CHAPTER 10

Human Resources Management

You can get capital and erect buildings, but it takes people to build a business.
—Thomas J. Watson, Founder, IBM.

CHAPTER OUTLINE

Strategic Human Resources Management
  The HR Planning Process

Staffing the Organization
  Recruitment
  Selection
  Workforce Reductions

Developing the Workforce
  Training and Development

Performance Appraisal
  What Do You Appraise?
  Who Should Do the Appraisal?
  How Do You Give Employees Feedback?

Designing Reward Systems
  Pay Decisions
  Incentive Systems and Variable Pay
  Employee Benefits
  Legal Issues in Compensation and Benefits
  Health and Safety

Labor Relations
  Labor Laws
  Unionization
  Collective Bargaining
  What Does the Future Hold?

LEARNING OBJECTIVES

After studying Chapter 10, you will know:

1. How companies use human resources management to gain competitive advantage.

2. Why companies recruit both internally and externally for new hires.

3. The various methods available for selecting new employees.

4. Why companies spend so much on training and development.

5. How to determine who should appraise an employee’s performance.

6. How to analyze the fundamental aspects of a reward system.


8. How the legal system influences human resources management.
THE ONLINE DASH FOR TALENT

In 1996 Steven Rothberg was publishing an employment magazine called College Recruiter. Employers paid to advertise in the magazine, which was distributed free to on-campus career centers. A director at one of those centers mentioned to Rothberg that she didn’t know what the Internet was and didn’t have email “but that a lot of her students had told her they were doing their career search on the Internet,” Rothberg says. They were researching companies that recruited on-campus and applying to jobs out of town.

Subsequent to that conversation, Rothberg got his own website: He paid a high school $3,000 to get CollegeRecruiter.com up and running. Within three months, the site was turning a profit. Three years later, he stopped publishing the print magazine altogether because the website was earning the bulk of the company’s revenues and all of its profits.

Besides CollegeRecruiter.com, other online job sites have sprouted up in abundance. Monster.com is, of course, the biggest online job site on the Web. Yahoo recently purchased HotJobs.com, putting it in a strong second place. CareerBuilder.com has allied itself with the largest job recruiting force in the country—newspapers. The company was purchased by the media giants Knight-Ridder and Tribune Co., whose papers now post their ads on the site.

Seventy-three percent of all companies currently use the Internet for recruiting. If a corporation is looking to attract top talent globally or a job seeker wants to check opportunities outside his or her local area, the Internet is the only way to go. Online recruiting tends to be not only cheaper but faster, too. The total recruiting time for a candidate hired through the Internet is 21 days, whereas traditional recruiting generally takes up to 90 days.

New technology called wrapping has made it easier than ever for companies to post their jobs on Monster and its competitors. “I call it ‘do-nothing recruiting,’” says Gerry Crispin, coauthor of CareerXroads, a best-selling online recruiting reference book. “Rather than you pushing your jobs onto [online sites], they will automatically come to your website and see which jobs are new, copy them, and bring them to their traffic site. You do nothing but keep your organization’s website up-to-date.”

Online recruiting seems like a great new tool, but don’t be fooled. “There are still more people reading newspapers than are going to Monster or HotJobs by a long shot,” says Barton Crockett, a publishing industry analyst at J. P. Morgan. Still, if employers are going to beat their competitors to the punch in the future, they are going to have to get online. Studies show that virtually 100 percent of college students use the Web and that the vast majority turn to it first when looking for opportunities.

Human resources management (HRM), historically known as personnel management, deals with formal systems for managing people at work. We begin this chapter by describing HRM as it relates to strategic management. The quote by Thomas Watson, founder of IBM, summarizes our view of the importance of people to any organization. We also discuss more of the “nuts and bolts” of HRM: staffing, training, performance appraisal, rewards, and labor relations. Throughout the chapter, we discuss legal issues that influence each aspect of HRM. In the next chapter, we expand this focus to address related issues of managing a diverse workforce.

**Strategic Human Resources Management**

HRM has assumed a vital strategic role in recent years as organizations attempt to compete through people. Recall from Chapter 4, “Planning and Strategic Management,” that firms can create a competitive advantage when they possess or develop resources that are valuable, rare, inimitable, and organized. We can use the same criteria to talk about the strategic impact of human resources:

1. **Creates value.** People can increase value through their efforts to decrease costs or provide something unique to customers or some combination of the two. Empowerment programs, total quality initiatives, and continuous improvement efforts at companies such as Corning, Xerox, and Saturn are intentionally designed to increase the value that employees place on the bottom line.

2. **Is rare.** People are a source of competitive advantage when their skills, knowledge, and abilities are not equally available to all competitors. Top companies invest a great deal to hire and train the best and the brightest employees in order to gain advantage over their competitors. Recently, Dow Chemical went to court to stop General Electric from hiring away its engineers. This case shows that some companies recognize both the value and the rareness of certain employees.

3. **Is difficult to imitate.** People are a source of competitive advantage when their capabilities and contributions cannot be copied by others. Disney, Southwest Airlines, and Mirage Resorts are known for creating unique cultures that get the most from employees (through teamwork) and are difficult to imitate.

4. **Is organized.** People are a source of competitive advantage when their talents can be combined together and deployed rapidly to work on new assignments at a moment’s notice. Teamwork and cooperation are two pervasive methods for ensuring an organized workforce. But companies such as Spyglass (a software company) and AT&T have invested in information technology to help allocate and track employee assignments to temporary projects.

These four criteria highlight the importance of people and show the closeness of HRM to strategic management. In a recent survey by *USA Today* and Deloitte & Touche, nearly 80 percent of corporate executives said the importance of HRM in their firms has grown substantially over the last 10 years, and two-thirds said that HR expenditures are now viewed as a strategic investment rather than simply a cost to be minimized.1 Because employee skills, knowledge, and abilities are among the most distinctive and renewable resources on which a company can draw, their strategic management is more important than ever. Increasingly, organizations are recognizing that their success depends on what people know, that is, their knowledge and skills. The term **human capital** (or, more broadly, **intellectual capital**) often is used today to describe the strategic value of employee skills and knowledge.

But while concepts such as sustainable competitive advantage and human capital are certainly important, they remain only ideas for action. On a day-to-day basis, HR managers have many concerns regarding their workers and
the entire personnel puzzle. These concerns include managing layoffs; addressing employee loyalty issues; managing diversity; creating a well-trained, highly motivated workforce; and containing health care costs. Balancing these issues is a difficult task, and the best approach is likely to vary depending on the circumstances of the organization. A steel producer facing a cutback in business may need human resources activities to assist with layoffs, whereas a semiconductor company may need more staff to produce enough microchips to meet the demands of the burgeoning personal computer market. The emphasis on different HR activities depends on whether the organization is growing, declining, or standing still. This leads to the practical issues involved in HR planning.

The HR Planning Process

“Get me the right kind and the right number of people at the right time.” It sounds simple enough, but meeting an organization’s staffing needs requires strategic human resources planning: an activity with a strategic purpose derived from the organization’s plans.

The HR planning process occurs in three stages: planning, programming, and evaluating. First, HR managers need to know the organization’s business plans to ensure that the right number and types of people are available—where the company is headed, in what businesses it plans to be, what future growth is expected, and so forth. Few things are more damaging to morale than having to lay off recently hired college graduates because of inadequate planning for future needs. Second, the organization conducts programming of specific human resources activities, such as recruitment, training, and layoffs. In this stage, the company’s plans are implemented. Third, human resources activities are evaluated to determine whether they are producing the results needed to contribute to the organization’s business plans. Figure 10.1 illustrates the components of the human resources planning process. In this chapter, we focus on human resources planning and programming. Many of the other factors listed in Figure 10.1 are discussed in later chapters.

Demand Forecasts

Perhaps the most difficult part of human resources planning is conducting demand forecasts, that is, determining how many and what type of people are needed. Demand forecasts for people needs are derived from organizational

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**Figure 10.1**

An Overview of the HR Planning Process

**PLANNING**

- Organizational strategic planning
- Human resources planning
- HRM environmental scanning
  - Labor markets
  - Technology
  - Legislation
  - Competition
  - Economy

**PROGRAMMING**

- Human resources activities
  - Employee recruitment
  - Employee selection
  - Outplacement
  - Training and development
  - Performance appraisal
  - Reward systems
  - Labor relations
  - Job analysis
  - Internal labor supply
  - External labor supply

**EVALUATION**

- Results
  - Productivity
  - Quality
  - Innovation
  - Satisfaction
  - Turnover
  - Absenteeism
  - Health
plans. For example, when the pharmaceutical company Merck developed Propecia, a new drug to cure baldness, managers had to estimate the future size of this market based on demographic projections. Based on current sales and projected future sales growth, managers estimate the plant capacity needed to meet future demand, the sales force required, the support staff needed, and so forth. At this point, the number of labor-hours required to operate a plant, sell the product, distribute it, service customers, and so forth, can be calculated. These estimates are used to determine the demand for different types of workers.

