

# Chapter

# 1

# Managing Human Resources

**What Do I Need to Know?** After reading this chapter, you should be able to:

1. Define human resource management and explain how HRM contributes to an organization's performance.
2. Identify the responsibilities of human resource departments.
3. Summarize the types of skills needed for human resource management.
4. Explain the role of supervisors in human resource management.
5. Discuss ethical issues in human resource management.
6. Describe typical careers in human resource management.

## Introduction

Can a company operate without people? Moffatt/Rosenthal, a Portland, Oregon, ad agency, came dangerously close to finding out. Toward the end of the 1990s, when the search for talented employees was a challenge for almost any company, all but one of the agency's 13 employees left. Some were lured to the exciting world of Internet commerce; others were laid off when clients shifted work to other agencies, as often happens in the advertising business. Employees move on to new opportunities all the time, but agency founders Al Moffatt and Rob Rosenthal were stunned by the impact on their firm. Almost too late, they realized they needed to focus on their staff, not just on their clients.

Moffatt and Rosenthal committed themselves to finding and keeping good people. To make room in the budget for a top-notch business development executive, the

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**human resource management (HRM)**

The policies, practices, and systems that influence employees' behavior, attitudes, and performance.

partners cut their own salaries. They studied the company's history and concluded that employees who initially had been stimulated by the challenge of building a new company had grown bored once the company had established itself with a few big accounts. The partners now found new employees and set out to make them want to stay. They began to encourage greater employee creativity, taking on pro bono (charitable) assignments and giving employees free rein in creating promotional pieces for the agency. They selected a challenging mission for Moffatt/Rosenthal—focusing on brand promotion, a prestigious advertising specialty—to stimulate excitement and long-term commitment among the new set of employees. Two years later, Moffatt/Rosenthal had earned its biggest profits ever and was planning a big party to celebrate its 10th anniversary.<sup>1</sup>

The changes that revitalized Moffatt/Rosenthal centered around **human resource management (HRM)**, 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: analyzing work and designing jobs, attracting potential employees (recruiting), choosing employees (selection), teaching employees how to perform their jobs and preparing them for the future (training and development), evaluating their performance (performance management), rewarding employees (compensation), creating a positive work environment (employee relations), and supporting the organization's strategy (HR planning and change management). An organization performs best when all of these practices are managed well. At companies with effective HRM, employees and customers tend to be more satisfied, and the companies tend to be more innovative, have greater productivity, and develop a more favorable reputation in the community.<sup>2</sup>

In this chapter, we introduce the scope of human resource management. We begin by discussing why human resource management is an essential element of an organization's success. We then turn to the elements of managing human resources: the roles and skills needed for effective human resource management. Next, the chapter describes how all managers, not just human resource professionals, participate in the activities related to human resource management. The following section of the chap-

FIGURE 1.1

Human Resource Management Practices



ter addresses some of the ethical issues that arise with regard to human resource management. We then provide an overview of careers in human resource management. The chapter concludes by highlighting the HRM practices covered in the remainder of this book.

## Human Resources and Company Performance

Managers and economists traditionally have seen human resource management as a necessary expense, rather than as a source of value to their organizations. Economic value is usually associated with *capital*—equipment, technology, and facilities. However, research has demonstrated that HRM practices can be valuable.<sup>3</sup> Decisions such as whom to hire, what to pay, what training to offer, and how to evaluate employee performance directly affect employees’ motivation and ability to provide goods and services that customers value. Companies that attempt to increase their competitiveness by investing in new technology and promoting quality throughout the organization also invest in state-of-the-art staffing, training, and compensation practices.<sup>4</sup>

The concept of “human resource management” implies that employees are *resources* of the employer. As a type of resource, **human capital** means the organization’s employees, described in terms of their training, experience, judgment, intelligence, relationships, and insight—the employee characteristics that can add economic value to the organization. In other words, whether it manufactures automobiles or forecasts the weather, for an organization to succeed at what it does, it needs employees with certain qualities, such as particular kinds of training and experience. This view means employees in today’s organizations are not interchangeable, easily replaced parts of a system but the source of the company’s success or failure. By influencing *who* works for the organization and *how* those people work, human resource management therefore contributes to such basic measures of an organization’s success as quality, profitability, and customer satisfaction. Figure 1.2 shows this relationship.

Athleta Corporation, a catalog and Internet retailer of sports apparel, based in Petaluma, California, demonstrates the importance of human capital to the company’s

### human capital

An organization’s employees, described in terms of their training, experience, judgment, intelligence, relationships, and insight.

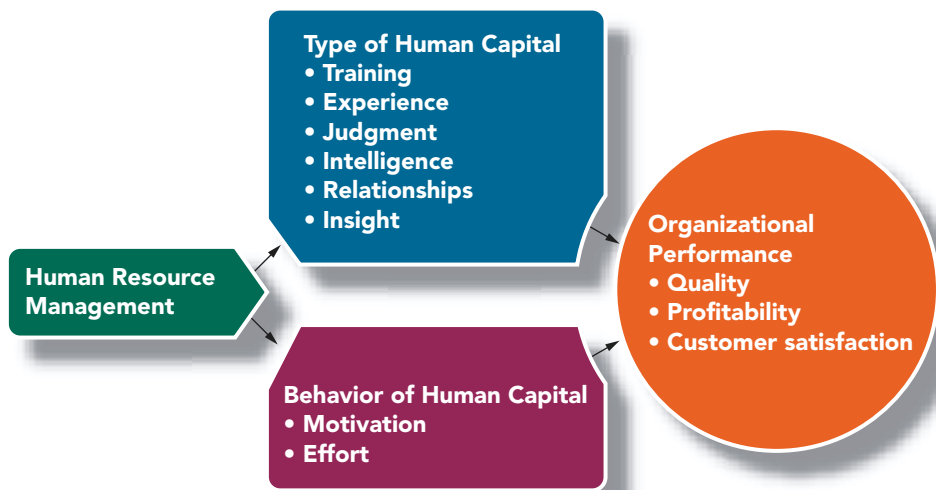


FIGURE 1.2

Impact of Human  
Resource Management

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At Southwest Airlines, the company's focus is on keeping employees loyal, motivated, trained, and compensated. In turn, there is a low turnover rate and a high rate of customer satisfaction.



bottom line. Athleta's workforce is so committed to the company that turnover is less than 1 percent (1 out of 100 employees leave the company in an average year), productivity (output per worker) is increasing, and the company's growth is skyrocketing—it grew by five times in 2000 alone. One way the company has built a committed workforce is by cultivating a positive work environment. Most of Athleta's 60 employees set their own work schedules and are permitted to take personal time during the day. Employees take the initiative to learn one another's jobs, so they can fill in for one another during the day. Those who take time off for personal reasons willingly work odd hours. The company encourages employees to take breaks for physical activity, and employees can even bring along their dogs, which join employees outside for a run or to play catch. Employees use the open space preserve behind Athleta's facility to run, or they work out with the gym equipment set up in the company's storage area.<sup>5</sup>

Human resource management is critical to the success of organizations because human capital has certain qualities that make it valuable. In terms of business strategy, an organization can succeed if it has a *sustainable competitive advantage* (is better than competitors at something, and can hold that advantage over a sustained period of time). Therefore, we can conclude that organizations need the kind of resources that will give them such an advantage. Human resources have these necessary qualities:

- Human resources are *valuable*. High-quality employees provide a needed service as they perform many critical functions.
- Human resources are *rare* in the sense that a person with high levels of the needed skills and knowledge is not common. An organization may spend months looking for a talented and experienced manager or technician.
- Human resources *cannot be imitated*. To imitate human resources at a high-performing competitor, you would have to figure out which employees are providing the advantage and how. Then you would have to recruit people who can do precisely the same thing and set up the systems that enable those people to imitate your competitor.
- Human resources have *no good substitutes*. When people are well trained and highly motivated, they learn, develop their abilities, and care about customers. It is difficult to imagine another resource that can match committed and talented employees.

These qualities imply that human resources have enormous potential. An organization realizes this potential through the ways it practices human resource management.

