

Chapter

2

Trends in Human Resource Management

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

1. Describe trends in the labor force composition and how they affect human resource management.
2. Summarize areas in which human resource management can support the goal of creating a high-performance work system.
3. Define employee empowerment and explain its role in the modern organization.
4. Identify ways HR professionals can support organizational strategies for quality, growth, efficiency, and international operations.
5. Summarize the role of human resource management in an Internet economy.
6. Discuss how technological developments are affecting human resource management.
7. Explain how the nature of the employment relationship is changing.
8. Discuss how the need for flexibility affects human resource management.

Introduction

The early years of the 21st century have shaken the complacency of U.S. workers and forced them to take a fresh look at the ways they are working. A decade of turbulent economic growth gave way to decline, or at least stagnation. Terrorist attacks on U.S. soil forced a new sense of life's uncertainties. And a revolution in information tech-

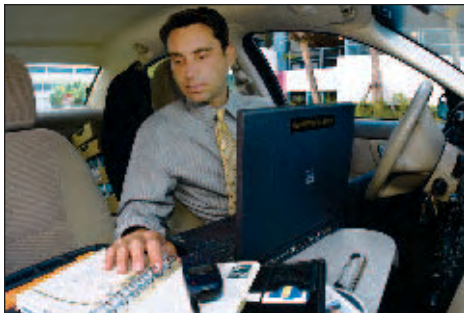
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nology has redefined such fundamental notions as what it means to be “in touch” or “at work.” More and more voices at the workplace, in the community, and in the media tell of people who are mulling over why they work the way they do—and whether they want to keep working that way.

Jessica Hsu is a case in point. At age 25, Hsu was experiencing an economic slowdown for the first time, and she questioned her past role as an ad writer for a dot-com business. Says Hsu, “I was writing ads to convince people to buy things they really did not need.” She decided to switch to more meaningful work and signed up with the Peace Corps. She was far from the only one. According to the Peace Corps, enrollment has surged since the stocks of Internet companies plunged in 2001. Some of these volunteers had lost their jobs, but others just said they were sick of the intense pace of work and wanted to do something more significant.¹

Difficult times have given business owner Richard Schachtman more appreciation for his employees. Schachtman, who runs the six-store Now! Audio Video chain in North Carolina, struggled to avoid laying off workers. For 27 years, he had never made any cuts in his payroll. But after the September 11, 2001, attacks intensified the economic slowdown, his business simply could not support all his employees. He laid off three employees and reduced or eliminated annual bonuses for the rest. At the end of the year, he spent hours trying to write a heartfelt thank-you to the remaining 132 employees. Says Schachtman, “We’re a family company, and these people deserved thousands [of dollars in bonuses], but were getting just hundreds.” The employees responded to the situation with an understanding that Schachtman calls “almost noble.”²

Other employees are holding onto their jobs—and barely holding onto their non-work lives. In fact, their jobs seem to be creeping out of the workplace and into their homes and cars. People are using the latest technology to make phone calls and check e-mail wherever they can carry a cell phone or pager. *Multitasking* has become a new buzzword as people become increasingly creative with their travel time. One New York official even admitted to a *Wall Street Journal* columnist that he has figured out how to change his pants while driving (he insists he has a safe driving record). On a more serious note, many workers have turned their cars into traveling conference centers. Greg Xikes and coworkers at a company that provides networking services have carried on conference calls from Xikes’s car, with all of them dialing into the same number from their cell phones. Not everyone likes multitasking, though. A sales manager in Rhode Island works from his car, even though he hates it, because he believes it is a necessary part of keeping up with the competition. Kimberly Cooper, a data analyst in Florida, simply decided not to participate in this aspect of modern life. She leaves her car at home and rides a bike to work. Cooper says



Multitasking has become a way of life for many employees who need to make the most of every minute. This is a new, but prevalent, trend that is affecting human resource management and the employees it supports.

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distracted multitaskers lose an amazing amount of the fruits of their busyness: “You should see the ‘road kill’—a dropped wallet, a case with over \$135 in CDs.”³

These are the kinds of people and situations that shape the nature of human resource management today. This chapter describes major trends that are affecting human resource management. It begins with an examination of the modern labor force, including trends that are determining who will participate in the workforce of the future. Next, we explore ways HRM can support a number of trends in organizational strategy, from efforts to maintain high-performance work systems to changes in the organization’s size and structure. Often, growth includes the use of human resources on a global scale, as more and more organizations hire immigrants or open operations overseas. The chapter then turns to major changes in technology, especially the role of the Internet. As we will explain, the Internet is changing organizations themselves, as well as providing new ways to carry out human resource management. Finally, we explore the changing nature of the employment relationship, in which careers and jobs are becoming more flexible.

LO1

internal labor force

An organization’s workers (its employees and the people who have contracts to work at the organization).

external labor market

Individuals who are actively seeking employment.

Change in the Labor Force

The *labor force* is a general way to refer to all the people willing and able to work. For an organization, the **internal labor force** consists of the organization’s workers—its employees and the people who have contracts to work at the organization. This internal labor force is drawn from the organization’s **external labor market**, that is, individuals who are actively seeking employment. The number and kinds of people in the external labor market determine the kinds of human resources available to an organization (and their cost). Human resource professionals need to be aware of trends in the composition of the external labor market, because these trends affect the organization’s options for creating a well-skilled, motivated internal labor force.

An Aging Workforce

In the United States, the Bureau of Labor Statistics (BLS), an agency of the Department of Labor, tracks changes in the composition of the U.S. labor force and forecasts employment trends. The BLS has projected that from 1996 to 2006, the total U.S. labor force will grow from 134 million to 149 million workers.⁴ This 11 percent increase represents somewhat slower growth than during the preceding decade. As that growth occurs, the composition of the labor force will change because of shifts in the U.S. population.

Some of the expected change involves the distribution of workers by age. During the 1996–2006 period, the youth labor force (workers between the ages of 16 and 24) is expected to grow faster than the overall labor force for the first time in 25 years. However, the fastest-growing age segment will be workers aged 45 to 64, as the baby boom generation (born from 1946 to 1964) continues to age. Therefore, in spite of the growing numbers of young workers, the overall work force will be aging. Figure 2.1 shows the change in age distribution, as forecast by the Bureau of Labor Statistics, between 1990 and 2010. The BLS forecasts that by 2015, the number of workers at least 40 years old will exceed the number under 40 for the first time ever.⁵ Human resource professionals will therefore spend much of their time on concerns related to retirement planning, retraining older workers, and motivating workers whose careers

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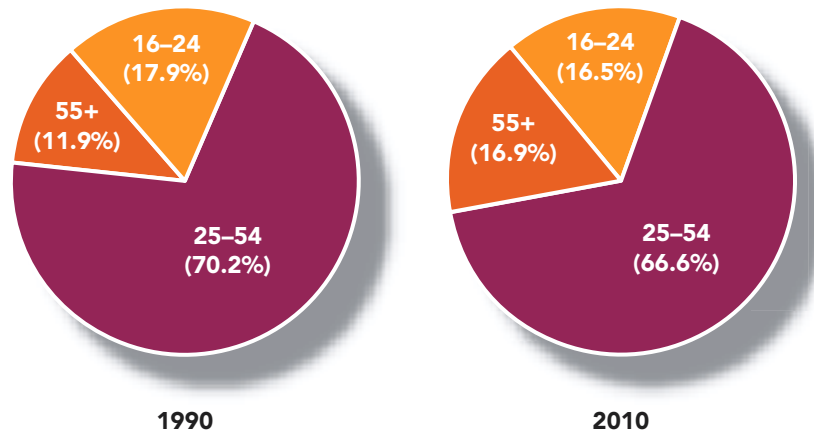


FIGURE 2.1

Age Distribution of U.S.
Labor Force, 1990 and
2010

SOURCE: H. N. Fullerton Jr. and M. Toossi, "Labor Force Projections to 2010: Steady Growth and Changing Composition," *Monthly Labor Review* 124, no. 11 (November 2001), downloaded at www.bls.gov.

have plateaued. Organizations will struggle with ways to control the rising costs of health care and other benefits. At the same time, organizations will have to find ways to attract, retain, and prepare the youth labor force.

In doing so, organizations will be reminded that values tend to change from one generation to the next, as well as when people reach different life stages.⁶ For example, members of Generation Y (born between 1976 and 1995) begin their career with the assumption they will frequently change jobs. They are likely to place a high value on money as well as on helping others. Most employees, however, value several aspects of work, regardless of their age. Employees view work as a means to self-fulfillment—that is, a means to more fully use their skills and abilities, meet their interests, and live a desirable lifestyle.⁷ One report indicates that if employees receive opportunities to fully use and develop their skills, have greater job responsibilities, believe the promotion system is fair, and have a trustworthy manager who represents the employee's best interests, they are more committed to their companies.⁸ Fostering these values requires organizations to develop HRM practices that provide more opportunity for individual contribution and entrepreneurship (in this context, taking responsibility for starting up something new).⁹ Because many employees place more value on the quality of nonwork activities and family life than on pay and production, employees will demand more flexible work policies that allow them to choose work hours and the places where they work.