**Labor Supply Forecasts** In concert with demand forecasts, the supply of labor must be forecast, that is, estimates of how many and what types of employees the organization actually will have. In performing a supply analysis, the organization estimates the number and quality of its current employees as well as the available external supply of workers. To estimate internal supply, the company typically relies on past experiences with turnover, terminations, retirements, or promotions and transfers. A computerized human resources information system assists greatly in supply forecasting.

Externally, organizations have to look at workforce trends to make projections. Worldwide, there is a growing gap between the world’s supply of labor and the demand for labor. Most of the well-paid jobs are generated in the cities of the industrialized world, but many skilled and unskilled human resources are in the developing nations. This gap is leading to massive relocation (including immigrants, temporary workers, and retirees) and a reduction of protectionist immigration policies (as countries come to rely on and compete for foreign workers).

Forecasts of a diverse workforce have become fact. The business world is no longer the exclusive domain of white males. Minorities, women, immigrants, older and disabled workers, and other groups have made the management of diversity a fundamental activity of the modern manager. Because of the importance of managing the “new workforce,” the next chapter is devoted entirely to this topic.

**Reconciling Supply and Demand** Once managers have a good idea of both the supply of and the demand for various types of employees, they can start developing approaches for reconciling the two. In some cases, organizations find that they need
more people than they currently have (i.e., a labor deficit). In such cases, organizations can hire new employees, promote current employees to new positions, or "outsource" work to contractors. In other cases, organizations may find that they have more people than they need (i.e., a labor surplus). If this is detected far enough in advance, organizations can use attrition—the normal turnover of employees—to reduce the surplus. In other instances, the organization may lay off employees or transfer them to other areas. The give and take of supply and demand is now playing out on the Internet, as discussed next.

“Stop thinking of yourself as an employee and start thinking of yourself as a ‘service provider,’” advises journalist Naomi Klein, who writes about current corporate trends such as outsourcing and downsizing. According to Klein, 83 percent of the fastest-growing American companies are now outsourcing work they once hired people to perform.

Contractors constitute a nimble group of service providers that can grow and shrink according to the demands of the global marketplace. Geography doesn’t matter as long as a person is hooked onto the end of a computer terminal. Think of it as a human capital exchange similar to the stock market. The legions of contractors who keep their résumés permanently posted on Monster.com are growing evidence of a new labor economy where workers day-trade their talents. More and more companies such as elance.com are popping up on the Web, creating an auction where everyone from screenwriters to scientists can sell his or her talents.

Andy Abramson, a sports market consultant, figures he makes 7 percent more as a gun for hire than he can make as a manager in a firm. The constant influx of new projects keeps the work interesting and flexible. But there is a dark side to “free agency.” Contractors generally are not paid health or other benefits, and some get weary of having to search for every new gig.

Still, the ranks of free agents are growing. By 2010, 41 percent of the workforce will be employed on a contract basis, according to a poll by the Lansing, Michigan, market research firm EPIC/MRA. Career experts believe that like actors or athletes, talented business superstars will have agents. Groups of workers will come together to tackle projects jointly only to disband when the projects are finished, a model that’s already common in Silicon Valley and Hollywood.

Increasingly, companies will keep their most prized employees on site and outsource everything else. For example, when the computer-display unit of Nokia entered the U.S. market, it did so with only five key employees. Sales, marketing, logistics, and technical support functions were farmed out. Microsoft has outsourced many of its tasks, although downsizing employees and subsequently outsourcing work to them have caused the company some legal problems.

And just because an employee is on staff doesn’t mean she or he isn’t thinking like a free agent. A typical 32-year-old, for example, has already held nine jobs, according to the U.S. Department of Labor. Experts predict that younger workers will hold as many as 20 different positions in their lifetimes.

According to Bruce Tulgan, the author of Winning the Talent Wars, getting top talent on your corporate team is critical no matter who the players are. Tulgan says corporations must abandon traditional ideas about the old-fashioned employee. He even envisions a day when companies no longer see employees who have left for other jobs as “traitors” but as “alumni” who are reemployable and are welcomed back.

Job Analysis While issues of supply and demand are fairly “macro” activities that are conducted at an organizational level, HR planning also has a “micro” side called job analysis. Job analysis does two things. First, it tells the HR manager about the job itself: the essential tasks, duties, and responsibilities involved in performing the job. This information is called a job description. Second, job analysis describes the skills, knowledge, abilities, and other characteristics needed to perform the job. This is called the job specification.

Job analysis provides the information that virtually every human resources activity requires. It assists with the essential HR programs: recruitment, training, selection, appraisal, and reward systems. For example, a thorough job analysis helps organizations defend themselves in lawsuits involving employment practices. Ultimately, job analysis helps increase the value added by employees to the organization because it clarifies what is really required to perform effectively.

Staffing the Organization

Once HR planning is completed, managers can focus on staffing the organization. The staffing function consists of three related activities: recruitment, selection, and outplacement.

Recruitment

Recruitment activities help increase the pool of candidates that might be selected for a job. Recruitment may be internal to the organization (considering current employees for promotions and transfers) or external. Each approach has advantages and disadvantages.

Internal Recruiting The advantages of internal recruiting are that employers know their employees, and employees know their organization. External candidates who are unfamiliar with the organization may find they don’t like working there. Also, the opportunity to move up within the organization may encourage employees to remain with the company, work hard, and succeed. Recruiting from outside the company can be demoralizing to employees. Many companies, such as Sears Roebuck and Eli Lilly, prefer internal to external recruiting for these reasons.

Internal staffing has some drawbacks. If existing employees lack skills or talent, internal recruitment yields a limited applicant pool, leading to poor selection decisions. Also, an internal recruitment policy can inhibit a company that wants to change the nature or goals of the business by bringing in outside candidates. In changing from a rapidly growing, entrepreneurial organization to a mature business with more stable growth, Dell Computer went outside the organization to hire managers who better fit those needs.

Many companies that rely heavily on internal recruiting use a job-posting system. A job-posting system is a mechanism for advertising open positions, typically on a bulletin board. Texas Instruments uses job posting. Employees complete a request form indicating interest in a posted job. The posted job description includes a list of duties and the minimum skills and experience required.

External Recruiting External recruiting brings in “new blood” to a company and can inspire innovation. Among the most frequently used sources of outside applicants are Internet job boards, newspaper advertisements, employee referrals, and college campus recruiting.

Newspaper advertising remains the most popular recruiting source. However, readership bases are declining as more job searchers turn to the Web. Employee referrals are another frequently used source of applicants. Some companies actively encourage employees to refer their friends by offering cash rewards. The advantages of campus recruiting include a large pool of people from which to draw, applicants with up-to-date training, and a source of innovative ideas.
The average rating for nine recruitment sources on a 5-point scale (1 = not good, 3 = average, 5 = extremely good):

<table>
<thead>
<tr>
<th>Source</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee referrals</td>
<td>3.84</td>
</tr>
<tr>
<td>College recruiting</td>
<td>3.81</td>
</tr>
<tr>
<td>Executive search firms</td>
<td>3.71</td>
</tr>
<tr>
<td>Professional associations</td>
<td>3.08</td>
</tr>
<tr>
<td>Advertisements</td>
<td>3.05</td>
</tr>
<tr>
<td>Direct applications</td>
<td>2.86</td>
</tr>
<tr>
<td>Private employment agencies</td>
<td>2.78</td>
</tr>
<tr>
<td>Public employment agencies</td>
<td>1.92</td>
</tr>
<tr>
<td>Unions</td>
<td>1.64</td>
</tr>
</tbody>
</table>


The popularity of various recruiting methods notwithstanding, Figure 10.2 shows how 201 HR executives rated the effectiveness of nine different recruiting sources.

**Selection**

**Selection** builds on recruiting and involves decisions about whom to hire. As important as these decisions are, they are—unfortunately—at times made in very careless or cavalier ways. In this section we describe a number of selection instruments to which you may soon be exposed in your own careers.

**Applications and Résumés** Application blanks and résumés provide basic information to prospective employers. In order to make a first cut through candidates, employers review the profiles and backgrounds of various job applicants. Applications and résumés typically include information about the applicant’s name, educational background, citizenship, work experiences, certifications, and the like. While providing important information, applications and résumés tend not to be extremely useful for making final selection decisions.