Effective management of human resources can form the foundation of a **high-performance work system**—an organization in which technology, organizational structure, people, and processes all work together to give an organization an advantage in the competitive environment. As technology changes the ways organizations manufacture, transport, communicate, and keep track of information, human resource management must ensure that the organization has the right kinds of people to meet the new challenges. Maintaining a high-performance work system may include development of training programs, recruitment of people with new skill sets, and establishment of rewards for such behaviors as teamwork, flexibility, and learning. In the next chapter, we will see some of the changes that human resource managers are planning for, and Chapter 16 examines high-performance work systems in greater detail.

**high-performance work system**

An organization in which technology, organizational structure, people, and processes all work together to give an organization an advantage in the competitive environment.

## Responsibilities of Human Resource Departments

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In all but the smallest organizations, a human resource department is responsible for the functions of human resource management. On average, an organization has one HR staff person for every 100 employees served by the department. Table 1.1 details the responsibilities of human resource departments. These responsibilities include the practices introduced in Figure 1.1 plus two areas of responsibility that support those practices: (1) establishing and administering personnel policies and (2) ensuring compliance with labor laws.

FUNCTION	RESPONSIBILITIES
Analysis and design of work	Work analysis; job design; job descriptions
Recruitment and selection	Recruiting; job postings; interviewing; testing; coordinating use of temporary labor
Training and development	Orientation; skills training; career development programs
Performance management	Performance measures; preparation and administration of performance appraisals; discipline
Compensation and benefits	Wage and salary administration; incentive pay; insurance; vacation leave administration; retirement plans; profit sharing; stock plans
Employee relations	Attitude surveys; labor relations; employee handbooks; company publications; labor law compliance; relocation and outplacement services
Personnel policies	Policy creation; policy communication; record keeping; HR information systems
Compliance with laws	Policies to ensure lawful behavior; reporting; posting information; safety inspections; accessibility accommodations
Support for strategy	Human resource planning and forecasting; change management

TABLE 1.1

Responsibilities of HR Departments

SOURCE: Based on SHRM-BNA Survey No. 66, "Policy and Practice Forum: Human Resource Activities, Budgets, and Staffs, 2000–2001," *Bulletin to Management*, Bureau of National Affairs Policy and Practice Series (Washington, DC: Bureau of National Affairs, June 28, 2001).

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Although the human resource department has responsibility for these areas, many of the tasks may be performed by supervisors or others inside or outside the organization. No two human resource departments have precisely the same roles because of differences in organization sizes and characteristics of the workforce, the industry, and management's values. In some companies, the HR department handles all the activities listed in Table 1.1. In others, it may share the roles and duties with managers of other departments such as finance, operations, or information technology. In some companies, the HR department actively advises top management. In others, the department responds to top-level management decisions and implements staffing, training, and compensation activities in light of company strategy and policies.

Let's take an overview of the HR functions and some of the options available for carrying them out. Human resource management involves both the selection of which options to use and the activities of using those options. Later chapters of the book will explore each function in greater detail.

## Analyzing and Designing Jobs

**job analysis**

The process of getting detailed information about jobs.

**job design**

The process of defining the way work will be performed and the tasks that a given job requires.

**recruitment**

The process through which the organization seeks applicants for potential employment.

**selection**

The process by which the organization attempts to identify applicants with the necessary knowledge, skills, abilities, and other characteristics that will help the organization achieve its goals.

To produce their given product or service (or set of products or services) companies require that a number of tasks be performed. The tasks are grouped together in various combinations to form jobs. Ideally, the tasks should be grouped in ways that help the organization to operate efficiently and to obtain people with the right qualifications to do the jobs well. This function involves the activities of job analysis and job design. **Job analysis** is the process of getting detailed information about jobs. **Job design** is the process of defining the way work will be performed and the tasks that a given job requires.

In general, jobs can vary from having a narrow range of simple tasks to having a broad array of complex tasks requiring multiple skills. At one extreme is a worker on an assembly line at a poultry-processing facility; at the other extreme is a doctor in an emergency room. In the past, many companies have emphasized the use of narrowly defined jobs to increase efficiency. With many simple jobs, a company can easily find workers who can quickly be trained to perform the jobs at relatively low pay. However, greater concern for innovation and quality have shifted the trend to more use of broadly defined jobs. Also, as we will see in Chapters 2 and 4, some organizations assign work even more broadly, to teams instead of individuals.

## Recruiting and Hiring Employees

Based on job analysis and design, an organization can determine the kinds of employees it needs. With this knowledge, it carries out the function of recruiting and hiring employees. **Recruitment** is the process through which the organization seeks applicants for potential employment. **Selection** refers to the process by which the organization attempts to identify applicants with the necessary knowledge, skills, abilities, and other characteristics that will help the organization achieve its goals. An organization makes selection decisions in order to add employees to its workforce, as well as to transfer existing employees to new positions. Selecting employees for overseas assignments can be especially challenging, as described in the nearby "Best Practices" box.

Approaches to recruiting and selection involve a variety of alternatives. The organization may actively recruit from many external sources, such as Internet job postings, newspaper want-ads, and college recruiting events. Other organizations may rely



## BEST PRACTICES

### Success in Global Fast Food Depends on Good Selection for Overseas Assignments

As companies expand globally, they are spending more time and energy assessing employees' cultural fit for overseas assignments. By one estimate, the cost of a failed overseas assignment ranges from \$200,000 to \$500,000. These costs result from lost productivity, relocation, recruitment, and severance pay. The most common reason for a failed overseas assignment is choosing people who have the technical skills needed to perform the job but lack the necessary personality characteristics and family support. In other words, overseas assignments typically fail because the employee or family becomes homesick, or the employee cannot interact well with people in a different culture.

Tricon Restaurants International has planned extensively to avoid these pitfalls. Dallas-based Tricon is the franchiser for over 10,000 overseas Kentucky Fried

Chicken, Pizza Hut, and Taco Bell restaurants. The company has 100 expatriates, including 20 Americans working overseas. Rather than choosing candidates who are merely excited about an overseas assignment and who have the technical skills to perform the job, Tricon is taking a closer look at whether the candidates also have the necessary personality characteristics. In particular, Tricon looks for the ability to adapt to different situations and the family support needed to succeed in overseas assignments.

To identify employees for overseas assignments, Tricon interviews candidates about the position, the country's culture, and its marketplace. If there is any doubt whether the candidate can make the adjustment, the company hires a consulting firm to further assess whether the candidate has the personality needed to succeed in an overseas assignment. Some of the

personality characteristics needed include empathy, adaptability, and the ability to interact with others (sociability). If candidates pass the interview, their peers and manager complete a feedback survey about their strengths and weaknesses to provide an evaluation of their skills.

If the evaluation is positive, the company sends the candidates and their families overseas for a week. During the visit, local managers evaluate each candidate while the family evaluates the community. The family spends time touring local schools, exploring potential housing locations, and meeting with other expatriates in the country, who tell them about the local culture and environment. If the local managers find the candidate acceptable, the candidate, with input from his or her family, can accept or reject the position.

SOURCE: Based on C. Patton, "Match Game," *Human Resource Executive*, 2001, pp. 36–41.

heavily on promotions from within and applicants referred by current employees. The choice of recruiting methods is influenced by the types of positions to be filled, as well as by characteristics of the employer. A well-known employer in a large city may receive so many applications for entry-level jobs that it need not recruit very actively. Other positions are harder to fill. For ATX Forms, a developer of tax software, the big challenge is the company's location in cold, out-of-the way Caribou, Maine—not the destination of choice for the majority of college graduates. ATX decided to focus its recruiting on people who already have ties to the area. The company publicized its generous pay for programmers, as well as a \$5,000 bonus for signing on. ATX

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**TABLE 1.2**  
Top 10 Qualities  
Employers Seek in  
Job Candidates

1. Communication skills (verbal and written)
2. Honesty/integrity
3. Teamwork skills
4. Interpersonal skills
5. Strong work ethic
6. Motivation/initiative
7. Flexibility/adaptability
8. Analytical skills
9. Computer skills
10. Organizational skills

SOURCE: National Association of Colleges and Employers, "Job Outlook 2002," online version, www.jobweb.com.

employees and their neighbors began encouraging their adult children to return to Caribou; other adults who had planned to move away changed their minds in favor of taking positions with ATX.<sup>6</sup>

At some organizations the selection process may focus on specific skills, such as experience with a particular programming language or type of equipment. At other organizations, selection may focus on general abilities, such as the ability to work as part of a team or find creative solutions. The focus an organization favors will affect many choices, from the way the organization measures ability, to the questions it asks in interviews, to the places it recruits. Table 1.2 lists the top 10 qualities that employers say they are looking for in job candidates, based on a survey by the National Association of Colleges and Employers.

