resource practices are important for helping companies deal with sustainability, globalization, and technology challenges. The sustainability challenges are related to the economy, the characteristics and expectations of the labor force, how and where work is done, the value placed on intangible assets and human capital, and meeting stakeholder needs (ethical practices, high-quality products and services, return to shareholders, and social responsibility). Global challenges include entering international markets, immigration, and offshoring. Technology challenges include using new technologies to support flexible and virtual work arrangements, high-performance work systems, and developing effective e-HRM practices and human resource information systems.

The chapter concludes by showing how the book is organized. The book includes four topical areas: the human resource environment (strategic HRM, legal, analysis and design of work), acquisition and preparation of human resources (HR planning and recruitment, selection, training), assessment and development of human resources (performance management, development, training), compensation of human resources (pay structures, recognizing employee contributions with pay, benefits), and special topics (collective bargaining and labor relations, managing human resources globally, and strategically managing the HR function). All of the topical areas are important for companies to deal with the competitive challenges and contribute to business strategy.

Key Terms

- Competitiveness, 4
- Human resource management (HRM), 4
- Self-service, 9
- Outsourcing, 9
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Discussion Questions

1. Traditionally, human resource management practices were developed and administered by the company’s human resource department. Line managers are now playing a major role in developing and implementing HRM practices. Why do you think non-HR managers are becoming more involved in developing and implementing HRM practices?

2. Staffing, training, compensation, and performance management are important HRM functions. How can each of these functions help companies succeed in meeting the global challenge, the challenge of using new technology, and the sustainability challenge?

3. What are intangible assets? How are they influenced by human resource management practices?
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4. What is “evidence-based HR”? Why might an HR department resist becoming evidence-based?
5. Do you agree with the statement “Employee engagement is something companies should be concerned about only if they are making money”? Explain.
6. This book covers four human resource management practice areas: managing the human resource environment, acquiring and preparing human resources, assessment and development of human resources, and compensating human resources. Which area do you believe contributes most to helping a company gain a competitive advantage? Which area do you believe contributes the least? Why?
7. What is the balanced scorecard? Identify the four perspectives included in the balanced scorecard. How can HRM practices influence the four perspectives?
8. Is HRM becoming more strategic? Explain your answer.

SELF-ASSESSMENT EXERCISE: Do You Have What It Takes to Work in HR?

Instructions: Read each statement and circle yes or no.
Yes  No  1. I have leadership and management skills I have developed through prior job experiences, extracurricular activities, community service, or other noncourse activities.
Yes  No  2. I have excellent communications, dispute resolution, and interpersonal skills.
Yes  No  3. I can demonstrate an understanding of the fundamentals of running a business and making a profit.
Yes  No  4. I can use spreadsheets and the World Wide Web, and I am familiar with information systems technology.
Yes  No  5. I can work effectively with people of different cultural backgrounds.
Yes  No  6. I have expertise in more than one area of human resource management.

Scoring: The greater the number of yes answers, the better prepared you are to work in an HR department. For questions you answered no, you should seek courses and experiences to change your answer to yes—and better prepare yourself for a career in HR!


EXERCISING STRATEGY: Zappos Faces Competitive Challenges

Zappos, based in Las Vegas, is an online retailer with the initial goal of trying to be the best Web site for buying shoes by offering a wide variety of brands, styles, colors, sizes, and widths. The zappos.com brand has grown to offer shoes, handbags, eyewear, watches, and accessories for online purchase. Zappos’ vision is that in the future, online sales will account for 30 percent of all retail sales in the United States, and Zappos will be the company with the best service and selection. As a result, Zappos believes it can become the online service leader, drawing customers and expanding into selling other products. Zappos believes that the speed at which a customer receives an online purchase plays a critical role in how that customer thinks about shopping online again in the future, so they are focusing on making sure the items get delivered to our customers as quickly as possible.

Zappos CEO Tony Heish has shaped the company’s culture, brand, and business strategy around 10 core values. They are:

- Deliver WOW through service.
- Embrace and drive change.
Create fun and a little weirdness.
Be adventurous, creative, and open-minded.
Pursue growth and learning.
Build open and honest relationships with communication.
Build a positive team and family spirit.
Do more with less.
Be passionate and determined.
Be humble.

Deliver WOW through Service means that call center employees need to provide excellent customer service. Call center employees encourage callers to order more than one size or color because shipping and return shipping is free. They are also encouraged to use their imaginations to meet customer needs.