**Interviews** Interviews are the most popular selection tool, and every company uses some type of interview. However, employment interviewers must be careful about what they ask and how they ask it. Questions that are not job-related are prohibited. In an unstructured (or nondirective) interview, the interviewer asks different interviewees different questions. The interviewer may also use probes, that is, ask follow-up questions to learn more about the candidate.8

In a **structured interview**, the interviewer conducts the same interview with each applicant. There are two basic types of structured interview. The first approach—called the **situational interview**—focuses on hypothetical situations. Zale Corporation, a major jewelry chain, uses this type of structured interview to select sales clerks. A sample question is: “A customer comes into the store to pick up a watch he had left for repair. The watch is not back yet from the repair shop, and the customer becomes angry. How would you handle the situation?” The second approach—called the **behavioral description interview**—explores what candidates have actually done in the past. In selecting college students for an officer training program, the U.S. Army asks the following
question to assess a candidate’s ability to influence others: “What was the best idea you ever sold to a supervisor, teacher, peer, or subordinate?”

Reference Checks Reference checks are another commonly used screening device. Virtually all organizations use either a reference or an employment and education record check. Although reference checking makes sense, reference information is becoming increasingly difficult to obtain as a result of several highly publicized lawsuits. In one case, an applicant sued a former boss on the grounds that the boss told prospective employers the applicant was a “thief and a crook.” The jury awarded the applicant $80,000.9

Personality Tests Personality tests are less popular for employee selection, largely because they are hard to defend in court.10 However, they are regaining popularity, and chances are that at some point in your career you will complete some personality tests. A number of well-known paper-and-pencil inventories measure personality traits such as sociability, adjustment, and energy. Typical questions are “Do you like to socialize with people?” and “Do you enjoy working hard?”

Drug Testing Drug testing is now a frequently used screening instrument. Since the passage of the Drug-Free Workplace Act of 1988, applicants and employees of federal contractors and Department of Defense contractors and those under Department of Transportation regulations have been subject to testing for illegal drugs. According to a survey by the American Management Association, 80 percent of U.S. firms test their employees and 94 percent rescind job offers to applicants who test positive.

Genetic testing tries to identify the likelihood of contracting a disease (such as emphysema) on the basis of a person’s genetic makeup. It is far less common than drug testing and remains controversial.11

Cognitive Ability Tests Cognitive ability tests are among the oldest employment selection devices. These tests measure a range of intellectual abilities, including verbal comprehension (vocabulary, reading) and numerical aptitude (mathematical calculations). About 20 percent of U.S. companies use cognitive ability tests for selection purposes.12 Figure 10.3 shows some examples of cognitive ability test questions.

Performance Tests Performance tests are procedures in which the test taker performs a sample of the job. Most companies use some type of performance test, typically for secretarial and clerical positions. The most widely used performance test is the typing test. However, performance tests have been developed for almost every occupation, including managerial positions. Assessment centers are the most notable offshoot of the managerial performance test.13

Assessment centers originated during World War II. A typical assessment center consists of 10 to 12 candidates who participate in a variety of exercises or situations; some of the exercises involve group interactions, and others are performed individually. Each exercise taps a number of critical managerial dimensions, such as leadership, decision-making skills, and communication ability. Assessors, generally line managers from the organization, observe and record information about the candidates’ performance in each exercise. AT&T was the first organization to use assessment centers. Since then, a number of large organizations have used or currently are using the assessment center technique, including Bristol-Myers, the FBI, and Sears.

Integrity Tests Integrity tests are used to assess a job candidate’s honesty. Two forms of integrity tests are polygraphs and paper-and-pencil honesty tests. Polygraphs, or lie detector tests, have been banned for most employment purposes.14 Paper-and-pencil honesty tests are more recent instruments for measuring integrity.
These tests include questions such as whether a person has ever thought about stealing and whether he or she believes other people steal (“What percentage of people take more than $1 from their employer?”). Payless ShoeSource, based in Topeka, Kansas, has used an honesty test to reduce employee theft. Within only a year of implementing the program, inventory losses dropped by 20 percent, to less than 1 percent of sales. Despite compelling evidence such as this, the accuracy of these tests is still debatable.\(^{15}\)

**Reliability and Validity** Regardless of the method used to select employees, two crucial issues that need to be addressed are a test’s reliability and its validity. **Reliability** refers to the consistency of test scores over time and across alternative measurements. For example, if three different interviewers talked to the same job candidate but drew very different conclusions about the candidate’s abilities, we might suspect that there were problems with the reliability of one or more of the selection tests or interview procedures.

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### FIGURE 10.3
**Sample Measures of Cognitive Ability**

<table>
<thead>
<tr>
<th>Verbal</th>
<th>1. What is the meaning of the word surreptitious?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. covert</td>
<td>c. lively</td>
</tr>
<tr>
<td>b. winding</td>
<td>d. sweet</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. How is the noun clause used in the following sentence:</th>
</tr>
</thead>
<tbody>
<tr>
<td>“I hope that I can learn this game.”</td>
</tr>
<tr>
<td>a. subject</td>
</tr>
<tr>
<td>b. predicate nominative</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quantitative</th>
<th>3. Divide 50 by .5 and add 5. What is the result?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. 25</td>
<td>c. 95</td>
</tr>
<tr>
<td>b. 30</td>
<td>d. 105</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. What is the value of 144?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. 12</td>
</tr>
<tr>
<td>b. 72</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reasoning</th>
<th>5. ______ is to boat as snow is to ______</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. sail, ski</td>
<td>c. water, ski</td>
</tr>
<tr>
<td>b. water, winter</td>
<td>d. engine, water</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6. Two women played 5 games of chess. Each woman won the same number of games, yet there were no ties. How can this be so?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. There was a forfeit.</td>
</tr>
<tr>
<td>b. One player cheated.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mechanical</th>
<th>7. If gear A and gear C are both turning counter-clockwise, what is happening to gear B?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. It is turning counter-clockwise.</td>
<td>c. It remains stationary.</td>
</tr>
<tr>
<td>b. It is turning clockwise.</td>
<td>d. The whole system will jam.</td>
</tr>
</tbody>
</table>

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Validity moves beyond reliability to assess the accuracy of the selection test. The most common form of validity, criterion-related validity, refers to the degree to which a test actually predicts or correlates with job performance. Figure 10.4 shows scatterplots of the correlations between two different tests and job performance. Each of the dots on the scatterplots corresponds to an individual’s test score relative to his or her job performance. Dots in the bottom-left corner of each scatterplot show individuals who scored poorly on the test and performed poorly on the job. Individuals in the top-right corner are those who scored well on the test and also performed well on the job. When many individual scores are plotted, the points begin to reveal a pattern in the relationship between test scores and job performance. This pattern can be captured statistically with a correlation coefficient (i.e., a validity coefficient) that ranges from –1.0 (a perfect negative correlation) to 1.0 (a perfect positive correlation). In reality, most validity coefficients fall somewhere in between these extremes. In Figure 10.4, for example, Test A has a validity coefficient of zero (0.0), indicating that there is no relationship between test scores and job success. Test B, however, has a validity coefficient of .75, indicating that high test scores tend to be strongly predictive of good performance. Managers would not want to use Test A—it is not valid—but would be wise to use Test B for selecting employees because it has high criterion-related validity.

Another form of validity, content validity, concerns the degree to which selection tests measure a representative sample of the knowledge, skills, and abilities required for the job. The best-known example of a content-valid test is a typing test for secretaries, because typing is a task a secretary almost always performs. However, to be completely content-valid, the selection process also should measure other skills the secretary would be likely to perform, such as answering the telephone, duplicating and faxing documents, and dealing with the public. Content validity is more subjective (less statistical) than evaluations of criterion-related validity, but is no less important, particularly when one is defending employment decisions in court.

**Workforce Reductions**

Unfortunately, staffing decisions do not simply focus on hiring employees. As organizations evolve and markets change, the demand for certain employees rises and falls. Also, some employees simply do not perform at a level required to justify continued employment. For these reasons, managers sometimes must make difficult decisions to terminate their employment.

**Layoffs** As a result of the massive restructuring of American industry brought about by mergers and acquisitions, divestiture, and increased competition, organizations...
have been *downsizing*—laying off large numbers of managerial and other employees. Dismissing any employee is tough, but when a company lays off a substantial portion of its workforce, the results can rock the foundations of the organization. The victims of restructuring face all the difficulties of being let go—loss of self-esteem, demoralizing job searches, and the stigma of being out of work. **Outplacement** is the process of helping people who have been dismissed from the company to regain employment elsewhere. This can help to some extent, but the impact of layoffs goes further than the employees who leave. For many of the employees who remain with the company, disenchantment, distrust, and lethargy overshadow the comfort of still having a job. In many respects, how management deals with dismissals will affect the productivity and satisfaction of those who remain. A well-thought-out dismissal process eases tensions and helps remaining employees adjust to the new work situation.