### Training and Developing Employees

Although organizations base hiring decisions on candidates' existing qualifications, most organizations provide ways for their employees to broaden or deepen their knowledge, skills, and abilities. To do this, organizations provide for employee training and development. **Training** is a planned effort to enable employees to learn job-related knowledge, skills, and behavior. For example, many organizations offer safety training to teach employees safe work habits. **Development** involves acquiring knowledge, skills, and behavior that improve employees' ability to meet the challenges of a variety of new or existing jobs, including the client and customer demands of those jobs. Development programs often focus on preparing employees for management responsibility. Likewise, if a company plans to set up teams to manufacture products, it might offer a development program to help employees learn the ins and outs of effective teamwork. Figure 1.3 illustrates examples of training and development designed to increase the value of an organization's human capital.

Decisions related to training and development include whether the organization will emphasize enabling employees to perform their current jobs, preparing them for future jobs, or both. An organization may offer programs to a few employees in whom the organization wants to invest, or it may have a philosophy of investing in the training of all its workers. Some organizations, especially large ones, may have extensive formal training programs, including classroom sessions and training programs on CD-ROM. Other organizations may prefer a simpler, more flexible approach of encourag-

**training**  
A planned effort to enable employees to learn job-related knowledge, skills, and behavior.

**development**  
The acquisition of knowledge, skills, and behaviors that improve an employee's ability to meet changes in job requirements and in customer demands.



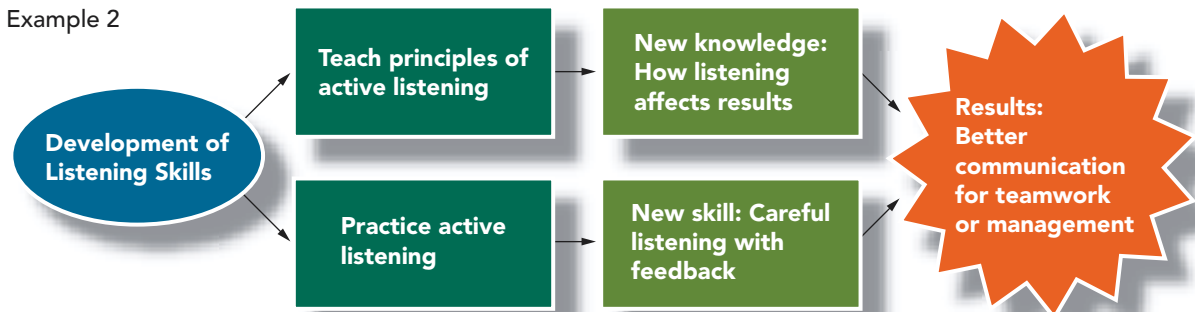
FIGURE 1.3

How Training and Development Can Increase the Value of Human Capital

Example 1



Example 2



ing employees to participate in outside training and development programs as needs are identified.

## Managing Performance

Managing human resources includes keeping track of how well employees are performing relative to objectives such as job descriptions and goals for a particular position. The process of ensuring that employees' activities and outputs match the organization's goals is called **performance management**. The activities of performance management include specifying the tasks and outcomes of a job that contribute to the organization's success. Then various measures are used to compare the employee's performance over some time period with the desired performance. Often, rewards—the topic of the next section—are developed to encourage good performance.

The human resource department may be responsible for developing or obtaining questionnaires and other devices for measuring performance. The performance measures may emphasize observable behaviors (for example, answering the phone by the second ring), outcomes (number of customer complaints and compliments), or both. When the person evaluating performance is not familiar with the details of the job, outcomes tend to be easier to evaluate than specific behaviors.<sup>7</sup> The evaluation may focus on the short term or long term and on individual employees or groups. Typically, the person who completes the evaluation is the employee's supervisor. Often employees also evaluate their own performance, and in some organizations, peers and subordinates participate, too.

### performance management

The process of ensuring that employees' activities and outputs match the organization's goals.

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## Planning and Administering Pay and Benefits

The pay and benefits that employees earn play an important role in motivating them. This is especially true when rewards such as bonuses are linked to the individual's or group's achievements. Decisions about pay and benefits also can support other aspects of an organization's strategy. For example, a company that wants to provide an exceptional level of service or be exceptionally innovative might pay significantly more than competitors in order to attract and keep the best employees. At other companies, a low-cost strategy requires knowledge of industry norms, so that the company does not spend more than it must.

Planning pay and benefits involves many decisions, often complex and based on knowledge of a multitude of legal requirements. An important decision is how much to offer in salary or wages, as opposed to bonuses, commissions, and other performance-related pay. Other decisions involve which benefits to offer, from retirement plans to various kinds of insurance to time off with pay. All such decisions have implications for the organization's bottom line, as well as for employee motivation.

Pay and benefits have the greatest impact when they are based on what employees really want and need. Sherman Assembly Systems, located in San Antonio, Texas, hires many unskilled workers, including a large number who moved off the welfare rolls to take jobs at Sherman. These employees need benefits that help them enter the world of earning a regular paycheck. Sherman arranges to have its bank send representatives to the worksite to help employees apply for checking accounts with low minimum balances. In addition, the company gives workers without a high school diploma an opportunity to take Internet-based courses so they can earn their GED.<sup>8</sup> The work situation at Cronin and Company, a small advertising agency in Glastonbury, Connecticut, is far different. With Cronin's offices located midway between Boston and New York, the challenge is to keep talent from leaving for the many attractions of those major cities. Cronin's benefits therefore include making the workplace attractive, with an environment that makes people want to linger. The company has built a posh employee lounge featuring leather chairs, piped-in jazz, and a cappucino machine. The lounge is meant to be an opportunity to stimulate creative interaction, as well as a way to keep employees happy.<sup>9</sup>

Administering pay and benefits is another big responsibility. Organizations need systems for keeping track of each employee's earnings and benefits. Employees need information about their health plan, retirement plan, and other benefits. Keeping track of this involves extensive record keeping and reporting to management, employees, the government, and others.

In December 2001, Jason Giambi smiles during a press conference in which the New York Yankees announced they had signed Giambi to a seven-year, \$120 million contract. The employer (the Yankees) is paying so much because it believes Giambi will contribute more to the organization than anyone else could.



## Maintaining Positive Employee Relations

Organizations often depend on human resource professionals to help them identify and perform many of the tasks related to maintaining positive relations with employees. This function often includes providing for communications to employees. Many organizations prepare and distribute employee handbooks that detail company policies, and large organizations often have company publications, such as a monthly newsletter or a website on the organization's intranet (an Internet service limited to use within the organization). Preparing these communications may be a regular task for employees in the human resource department.

The human resource department also can expect to handle certain kinds of communications from individual employees. Employees turn to this department for answers to questions about benefits and company policy. If employees feel they have been discriminated against, see safety hazards, or have other problems and are dissatisfied with their supervisor's response, they may turn to the HR department for help. Members of the department should be prepared with a way to address such problems.

In organizations where employees belong to a union, employee relations entails additional responsibilities. The organization periodically conducts collective bargaining to negotiate an employment contract with union members. The HR department also maintains communication with union representatives to ensure that problems are resolved as they arise.