Employers will likely find that many talented older workers want to continue contributing through their work, though not necessarily in a traditional nine-to-five job. For organizations to attract and keep talented older workers, many will have to rethink the ways they design jobs. Phyllis Ostrowsky, in her mid-fifties, enjoyed her position as a store manager for 13 years, and she went out of her way to provide good customer service. But her job responsibilities and hours expanded to the point they became excessive. She eventually was working 12-hour days and was too busy to give customers the personal touch she liked to deliver. Ostrowsky therefore left her store job for a position as an office manager with another company.¹⁰

A Diverse Workforce

Another kind of change affecting the U.S. labor force is that it is growing more diverse in racial and ethnic terms. As Figure 2.2 shows, the 2006 workforce will be 72 percent white (and non-Hispanic), 11 percent black, 12 percent Hispanic, and 5 percent Asian and other minorities. The fastest-growing of these categories are “Asian and other” and Hispanics because these groups are experiencing immigration and birthrates above the national average. Along with the greater racial and ethnic diversity, more women are in the paid labor force than in the past. Since 1994, women have been 46 percent of the U.S. labor force. Three-quarters of them work full-time.¹¹

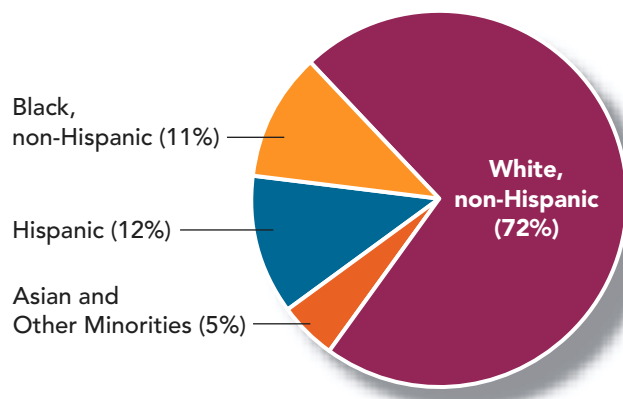
The greater diversity of the U.S. labor force challenges employers to create HRM practices that ensure they fully utilize the talents, skills, and values of all employees. The growth in the labor market of female and minority populations will exceed the growth of white non-Hispanic persons. As a result, organizations cannot afford to ignore or discount the potential contributions of women and minorities. Employers will have to ensure that employees and HRM systems are free of bias and value the perspectives and experience that women and minorities can contribute to organizational goals such as product quality and customer service. As we will discuss further in the next chapter, managing cultural diversity involves many different activities. These include creating an organizational culture that values diversity, ensuring that HRM systems are bias-free, encouraging career development for women and minorities, promoting knowledge and acceptance of cultural differences, ensuring involvement in education both within and outside the organization, and dealing with employees’ resistance to diversity.¹² Figure 2.3 summarizes ways in which HRM can support the management of diversity for organizational success.

Many U.S. companies have already committed themselves to ensuring that they recognize the diversity of their internal labor force and use it to gain a competitive advantage. According to a recent survey of HR professionals, the most common approaches include recruiting efforts with the goal of increasing diversity and training programs related to diversity.¹³ The majority of respondents believed that these efforts were beneficial; 91 percent said they helped the company maintain a competitive advantage.

Texaco developed a state-of-the-art diversity program after the company had to

FIGURE 2.2

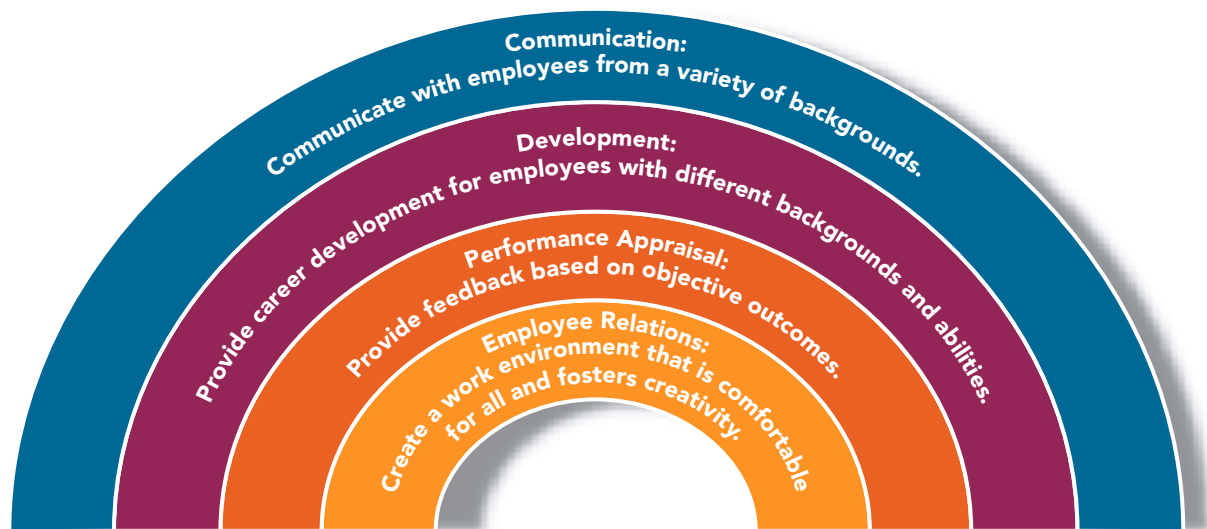
Projected Racial/Ethnic
Makeup of the U.S.
Workforce, 2006



SOURCE: Bureau of Labor Statistics, “BLS Releases New 1996–2006 Employment Projections,” www.bls.gov/new.release/ecopro.nws.htm.

FIGURE 2.3

HRM Practices That Support Diversity Management

SOURCE: Based on M. Loden and J. B. Rosener, *Workforce America!* (Homewood, IL: Business One Irwin, 1991).

pay more than \$175 million to settle a racial discrimination lawsuit.¹⁴ The lawsuit publicly accused company executives of using racial slurs. Before the lawsuit, Texaco's diversity program consisted of a workshop presented to top executives on practical tips for managing a diverse workforce. Today all Texaco employees are required to attend a two-day diversity "learning experience" that emphasizes awareness of what it feels like to be excluded, develops employee sensitivity to others, and improves communication skills needed for interacting with diverse peers. However, managing diversity at Texaco goes far beyond attending workshops; it is part of a culture change. As you will see in Chapter 7, Texaco's diversity effort includes programs designed to stop discrimination in hiring, retention, and promotion.

The practices required for successfully managing diversity do more than meet employee needs; they reduce turnover costs and ensure that customers receive the best service possible. For instance, Molina Healthcare operates clinics whose clients are mostly African American, Hispanic, and Southeast Asian. The company tries to hire staffers who live in the clinics' neighborhoods and speak their patients' languages. This commitment to diversity helps improve communications and the quality of health care provided by the company.¹⁵

Throughout this book, we will show how diversity affects HRM practices. For example, from a staffing perspective, it is important to ensure that tests used to select employees are not unfairly biased against minority groups. From the perspective of work design, employees need flexible schedules that allow them to meet nonwork needs. In terms of training, it is clear that employees must be made aware of the damage that stereotypes can do. With regard to compensation, organizations are providing benefits such as elder care and day care as a way to accommodate the needs of a diverse workforce. As we will see later in the chapter, successfully managing diversity is also critical for companies that compete in international markets.

Skill Deficiencies of the Workforce

The increasing use of computers to do routine tasks has shifted the kinds of skills needed for employees in the U.S. economy. Such qualities as physical strength and mastery of a particular piece of machinery are no longer important for many jobs. More employers are looking for mathematical, verbal, and interpersonal skills, such as the ability to solve math problems or reach decisions as part of a team. Often, when organizations are looking for technical skills, they are looking for skills related to computers and using the Internet. Today's employees must be able to handle a variety of responsibilities, interact with customers, and think creatively.

To find such employees, most organizations are looking for educational achievements. A college degree is a basic requirement for many jobs today. Competition for qualified college graduates in many fields is intense. At the other extreme, workers with less education often have to settle for low-paying jobs. Some companies are unable to find qualified employees and instead rely on training to correct skill deficiencies.¹⁶ Other companies team up with universities, community colleges, and high schools to design and teach courses ranging from basic reading to design blueprint reading.

Not all the skills employers want require a college education. Employers surveyed by the National Association of Manufacturers report a deficiency in employees with such basic skills as getting to work on time and working hard. The school district in Kent, Washington, surveyed local businesses and learned that its graduates were not well prepared to handle such challenges as working well with others. According to Tony Proscio, a researcher who prepared a report on the subject for a Philadelphia think tank, there have always been many people lacking these soft skills, but a lower-than-usual employment rate has forced employers to consider hiring these unqualified workers: "In the late 1990s, employers weren't able to pass them over anymore, because there simply wasn't anyone [else] left." Proscio expects that when the recent economic slowdown reverses, the problem will again become severe.¹⁷ The gap between skills needed and skills available has decreased U.S. companies' ability to compete because they sometimes lack the skills to upgrade technology, reorganize work, and empower employees.

LO2

high-performance work systems

Organizations that have the best possible fit between their social system (people and how they interact) and technical system (equipment and processes).