 Organizations with strong performance evaluation systems benefit because the survivors are less likely to believe the decision was arbitrary. Further, if care is taken during the actual layoff process—that is, if workers are offered severance pay and help in finding a new job—remaining workers will be comforted. Companies also should avoid stringing out layoffs, that is, dismissing a few workers at a time.

**Termination** People sometimes “get fired” for poor performance or other reasons. Should an employer have the right to fire a worker? In 1884, a Tennessee court ruled: “All may dismiss their employee(s) at will for good cause, for no cause, or even for cause morally wrong.” The concept that an employee may be fired for any reason is known as *employment-at-will* or *termination-at-will* and was upheld in a 1908 Supreme Court ruling. The logic is that if the employee may quit at any time, the employer is free to dismiss at any time.

Since the mid-1970s, courts in most states have made exceptions to this doctrine. For example, public policy is a policy or ruling designed to protect the public from harm. One exception to the employment-at-will concept under public policy is employee whistle-blowing. For example, if a worker reports an environmental violation to the regulatory agency and the company fires him or her, the courts may argue that the firing was unfair because the employee acted for the good of the community. Another example is that employees may not be fired for serving on a jury.

Employers can avoid the pitfalls associated with dismissal by developing progressive and positive disciplinary procedures. By *progressive*, we mean that a manager takes graduated steps in attempting to correct a workplace behavior. For example, an employee who has been absent receives a verbal reprimand for the first offense. A second offense invokes a written reprimand. A third offense results in employee counseling and probation, and a fourth results in a paid-leave day to think over the consequences of future rule infractions. The employer is signaling to the employee that this is the “last straw.” Arbitrators are more likely to side with an employer that fires someone when they believe the company has made sincere efforts to help the person correct his or her behavior.

The **termination interview**, in which the manager discusses the company’s position with the employee, is a stressful situation for both parties. Most experts believe that the immediate superior should be the one to deliver the bad news to employees. However, it is often good to have a third party, such as the HR manager, present to serve as a witness, to provide support for an anxious manager, or to diffuse anger by pulling the employee’s attention away from the manager. In addition, some suggest that the best time to let someone go is Friday afternoon. However, the research evidence does not support this completely. Finally, it may be a good idea to conduct the termination interview in a neutral location, such as a conference room, so that the manager and employee can exit gracefully afterward. Table 10.1 provides some other guidelines for conducting a termination interview.
Legal Issues and Equal Employment Opportunity  In 1964, Congress passed the Civil Rights Act, which prohibits discrimination in employment based on race, sex, color, national origin, and religion. Title VII of the act specifically forbids discrimination in employment decisions such as recruitment, hiring, discharge, layoff, discipline, promotion, compensation, and access to training. In 1972, the act was amended to allow the Equal Employment Opportunity Commission (EEOC) to take employers to court. The amendments also expanded the scope of the act to cover private and public employers with 15 or more employees, labor organizations, and public and private employment agencies.

Nevertheless, employment discrimination remains a controversial and costly issue for both organizations and individuals. Opponents of the 1991 Civil Rights Act argued that the act would force companies to hire on the basis of mandated quotas rather than choosing the most qualified candidates. But the new bill provides protection for many groups. The 1991 Civil Rights Act also provides for punitive damages to workers who sue under the Americans with Disabilities Act. The latter act, passed in 1990, prohibits discrimination against people with disabilities. Recovering alcoholics or drug abusers, cancer patients in remission, and AIDS victims are covered by this legislation.

Thousands of court cases have challenged employment decisions and practices. Today, one common reason why employers are sued is adverse impact, in which an apparently neutral employment practice adversely affects a group of individuals protected by the Civil Rights Act. Discrimination issues provide a means for both minority groups and individuals to seek Title VII protection from employment discrimination. Today, the “Uniform Guidelines on Employee Selection Procedures” deal specifically with how to develop employment practices that comply with the law.

Many other important staffing laws affect employment practices. The Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990 prohibit discrimination against persons with physical and mental disabilities. The Age Discrimination in Employment Act (ADEA) of 1967 and amendments in 1978 and 1986 prohibit discrimination against people age 40 and over. The Immigration Act of 1990 was designed to allow immigrants into the country based on what they can contribute to the economy.
This legislation nearly tripled the cap on immigrant visas to 140,000 but limited nonimmigrant or temporary visas to 90,000 (the latter category previously had been unrestricted). This new law complicates the hiring process for non-U.S. professionals under temporary visas such as investment bankers, scientists, and engineers. Finally, the Worker Adjustment and Retraining Notification Act of 1989, commonly known as the WARN Act or Plant Closing Bill, requires covered employers to give affected employees 60 days’ written notice of plant closings or mass layoffs. Table 10.2 summarizes many of these major equal employment laws.

<table>
<thead>
<tr>
<th>Act</th>
<th>Major Provisions</th>
<th>Enforcement and Remedies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal Pay Act (1963)</td>
<td>Prohibits gender-based pay discrimination between two jobs substantially similar in</td>
<td>Fines up to $10,000, imprisonment up to 6 months, or both; enforced by Equal Employment</td>
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<td></td>
<td>skill, effort, responsibility, and working conditions.</td>
<td>Opportunity Commission (EEOC); private actions for double damages up to 3 years’ wages,</td>
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<td></td>
<td></td>
<td>liquidated damages, reinstatement, or promotion.</td>
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<tr>
<td>Title VII of Civil Rights Act (1964)</td>
<td>Prohibits discrimination based on race, sex, color, religion, or national origin</td>
<td>Enforced by EEOC; private actions, back pay, front pay, reinstatement, restoration of</td>
</tr>
<tr>
<td></td>
<td>in employment decisions: hiring, pay, working conditions, promotion, discipline,</td>
<td>seniority and pension benefits, attorneys’ fees and costs.</td>
</tr>
<tr>
<td></td>
<td>or discharge.</td>
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</tr>
<tr>
<td>Executive Orders 11246 and 11375 (1965)</td>
<td>Requires equal opportunity clauses in federal contracts; prohibits employment</td>
<td>Established Office of Federal Contract Compliance Programs (OFCCP) to investigate</td>
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<tr>
<td></td>
<td>discrimination by federal contractors based on race, color, religion, sex, or</td>
<td>violations; empowered to terminate violator’s federal contracts.</td>
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<tr>
<td></td>
<td>national origin.</td>
<td></td>
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<tr>
<td>Age Discrimination in Employment Act (1967)</td>
<td>Prohibits employment discrimination based on age for persons over 40 years;</td>
<td>EEOC enforcement; private actions for reinstatement, back pay, front pay, restoration</td>
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<tr>
<td></td>
<td>restricts mandatory retirement.</td>
<td>of seniority and pension benefits; double unpaid wages for willful violations;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>attorneys’ fees and costs.</td>
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<tr>
<td>Vocational Rehabilitation Act (1973)</td>
<td>Requires affirmative action by all federal contractors for persons with</td>
<td>Federal contractors must consider hiring disabled persons capable of performance after</td>
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<td></td>
<td>disabilities; defines disabilities as physical or mental impairments that</td>
<td>reasonable accommodations.</td>
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<tr>
<td></td>
<td>substantially limit life activities.</td>
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<tr>
<td>Americans with Disabilities Act (1990)</td>
<td>Extends affirmative action provisions of Vocational Rehabilitation Act to</td>
<td>EEOC enforcement; private actions for Title VII remedies.</td>
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<td>private employers; requires workplace modifications to facilitate disabled</td>
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<tr>
<td></td>
<td>employees; prohibits discrimination against disabled.</td>
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</tr>
<tr>
<td>Civil Rights Act (1991)</td>
<td>Clarifies Title VII requirements: disparate treatment impact suits, business</td>
<td>Punitive damages limited to sliding scale only in intentional discrimination based on sex,</td>
</tr>
<tr>
<td></td>
<td>necessity, job relatedness; shifts burden of proof to employer; permits puniti</td>
<td>religion, and disabilities.</td>
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<td>ve damages and jury trials.</td>
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<tr>
<td>Family and Medical Leave Act (1991)</td>
<td>Requires 12 weeks’ unpaid leave for medical or family needs: paternity, family</td>
<td>Private actions for lost wages and other expenses, reinstatement.</td>
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<td>member illness.</td>
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The skills and performance of employees and managers must be upgraded continually. Meeting this requirement involves training and development activities and appraising performance for the purposes of giving feedback and motivating people to perform at their best.