## Establishing and Administering Personnel Policies

All the human resource activities described so far require fair and consistent decisions, and most require substantial record keeping. Organizations depend on their HR department to help establish policies related to hiring, discipline, promotions, benefits, and the other activities of human resource management. For example, if the company has a policy in place that an intoxicated worker will be immediately terminated, the company can handle such a situation more fairly and objectively than if it addressed such incidents on a case-by-case basis. The company can communicate the policy to every employee, so that everyone knows its importance. And if anyone violates the rule, the supervisor can quickly intervene—confident that the employee knew the consequences and that any other employee would be treated the same way. Such policies not only promote fair decision making, they also promote other objectives, such as workplace safety and customer service.

All aspects of human resource management require careful and discreet record keeping. From the preparation of employee handbooks, to processing job applications, performance appraisals, benefits enrollment, and government-mandated reports, handling records about employees requires accuracy as well as sensitivity to employee privacy. Whether the organization keeps records in file cabinets or on a sophisticated computer information system, it must have methods for ensuring accuracy and for balancing privacy concerns with easy access for those who need information and are authorized to see it.

## Ensuring Compliance with Labor Laws

As we will discuss in later chapters, especially Chapter 3, the government has many laws and regulations concerning the treatment of employees. These laws govern such matters as equal employment opportunity, employee safety and health, employee pay and benefits, employee privacy, and job security. Requirements include filing reports

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and displaying posters, as well as avoiding unlawful behavior. Most managers depend on human resource professionals to help them keep track of these requirements.

Ensuring compliance with laws requires that human resource personnel keep watch over a rapidly changing legal landscape. For example, the increased use of and access to electronic databases by employees and employers suggest that in the near future legislation will be needed to protect employee privacy rights. Currently, no federal laws outline how to use employee databases in order to protect employees' privacy while also meeting employers' and society's concern for security.

The requirement that employers give people with disabilities access to the workplace is a topic of continuing debate and court action. The Americans with Disabilities Act (ADA), discussed in Chapter 3, covers access of disabled persons to the physical work environment and attempts to eliminate discrimination against these persons in hiring and other HRM practices. However, no law helps eliminate disabled persons' disadvantages in access to technology such as the Internet, cell phones, and other electronic devices. Disabled people's computer usage and Internet access are only about half the level of persons without disabilities. Future laws may require that persons with disabilities receive access to such technology.<sup>10</sup> Accessibility might include adding screen readers to websites, providing voice recognition technology to computer users, or changing computer design to make computers easier for employees with limited mobility to use.

Another area of continued debate likely will be laws designed 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. Congress has debated laws that restrict genetic testing to monitoring the adverse effects of exposure to hazardous workplace substances (such as chemicals) and that prohibit employers from requiring employees or job candidates to provide predictive genetic information.

Also in the realm of fair employment practices, we are likely to see more challenges to sex and race discrimination focusing on lack of access to training and development opportunities needed for an employee to be considered for top management. Although women and minorities are advancing into top management positions, "glass ceilings" still exist between top management and female and minority employees. A recent survey showed that 97 percent of top U.S. managers are white, and at least 95 percent are male.<sup>11</sup>

Another subject of lawsuits that will continue to have a major influence on HRM practices is job security. As companies are forced to close facilities and lay off employees because of economic or competitive conditions, cases dealing with the illegal discharge of employees have increased. The issue of what constitutes "employment at will"—that is, the principle that an employer may terminate employment at any time without notice—will be debated. As the age of the overall workforce increases, as described in the next chapter, the number of cases dealing with age discrimination in layoffs, promotions, and benefits will likely rise. Employers will need to review work rules, recruitment practices, and performance evaluation systems, revising them if necessary to ensure that they do not falsely communicate employment agreements the company does not intend to honor (such as lifetime employment) or discriminate on the basis of age.

## Supporting the Organization's Strategy

At one time, human resource management was primarily an administrative function. The HR department focused on filling out forms and processing paperwork. However, as more organizations have come to appreciate the significance of highly skilled human resources, many HR departments have taken on a more active role in supporting the organization's strategy.

An important element of this responsibility is **human resource planning**, identifying the numbers and types of employees the organization will require in order to meet its objectives. Using these estimates, the human resource department helps the organization forecast its needs for hiring, training, and reassigning employees. Planning also may show that the organization will need *fewer* employees to meet anticipated needs. In that situation, human resource planning includes how to handle or avoid layoffs. The “HR How To” box draws on several companies' experience to describe some ways of planning for human resource needs.

Often, an organization's strategy requires some type of change—for example, adding, moving, or closing facilities; applying new technology; or entering markets in other regions or countries. Common reactions to change include fear, anger, and confusion. The organization may turn to its human resource department for help in managing the change process. Skilled human resource professionals can apply knowledge of human behavior, along with performance management tools, to help the organization manage change constructively.

### human resource planning

Identifying the numbers and types of employees the organization will require in order to meet its objectives.

## Skills of HRM Professionals

With such varied responsibilities, the human resource department needs to bring together a large pool of skills. These skills fall into the four basic categories shown in Figure 1.4: human relations skills, decision-making skills, leadership skills, and technical skills.

LO3

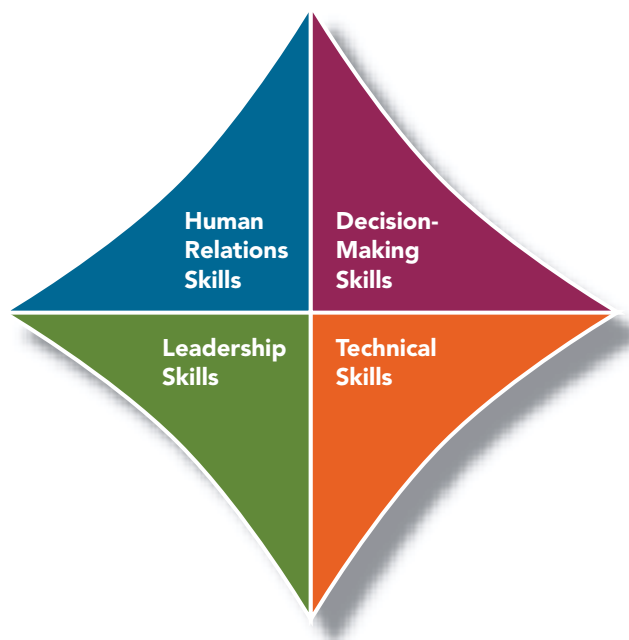


FIGURE 1.4  
Skills of HRM  
Professionals

# HR HOW TO



## Winning the War for Talent

Throughout the 1990s, a booming economy and rapidly changing technology transformed the task of recruiting employees into a war for talent. Even with an economic slowdown at the beginning of the 21st century, the war for talent continues in many fields. How can HR practices help a company win that war? Here are strategies that have worked for several companies:

**Avoid Layoffs.** When money is tight, avoiding layoffs requires creativity. Sun Microsystems has tried closing plants only over the summer. Cisco Systems didn't quite cut ties with employees, even when it concluded it needed layoffs. Cisco is paying some of them one-third of their previous salaries and continuing to provide full benefits, including health insurance, use of a laptop, and access to the

company gym. The company also promised that after a year, Cisco would pay an additional two months' salary to help pay for a job search inside Cisco.

**Lure Them Back.** Other companies that have cut back have tried to stay connected to former employees, so they will want to return when times improve. Charles Schwab is promising a \$7,500 rehiring bonus to any of the 2,100 employees laid off who return within 18 months. Many companies are considering rehiring retired employees on a part-time basis or as consultants, and rather than offering all-or-none retirement programs, they are allowing employees to gradually phase out of work. For example, Monsanto Corporation has developed its own in-house temporary employment agency, the Retiree Resource Corporation (RRC), to utilize retirees' talents.

**Teach Managers to Keep Employees.** Macy's West has developed a comprehensive retention strategy that includes three elements: (1) advising managers on how to run meetings and conduct performance evaluations in a way that will motivate associates; (2) flexible work schedules; and (3) development opportunities to prepare associates to be managers. Executives at Macy's are also held accountable for retention of the employees who report to them.