High-Performance Work Systems

Human resource management is playing an important role in helping organizations gain and keep an advantage over competitors by becoming **high-performance work systems**. These are organizations that have the best possible fit between their social system (people and how they interact) and technical system (equipment and processes).¹⁸ As the nature of the workforce and the technology available to organizations have changed, so have the requirements for creating a high-performance work system. Customers are demanding high quality and customized products, employees are seeking flexible work arrangements, and employers are looking for ways to tap people's creativity and interpersonal skills. Such demands require that organizations make full use of their people's knowledge and skill, and skilled human resource management can help organizations do this.

Among the trends that are occurring in today's high-performance work systems are reliance on knowledge workers; the empowerment of employees to make decisions; and the use of teamwork. The following sections describe those three trends, and Chapter 16 will explore the ways HRM can support the creation and maintenance of



HR HOW TO

Keeping Up with Change

Many of the changes in today's business environment have a direct impact on human resource management. Changes in the population, in technology, in employees' expectations, and other aspects of the business environment place heavy demands on modern HR professionals—and anyone else involved in management. The career advantage goes to those who keep an eye on what's happening in the business environment. Here are some ways to keep up with change:

Know Your Specialty. Join and participate in trade and professional groups. In human resource management, the largest group is the Society for Human Resource Management. Attendance at meetings and visits to the SHRM home page will help you stay abreast of the latest ideas in the field.

Know Your Business. To support your organization's strategy, you have to know the company's line of work. Read industry and general business publications, with an eye on news about what's happening in your company's industry. You can customize Web portals and news websites to deliver headlines related to your industry.

Follow Trends. Government agencies publish news releases and data related to their area of responsibility. Pay regular visits to relevant agency websites, such as those for the Bureau of Labor Statistics (www.bls.gov), the Equal Employment Opportunity Commission (www.eeoc.gov), and the Occupational Safety and Health Administration (www.osha.gov) to find the latest information.

Listen at Work. When employees and management are talking about their work and the

organization's performance, listen for the HR implications. Does the organization have the right amounts and kinds of knowledge, skills, and motivation to carry out its goals? Can some of the new ideas in your field help your organization?

Keep Your Résumé Up-to-Date. If new job or career opportunities become available with your current employer (or another organization), you will be ready to take advantage of them.

Take Time Out to Relax. Change creates long work hours and stress. Work can become all-consuming. If you are stressed out, you are not a valuable employee or a happy person to be around. Make sure you take time for leisure activities you enjoy. Dance, read, exercise—have fun!

a high-performance work system. HR professionals who keep up with change are well positioned to help create high-performance work systems. The nearby "HR How To" box suggests ways HR professionals can make a commitment to adapt to change in order to keep up with a fast-changing work environment.

Knowledge Workers

The growth in e-commerce, plus the shift from a manufacturing to a service and information economy, has changed the nature of employees that are most in demand. Figure 2.4 shows the number of job openings forecast by the Bureau of Labor Statistics for a variety of job classes. The numbers include new positions created by existing and start-up organizations, as well as openings that result from employees leaving jobs for retirement, disability, or other reasons.

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FIGURE 2.4

Types of Job Openings
 Forecast by the Bureau
 of Labor Statistics



SOURCE: "Tomorrow's Jobs" in the 2000-01 Occupational Outlook Handbook, chart 11. From website <http://stats.bls.gov/oco/oco2003.htm>.

In terms of numbers, the greatest job growth will be in service occupations. The number of service jobs has important implications for human resource management. Research shows that if employees have a favorable view of HRM practices—say, their career opportunities, training, pay, and feedback on performance—they are more likely to provide good service to customers. Therefore, quality HRM for service employees can translate into customer satisfaction. The second-largest category of new jobs is professional specialties. Most of the new jobs in this category will be for teachers, librarians, and counselors; computer, mathematical, and operations research positions; and health assessment and treatment occupations.

According to the Bureau of Labor Statistics, the fastest growth rate for jobs over the next few years will include computer-related positions such as computer engineers, computer support specialists, system analysts, and computer database administrators.¹⁹ The largest number of job openings will be in occupations requiring a bachelor's degree and on-the-job training. Most of the opportunities for unskilled workers will be in retailing.

What most of these high-growth jobs have in common is specialized knowledge.

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Knowledge workers are employees whose value to their employers stems primarily from what they know. Engineers such as the ones pictured here have in-depth knowledge of their field and are hard to replace because of their special knowledge.

To meet their human capital needs, companies are increasingly trying to attract, develop, and retain knowledge workers. **Knowledge workers** are employees whose main contribution to the organization is specialized knowledge, such as knowledge of customers, a process, or a profession. Knowledge workers are especially needed for jobs in health services, business services, social services, engineering, and management.

Knowledge workers are in a position of power, because they own the knowledge that the company needs in order to produce its products and services, and they must share their knowledge and collaborate with others in order for their employer to succeed. An employer cannot simply order these employees to perform tasks. Managers depend on the employees' willingness to share information. Furthermore, skilled knowledge workers have many job opportunities, even in a slow economy. If they choose, they can leave a company and take their knowledge to another employer. Replacing them may be difficult and time-consuming.

As more organizations become knowledge-based, they must promote and capture learning at the level of employees, teams, and the overall organization. Buckman Laboratories, for example, is known for its knowledge management practices.²⁰ Buckman Laboratories develops and markets specialty chemicals. Buckman's CEO, Robert Buckman, has developed an organizational culture, technology, and work processes that encourage the sharing of knowledge. Employees have laptop computers so they can share information anywhere and anytime via the Internet. The company set up rewards for innovation and for creating and exchanging knowledge. The rewards are based on performance measures related to the percentage of sales of new products. Buckman also changed the focus of the company's information systems department,

knowledge workers

Employees whose main contribution to the organization is specialized knowledge, such as knowledge of customers, a process, or a profession.

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renaming it the “knowledge transfer department” to better match the service it is supposed to provide.

The reliance on knowledge workers also affects organizations’ decisions about the kinds of people they are recruiting and selecting.²¹ They are shifting away from focusing on specific skills, such as how to operate a particular kind of machinery, and toward a greater emphasis on general cognitive skills (thinking and problem solving) and interpersonal skills. Employers are more interested in evidence that job candidates will excel at working in teams or interacting with customers. These skills also support an employee’s ability to gather and share knowledge, helping the organization to innovate and meet customer needs. To the extent that technical skills are important, employers often are most interested in the ability to use information technology, including the Internet and statistical software.

LO3**employee empowerment**

Giving employees responsibility and authority to make decisions regarding all aspects of product development or customer service.

Employee Empowerment

To completely benefit from employees’ knowledge, organizations need a management style that focuses on developing and empowering employees. **Employee empowerment** means giving employees responsibility and authority to make decisions regarding all aspects of product development or customer service.²² Employees are then held accountable for products and services. In return, they share the resulting losses and rewards.

HRM practices such as performance management, training, work design, and compensation are important for ensuring the success of employee empowerment. Jobs must be designed to give employees the necessary latitude for making a variety of decisions. Employees must be properly trained to exert their wider authority and use information resources such as the Internet, as well as tools for communicating information. Employees also need feedback to help them evaluate their success. Pay and other rewards should reflect employees’ authority and be related to successful handling of their responsibility. In addition, for empowerment to succeed, managers must be trained to link employees to resources within and outside the organization, such as customers, coworkers in other departments, and websites with needed information. Managers must also encourage employees to interact with staff throughout the organization, must ensure that employees receive the information they need, and must reward cooperation.

As with the need for knowledge workers, use of employee empowerment shifts the recruiting focus away from technical skills and toward general cognitive and interpersonal skills. Employees who have responsibility for a final product or service must be able to listen to customers, adapt to changing needs, and creatively solve a variety of problems.

Teamwork

teamwork

The assignment of work to groups of employees with various skills who interact to assemble a product or provide a service.

Modern technology places the information that employees need for improving quality and providing customer service right at the point of sale or production. As a result, the employees engaging in selling and producing must also be able to make decisions about how to do their work. Organizations need to set up work in a way that gives employees the authority and ability to make those decisions. One of the most popular ways to increase employee responsibility and control is to assign work to teams. **Teamwork** is the assignment of work to groups of employees with various skills who interact to assemble a product or provide a service. Work teams often assume



BEST PRACTICES

Team Spirit Makes Winners of Whole Foods Employees

Every year, *Fortune* magazine evaluates nominations for the "100 Best Companies to Work For," based on the companies' work life and culture, including such elements as employee attitudes, company benefits, and training opportunities. One company that has consistently made the list is Whole Foods Market, a chain of natural-foods stores headquartered in Austin, Texas.

For employees at Whole Foods, the emphasis is on teams. Work is assigned to teams, rather than to individual jobs. Each store is operated by about 10 teams, each handling a product area such as produce, prepared foods, or groceries. Teams are responsible for decisions about hiring, ordering, and pricing. Every team has a set of goals and a team leader. The team leaders, in turn, are members of a leadership team. The leader of that team for each store is part of a regional team. The company's regional team leaders are a company leadership team.