Zappos’ employment practices help perpetuate its company culture. For example, the HR team uses unusual interview questions—such as, How weird are you? and What’s your theme song?—to find employees who are creative and have strong individuality. Zappos provides free lunch in the cafeteria (cold cuts) and a full-time life coach (employees have to sit on a red velvet throne to complain), managers are encouraged to spend time with employees outside of the office, and any employee can reward another employee a $50 dollar bonus for good performance. Most employees at Zappos are hourly. All new hires complete four weeks of training, including two weeks working the phones. New recruits are offered $2,000 to leave the company during training to weed out individuals who will not be happy working at the company.

Due to a downturn in sales, Zappos was forced to cut costs, including laying off 124 employees. Heish handled the downsizing in a positive way. Laid-off employees with less than two years of service were paid through the end of the year. Everyone received six months of paid health coverage. Zappos also allowed laid-off employees to keep their 40 percent employee discount through Christmas.


Questions
1. What challenges is Zappos facing that may derail its attempt to be the best online retailer? How can human resource management practices help Zappos meet these challenges?
2. Do you think that employees of Zappos have high levels of engagement? Why?
3. Which of Zappos’ 10 core values do you believe that human resource practices can influence the most? The least? Why? For each of the core values, identify the HR practices that are related to it. Explain how each of the HR practice(s) you identified is related to the core values.

It’s cheaper to trim hours or pay than to slash staff—which is why companies are getting creative with alternatives like furloughs and unpaid leave.

Instead of jettisoning workers during the Great Depression, Iowa-based window maker Pella had its employees wash and rewash the windows it could not sell. These days, companies such as FedEx, Dell, and Motorola are adopting their own tactics to hold on to jobs, from hiring freezes to companywide unpaid vacations. (All have had to resort to layoffs as well.) And some are doing more than chopping pay or perks.

Vermont’s Rhino Foods, which makes the cookie dough for Ben & Jerry’s ice cream, recently sent 15 factory workers to nearby lip balm manufacturer Autumn Harp for a week to help it handle a holiday rush. The employees were paid by Rhino, which then invoiced its neighbor for the hours worked. President Ted Castle is looking to adopt a similar approach with salaried managers, too. “It’s a lot easier to just do the layoff,” says Castle. “But in the long term, it’s not easier for the business.”

Across the U.S., some 37% of human resources managers say they’re now spending more time devising alternatives to layoffs vs. six months ago, according to a recent survey by the Society for Human Resource Management. Peter Cappelli, director of the Center for Human Resources at the Wharton School of Business, notes that a 5% salary cut costs less than a 5% layoff because there are no severance payments. Some state governments even make the decision easier with a program called WorkShare, which allows companies to reduce employees’ work hours and make up the difference through unemployment benefits. “We would have had to take more draconian measures, such as more layoffs, were it not for this program,” says Mel White, a vice-president at Portland (Ore.)-based Classic Exhibits, which makes displays for trade shows.

Training existing staff to do more A typical move amid hiring freezes: training existing staff to do more. Luxury Retreats, a villa rental agency in Montreal, shuffled 8 of its 75 employees from areas such as product development
to sales. CEO Joe Poulin even moved his personal assistant to the accounting department. “You have to be really efficient with your resources in times like these,” says Poulin. Steelmaker Nucor, meanwhile, has cut factory time for many of its 22,000 hourly employees. On the days they’re not making steel joists, though, workers are paid their base salary to perform maintenance or take classes.

In China, accounting giant Ernst & Young offered its 9,000 mainland and Hong Kong employees a chance to take one month of unpaid leave during the first half of this year. About 90% of the firm’s auditors have opted in. Bin Wolfe, head of human resources for the region, says the move will slash EY’s payroll costs by 17%.

Some try to motivate staff even while trimming their pay. Matt Cooper, vice-president of Larkspur (Calif.) recruiting firm Accolo, asked employees to take five days unpaid leave this quarter but won’t dock paychecks until March. If big deals come through, he’ll lift the pay cut. And he shaved costs by sleeping on his brother-in-law’s couch during a recent business trip to New York. Instead of paying $1,500 for a week in a hotel room, Cooper spent 10% of that on dinner for the two of them and a nice bottle of wine.

Questions
1. Besides being cheaper, for what other reasons might companies try to avoid cutting their staffs and laying off employees during an economic downturn?
2. What evidence would you collect or look for to demonstrate that furloughs, unpaid leave, and salary or wage freezes are reducing costs and not negatively affecting the business?
3. Some companies have a “no layoff policy” regardless of economic conditions. Do you think this is a good idea? Why or why not?

Notes

17. Towers Perrin, Priorities for Competitive Advantage.
21. Ibid.
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98. Ibid.
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116. Ibid.
130. F. Hansen, “U.S. Firms Going Wherever the Knowledge Workers Are,” Workforce Management, October 2005, pp. 43–44.
132. Ibid.
133. Hansen, “U.S. Firms Going Where the Knowledge Workers Are.”

160. Ibid.