**Create a Positive Work Environment.** SAS Institute makes employees want to stay by giving them an opportunity to do interesting work in a comfortable environment that gives them time for their personal lives. SAS Institute is a privately held worldwide company that develops and markets statistical software (80

## Human Relations Skills

The ability to understand and work well with other people is important to virtually any career, but human relations skills have taken on new significance for human resource management today. As organizations' managers increasingly appreciate the significance of human resources, many are calling for HRM to become the "source of people expertise" in the organization.<sup>12</sup> HR managers therefore need knowledge of how people can and do play a role in giving the organization an advantage against the competition, as well as of the policies, programs, and practices that can help the organization's people do so. Some of the human relations skills that are particularly important for today's HR professionals are communicating, negotiating, and team development.

percent of the Fortune 500 are customers). SAS Institute operates on the basis of trust. The company's policy for sick leave is that employees can take as many days as they need (assuming they don't abuse the policy). SAS Institute is most famous for its generous, family-friendly benefits and pleasant physical environment. Every employee has a nice private office with computer equipment. Company policy is for employees to work 35 hours a week: a nine-to-five day with an hour for lunch or exercise. The company closes at 5 P.M. The company has an on-site medical facility, on-site day care, and a fitness center. Every Wednesday afternoon, plain and peanut M&Ms are distributed to snack areas on every floor in every building. Not surprisingly, in spite of competition from many nearby high-tech firms, SAS Institute

has low turnover. The company's work environment encourages employees to stay even if they have opportunities at other companies.

**Think Globally.** Companies are relying on the global labor market to find employees with specific talent. In India, computer programmers and call center employees work part-time on contracts for numerous companies around the world. Companies such as Consec, an insurance firm, are finding that by contracting business to Indian firms, they can find a greater supply of better-educated persons than in the United States. The Indian employees are excited about the type of customer service work offered and are loyal and eager to learn, taking the initiative to improve business processes and please their customers. In the United States

it is difficult to find and retain the same type of employees, and pay and benefits tend to be much higher. Similarly, many companies are setting up facilities in countries where human resources are plentiful. In Ireland more than 100 international companies have set up telemarketing operations, and the country is attracting employees from all over Europe.

SOURCE: K. Clark, "You're Laid Off! Kind of. Firms Look beyond Pink Slips," *U.S. News and World Report*, July 2, 2001, pp. 50–53; L. Phillon and J. Brugger, "Encore! Retirees Give Top Performance as Temporaries," *HR Magazine*, October 1994, pp. 74–77; N. Breuer, "Shelf Life," *Workforce*, August 2000, pp. 29–34; C. A. O'Reilly III and J. Pfeffer, *Hidden Value* (Boston: Harvard Business School Press, 2000); Consec website (June 2001), [www.consec.com](http://www.consec.com); Society for Human Resource Management, "Globalization and the Human Resources Profession: Workplace Visions," no. 5 (2000).

## Decision-Making Skills

Human resource managers must make a wide variety of decisions that affect whether employees are qualified and motivated and whether the organization is operating efficiently and complying with the law. Especially at organizations that give HRM departments a role in supporting strategy, HR decision makers also must be able to apply decision-making skills to strategic issues. This requires knowledge of the organization's line of business and the ability to present options in terms of costs and benefits to the organization, stated in terms of dollars.<sup>13</sup> Decisions also must take into account social and ethical implications of the alternatives.

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The Hewlett-Packard/Compaq merger is a high-profile example of organizations going through significant change. Companies turn to human resource departments for help with change management as “people issues” and standardizing practices become increasingly prevalent in the new economy.



### Leadership Skills

Through their knowledge, communication skills, and other abilities, HR managers need to play a leadership role with regard to the organization’s human resources. In today’s environment, leadership often requires helping the organization manage change. Fulfilling this leadership role includes diagnosing problems, implementing organizational changes, and evaluating results, especially in terms of employees’ skills and attitudes. Changes typically produce conflict, resistance, and confusion among the people who must implement the new plans or programs. HR professionals must oversee the change in a way that ensures success. HRM provides tools for overcoming resistance to change, teaching employees to operate under new conditions, and even encouraging innovation. A survey of Fortune 500 companies found that in 87 percent of the companies, organization development and change were managed by the HR department.<sup>14</sup>

### Technical Skills

In any field, including management, “technical skills” are the specialized skills of that field. In human resource management, professionals need knowledge of state-of-the-art practices in such areas as staffing, development, rewards, organizational design, and communication. New selection techniques, performance appraisal methods, training programs, and incentive plans are constantly being developed. These developments often include the use of new software and computer systems. New laws are passed every year, and technical skills require knowledge of how to comply.

Professionals must be able to evaluate the worth of the techniques that are available for carrying out HRM activities. Some of the new methods and tools will provide value to the organization, whereas others may be no more than the HRM equivalent of snake oil. HRM professionals must be able to critically evaluate new techniques in light of HRM principles and business value to determine which are beneficial.

LO4

## HR Responsibilities of Supervisors

Although many organizations have human resource departments, HR activities are by no means limited to the specialists who staff those departments. In large organizations, HR departments advise and support the activities of the other departments. In small organizations, there may be an HR specialist, but many HR activities are carried out by line supervisors. Either way, non-HR managers need to be familiar with the basics of HRM and their role with regard to managing human resources.





FIGURE 1.5

Supervisors' Involvement  
in HRM: Common Areas  
of Involvement

At a start-up company, the first supervisors are the company's founders. Not all founders recognize their HR responsibilities, but those who do have a powerful advantage. When Rene Larrave and two partners founded the consulting firm they called *Tactica*, Larrave felt certain that the only way the firm could grow profitably was with a clear vision of the numbers and kinds of employees who could enable that growth. Larrave and his partners drew up career paths for all the employees they planned to hire, including the requirements for the jobs to which they would be promoted during the company's first few years. To help their future employees find their way along those career paths, they published the details in their company's *Employee Atlas*. The partners also set up a plan for reviewing performance by collecting feedback from peers as well as supervisors. Using this plan, implemented by its HR department, *Tactica* in several years grew to a \$40 million firm, staffed by almost 200 highly committed, hardworking employees—most of them holding the positions that Larrave and his partners had planned for them.<sup>15</sup>

As we will see in later chapters, supervisors typically have responsibilities related to all the HR functions. Figure 1.5 shows some HR responsibilities that supervisors are likely to be involved in. Organizations depend on supervisors to help them determine what kinds of work need to be done (job analysis and design) and in what quantities (HR planning). Supervisors typically interview job candidates and participate in the decisions about which candidates to hire. Many organizations expect supervisors to train employees in some or all aspects of the employees' jobs. Supervisors conduct performance appraisals and may recommend pay increases. And, of course, supervisors play a key role in employee relations, because they are most often the voice of management for their employees, representing the company on a day-to-day basis. Throughout all these activities, supervisors can participate in HRM by taking into consideration the ways that decisions and policies will affect their employees. Understanding the principles of communication, motivation, and other elements of human behavior can help supervisors inspire the best from the organization's human resources.

## Ethics in Human Resource Management

Whenever people's actions affect one another, ethical issues arise, and business decisions are no exception. **Ethics** refers to the fundamental principles of right and wrong; ethical behavior is behavior that is consistent with those principles. Business decisions, including HRM decisions, should be ethical, but the evidence suggests that is

### LO5

#### ethics

The fundamental principles of right and wrong.

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U.S. companies are becoming more aware of the need to act responsibly and ethically. The obvious example is the impact of the Enron debacle on employees' retirement funds.



not always what happens. Recent surveys indicate that the general public and managers do not have positive perceptions of the ethical conduct of U.S. businesses. For example, in a survey conducted by the *Wall Street Journal*, 4 out of 10 executives reported they had been asked to behave unethically.<sup>16</sup>

As a result of unfavorable perceptions of U.S. business practices and an increased concern for better serving customers, U.S. companies are becoming more aware of the need for all company representatives to act responsibly.<sup>17</sup> They have an interest in the way their employees behave because customer, government agency, and vendor perceptions of the company affect the relationships necessary to sell goods and services.