To support decision making by these teams, the company shares information. Any employee can see data on store and team sales, profit margins, and salaries. Teams also use the information to help them compete with the other

teams, stores, and regions. The company provides rewards (bonuses, recognition, and promotions) to those that deliver the best profits, service, productivity, and quality. The performance-related rewards and open information sharing can help team members focus on goals. Whole Foods' chief executive, John Mackey, says leaders often come to him with questions like, "How come you are paying this regional president this much, and I'm making this much?" Continues Mackey, "I have to say, 'Because that person is more valuable. If you accomplish what this person has accomplished, I'll pay you that, too.' "

Complementing the notion of teamwork is a sense of equality. In contrast to many American corporations, where the top executives earn far more than the rank and file, Whole Foods limits its top pay to eight times the company's average wage.

Some employees would say that "team" does not begin to describe the relationships among Whole Foods employees. Becky Ellis, specialty team leader at a Whole Foods store in Austin, says what she likes most about the company is its people. She says, "They seem to be more

like your family, not just your coworkers." Whole Foods sponsors an emergency fund designed to let employees help one another out in emergencies by donating benefit hours.

Besides the good feelings of being part of a work community, Whole Foods gives employees the good feelings of participating in their outside community. Whole Foods has a community service program that pays employees to do volunteer work. Employees can earn their regular hourly wage for doing up to 40 hours of service work in their community each year.

Of course, there are practical benefits to working at Whole Foods. The company rewards employees with career opportunities, by filling most positions through promotions from within. Aly Winningham, a Whole Foods employee who has held several positions over seven years, says the company's willingness to give her the work experience "makes me feel that the company believes in me and wants to see me grow."

SOURCE: C. Royal, "Finding Fame in *Fortune*," *Austin Business Journal*, August 11, 2000, downloaded at <http://austin.bcentral.com>; C. Fishman, "Whole Foods Is All Teams," *Fast Company*, April 1996, downloaded at www.fastcompany.com.

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many activities traditionally reserved for managers, such as selecting new team members, scheduling work, and coordinating work with customers and other units of the organization. Work teams also contribute to total quality by performing inspection and quality-control activities while the product or service is being completed.

In some organizations, technology is enabling teamwork even when workers are at different locations or work at different times. These organizations use *virtual teams*—teams that rely on communications technology such as videoconferences, e-mail, and cell phones to keep in touch and coordinate activities.

Teamwork can motivate employees by making work more interesting and significant. The nearby “Best Practices” box tells how teamwork contributes to a positive work environment at Whole Foods Market. At organizations that rely on teamwork, labor costs may be lower as well. Spurred by such advantages, a number of companies are reorganizing assembly operations—abandoning the assembly line in favor of operations that combine mass production with jobs in which employees perform multiple tasks, use many skills, control the pace of work, and assemble the entire final product.²³ One example of this type of teamwork is Compaq Computer’s assembly cells. In manufacturing sites in Scotland and Texas, four-person teams build the computers. One person assembles parts, another builds components, and two people assemble the finished computer unit. The new teams have helped raise labor productivity (the amount produced per worker) 51 percent.

LO4

Focus on Strategy

As we saw in Chapter 1, traditional management thinking treated human resource management primarily as an administrative function, but managers today are beginning to see a more central role for HRM. They are beginning to look at HRM as a means to support a company’s *strategy*—its plan for meeting broad goals such as profitability, quality, and market share.²⁴ This strategic role for HRM has evolved gradually. At many organizations, managers still treat HR professionals primarily as experts in designing and delivering HR systems. But at a growing number of organizations, HR professionals are strategic partners with other managers.²⁵ This means they use their knowledge of the business and of human resources to help the organization develop strategies and to align HRM policies and practices with those strategies. To do this, human resource managers must focus on the future as well as the present, and on company goals as well as human resource activities.

Continental Airlines used HRM as a strategic partner to plan and implement a dramatic turnaround a few years ago. The airline, which had been struggling with low customer satisfaction and financial problems, brought in Gordon Bethune as CEO to develop a new strategy. The strategy Bethune launched had four elements: Fly to Win (achieve profit margins in the top one-fourth of the industry), Fund the Future (reduce the company’s heavy load of debt), Make Reliability a Reality (improve the quality of the company’s services to make them best in the industry), and Working Together (make the company an organization that employees are glad to work for). Bethune charged Ken Carrig, Continental’s vice president of human resources, with leading HRM in the development of systems and plans to execute that strategy. For example, a new pay system helped to give the company a cost advantage but also rewarded employees for doing well. Base pay was low compared with that of other airlines, but employees were eligible for bonuses and profit sharing. If in any month, Continental ranked in the top three airlines for on-time arrivals, every employee would receive a



FIGURE 2.5

Business Strategy: Issues
Affecting HRM

check for \$65. Employees quickly began contributing ideas to improve on-time performance, and as customers began returning to the new and improved Continental, the employees began to receive profit-sharing payments as well.²⁶

The specific ways in which human resource professionals support the organization's strategy vary according to their level of involvement and the nature of the strategy. Strategic issues include emphasis on quality and decisions about growth and efficiency. Human resource management can support strategies that involve such changes as mergers, acquisitions, downsizing, or international expansion. Decisions to use reengineering and outsourcing can make an organization more efficient and also give rise to many human resource challenges. Figure 2.5 summarizes these strategic issues facing human resource management.

High Quality Standards

To compete in today's economy, companies need to provide high-quality products and services. If companies do not adhere to quality standards, they will have difficulty selling their product or service to vendors, suppliers, or customers. Therefore, many organizations have adopted some form of **total quality management (TQM)**—a companywide effort to continuously improve the ways people, machines, and systems accomplish work.²⁷ TQM has several core values:²⁸

- Methods and processes are designed to meet the needs of internal and external customers (that is, whomever the process is intended to serve).
- Every employee in the organization receives training in quality.
- Quality is designed into a product or service so that errors are prevented from occurring, rather than being detected and corrected in an error-prone product or service.

total quality management (TQM)

A companywide effort to continuously improve the ways people, machines, and systems accomplish work.

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- The organization promotes cooperation with vendors, suppliers, and customers to improve quality and hold down costs.
- Managers measure progress with feedback based on data.

Based on these values, the TQM approach provides guidelines for all the organization's activities, including human resource management. To promote quality, organizations need an environment that supports innovation, creativity, and risk taking to meet customer demands. Problem solving should bring together managers, employees, and customers. Employees should communicate with managers about customer needs.

Mergers and Acquisitions

Increasingly, organizations are joining forces through *mergers* (two companies becoming one) and *acquisitions* (one company buying another). Some mergers and acquisitions result in consolidation within an industry, meaning that two firms in one industry join to hold a greater share of the industry. For example, British Petroleum's recent acquisition of Amoco Oil represents a consolidation, or reduction of the number of companies in the oil industry. Other mergers and acquisitions cross industry lines. In a merger to form Citigroup, Citicorp combined its banking business with Traveller's Group's insurance business. Furthermore, these deals more frequently take the form of global megamergers, or mergers of big companies based in different countries (as in the case of BP-Amoco).

These deals do not always meet expectations, however. According to a report by the Conference Board, one of the major reasons for their failure may be "people issues." Recognizing this, some companies now heavily weigh the other organization's culture before they embark on a merger or acquisition. For example, before acquiring ValueRx, executives at Express Scripts interviewed senior executives and middle managers at ValueRx in order to get a sense of its values and practices.²⁹ Even so, in a recent survey, fewer than one-third of the HRM executives said they had a major influence in how mergers are planned. Not surprisingly, 80 percent of them said people issues have a significant impact after the deals go through.³⁰

HRM should have a significant role in carrying out a merger or acquisition. Differences between the businesses involved in the deal make conflict inevitable. Training efforts should therefore include development of skills in conflict resolution. Also, HR professionals have to sort out differences in the two companies' practices with regard to compensation, performance appraisal, and other HR systems. Settling on a consistent structure to meet the combined organization's goals may help to bring employees together. Cisco Systems heads off conflict following its acquisitions by preparing employees at the firm to be acquired. Cisco tries to make sure that employees of the acquired firm understand that major change will follow the acquisition, so that they will not be surprised afterward. Cisco also addresses career paths. It provides significant roles for the acquired company's top talent in order to keep them on board with challenging opportunities. With such HR-related efforts, Cisco outperforms most firms in retaining talented employees after an acquisition.³¹

Downsizing

It would have been hard to ignore the massive "war for talent" that went on during the late 1990s, particularly with the dot-com craze, as Internet-based companies seemingly became rich overnight. During this time, organizations sought to become

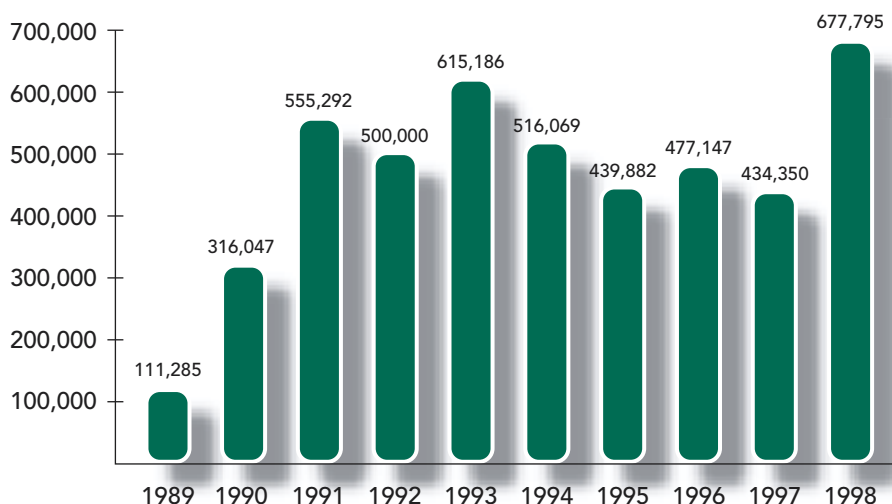


FIGURE 2.6
Number of Employees
Laid Off During the
1990s

SOURCE: Challenger, Gray, and Christmas, 1998.