Training and Development

Large corporations spend an average of $63 million each on formal training annually. Add in informal education and development exercises and the total amount corporations spend exceeds $200 billion; that's slightly more than spending on public and private elementary and secondary education combined. Fortune 500 companies such as General Electric and General Motors have invested heavily in training. IBM's annual training costs have at times exceeded Harvard University's annual operating expenses. But the economic downturn after September 11, 2001, has taken a toll on training budgets. Many companies are now relying on cheaper methods of training such as e-learning and Web-based simulations to train large numbers of employees.

Cutting training programs presents its own dangers. The American Society for Training and Development argues that as a percentage of total payroll, the average organizational investment in training is too small. This is of great concern in light of the fact that today's jobs require more education but that the education level of U.S. workers has not kept pace. What's more, companies need to ensure that employees who have survived layoffs can lead their organizations through tough times.

Overview of the Training Process

Although we use the general term training here, training sometimes is distinguished from development. Training usually refers to teaching lower-level employees how to perform their present jobs, while development involves teaching managers and professional employees broader skills needed for their present and future jobs. Phase one of training should include a needs assessment. An analysis should be conducted to identify the jobs, people, and departments for which training is necessary. Job analysis and performance measurements are useful for this purpose.

Phase two involves the design of training programs. Based on needs assessment, training objectives and content can be established. Phase three involves decisions about the training methods to be used (see Figure 10.5). A basic decision for selecting a training method is whether to provide on-the-job or off-the-job training. Examples of training methods include lectures, role playing, programmed learning, case discussion, business simulation, behavior modeling (watching a videotape and imitating what is observed), assigned readings, conferences, job rotation, vestibule training (practice in a simulated job environment), and apprenticeship training. Finally, phase four of training should evaluate the program's effectiveness in terms of employee reactions, learning, behavior transferred to the job, and bottom-line results.

Types of Training

Companies invest in training to enhance individual performance and organizational productivity. The most popular areas include computer applications, management skills/development and supervisory skills, technical skills, and communication skills. In addition to these, several topics are particularly noteworthy.

Orientation training typically is used to familiarize new employees with their new jobs, work units, and the organization in general. Done well, orientation training has a number of reputed benefits, including lower
When the U.S. Army called on Hollywood for help, it got it. The Army wanted better military training simulators for a variety of reasons, including cost. For example, the price tag for a live-fire exercise involving a single Bradley fighting vehicle is just under $5,000. Compare that to $11 for a combat exercise in a simulator. However, it wasn’t just computer wizardry that the Army wanted to tap into but also compelling human stories similar to Hollywood dramas, says Jim Blake, senior scientist at the Army Simulation, Training and Instrumentation Command in Orlando, Florida. Blake and the rest of the brass believe that living, breathing scenarios better simulate the true emotional feel of combat, resulting in better decision making when bullets really do fly.

To lead the charge, the Army enlisted the Institute of Creative Technologies (ICT) at the University of Southern California. ICT in turn signed on an A-team of Hollywood directors, writers, and special effects creators from films such as Apollo 13, Star Wars, and Titanic to work on the project. Sony was hired to adapt its PlayStation game console for virtual training, and Paramount Pictures was brought in to deliver Internet simulations to recruits. Other projects under way at ICT include simulations to help soldiers practice negotiation, learn new cultures, and deal with hostage situations.

Of course, military pilots regularly spend long hours on simulators to hone their skills in an environment where crashing has no consequences, and the U.S. Marines have used a modified version of the computer game Doom to train their troops for firefights. “The military would like to see a training experience achieve the highest level of fidelity,” says Blake. So far the ICT simulations have been a big hit with the troops. After all, they sure beat boot camp.

employee turnover, increased morale, better productivity, and lower recruiting and training costs.

**Team training** has taken on more importance as organizations reorganize to facilitate individuals working together. Team training teaches employees the skills they need to work together and facilitates their interaction. Coca-Cola’s Fountain Manufacturing Operation developed a team training program that focused on technical, interpersonal, and team interaction skills.25

**Diversity training** is now offered in over 50 percent of all U.S. organizations. The programs focus on building awareness of diversity issues as well as providing the skills employees need to work with others who are different from them. This topic is so important that the next chapter is devoted solely to managing diversity.

### Performance Appraisal

**Performance appraisal (PA)** is the assessment of an employee’s job performance. Performance appraisal has two basic purposes. First, appraisal serves an administrative purpose. It provides information for making salary, promotion, and layoff decisions, as well as providing documentation that can justify these decisions in court. Second, and perhaps more important, performance appraisal serves a developmental purpose. The information can be used to diagnose training needs, career planning, and the like. Feedback and coaching based on appraisal information provide the basis for improving day-to-day performance.

**What Do You Appraise?**

Performance measures fall into one of three basic categories: traits, behaviors, and results. **Trait appraisals** involve subjective judgments about employee performance. They contain dimensions such as initiative, leadership, and attitude, and ask raters to indicate how much of each trait an employee possesses. Because trait scales tend to be ambiguous (as well as subjective), they often lead to personal bias and may not be suitable for obtaining useful feedback. Therefore, while this approach is extremely common—trait scales are easy to develop and implement—these scales unfortunately are often not valid.

**Behavioral appraisals**, while still subjective, focus more on observable aspects of performance. They were developed in response to the problems of trait appraisals. These scales focus on specific, prescribed behaviors which can help ensure that all parties understand what the ratings are really measuring. Because they are less ambiguous, they also can help provide useful feedback. Figure 10.6 contains an example of a behaviorally anchored rating scale (BARS) for evaluating quality.

**Results appraisals** tend to be more objective and can focus on production data such as sales volume (for a salesperson), units produced (for a line worker), or profits (for a manager). One approach to results appraisals—called management by objectives (MBO)—involves a subordinate and a supervisor agreeing on specific performance goals (objectives). They then develop a plan that describes the time frame and criteria for determining whether the objectives have been reached. The aim is to agree on a set of objectives that are clear, specific, and reachable. For example, an objective for a salesperson might be to increase sales 25 percent during the following year. An objective for a computer programmer might be to complete two projects within the next six months. MBO has several advantages and can be useful when managers want to empower employees to adapt their behavior as they deem necessary in order to achieve desired results. Although MBO helps focus employees on reaching specific goals and encourages planning and development, it often focuses too much on short-term achievement and ignores long-term goals.
None of these performance appraisal systems is easy to conduct properly, and all have drawbacks that must be guarded against. In choosing an appraisal method, the following guidelines may prove helpful:

1. Always take legal considerations into account.
2. Base performance standards on job analysis.
3. Communicate performance standards to employees.
4. Evaluate employees on specific performance-related behaviors rather than on a single global or overall measure.
5. Document the PA process carefully.
6. If possible, use more than one rater (discussed in the next section).
7. Develop a formal appeal process.26

Who Should Do the Appraisal?

Just as there are multiple methods for gathering performance appraisal information, there are several different sources who can provide PA information. Managers and supervisors are the traditional source of appraisal information because they are often in the best position to observe an employee’s performance. However, companies such as Coors, General Foods, and Digital are turning to peers and team members to provide input to the performance appraisal. Peers and team members often see different dimensions of performance, and are often best at identifying leadership potential and interpersonal skills.
One increasingly popular source of appraisal is a person’s subordinates. Appraisal by subordinates has been used by companies such as Xerox and IBM to give superiors feedback on how their employees view them. However, because this process gives employees power over their bosses, it normally is used only for developmental purposes.

Internal and external customers also are used as sources of performance appraisal information, particularly for companies, such as Ford and Honda, that are focused on total quality management. External customers have been used for some time to appraise restaurant employees, but internal customers can include anyone inside the organization who depends on an employee’s work output. Finally, it is usually a good idea for employees to evaluate their own performance. Although self-appraisals may be biased upward, the process of self-evaluation helps increase the employee’s involvement in the review process and is a starting point for establishing future goals.

Because each source of PA information has some limitations, and since different people may see different aspects of performance, companies such as Westinghouse and Eastman Kodak have taken to using multiple-rater approaches that involve more than one source for appraisal information. By combining different sources—in a process referred to as 360 degree appraisal—it is possible to obtain a more complete assessment of an employee’s performance.

How Do You Give Employees Feedback?

Giving PA feedback can be a stressful task for both managers and subordinates. The purposes of PA conflict to some degree. Providing growth and development requires understanding and support; however, the manager must be impersonal and be able to make tough decisions. Employees want to know how they are doing, but typically they are uncomfortable about getting feedback. Finally, the organization’s need to make HR decisions conflicts with the individual employee’s need to maintain a positive image. These conflicts often make a PA interview difficult; therefore, managers should conduct such interviews thoughtfully.