## Employee Rights

In the context of ethical human resource management, HR managers must view employees as having basic rights. Such a view reflects ethical principles embodied in the U.S. Constitution and Bill of Rights. A widely adopted understanding of human rights, based on the work of the philosopher Immanuel Kant, as well as the tradition of the Enlightenment, assumes that in a moral universe, every person has certain basic rights:

- *Right of free consent*—People have the right to be treated only as they knowingly and willingly consent to be treated. An example that applies to employees would be that employees should know the nature of the job they are being hired to do; the employer should not deceive them.
- *Right of privacy*—People have the right to do as they want in their private lives, and they have the right to control what they reveal about private activities. One way an employer respects this right is by keeping employees' medical records confidential.
- *Right of freedom of conscience*—People have the right to refuse to do what violates

their moral beliefs, as long as these beliefs reflect commonly accepted norms. A supervisor who demands that an employee do something that is unsafe or environmentally damaging may be violating this right if it conflicts with the employee's values. (Such behavior could be illegal as well as unethical.)

- *Right of freedom of speech*—People have the right to criticize an organization's ethics, if they do so in good conscience and their criticism does not violate the rights of individuals in the organization. Many organizations address this right by offering hot lines or policies and procedures designed to handle complaints from employees.
- *Right to due process*—If people believe their rights are being violated, they have the right to a fair and impartial hearing. As we will see in Chapter 3, Congress has addressed this right in some circumstances by establishing agencies to hear complaints when employees believe their employer has not provided a fair hearing. For example, the Equal Employment Opportunity Commission may prosecute complaints of discrimination if it believes the employer did not fairly handle the problem.

One way to think about ethics in business is that the morally correct action is the one that minimizes encroachments on and avoids violations of these rights.

As the examples above suggest, organizations often face situations in which the rights of employees are affected. In particular, the right of privacy has received much attention in recent years. Computerized record keeping and computer networks have greatly increased the ways people can gain (authorized or unauthorized) access to records about individuals. Human resource records can be particularly sensitive. HRM responsibilities therefore include the ever-growing challenge of maintaining confidentiality.

## Standards for Ethical Behavior

Ethical, successful companies act according to four principles.<sup>18</sup> First, in their relationships with customers, vendors, and clients, ethical and successful companies emphasize mutual benefits. Second, employees assume responsibility for the actions of the company. Third, such companies have a sense of purpose or vision that 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.

The Raytheon Company gives each employee a checklist including several questions intended to help employees determine whether an action they are contemplating is ethical:<sup>19</sup>

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

Raytheon reinforces its ethics codes with formal training programs, a toll-free "ethics line," and full-time ethics offices and officers in all its major business units. Case studies are used in mandatory one-hour ethics classes for all employees to make them aware of the ethical problems that may occur at work.

**20 CHAPTER 1** Managing Human Resources**FIGURE 1.6**Standards for Identifying  
Ethical Practices

For human resource practices to be considered ethical, they must satisfy the three basic standards summarized in Figure 1.6.<sup>20</sup> 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. These standards are most vexing when none of the alternatives in a situation meet all three of them. For instance, most employers hesitate to get involved in the personal affairs of employees, and this attitude is in keeping with employees' right to privacy. But when personal matters include domestic violence, employees' safety may be in jeopardy, both at home and in the workplace. For Barbara Marlowe of the Boston law firm Mintz Levin Cohn Ferris Glovsky and Popeo, the choice is clear: Helping employees protect themselves does good for employees and also helps employees do better on the job, she says. Mintz Levin set up a group called Employers Against Domestic Violence. Companies that join the group take measures such as posting the phone number of a victim help line, allowing employees to keep flexible hours (to shake off stalkers), and removing victims' names from dial-by-name directories (so harassers can't easily call and disturb them at work).<sup>21</sup>

To explore how ethical principles apply to a variety of decisions, throughout the book we will highlight ethical dilemmas in human resource management practices.

LO6

## Careers in Human Resource Management

There are many different types of jobs in the HRM profession. Figure 1.7 shows selected HRM positions and their salaries. The salaries vary depending on education and experience, as well as the type of industry in which the person works. As you can see from Figure 1.7, some positions involve work in specialized areas of HRM such as recruiting, training, or labor and industrial relations. Usually, HR generalists make between \$50,000 and \$70,000, depending on their experience and education level. Generalists usually perform the full range of HRM activities, including recruiting, training, compensation, and employee relations.

The vast majority of HRM professionals have a college degree, and many also have



FIGURE 1.7

Median Salaries for HRM  
Positions

SOURCE: Based on Society for Human Resource Management—Mercer Survey 2001 as reported in the Bureau of National Affairs website, [www.bna.com](http://www.bna.com), August 28, 2001.

completed postgraduate work. The typical field of study is business (especially human resources or industrial relations), but some HRM professionals have degrees in the social sciences (economics or psychology), the humanities, and law programs. Those who have completed graduate work have master's degrees in HR management, business management, or a similar field. 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 [HRM] 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."<sup>22</sup>

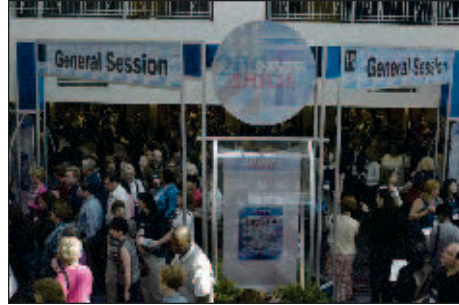
Some HRM professionals have a professional certification in HRM, but many more are members of professional associations. The primary professional organization for HRM is the Society for Human Resource Management (SHRM). SHRM is the world's largest human resource management association, with more than 160,000 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 website to see their services at [www.shrm.org](http://www.shrm.org).

## Organization of This Book

This chapter has provided an overview of human resource management, to give you a sense of its scope. In this book, the topics are organized according to the broad areas

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SHRM provides education, information services (such as this conference), seminars, government and media representation, and online services and publications.



of human resource management shown in Table 1.3. The numbers in the table refer to the part and chapter numbers.

Part I discusses several aspects of the human resource environment. To be effective, human resource management must begin with an awareness of the trends shaping this field, including changes in the workforce, technology, and society. Such trends are the topic of Chapter 2. On a more detailed level, human resource management must also ensure that the organization's actions comply with legal requirements, the topic of Chapter 3. And within the organization itself, human resource management looks at the types of work required and designs jobs that meet a variety of objectives, balancing safety, efficiency, mental demands, and motivation. Chapter 4 covers the topics of analyzing work and designing jobs.

Part II explores the responsibilities involved in acquiring and preparing human resources. Chapter 5 explains how to plan for human resource needs and recruit candidates to meet those needs. Chapter 6 discusses the selection of employees and their

**TABLE 1.3**Topics Covered in  
This Book

I. The Human Resource Environment
2. Trends in Human Resource Management
3. Providing Equal Employment Opportunity and a Safe Workplace
4. Analyzing Work and Designing Jobs
II. Acquiring and Preparing Human Resources
5. Planning for and Recruiting Human Resources
6. Selecting Employees and Placing Them in Jobs
7. Training Employees
III. Assessing Performance and Developing Employees
8. Managing Employees' Performance
9. Developing Employees for Future Success
10. Separating and Retaining Employees
IV. Compensating Human Resources
11. Establishing a Pay Structure
12. Recognizing Employee Contributions with Pay
13. Providing Employee Benefits
V. Meeting Other HR Goals
14. Collective Bargaining and Labor Relations
15. Managing Human Resources Globally
16. Creating and Maintaining High-Performance Organizations

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placement into jobs or teams. Chapter 7 addresses various ways organizations train their employees to perform their jobs.

In Part III, the discussion turns to the assessment and development of human resources. Chapter 8 describes the various activities involved in managing performance, including regular performance appraisals. Chapter 9 describes practices related to employee development—preparing employees for future jobs and helping to establish career paths that take into account employees' work interests, goals, values, and other career issues. Despite these activities, organizations at times determine they no longer need certain positions or no longer wish to retain certain employees. To address these situations, Chapter 10 discusses appropriate ways to handle employee separation. It also discusses the flip side: how organizations can keep valuable employees from wanting to leave.