“employers of choice,” to establish “employment brands,” and to develop “employee value propositions.” All these slogans were meant as ways to ensure that the organizations would be able to attract and retain talented employees. However, what was less noticeable was that in spite of the hiring craze, massive layoffs also were occurring. In fact, as shown in Figure 2.6, 1998, the height of the war for talent, also saw the largest number of layoffs in the decade.³²

This pattern seems to represent a “churning” of employees. In other words, organizations apparently were laying off employees with outdated skills or cutting whole businesses that were in declining markets while simultaneously building businesses and employee bases in newer, higher-growth markets. For example, IBM cut 69,256 people yet increased its workforce by 16,000 in 1996. Although downsizing always poses problems for human resource management, the impact can be especially confusing in an organization that “churns” employees. How can such an organization develop a reputation as an employer of choice and motivate employees to care about the organization? The way organizations answer such questions will play a significant part in determining the quality of employees on the payroll.

Whether or not the organization is churning employees, downsizing presents a number of challenges and opportunities for HRM. In terms of challenges, the HRM function must “surgically” reduce the workforce by cutting only the workers who are less valuable in their performance. Achieving this is difficult because the best workers are most able (and often willing) to find alternative employment and may leave voluntarily before the organization lays off anyone. In 1992 General Motors and the United Auto Workers agreed to an early-retirement program for individuals between the ages of 51 and 65 who had been employed for 10 or more years. For those who agreed to retire, even if they obtained employment elsewhere, the program provided full pension benefits and as much as \$13,000 toward the purchase of a GM car.³³ Such early-retirement programs are humane, but they essentially reduce the workforce with a “grenade” approach—not distinguishing good from poor performers but rather eliminating an entire group of employees. In fact, research indicates that when companies downsize by offering early-retirement programs, they usually end up rehiring to

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replace essential talent within a year. Often the company does not achieve its cost-cutting goals because it spends 50 to 150 percent of the departing employee's salary in hiring and retraining new workers.³⁴

Another HRM challenge is to boost the morale of employees who remain after the reduction; this is discussed in greater detail in Chapter 5. Survivors may feel guilt over keeping their jobs when their friends were laid off. Or they may envy their friends who retired with attractive severance and pension benefits. Their reduced satisfaction and lower commitment to the organization may interfere with their performance of their work. To address these problems, HR professionals should maintain open communication with remaining employees to build their trust and commitment, rather than withholding information.³⁵ All employees should be informed why the downsizing is necessary, what costs are to be cut, how long the downsizing will last, and what strategies the organization intends to pursue. Finally, HRM can provide downsized employees with outplacement services to help them find new jobs. Such services are ways an organization can show that it cares about its employees, even though it cannot afford to keep all of them on the payroll.

Expanding into Global Markets

Companies are finding that to survive they must compete in international markets as well as fend off foreign competitors' attempts to gain ground in the United States. To meet these challenges, U.S. businesses must develop global markets, keep up with competition from overseas, hire from an international labor pool, and prepare employees for global assignments.

Study of companies that are successful and widely admired suggests that these companies not only operate on a multinational scale, but also have workforces and corporate cultures that reflect their global markets.³⁶ These companies, which include General Electric, Coca-Cola, Microsoft, Walt Disney, and Intel, focus on customer satisfaction and innovation. In addition, they operate on the belief that people are the company's most important asset. Placing this value on employees requires the companies to emphasize human resource practices, including rewards for superior performance, measures of employee satisfaction, careful selection of employees, promotion from within, and investment in employee development.

The Global Workforce

For today's and tomorrow's employers, talent comes from a global workforce. Organizations with international operations hire at least some of their employees in the foreign countries where they operate. And even small businesses that stick close to home often find that qualified candidates include some immigrants to the United States.

Technology is lowering barriers to overseas operations. Mark Braxton, chief technology officer for GM Onstar-Europe, believes that new technologies will open up opportunities for underdeveloped villages and communities in Africa, Asia, Europe, the United States, Central America, and South America by making it practical for employers to locate telephone service centers in places companies once would not have considered.³⁷ Already, economically deprived communities in Ireland, Brazil, and Mexico are being equipped with satellite links that give them access to universities, local government offices, and businesses. Hiring in such areas gives employers access to people with potential to be eager to work yet who will accept lower wages than elsewhere in the world. Challenges, however, may include employees' lack of famil-

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Starbucks Coffee chairman Howard Schultz, left, poses with Yuji Tsunoda, president of Starbucks Japan, during the opening of the Seattle-based coffee-chain giant's 208th shop in Japan. Starbucks, which opens three stores a day worldwide, is a prime example of how companies can successfully compete in international markets.

ilarity with technology and corporate practices, as well as political and economic instability in the areas.

Despite the risks, many organizations that have hired globally are realizing high returns. For example, ABB Asea Brown Boveri (Europe's largest engineering company and a competitor to General Electric) was one of the first Western companies to seize a business opportunity when Asia was experiencing economic difficulties in the late 1990s.³⁸ With over 219,000 employees worldwide, ABB was considered a global company well before then. But when economic crisis lowered the cost of operating in Asia, the company laid off employees in Europe and North America, shifting production to low-cost countries in Asia. The changes required massive HR efforts for the layoffs and hiring, as well as training for the new Asian workers. For example, ABB sent employees to its electric motor facility in Shanghai, China, to train plant managers in ABB quality standards.

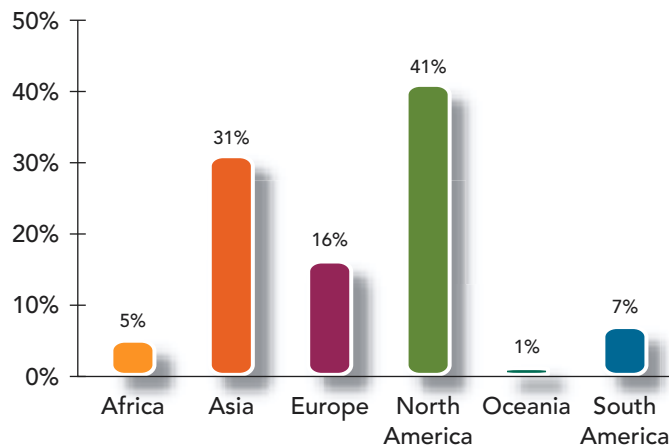
For an organization to operate in other countries, its HR practices must take into consideration differences in culture and business practices. Consider how Starbucks Coffee handled its expansion into Beijing, China.³⁹ Demand for qualified managers in Beijing exceeds the local supply. Employers therefore have to take steps to attract and retain managers. Starbucks researched the motivation and needs of potential managers. The company learned that in traditional Chinese-owned companies, rules and regulations allowed little creativity and self-direction. Also, in many joint U.S.-China ventures, local managers were not trusted. Starbucks distinguished itself as an employer by emphasizing its casual culture and opportunities for career development. The company also spends considerable time training employees. It sends new managers to Tacoma, Washington, where they learn the corporate culture as well as the secrets of brewing flavorful coffee. Another company that trains foreign workers in the United States is Boeing. The aircraft maker brings workers from Poland and India to the United States. They return home with needed knowledge in aircraft design and manufacturing.⁴⁰

Even hiring at home may involve selection of employees from other countries. The 1990s and beginning of the 21st century, like the beginning of the last century, have been years of significant immigration. Immigrants will likely account for an additional million persons in the U.S. workforce each year through 2006.⁴¹ Figure 2.7 shows the distribution of immigration by continent of origin. The impact of immigration will be especially large in some regions of the United States. In 2000 about one-fourth of immigrants settled in California; another 32 percent headed for New York, Florida, and Texas.⁴² In the states on the Pacific Coast, 7 out of 10 entrants to the labor force are immigrants.⁴³ About 70 percent of immigrant workers will be Hispanics and Asians. Employers in tight labor markets—such as those seeking experts in computer science,

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FIGURE 2.7

Where Immigrants to the United States Came from in 2000



SOURCE: Office of Policy and Planning, Immigration and Naturalization Service, "Legal Immigration, Fiscal Year 2000," Annual Report, January 2002, downloaded at www.ins.gov.

engineering, and information systems—are especially likely to recruit international students.⁴⁴

International Assignments

Besides hiring an international workforce, organizations must be prepared to send employees to other countries. This requires HR expertise in selecting employees for international assignments and preparing them for those assignments. Employees who take assignments in other countries are called **expatriates**.

expatriates

Employees who take assignments in other countries.