There is no one “best” way to do a PA interview. The most difficult interviews are those with employees who are performing poorly. Here is a useful PA interview format to use when an employee is performing below acceptable standards:

1. Summarize the employee’s specific performance. Describe the performance in behavioral or outcome terms, such as sales or absenteeism. Don’t say the employee has a poor attitude; rather, explain which employee behaviors indicate a poor attitude.
2. Describe the expectations and standards, and be specific.
3. Determine the causes for the low performance; get the employee’s input.
4. Discuss solutions to the problem, and have the employee play a major role in the process.
5. Agree to a solution. As a supervisor, you have input into the solution. Raise issues and questions, but also provide support.
6. Agree to a timetable for improvement.
7. Document the meeting.

Follow-up meetings may be needed. Here are some guidelines for giving feedback to an average employee:

1. Summarize the employee’s performance, and be specific.
2. Explain why the employee’s work is important to the organization.
3. Thank the employee for doing the job.
4. Raise any relevant issues, such as areas for improvement.
5. Express confidence in the employee’s future good performance.
Reward systems are another major set of HRM activities. Most of this section will be devoted to monetary rewards such as pay and fringe benefits. Although traditionally pay has been of primary interest, benefits have received increased attention in recent years. Benefits currently make up a far greater percentage of the total payroll than they did in past decades.²⁸ The typical employer today pays nearly 40 percent of payroll costs in benefits. Accordingly, employers are trying to find ways to reduce these costs. Another reason for the growing interest in benefits is increased complexity. Many new types of benefits are now available, and tax laws affect myriad fringe benefits, such as health insurance and pension plans.

**Pay Decisions**

Pay systems can serve the strategic purposes of attracting, motivating, and retaining people. The wages paid to employees are based on a complex set of forces. Beyond the body of laws governing compensation, a number of basic decisions must be made in choosing the appropriate pay plan. Figure 10.7 illustrates some of the factors that influence the wage mix.

Three types of decisions are crucial for designing an effective pay plan: pay level, pay structure, and individual pay.

**Pay level** refers to the choice of whether to be a high-, average-, or low-paying company. Compensation is a major cost for any organization, and so low wages can be justified on a short-term financial basis. But being the high-wage employer—the highest-paying company in the region—ensures that the company will attract many applicants. Being a wage leader may be important during times of low unemployment or intense competition.

The **pay structure** decision is the choice of how to price different jobs within the organization. Jobs that are similar in worth usually are grouped together into job families. A pay grade, with a floor and a ceiling, is established for each job family. Figure 10.8 illustrates a hypothetical pay structure.

Finally, **individual pay decisions** concern different pay rates for jobs of similar worth within the same family. Differences in pay within job families are decided in two ways. First, some jobs are occupied by individuals with more seniority than others. Second, some people may be better performers who are therefore deserving of a higher level of pay.

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**FIGURE 10.7**

Factors Affecting the Wage Mix

Internal factors
- Compensation policy of organization
- Worth of job
- Employee’s relative worth
- Employer’s ability to pay

External factors
- Conditions of the labor market
- Area wage rates
- Cost of living
- Collective bargaining
- Legal requirements

Incentive Systems and Variable Pay

A number of incentive systems have been devised to encourage and motivate employees to be more productive. (See Chapter 13 for more discussion of rewarding performance.) Individual incentive plans are the most common type of incentive plan. An individual incentive system consists of an objective standard against which a worker’s performance is compared. Pay is determined by the employee’s performance. Individual incentive plans are used frequently in sales jobs. If effectively designed, individual incentive plans can be highly motivating.

There are several types of group incentive plans in which pay is based on group performance. Gainsharing plans concentrate on saving money. The best known is the Scanlon plan, which is based on a function of the ratio between labor costs and the sales value of production. An additional feature of the Scanlon plan is the use of employee committees to evaluate workers’ suggestions for improving productivity.

Profit-sharing plans give employee incentives based on unit, department, plant, or company productivity. Nucor Steel, one of the nation’s most profitable steel companies, relies heavily on a group-oriented profit-sharing plan. The entire company—4,000 employees—is broken down into bonus groups. For instance, each mill consists of groups of 25 to 35 employees who perform a complete task (e.g., melting and casting the steel or rolling the steel). Each group has a production standard and is paid for the amount of production over the specified level.

When objective performance measures are not available but the company still wants to base pay on performance, it uses a merit pay system. Individuals’ pay raises and bonuses are based on the judgmental merit rating they receive from their boss. Over the years, Lincoln Electric Company has been noted as having a particularly effective merit pay plan.
Employee Benefits

Like pay systems, employee benefit plans are subject to regulation. Employee benefits are divided into those required by law and those optional for an employer.

The three basic required benefits are workers’ compensation, social security, and unemployment insurance. **Workers’ compensation** provides financial support to employees suffering a work-related injury or illness. **Social security**, as established in the Social Security Act of 1935, provides financial support to retirees; in subsequent amendments, the act was expanded to cover disabled employees. The funds come from payments made by employers, employees, and self-employed workers. **Unemployment insurance** provides financial support to employees who are laid off for reasons they cannot control. Companies that have terminated fewer employees pay less into the unemployment insurance fund; thus, organizations have an incentive to keep terminations at a minimum.

A large number of benefits are not required to be employer-provided. The most common are pension plans and medical and hospital insurance. Other optional employee benefits include dental insurance, life insurance, and vacation time. Because of the wide variety of possible benefits and the considerable differences in employee preferences and needs, companies often use **cafeteria or flexible benefit programs**. In this type of program, employees are given credits that they “spend” on benefits they desire. FinPac Corporation, a small computer software company, provides each employee with a required amount of life and disability insurance. Then employees use their credits toward individualized packages of additional benefits, including medical and dental insurance, dependent care, extra life insurance, and cash.

Legal Issues in Compensation and Benefits

A number of laws affect employee compensation and benefits. The **Fair Labor Standards Act (FLSA)** of 1938 set minimum wages, maximum hours, child labor standards, and overtime pay provisions. The Department of Labor monitors and enforces the FLSA. **Nonexempt** employees are entitled to premium pay for overtime (e.g., time and one-half). **Exempt** employees (e.g., executives, administrators, and professionals) are not subject to the overtime and minimum wage provisions.33

The **Equal Pay Act (EPA)** of 1963, now enforced by the EEOC, prohibits unequal pay for men and women who perform equal work. Equal work means jobs that require equal skill, effort, and responsibility and are performed under similar working conditions. The law does permit exceptions where the difference in pay is due to a seniority system, a merit system, an incentive system based on quantity or quality of production, or any other factor other than sex, such as market demand. Although equal pay for equal work may sound like common sense, many employers have fallen victim to this law by rationalizing that men, traditionally the “breadwinners,” deserve more pay than women or by giving equal jobs different titles (senior assistant versus office manager) as the sole basis for pay differences.

One controversy concerns male and female pay differences within the same company. **Comparable worth** doctrine implies that women who perform different jobs of equal worth as those performed by men should be paid the same wage.34 In contrast to the equal-pay-for-equal-work notion, comparable worth suggests that the jobs need not be the same to require the same pay. For example, nurses (predominantly female) were found to be paid considerably less than skilled craftworkers (predominantly male), even though the two jobs were found to be of equal value or worth.35 Under the Equal Pay Act, this would not constitute pay discrimination because the jobs are very different. But under the comparable-worth concept, these findings would indicate discrimination because the jobs are of equal worth.
To date, no federal law requires comparable worth, and the Supreme Court has made no decisive rulings about it. However, some states have considered developing comparable-worth laws, and others already have implemented comparable-worth changes, raising the wages of female-dominated jobs. For example, Minnesota passed a comparable-worth law for public-sector employees after finding that women on average were paid 25 percent less than men. Several other states have comparable-worth laws for public-sector employees, including Iowa, Idaho, New Mexico, Washington, and South Dakota.

Some laws influence mostly benefit practices. The Pregnancy Discrimination Act of 1978 states that pregnancy is a disability and qualifies a woman to receive the same benefits that she would with any other disability. The Employee Retirement Income Security Act (ERISA) of 1974 protects private pension programs from mismanagement. ERISA requires that retirement benefits be paid to those who vest or earn a right to draw benefits and ensures retirement benefits for employees whose companies go bankrupt or who otherwise cannot meet their pension obligations.