An important element of employee satisfaction is the employee's belief that he or she is being fairly compensated for the work performed. Part IV addresses several topics related to compensation. Chapter 11 explores decisions related to the organization's overall pay structure. Chapter 12 discusses ways organizations can use pay to recognize individual and group contributions to the organization's performance. Chapter 13 considers benefits—forms of compensation other than pay (for example, insurance and paid vacation time).

The last part of the book addresses a number of special topics that human resource managers face today. Chapter 14 discusses responsibilities of human resource management in organizations where employees have or are seeking union representation. Chapter 15 explores issues that arise when the organization has human resources working in more than one nation. And Chapter 16, the last chapter, returns to the topic of high-performance organizations, taking a closer look at how human resource management can contribute to creating and maintaining such an organization.

Each chapter includes principles and examples showing how the human resource management practice covered in that chapter helps a company maintain high performance. "Best Practices" boxes highlight success stories related to these topics. "HR How To" boxes provide a more detailed look at how to carry out a practice in each of these areas. Many chapters also include an "e-HRM" box identifying the ways that human resource professionals are applying information technology and the Internet to help their organizations excel in the fast-changing modern world.

## Summary

1. Define human resource management and explain how HRM contributes to an organization's performance. Human resource management consists of an organization's "people practices"—the policies, practices, and systems that influence employees' behavior, attitudes, and performance. HRM influences who works for the organization and how those people work. These human resources, if well managed, have the potential to be a source of sustainable competitive advantage, contributing to basic objectives such as quality, profits, and customer satisfaction.
2. Identify the responsibilities of human resource departments.

By carrying out HR activities or supporting line management, HR departments have responsibility for a variety of functions related to acquiring and managing employees. The HRM process begins with analyzing and designing jobs, then recruiting and selecting employees to fill those jobs. Training and development equip employees to carry out their present jobs and follow a career path in the organization. Performance management ensures that employees' activities and outputs match the organization's goals. Human resource departments also plan and administer the organization's pay and benefits. They carry out activities in support of employee relations, such as communications programs and collective bargaining. Conducting all

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these activities involves the establishment and administration of personnel policies. Management also depends on human resource professionals for help in ensuring compliance with labor laws, as well as for support for the organization's strategy—for example, human resource planning and change management.

3. Summarize the types of skills needed for human resource management.

Human resource management requires substantial human relations skills, including skill in communicating, negotiating, and team development. Human resource professionals also need decision-making skills based on knowledge of the HR field as well as the organization's line of business. Leadership skills are necessary, especially for managing conflict and change. Technical skills of human resource professionals include knowledge of current techniques, applicable laws, and computer systems.

4. Explain the role of supervisors in human resource management.

Although many organizations have human resource departments, non-HR managers must be familiar with the basics of HRM and their own role with regard to managing human resources. Supervisors typically have responsibilities related to all the HR functions. Supervisors help analyze work, interview job candidates, participate in selection decisions, provide training, conduct performance appraisals, and recommend pay

increases. On a day-to-day basis, supervisors represent the company to their employees, so they also play an important role in employee relations.

5. Discuss ethical issues in human resource management. Like all managers and employees, HR professionals should make decisions consistent with sound ethical principles. Their decisions should result in the greatest good for the largest number of people; respect basic rights of privacy, due process, consent, and free speech; and treat employees and customers equitably and fairly. Some areas in which ethical issues arise include concerns about employee privacy, protection of employee safety, and fairness in employment practices (for example, avoiding discrimination).

6. Describe typical careers in human resource management.

Careers in human resource management may involve specialized work in fields such as recruiting, training, or labor relations. HR professionals may also be generalists, performing the full range of HR activities described in this chapter. People in these positions usually have a college degree in business or the social sciences. Human resource management means enhancing communication with employees and concern for their well-being, but also involves a great deal of paperwork, and a variety of non-people skills as well as knowledge of business and laws.

## Review and Discussion Questions

1. How can human resource management contribute to a company's success?
2. Imagine that a small manufacturing company decides to invest in a materials resource planning (MRP) system. This is a computerized information system that improves efficiency by automating such work as planning needs for resources, ordering materials, and scheduling work on the shop floor. The company hopes that with the new MRP system, it can grow by quickly and efficiently processing small orders for a variety of products. Which of the human resource functions are likely to be affected by this change? How can human resource management help the organization carry out this change successfully?
3. What skills are important for success in human resource management? Which of these skills are already strengths of yours? Which would you like to develop?
4. 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?
5. If you were to start a business, which aspects of human resource management would you want to entrust to specialists? Why?
6. Why do all managers and supervisors need knowledge and skills related to human resource management?
7. Federal law requires that employers not discriminate on the basis of a person's race, sex, national origin, or age over 40. Is this also an ethical requirement? A competitive requirement? Explain.
8. When a restaurant employee slipped on spilled soup and fell, requiring the evening off to recover, the owner realized that workplace safety was an issue to which she had not devoted much time. A friend warned the owner that if she started creating a lot of safety rules and procedures, she would lose her focus on customers and might jeopardize the future of the restaurant. The safety problem is beginning to feel like an ethical



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dilemma. Suggest some ways the restaurant owner might address this dilemma. What aspects of human resource management are involved?

9. Does a career in human resource management, based on this chapter's description, appeal to you? Why or why not?

## What's Your HR IQ?

The Student CD-ROM offers two more ways to check what you've learned so far. Use the Self-Assessment exercise to see whether you have what it takes for a career in

HR. Go online with the Web Exercise to learn about the Society for Human Resource Management and its publication *HR Magazine*.

## BusinessWeek Case

### BusinessWeek The Human Factor

Julie Jones jumped at the chance to take a sabbatical when Accenture Ltd. offered one in June. Although she had been a consultant in the firm's Chicago office for just two and a half years, the 25-year-old expert in accounts payable software had long wanted to work for AmeriCorps, the national volunteer group. So in July, Jones, who's single, headed out to Los Angeles for a year to join an AmeriCorps group that helps nonprofits with technology problems. Accenture—formerly the consulting subsidiary of Andersen Worldwide and now an independent consulting firm—will pay 20 percent of her salary, plus benefits, and let her keep her work phone number, laptop, and e-mail. “This gives me the security of knowing I'll have a job when I come back,” says Jones.

Accenture hopes the program will offer it some security, too. The economic slowdown has pinched the company's business, forcing it to rein in costs. But after years of scrambling to find scarce talent, Accenture is reluctant to lay off workers it hopes to need when the economy turns north again. Accenture did cut 600 support staff jobs in June 2001. But to retain skilled employees, it cooked up the idea of partially paid sabbaticals, such as the one Jones is taking. About 1,000 employees took up the offer, which allows them to do whatever they want for 6 to 12 months, says Larry Solomon, Accenture's managing partner in charge of internal operations. “This is a way to cut costs that gives us the ability to hang onto people we spent so much time recruiting and training,” he says.

Plenty of other employers are feeling the same way. The slumping economy has put pressure on companies to slash expenses and boost sagging profits. But the United States has just sailed through five years of labor shortfalls on a scale not seen in more than three decades. What's more, the unemployment rate, while rising, remains at historically low levels. Many employers are wary about dumping too many workers just to find themselves scrambling later to refill the positions.

Even companies that have handed out pink slips often did so with caution rather than abandon. When Charles Schwab Corporation first saw business deteriorate last fall, it put projects on hold and cut back on such expenses as travel and entertainment to avoid layoffs, says human resources vice president Ruth K. Ross. In December, as it became clear that more was needed, top executives all took pay cuts: 50 percent for the company's two co-CEOs, 20 percent for executive vice presidents, 10 percent for senior vice presidents, and 5 percent for vice presidents.