U.S. companies must better prepare employees to work in other countries. The failure rate for U.S. expatriates is greater than that for European and Japanese expatriates.⁴⁵ To improve in this area, U.S. companies must carefully select employees to work abroad based on their ability to understand and respect the cultural and business norms of the host country. Qualified candidates also need language skills and technical ability. In the "Best Practices" box in Chapter 1, we saw how Tricon Restaurants is overcoming the common mistake of hiring for international assignments based on technical skills alone. In Chapter 15, we discuss practices for training employees to understand other cultures.

Reengineering

Rapidly changing customer needs and technology have caused many organizations to rethink the way they get work done. For example, when an organization adopts new technology, its existing processes may no longer result in acceptable quality levels, meet customer expectations for speed, or keep costs to profitable levels. Therefore, many organizations have undertaken **reengineering**—a complete review of the organization's critical work processes to make them more efficient and able to deliver higher quality.

reengineering

A complete review of the organization's critical work processes to make them more efficient and able to deliver higher quality.

Ideally, reengineering involves reviewing all the processes performed by all the organization's major functions, including production, sales, accounting, and human resources. Therefore, reengineering affects human resource management in two ways. First, the way the HR department itself accomplishes its goals may change dramati-

cally. Second, the fundamental change throughout the organization requires the HR department to help design and implement change so that all employees will be committed to the success of the reengineered organization. Employees may need training for their reengineered jobs. The organization may need to redesign the structure of its pay and benefits to make them more appropriate for its new way of operating. It also may need to recruit employees with a new set of skills. Often, reengineering results in employees being laid off or reassigned to new jobs, as the organization's needs change. HR professionals should help with this transition, as described above in the case of downsizing.

Outsourcing

Many organizations are increasingly outsourcing business activities. **Outsourcing** refers to the practice of having another company (a vendor, third-party provider, or consultant) provide services. For instance, a manufacturing company might outsource its accounting and transportation functions to businesses that specialize in these activities. Outsourcing gives the company access to in-depth expertise and is often more economical as well.

outsourcing
The practice of having another company (a vendor, third-party provider, or consultant) provide services.

Not only do HR departments help with a transition to outsourcing, but many HR functions are being outsourced. A survey by the Society for Human Resource Management found that almost three-quarters of companies outsource at least one HR function.⁴⁶ HR functions that are commonly outsourced include payroll administration, training, and recruitment and selection of employees. For example, Bank of America signed a 10-year contract with Exult Inc. to manage much of the bank's HR function.⁴⁷ Among the functions that Bank of America is outsourcing are payroll, accounts payable, and benefits administration. Other services Exult is handling include delivery of HR services and a call center to provide employees with information about human resources and benefits. Bank of America retained the HR functions of recruiting and compensation, as well as legal counsel. This arrangement frees HR managers at Bank of America to work on strategy and vision, focusing them on HRM responsibilities that add value to the business.

Technological Change in HRM

Advances in computer-related technology have had a major impact on the use of information for managing human resources. Large quantities of employee data (including training records, skills, compensation rates, and benefits usage and cost) can easily be stored on personal computers and manipulated with user-friendly spreadsheets or statistical software. Often these features are combined in a **human resource information system (HRIS)**, a computer system used to acquire, store, manipulate, analyze, retrieve, and distribute information related to an organization's human resources.⁴⁸ An HRIS can support strategic decision making, help the organization avoid lawsuits, provide data for evaluating programs or policies, and support day-to-day HR decisions. Table 2.1 describes some of the new technologies that may be included in an organization's HRIS.

human resource information system (HRIS)
A computer system used to acquire, store, manipulate, analyze, retrieve, and distribute information related to an organization's human resources.

The support of an HRIS can help HR professionals navigate the challenges of today's complex business environment. For example, rapidly changing technology can cause employees' skills to become obsolete. Organizations must therefore carefully monitor their employees' skills and the organization's needed skills. Often the

TABLE 2.1
New Technologies
Influencing HRM

TECHNOLOGY	WHAT IT DOES	EXAMPLE
Internet portal	Combines data from several sources into a single site; lets user customize data without programming skills.	A company's manager can track labor costs by work group.
Shared service centers	Consolidate different HR functions into a single location; eliminate redundancy and reduce administrative costs; process all HR transactions at one time.	AlliedSignal combined more than 75 functions, including finance and HR, into a shared service center.
Application service provider (ASP)	Lets companies rent space on a remote computer system and use the system's software to manage its HR activities, including security and upgrades.	KPMG Consulting uses an ASP to host the company's computerized learning program.
Business intelligence	Provides insight into business trends and patterns and helps businesses improve decisions.	Managers use the system to analyze labor costs and productivity among different employee groups.

employees and needs are distributed among several locations, perhaps among several countries, requiring a global HRIS. Northern Telecom (a Canadian telecommunications company that has facilities in 90 countries, including the United Kingdom, China, and the United States) needed access to information about employees located worldwide. The company has created a central database built on a common set of core elements. Anyone with authorization can view employee records from around the globe. Data on the number of employees, salaries, and recruiting efforts are continually updated as changes are made around the world. The system is customized to specific country needs, but several common data fields and elements are used globally. Northern Telecom's system has enabled managers around the world to obtain up-to-date employee data to meet customer needs and address internal staffing issues.⁴⁹

LO5

A Changing Economy

The way business is conducted has changed rapidly during the past few years and will continue to do so. Many companies are connecting to the Internet to gain an advantage over (or keep up with) competitors. Over half of all Americans went online in September 2001, and 2 million more people are trying the Internet each month.⁵⁰ Greater use of the Internet has prompted the spread of **electronic business (e-business)**—any process that a business conducts electronically, especially business involving use of the Internet. E-business includes several forms of buying and selling goods and business services:

electronic business (e-business)

Any process that a business conducts electronically, especially business involving use of the Internet.

- Business-to-consumer transactions, such as purchasing books and tickets and conducting services, including banking, online.
- Business-to-business transactions, including sales among manufacturers, retailers, wholesalers, and construction firms.

CHAPTER 2 Trends in Human Resource Management **51**



Integral, a designer of human resource intranet systems, creates company intranets that can deliver such HR services as benefits enrollment and paycheck information online.

- Consumer-to-consumer transactions—in particular, individuals buying and selling through auctions.

E-business relies on the Internet to enable buyers to obtain product information online, directly order products and services, receive after-sale technical support, and view the status of orders and deliveries. Internet sites may also allow the customer and seller to communicate with each other through e-mail, chat, and voice connections. Companies may set up customer service centers offering e-mail and live telephone connections to provide help, advice, or product information not found on their websites.

Consumers have been slower than expected in taking their business to the Internet. To win the hearts of consumers, e-commerce has to be better, cheaper, and faster than traditional retailers, entertainment providers, and information sources.⁵¹ One thing the Internet can do better than any other medium is search through information. The Internet-based companies (“dot-coms”) that take advantage of this feature lower the costs of making sales and therefore improve profits.⁵² Some e-businesses, such as those in the online travel business dealing with purchasing airline tickets, reserving hotel rooms, and renting cars online, have been successful. The profitable dot-coms provide services that are information-intensive, rely on old-economy roots, and require little or no physical transportation of products. For example, eBay takes a cut of each sale on its auction site but is not directly involved in transporting items from sellers to buyers. Monster.com charges companies to post job openings and see résumés but does not set up interviews between job candidates and employees. Travel websites such as Travelocity earn a commission if the customer purchases a ticket, rents a car, or books a hotel room. Other old-economy businesses with strong brand recognition, such as FTD, the floral delivery service, have successfully used the Internet to complement telephone and flower store business. FTD can rely on local retailers to receive and ship orders using their own delivery vehicles. The Internet has given customers a new way to place orders.

Human Resources in E-Business

LO6

E-business creates many HRM challenges.⁵³ The fast pace of change in information technology requires that e-business companies quickly identify and hire talented employees. At the same time, competition for such employees is stiff. Many dot-coms are relatively new and may lack management expertise in keeping and motivating employees. As companies start, struggle, and sometimes fail, they require HR expertise to help work through the stresses of downsizing or restructuring without making legal



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missteps. For example, within the first six months of Jessica Keim's tenure as HR manager for Multex.com, the company grew from 350 to 500 employees by acquiring two companies.

Dot-coms are vulnerable to potential legal problems related to human resources. Many of these companies have started with young, inexperienced managers who created a fraternity-party culture, which was intended to foster innovation and creativity but risked cultivating sexual harassment. It's also not unusual to find incomplete personnel folders or poor documentation about when and why employees were terminated. This occurs because successful dot-coms have to focus so intently on bringing a product or service to market and making sales to survive that they do not find time to develop HRM policies, procedures, or standards. Also, the work environment tends to be casual, dress codes may be loose, and work schedules are flexible.

In this context, HRM needs to maintain a balance between accommodating the unique needs of an unstructured and creative workforce and enforcing necessary policies and procedures. Managers and employees often don't know how to nurture or mentor people, so counseling is needed. One HR professional summarized the experience as being like "a counselor at a day care camp."