Health and Safety

The Occupational Safety and Health Act (OSHA) of 1970 requires employers to pursue workplace safety. Employers must maintain records of injuries and deaths caused by workplace accidents and submit to on-site inspections. Large-scale industrial accidents and nuclear power plant disasters worldwide have focused attention on the importance of workplace safety.

Coal mining is one of many industries that benefit from safety laws. Mining is one of the five most dangerous jobs to perform, according to the U.S. Bureau of Labor Statistics. Nearly every coal miner can name a friend or family member who has been killed, maimed, or stricken with black lung disease. “You die quick or you die slow,” reports one mine worker. However, according to the Mine Safety and Health Administration, mines have become safer. In 1991, 61 miners died in the United States and 14,668 were injured, compared with 61 miners killed and 6,099 injured a decade later.

Labor Relations

Labor relations is the system of relations between workers and management. Labor unions recruit members, collect dues, and ensure that employees are treated fairly with respect to wages, working conditions, and other issues. When workers organize for the purpose of negotiating with management to improve their wages, hours, or working conditions, two processes are involved: unionization and collective bargaining. These processes have evolved over a 50-year period in the United States to provide important employee rights.

Labor Laws

Try to imagine what life would be like with unemployment at 25 percent. Pretty grim, you would say. Legislators in 1935 felt that way too. Therefore, organized labor received its Magna Carta with the passage of the National Labor Relations Act.

The National Labor Relations Act (also called the Wagner Act after its legislative sponsor) ushered in an era of rapid unionization by (1) declaring labor organizations legal, (2) establishing five unfair employer labor practices, and (3) creating the National Labor Relations Board (NLRB). Today, the NLRB conducts unionization elections, hears unfair labor practices complaints, and issues injunctions against offending
employers. The Wagner Act greatly assisted the growth of unions by enabling workers to use the law and the courts to organize and collectively bargain for better wages, hours, and working conditions.

Public policy began on the side of organized labor in 1935, but over the next 25 years the pendulum swung toward the side of management. The Labor-Management Relations Act, or Taft-Hartley Act (1947), protected employers’ free-speech rights, defined unfair labor practices by unions, and permitted workers to decertify (reject) a union as their representative.

Finally, the Labor-Management Reporting and Disclosure Act, or Landrum-Griffin Act (1959), swung the public policy pendulum midway between organized labor and management. By declaring a bill of rights for union members, establishing control over union dues increases, and imposing reporting requirements for unions, Landrum-Griffin was designed to curb abuses by union leadership and rid unions of corruption.

**Unionization**

How do workers join unions? Through a union organizer or local union representative, workers learn what benefits they may receive by joining. The union representative distributes authorization cards that permit workers to indicate whether they want an election to be held to certify the union to represent them. The National Labor Relations Board will conduct a certification election if at least 30 percent of the employees sign authorization cards. Management has several choices at this stage: to recognize the union without an election, to consent to an election, or to contest the number of cards signed and resist an election.

If an election is warranted, an NLRB representative will conduct the election by secret ballot. A simple majority of those voting determines the winner. Thus, apathetic workers who do not show up to vote in effect support the union. If the union wins the election, it is certified as the bargaining unit representative.

During the campaign preceding the election, efforts are made by both management and the union to persuade the workers how to vote. Most workers, though, are somewhat resistant to campaign efforts, having made up their minds well before the NLRB appears on the scene. If the union wins the election, management and the union are legally required to bargain in good faith to obtain a collective bargaining agreement or contract.

Why do workers vote for a union? Four factors play a significant role (see Figure 10.9). First, economic factors are important, especially for workers in low-paying jobs; unions attempt to raise the average wage rate for their members. Second, job dissatisfaction encourages workers to seek out a union. Poor supervisory practices, favoritism, lack of communication, and perceived unfair or arbitrary discipline and discharge are specific triggers of job dissatisfaction. Third, the belief that the union can obtain desired benefits can generate a pro-union vote. Finally, the image of the union can determine whether a dissatisfied worker will seek out the union. Headline stories of union corruption and dishonesty can discourage workers from unionization.

**Collective Bargaining**

In the United States, management and unions engage in a periodic ritual (typically every three years) of negotiating an agreement over wages, hours, and working conditions. Two types of disputes can arise during this process. First, before an agreement is reached, the workers may go on strike to compel agreement on their terms. Such an action is known as an economic strike and is permitted by law. Once the agreement is signed, however, management and the union can still disagree over interpretation of the agreement. Usually they settle their disputes through arbitration. Arbitration is the use of a neutral third party, typically jointly selected, to resolve the dispute. The United States uses arbitration while an agreement is in effect to avoid wildcat strikes (in which workers walk off the job in violation of the contract) or unplanned work stoppages.
What does a collective bargaining agreement contain? In a **union shop**, a union security clause specifies that workers must join the union after a set period of time. **Right-to-work** states, through restrictive legislation, do not permit union shops; that is, workers have the right to work without being forced to join a union. The southern United States has many right-to-work states. The wage component of the contract spells out rates of pay, including premium pay for overtime and paid holidays. Individual rights usually are specified in terms of the use of seniority to determine pay increases, job bidding, and the order of layoffs.

A feature of any contract is the grievance procedure. Unions perform a vital service for their membership in this regard by giving workers a voice in what goes on during both contract negotiations and administration through the grievance procedure. In about 50 percent of discharge cases that go to arbitration, the arbitrator overturns management’s decision and reinstates the worker. Unions have a legal duty of fair representation, which means they must represent all workers in the bargaining unit and ensure that workers’ rights are protected.

### What Does the Future Hold?

In recent years, union membership has declined to less than 12 percent of the U.S. labor force as a consequence of changing laws concerning employee rights, global competition, decreased demand for the products of traditionally unionized industries, the rise of the service economy (which is difficult to unionize), and changing expectations of the new workforce. Some people applaud unions’ apparent decline. Others hope for an eventual reemergence based on the potential power of management–union cooperation to help U.S. businesses in the global economy. Unions may play a different role in the future, one that is less adversarial and more cooperative with management. Unions are adapting to changing workforce demographics; they are paying more attention to women, older workers, and people who work at home. Elimination of inefficient work rules, the introduction of profit sharing, and a guarantee of no layoffs...
were seen as a big step toward a fundamentally different, cooperative long-term relationship. What seems clear is that when companies recognize that their success depends on the talents and energies of employees, the interests of unions and managers begin to converge. Rather than one side exploiting the other, unions and managers find common ground based on developing, valuing, and involving employees. Particularly in knowledge-based companies, the balance of power is shifting toward employees. Individuals, not companies, own their own human capital. And these employees are free, within limits, to leave the organization, taking their human capital with them. This leaves organizations in a particularly vulnerable position if they manage poorly. To establish competitive capability, organizations are searching for ways to obtain, retain, and engage their most valuable resources: human resources.

**KEY TERMS**

- 360 degree appraisal, p. 316
- Arbitration, p. 321
- Assessment center, p. 306
- Cafeteria benefit programs, p. 319
- Comparable worth, p. 319
- Development, p. 312
- Diversity training, p. 314
- Flexible benefit programs, p. 319
- Human capital, p. 300
- Human resources management (HRM), p. 300
- Job analysis, p. 304
- Labor relations, p. 320
- Management by objectives (MBO), p. 314
- Needs assessment, p. 312
- Orientation training, p. 312
- Outplacement, p. 309
- Performance appraisal (PA), p. 314
- Recruitment, p. 304
- Reliability, p. 307
- Right-to-work, p. 322
- Selection, p. 305
- Structured interview, p. 305
- Team training, p. 314
- Termination interview, p. 309
- Training, p. 312
- Union shop, p. 322
- Validity, p. 308
employee’s subordinates are being asked more often today to give their input in order to get yet another perspective on the evaluation. Particularly in companies concerned about quality, internal and external customers also are surveyed. Finally, employees should evaluate their own performance, if only to get them thinking about their own performance, as well as to engage them in the appraisal process.

How to analyze the fundamental aspects of a reward system.
Reward systems are broken down into three basic components: pay level, pay structure, and individual pay determination. To achieve an advantage over competitors, executives may want to generally pay a higher wage to their company’s employees, but this decision must be weighed against the need to control costs (pay-level decisions often are tied to strategic concerns such as these). To achieve internal equity (paying people what they are worth relative to their peers within the company), managers must look at the pay structure, making certain that pay differentials are based on knowledge, effort, responsibility, working conditions, seniority, and so on. Individual pay determination often is based on merit or the different contributions of individuals. In these cases it is important to make certain that men and women receive equal pay for equal work, and managers may wish to base pay decisions on the idea of comparable worth (equal pay for an equal contribution).