Schwab took further steps this year before finally cutting staff. It encouraged employees to take unused vacation and to take unpaid leaves of up to 20 days. Management designated three Fridays in February and March as voluntary days off without pay for employees who didn't have clients to deal with. Only in March, after the outlook darkened yet again, did Schwab announce 2,000 layoffs out of a workforce of 25,000. Even then, the severance package includes a \$7,500 “hire-back” bonus that any employee will get if they're rehired within 18 months. “We felt the markets will turn at some point, and the cost of hiring people back with the bonus is small compared to what it would be to pay for recruiting and retraining new employees,” says Ross.

Employers also are trying to protect their core workers by axing temps and contract employees. Throughout the 1990s, many companies built up buffer workforces—workers performing jobs under contract, rather than as employees—to get work done during a period of high demand. The buffer workforces were intended to allow companies to more easily adjust staffing levels. Since 1990 the number of temporary employees tripled, to a peak of 3.6 million in the fall of 2000. But since then their ranks have fallen by half a million as companies have tried to adjust to slower sales by reducing their use of contract and temporary workers.

Slashing work hours is another way to reduce payroll

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without lopping off heads. The workweek has edged steadily downward as the economy slowed, to 34.3 hours for most of 2001. Manufacturers, hit the hardest by the economic slump, have dialed back the most. Factory overtime has fallen by about 15 percent from last year, to four hours a week in June 2001. The factory workweek has plunged by a similar amount, to 40.7 hours. “Businesses have aggressively cut hours worked, which is the first thing you do if you want to hang onto staff,” says Mark M. Zandi, chief economist at Economy.com Inc. in West Chester, Pennsylvania.

The result of all these trends has been a relatively modest upturn in unemployment. The jobless rate has jumped up to 4.5 percent since hitting a 30-year low of 3.9 percent last fall. But that’s still below the 5 percent or even 6 percent that most experts had considered full employment for some two decades. It’s also much lower than the spike that occurred during the last recession, in 1991. Back then, unemployment soared from a low of 5 percent to a peak of 7.8 percent. The rate probably will continue to inch higher through the year as companies face up to the fact that the sales volumes they had geared up for in 2000 aren’t going to materialize. But if the consensus among economists is right, labor, especially the more skilled kind, will remain scarce for the foreseeable future. “Even if we get unemployment up over 5 percent, it won’t free up more nurses or computer programmers,” says David Wyss, chief economist at Standard & Poor’s. “There aren’t enough of them to go around.”

Even high-tech workers are likely to remain in demand. Employers will have about 900,000 job openings in 2001 for programmers, software engineers, tech-support personnel, and similar workers, according to an April survey by the Information Technology Association of America (ITAA), an industry group based in Arlington, Virginia. That’s down sharply from 1.6 million openings in 2000. But the survey found that even this year, companies believe that they will be unable to fill nearly half of those

jobs, or 420,000 positions. “Demand for workers remains strong,” the report concluded.

Part of the reason is that most of these posts aren’t at high-tech companies, which have borne the brunt of the sharp falloff in demand for computers and telecom equipment. Roughly 90 percent of the country’s 10.4 million tech workers are employed by non-high-tech companies, the ITAA found in its survey. Employers say they will have a total of about 640,000 openings this year.

Still, even battered tech companies would like to hire 260,000 skilled workers this year—and expect to be able to find just half of those they need, according to the survey. “We’re still hiring for some critical areas, like electrical engineers,” says Matt McKinney, a spokesman for Texas Instruments Inc., which announced 2,500 layoffs in April. “Every year, the universities graduate fewer students in these areas, so the available talent pool is shrinking. Yet demand still goes up.”

Absent a full-blown recession, skilled workers are likely to remain in short supply. The same may not hold true at the bottom of the labor market, which is unlikely to see solid wage growth without a return to the extraordinary growth levels of 2000. That leaves the United States facing renewed social cleavages as those on the top continue to gain while the rest struggle to keep up.

SOURCE: A. Bernstein, “The Human Factor,” *BusinessWeek*, August 27, 2001.

**Questions**

1. Why have some organizations looked for alternatives to laying off employees? How does this fit with the idea of employees being “human capital”?
2. What ethical issues are involved in decisions about whether to lay off employees?
3. While many employees have been laid off recently, there is still a shortage of skilled workers in certain fields. What HRM practices may be useful for attracting these workers?

**Case: The Container Store: Human Resource Management Excellence Takes Different Forms**

The management of human resources is critical to an organization’s success. But the way that an organization manages human resources takes many different forms. Consider, for example, the approach of The Container Store. The Container Store has a small human resource function and expects managers to actively participate in HR activities such as recruiting.

The Container Store is a retailer of boxes, bags, racks, and shelves that organize everything from shoes to spices. The interior of each store has an open layout, which is divided into sections marked with brightly colored banners

with descriptions such as Closet, Kitchen, Office, and Laundry. Wherever you look in the store, someone in a blue apron is ready to help solve storage problems from the tiniest of issues to the most intimidating of organizational challenges.

The Dallas-based company, which has 2,000 employees in 22 states, has become respected for its commitment to employees. The Container Store has gained many rewards for its HRM leadership. It has been ranked as the best U.S. organization to work for by *Fortune* and has received other awards for its outstanding people management strategies,

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including the *Workforce* magazine Optimas Award in 2001.

The company attributes its success to a 15 to 20 percent turnover rate in an industry where 100 percent turnover is common. Credit for the low turnover and employees' high level of service goes directly to The Container Store culture. The company issues a few uncomplicated guidelines, such as always being flexible, based on a set of humanistic philosophies that emphasize treating others as you want to be treated. A strong emphasis on customer service allows employees to take ownership of the company and make decisions they believe will benefit customers. The company treats employees with respect, and in turn employees enthusiastically serve customers. Employees' ability to create a customized product solution for each customer's organizational needs increases the stores' sales.

The Container Store does not have a large HRM department. In fact, until recently, managers viewed HRM as working against the company's culture. According to Elizabeth Barrett, vice president of operations, the company has always trusted supervisors to attract, motivate, and retain employees. Managers are responsible for many traditional HRM tasks because they are closest to employees. The Container Store believes that people have to fit into the company's culture to succeed.

The company has a focused people strategy: hire for fit, train comprehensively, and pay and support for long tenure. Forty-one percent of new employees are people recommended by current employees. Many new employees are the company's customers. They are typically college educated and want their quality of life at work to reflect their lifestyle, beliefs, and values. The company invests more than 235 hours of training in first-year employees, far above the industry average of 7 hours per year. After their first year, employees receive an average of 160 hours of training each year. In contrast to other retailers, the company spends considerable time measuring the direct impact of training on store sales. Most retailers focus

primarily on merchandise. The Container Store's managers believe that loyal employees will pay off handsomely with increased sales and customer service, so the company pays employees two to three times the industry average. It also shares financial information with everyone and offers benefits to both full- and part-time employees.

The company now has a semiformal HRM structure with recruiting, training, payroll, and benefits departments. HR managers are also given responsibility for other areas of the company, such as store operations, and are required to take store-level positions so they can better understand the company's purpose—to serve customers. Most HRM employees start out as salespeople so they will understand more about serving customer needs. Despite the new HRM structure, managers continue to take the lead in recruiting and evaluating potential employees, as well as in the extensive employee training. The company has seen its human resource strategy pay off. The Container Store is continuing to expand in the United States and beyond, and retail sales have increased at an average rate of 20 to 25 percent a year.

SOURCE: Based on R. Laglow, "The Container Store Does Great HRM—Even without an HR Department," *Human Resource Executive*, August 2001, p. 23; J. Labbs, "Thinking outside the Box at The Container Store," *Workforce*, March 2001, pp. 34–38; The Container Store website, [www.containerstore.com](http://www.containerstore.com).

### Questions

1. Consider the areas of human resource management listed in Table 1.3. For each area, summarize how The Container Store handles these activities.
2. For each of the functions identified in Question 1, what is the role of the HR department? What is the role of the company's line managers?
3. What advantages might there be to assigning more of these tasks to the HR department or to line managers? Would you expect these advantages to be different in a larger or smaller organization?

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