Despite these challenges, dot-coms offer a dynamic, exciting HRM work environment. Their small size allows HR professionals to speak directly to the chief executive. HRM professionals also have the opportunity to build the HR function from scratch, something that is virtually impossible in a large, more established company. Because of the important role that HRM practices such as recruiting, selection, and compensation play in a growing company, HRM is asked to get involved with strategic decision making. In the words of Beth Skrzyniarz, vice president of HRM for Net-Folio, an Internet-based investment adviser firm, "You're invited to sit at the table a lot more . . . you are heard a lot more than you would be in a big corporation." Because of the numerous HRM needs of small dot-coms, HRM sees its decisions implemented, quickly sees the impact on the business, and receives personal recognition for successful actions.

E-HRM Applications in Other Organizations

The development of e-business has included ways to move HRM activities onto the Internet. Electronic HRM applications let employees enroll in and participate in training programs online. Employees can go online to select from items in a benefits package and enroll in the benefits they choose. They can look up answers to HR-related questions and read company news. This processing and transmission of digitized HR information is called **electronic human resource management (e-HRM)**.

E-HRM has the potential to change all traditional HRM functions. Table 2.2 shows some major implications of e-HRM. For example, employees in different geographic areas can work together. Use of the Internet lets companies search for talent without geographic limitations. Recruiting can include online job postings, applications, and candidate screening from the company's website or the websites of companies that specialize in online recruiting, such as Monster.com or HotJobs. Employees from different geographic locations can all receive the same training over the company's computer network.

Privacy is an important issue in e-HRM. A great deal of HR information is confidential and not suitable for posting on a website for everyone to see. Therefore, e-HRM typically is set up on an *intranet*, which is a network that uses Internet tools but limits access to authorized users in the organization.

electronic human resource management (e-HRM)

The processing and transmission of digitized HR information, especially using computer networking and the Internet.

HRM PRACTICES	IMPLICATIONS OF E-HRM
Analysis and design of work	Employees in geographically dispersed locations can work together in virtual teams using video, e-mail, and the Internet.
Recruiting	Post job openings online; candidates can apply for jobs online.
Training	Online learning can bring training to employees anywhere, anytime.
Selection	Online simulations, including tests, videos, and e-mail, can measure job candidates' ability to deal with real-life business challenges.
Compensation and benefits	Employees can review salary and bonus information and seek information about and enroll in benefit plans.

TABLE 2.2
Implications of
e-HRM for HRM
Practices

Sharing of Human Resource Information

Information technology is changing the way HR departments handle record keeping and information sharing. Today, HR employees use modern technology to automate much of their work in managing employee records and giving employees access to information and enrollment forms for training, benefits, and other programs. As a result, HR employees play a smaller role in maintaining records, and employees now get information through **self-service**. This means employees have online access to information about HR issues such as training, benefits, compensation, and contracts; go online to enroll themselves in programs and services; and provide feedback through online surveys. The “e-HRM” box tells how self-service has improved HRM at General Motors and Channell Commercial Corporation.

Another example is MCI Worldcom, which offers an extensive system of self-service. Employees look up information in online employee directories, handbooks, and databases of employee records. Using the Internet, employees at MCI Worldcom can purchase stock and reallocate the investments in their retirement accounts. They use the system to fill out electronic forms and view electronic pay stubs. They can also view streaming video of managers providing briefings or discussing strategy, see examples of best practices, and sign up for training courses, provided via desktop computers.⁵⁴

self-service
System in which employees have online access to information about HR issues and go online to enroll themselves in programs and provide feedback through surveys.

Linking Employees and Teams Electronically

Business today operates on a global scale. Many organizations therefore need employees throughout the world, and employees need to collaborate with coworkers in different places. HR professionals must identify potential recruits, provide training, and assess skills in many parts of the world. Organizations can save travel costs and time by applying e-HRM to a variety of HR practices. For example, members of a team could make hiring decisions during an online videoconference or chat session, and training technologies range from downloadable text files to streaming video.

Electronic links pose a challenge that is especially significant for human resource management: they lack the personal touch of face-to-face communication. When e-HRM includes sensitive matters, such as discrimination complaints, the lack of a personal touch can prevent an organization from seeing important problems or meeting important needs. In Detroit, two former employees filed a sexual harassment lawsuit against a software company that had arranged for an outside company to provide

E- HRM



Help Yourself to HRM

At General Motors, employees who want information know that it's as close as the nearest computer. General Motors provides a Web portal called My Socrates, with links to the kinds of information employees are looking for. They can use online forms to sign up for insurance and other benefits. They can authorize direct deposits and submit address changes. Links from the My Socrates page take employees to pages of information about health care and other benefits. New employees get information about the corporation and their department.

In 1998, the first information that GM put on this intranet was for the company's employee savings plan. Employees can look up bank statements detailing their transactions over any time frame they specify. Initially, a small share of employees went online for the information, but today almost half do their banking with the intranet. With employees helping themselves to transaction information, GM was able to cut the number of people required to administer the plan from 150 to just 4. Although the cost savings are substantial, Dick O'Brien, GM's executive director of employee benefits and personnel services, says the main reason for

switching to self-service "was to support the employees, to get the information they need to get the work done."

O'Brien says the intranet also frees HR professionals at GM for more interesting work. Now HRM's role is to support corporate strategy. Says O'Brien, "[The intranet] will provide us with the ability to focus on more strategic work, such as management development, cultural and organizational change, development of a learning organization, and skill building among GM employees."

Some organizations are taking their intranets to a higher level: "smart" self-service, in which a knowledge base links different kinds of information to provide answers to HR-related questions. Channell Commercial Corporation originally set up its system just to dispense benefits enrollment forms, but now it supports management decisions with a software tool called HR AnswerSource. Users enter questions, and the system searches the company's knowledge base to assemble an answer. For example, when one of Channell's manufacturing facilities was preparing to switch to a four-day workweek, the plant manager entered the question "Can we change working hours?" The system provided the manager with the

company's policy regarding work hours, plus state and federal guidelines, summaries of relevant laws, model documents, and news reports concerning alternative work schedules.

Channell's e-HRM system also provides managers with regular reports on HR topics. For example, it tells managers about which training modules employees are using. In addition, the system provides information related to harassment complaints, disciplinary actions, and performance appraisals. Top managers can use data from the system to help them plan development opportunities for the company's managers, individually and as a team.

At Channell, as at GM, the benefits of e-HRM go beyond cost savings. Channell's expenses for HR staffing have fallen by one-fifth, and e-HRM has freed HR professionals to provide better service. Employees and managers both express much greater satisfaction with the HR department since it began offering smart self-service.

SOURCE: B. Calandra, "Window to Their World," *Human Resource Executive*, September 2001, pp. 87-88; B. Shutan, "Self-Service Gets Smart," *Human Resource Executive*, March 6, 2002, pp. 49-50, 52-53.

its HR services online. In their complaint, the former employees said the software company's human resource provider had failed to respond appropriately when they reported the harassment. As a result, the former employer might be held responsible for the e-HRM provider's inaction.⁵⁵ The lesson for organizations interested in e-HRM is to plan how they will hear and respond to employees' concerns when most communications take place online.

Change in the Employment Relationship

LO7

Economic downturns will continue to occur, resulting in layoffs in all industries. For example, recently Xerox laid off 12,000 employees, and Cisco Systems 3,000 employees. Excessive optimism about the Internet fueled heavy investment in e-business, and when investors pulled back, dot-coms began going out of business. The trend reached a peak in the early part of 2001, when dozens of Internet companies closed every month. Such layoffs and bankruptcies have played a major role in changing the basic relationship between employers and employees.

A New Psychological Contract

We can think of that relationship in terms of a **psychological contract**, a description of what an employee expects to contribute in an employment relationship and what the employer will provide the employee in exchange for those contributions.⁵⁶ Unlike a written sales contract, the psychological contract is not formally put into words. Instead, it describes unspoken expectations that are widely held by employers and employees. In the traditional version of this psychological contract, organizations expected their employees to contribute time, effort, skills, abilities, and loyalty. In return, the organizations would provide job security and opportunities for promotion.

However, this arrangement is being replaced with a new type of psychological contract.⁵⁷ To stay competitive, modern organizations must frequently change the quality, innovation, creativeness, and timeliness of employee contributions and the skills needed to make those contributions. This need has led to organizational restructuring, mergers and acquisitions, layoffs, and longer hours for many employees. Companies demand excellent customer service and high productivity levels. They expect employees to take more responsibility for their own careers, from seeking training to balancing work and family. These expectations result in less job security for employees, who can count on working for several companies over the course of a career. Today, the average length of time a person holds a job is seven years (compared with eight years in 2000 and nine years in 1999).⁵⁸

In exchange for top performance and working longer hours without job security, employees want companies to provide flexible work schedules, comfortable working conditions, more control over how they accomplish work, training and development opportunities, and financial incentives based on how the organization performs. (Figure 2.8 provides a humorous look at an employee who seems to have benefited from this modern psychological contract by obtaining a family-friendly work arrangement.) Employees realize that companies cannot provide employment security, so they want *employability*. This means they want their company to provide training and job experiences to help ensure that they can find other employment opportunities.