How unions influence human resources management.
Labor relations involve the interactions between workers and management. One mechanism by which this relationship is conducted is unions. Unions seek to present a collective voice for workers, to make their needs and wishes known to management. Unions negotiate agreements with management regarding a range of issues such as wages, hours, working conditions, job security, and health care. One important tool that unions can use is the grievance procedure established through collective bargaining. This gives employees a way to seek redress for wrongful action on the part of management. In this way, unions make certain that the rights of all employees are protected.

How the legal system influences human resources management.
The legal system influences managers by placing constraints on the ways potential and actual employees are treated. Equal opportunity laws ensure that companies do not discriminate in their hiring and training practices. The Fair Labor Standards Act and the Equal Pay Act ensure that people earn fair compensation for the contribution they make to the organization. The Occupational Safety and Health Act ensures that employees have a safe and healthy work environment. Labor laws seek to protect the rights of both employees and managers so that their relationship can be productive and agreeable.
Boomerang Hiring: Maybe You Can Go Back

Many workers fantasize about finding other jobs and saying “so long” to their current employers. What most people don’t realize, though, is that about 30 percent of those who do move on really would like to hear from their old bosses. A growing number are even asking to return to their former jobs.

“Bomerang” employees—workers who have left their jobs for another position, say, at a dot-com, only to return later—are becoming more prevalent. It’s not unusual for workers to find themselves missing their old jobs. Employees are “far less picky about where they work—as long as they can get work now,” says Michael Fidrych, senior vice president at a Boston placement agency called The Communications Collaborative. And former bosses are frequently all too happy to welcome them back. “More than ever, our clients are asking us for individuals we have placed with them in the past,” says Fidrych.

Some employees who leave voluntarily are lured back by higher salaries. Other employees who were good performers but were let go during tough economic times also make good candidates. “The clients are aware that [the employee’s] prior experience ensures good quality and less ‘ramp-up’ time,” says Fidrych. “Put simply, calling them back saves time and money.”

Such is the case with Sara McCann, an account manager at South of Boston Media Group. “I wasn’t actively searching for new employment,” says McCann. However, an old co-worker contacted her about an opening after she had been at her new job for over a year. She says her prior experience definitely helped land her a new position in a new division at South of Boston: “It allowed me to have an insider’s view on the company’s missions and procedures. I was already familiar with the product.”

Responding to the boomerang trend, many companies are reviewing and revamping their rehiring policies. Things that need to be considered in such a review include whether it is eligible to return, rehiring precedents that have already been set, legal issues surrounding 401(k)s and pensions, and what to do about tenure when it comes to vacation time and bonuses.

Bruce Meyer, a marketing specialist in human capital practices, advises employers and employees to be realistic with regard to their expectations. “The reason [employees] return in times of trouble and uncertainty is that we all tend to look back at things we know and things we’re comfortable with,” Meyer says. In many instances, though, that sense of security can’t be re-created because circumstances change after a departure. Still, employers and employees with realistic expectations have a very good chance of forging a new, successful relationship, he says. Companies can improve their chances of successfully hiring boomerang employees if they do the following:

- Examine their policies, keeping in mind that some employees may return to the company after having left.
- Reject handling each rehire on a case-by-case basis. Develop policies on how returning employees are going to be treated, but make sure they’re flexible.
- Examine whether rehiring policies actually create an incentive for employees to leave and return later.
- Examine the history of the person you are considering rehiring. What was the reason he or she left in the first place?
- Hire the best person for the job regardless of rehiring policies.
- Differentiate between employees who leave to take other jobs and those who are on protected absences such as military, family, or medical leave.

QUESTIONS

1. Why is boomerang hiring becoming more prevalent?
2. What are some of the benefits and costs of rehiring former employees?
3. Does rehiring help or hurt a company in the long run?

10.1 The “Legal” Interview

OBJECTIVES
1. To introduce you to the complexities of employment law.
2. To identify interview practices that might lead to discrimination in employment.

INSTRUCTIONS
1. Working alone, review the text material on interviewing and discrimination in employment.
2. In small groups, complete the “Legal” Interview Worksheet.
3. After the class reconvenes, group spokespersons present group findings.

“Legal” Interview Worksheet

The employment interview is one of the most critical steps in the employment selection process. It also may be an occasion for discriminating against individual employment candidates. The following represents questions that interviewers often ask job applicants. Identify the legality of each question by circling L (legal) or I (illegal) and briefly explain your decision.

<table>
<thead>
<tr>
<th>Interview Question</th>
<th>Legality</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Could you provide us with a photo for our files?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>2. Have you ever used another name (previous married name or alias)?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>3. What was your maiden name?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>4. What was your wife’s maiden name?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>5. What was your mother’s maiden name?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>6. What is your current address?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>7. What was your previous address?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>8. What is your social security number?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>9. Where was your place of birth?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>10. Where were your parents born?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>11. What is your national origin?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>12. Are you a naturalized citizen?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>13. What languages do you speak?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>14. What is your religious/church affiliation?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>15. What is your racial classification?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>16. How many dependents do you have?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>17. What are the ages of your dependent children?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>18. What is your marital status?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>19. How old are you?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>20. Do you have proof of your age (birth certificate or baptismal record)?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>21. Whom do we notify in case of an emergency?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>22. What is your height and weight?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>23. Have you ever been arrested?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>24. Do you own your own car?</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td>25. Do you own your own house?</td>
<td>L</td>
<td></td>
</tr>
</tbody>
</table>
10.2 The Pay Raise

**OBJECTIVES**
1. To further your understanding of salary administration.
2. To examine the many facets of performance criteria, performance criteria weighting, performance evaluation, and rewards.

**INSTRUCTIONS**
1. Working in small groups, complete the Pay Raise Worksheet.
2. After the class reconvenes, group spokespersons present group findings.

**Pay Raise Worksheet**

April Knepper is the new supervisor of an assembly team. It is time for her to make pay raise allocations for her subordinates. She has been budgeted $30,000 to allocate among her seven subordinates as pay raises. There have been some ugly grievances in other work teams over past allocations, and so April has been advised to base the allocations on objective criteria that can be quantified, weighted, and computed in numerical terms. After she makes her allocations, April must be prepared to justify her decisions. All of the evaluative criteria available to April are summarized as follows:

<table>
<thead>
<tr>
<th>Employee</th>
<th>EEO status</th>
<th>Seniority</th>
<th>Output Rating*</th>
<th>Absent Rate</th>
<th>Skills</th>
<th>Initiative</th>
<th>Attitude</th>
<th>Personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Bruce</td>
<td>Caucasian Male</td>
<td>15 yrs.</td>
<td>0.58</td>
<td>0.5%</td>
<td>Good</td>
<td>Poor</td>
<td>Poor</td>
<td>Nearing retirement. Wife just passed away. Having adjustment problems.</td>
</tr>
<tr>
<td>Eric Cattalini</td>
<td>Caucasian Male</td>
<td>12 yrs.</td>
<td>0.86</td>
<td>2.0</td>
<td>Excellent</td>
<td>Good</td>
<td>Excellent</td>
<td>Going to night school to finish his BA degree.</td>
</tr>
<tr>
<td>Chua Li</td>
<td>Asian Male</td>
<td>7 yrs.</td>
<td>0.80</td>
<td>3.5</td>
<td>Good</td>
<td>Excellent</td>
<td>Excellent</td>
<td>Legally deaf.</td>
</tr>
<tr>
<td>Marilee Miller</td>
<td>Black Female</td>
<td>1 yr.</td>
<td>0.50</td>
<td>10.0</td>
<td>Poor</td>
<td>Poor</td>
<td>Poor</td>
<td>Single parent with three children.</td>
</tr>
<tr>
<td>Victor Munoz</td>
<td>Hispanic Male</td>
<td>3 yrs.</td>
<td>0.62</td>
<td>2.5</td>
<td>Poor</td>
<td>Average</td>
<td>Good</td>
<td>Has six dependents. Speaks little English.</td>
</tr>
<tr>
<td>Derek Thompson</td>
<td>Caucasian Male</td>
<td>11 yrs.</td>
<td>0.64</td>
<td>8.0</td>
<td>Excellent</td>
<td>Average</td>
<td>Average</td>
<td>Married to rich wife. Personal problems.</td>
</tr>
<tr>
<td>Sarah Vickers</td>
<td>Caucasian Female</td>
<td>8 yrs.</td>
<td>0.76</td>
<td>7.0</td>
<td>Good</td>
<td>Poor</td>
<td>Poor</td>
<td>Women's activist. Wants to create a union.</td>
</tr>
</tbody>
</table>

*Output rating determined by production rate less errors and quality problem.