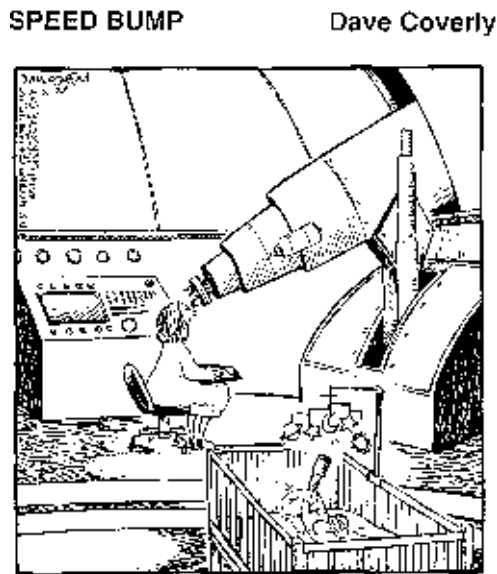
MTW, an information technology company, is exceptional in that it puts its psychological contracts into writing. Whenever a new employee joins the company,

psychological contract

A description of what an employee expects to contribute in an employment relationship and what the employer will provide the employee in exchange for those contributions.

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FIGURE 2.8

A Family-Friendly Work
Arrangement

that person writes an “expectations agreement” stating his or her most important goals. Every six months or so, the employee and the team leader of the employee’s project team review the expectations agreement and modify it if the employee’s expectations have changed. For example, Dan Carrier’s expectations agreement said he would stay knowledgeable about a type of software and that the company would let him continue work on his project, even if he had to move out of state (his wife had a job that might require relocation). Says Carrier of the agreement, “I felt I was in control of my destiny.” MTW’s treatment of employees has translated into business success. Employee turnover is just 6.7 percent a year, in contrast to an industry average of 30 percent, and in a tough job market, most of the company’s new hires come from referrals by existing employees. Revenues have grown at a rate of 50 percent a year, and an impressive 14 percent of that revenue is profits.⁵⁹

LO1

**alternative work
arrangements**

Methods of staffing other than the traditional hiring of full-time employees (for example, use of independent contractors, on-call workers, temporary workers, and contract company workers).

Flexibility

The new psychological contract largely results from the HRM challenge of building a committed, productive workforce in turbulent economic conditions that offer opportunity for financial success but can also quickly turn sour, making every employee expendable. From the organization’s perspective, the key to survival in a fast-changing environment is flexibility. Organizations want to be able to change as fast as customer needs and economic conditions change. Flexibility in human resource management includes flexible staffing levels and flexible work schedules.

Flexible Staffing Levels

A flexible workforce is one the organization can quickly reshape and resize to meet its changing needs. To be able to do this without massive hiring and firing campaigns, organizations are using more alternative work arrangements. **Alternative work arrangements** are methods of staffing other than the traditional hiring of full-time employees. There are a variety of methods, with the following being most common:

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The Bureau of Labor Statistics estimates that there are approximately 12.2 million nontraditional workers. Many of these workers (independent contractors, contract workers, etc.) have this work arrangement by choice.

- *Independent contractors* are self-employed individuals with multiple clients.
- *On-call workers* are persons who work for an organization only when they are needed.
- *Temporary workers* are employed by a temporary agency; client organizations pay the agency for the services of these workers.
- *Contract company workers* are employed directly by a company for a specific time specified in a written contract.

The Bureau of Labor Statistics estimates that there are 12.2 million “nontraditional workers,” including 8.2 million independent contractors, 2 million on-call workers, 1.2 million temporary workers, and approximately 800,000 contract company workers. Altogether, these work arrangements cover about 10 percent of U.S. employees.⁶⁰

More workers in alternative employment relationships are choosing these arrangements, but preferences vary. Most independent contractors and contract workers have this type of arrangement by choice. In contrast, temporary agency workers and on-call workers are likely to prefer traditional full-time employment. There is some debate about whether nontraditional employment relationships are good or bad. Some labor analysts argue that alternative work arrangements are substandard jobs featuring low pay, fear of unemployment, poor health insurance and retirement benefits, and dissatisfying work. Others claim that these jobs provide flexibility for companies and employees alike. With alternative work arrangements, organizations can more easily modify the number of their employees. Continually adjusting staffing levels is especially cost-effective for an organization that has fluctuating demand for its products and services. And when an organization downsizes by laying off temporary and part-time employees, the damage to morale among permanent full-time workers is likely to be less severe. From employees’ perspective, alternative work arrangements provide some flexibility for balancing work and nonwork activities. Of course, the flexibility often means these employees are the first to go when an organization downsizes. In the last three quarters of 2001, 3 out of 10 jobs cut were at temporary-help agencies, even though these jobs account for just 2.2 percent of total payrolls.⁶¹

Flexible Work Schedules

The globalization of the world economy and the development of e-commerce have made the notion of a 40-hour work week obsolete. As a result, companies need to be staffed 24 hours a day, seven days a week. Employees in manufacturing environments and service call centers are being asked to work 12-hour days or to work afternoon or midnight shifts. Similarly, professional employees face long hours and work demands

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that spill over into their personal lives. E-mail, pagers, and cell phones bombard employees with information and work demands. In the car, on vacation, on planes, and even in the bathroom, employees can be interrupted by work demands. More demanding work results in greater employee stress, less satisfied employees, loss of productivity, and higher turnover—all of which are costly for companies.

Many organizations are taking steps to provide more flexible work schedules, to protect employees' free time, and to more productively use employees' work time. Workers consider flexible schedules a valuable way to ease the pressures and conflicts of trying to balance work and nonwork activities. Employers are using flexible schedules to recruit and retain employees and to increase satisfaction and productivity. For example, International Paper plants must run paper-producing machinery 24 hours a day, seven days a week. The challenge for the company was to devise a schedule that keeps the machines running while allowing employees to balance work and rest. At International Paper's plant in DePere, Wisconsin, employees are asked to rotate between daytime work hours to nighttime shifts and back again. Typically, such rotating shifts force employees to continually adjust to different sleep patterns and disrupt social activities. At the DePere plant, shifts have been extended from 8 hours to 12. The typical rotation follows a pattern of four days on, two off, three on, three off, three on, and four off. Employees work only 190 days a year and can balance the demands of work and family life. Another example is Hewlett-Packard, which redesigned work schedules in response to the loss of talented computer service employees who were forced to answer calls late at night and on weekends. HP allowed employees to volunteer to work either during the week or on weekends. As a result, turnover rates decreased and customer response times improved.⁶²

To protect employees' nonwork time, some companies, such as the consulting firm Ernst & Young, allow employees to wait until they return to work to answer weekend or vacation voice mail and e-mail messages.⁶³ At SCJohnson in Racine, Wisconsin, employees often had to take work home on the weekends because they were so tied up in meetings from Monday through Friday that they had to finish duties on their own time.⁶⁴ SCJohnson now bans all meetings for two Fridays each month. The policy helps employees rest on at least two weekends and work at home on those Fridays because they won't be afraid of missing a meeting.

Flexible work schedules and flexible job assignments also provide organizations with a way to adjust to slow periods without laying off valued workers. Lincoln Electric Company responded to slow demand by moving salaried employees to clerical jobs at hourly wages that vary according to the assignment. Lincoln's production workers also are trained to handle varied jobs, according to the size and types of orders the company receives from its customers. In the recession of the early 1980s, which hit the company hard, engineers and factory workers from Lincoln went on the road to try peddling Lincoln's welding and cutting parts to potential customers. Of course, employees prefer the higher-paying jobs, not the demands of lean times. Still, they are glad for Lincoln's commitment to keep them on the payroll—and on the receiving end of benefits like pensions and insurance.⁶⁵

Summary

1. Describe trends in the labor force composition and how they affect human resource management.

An organization's internal labor force comes from its external labor market—individuals who are actively

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seeking employment. In the United States, this labor market is aging and becoming more racially and ethnically diverse. The share of women in the U.S. workforce has grown to nearly half of the total. To compete for talent, organizations must be flexible enough to meet the needs of older workers, possibly redesigning jobs. Organizations must recruit from a diverse population, establish bias-free HR systems, and help employees understand and appreciate cultural differences. Organizations also need employees with skills in decision making, customer service, and teamwork, as well as technical skills. The competition for such talent is intense. Organizations facing a skills shortage often hire employees who lack certain skills, then train them for their jobs.

2. Summarize areas in which human resource management can support the goal of creating a high-performance work system.

HRM can help organizations find and keep the best possible fit between their social system and technical system. Organizations need employees with broad skills and strong motivation. Recruiting and selection decisions are especially important for organizations that rely on knowledge workers. Job design and appropriate systems for assessment and rewards have a central role in supporting employee empowerment and teamwork.

3. Define employee empowerment and explain its role in the modern organization.

Employee empowerment means giving employees responsibility and authority to make decisions regarding all aspects of product development or customer service. The organization holds employees accountable for products and services, and in exchange, the employees share in the rewards (or losses) that result. Selection decisions should provide the organization people who have the necessary decision-making and interpersonal skills. HRM must design jobs to give employees latitude for decision making and train employees to handle their broad responsibilities. Feedback and rewards must be appropriate for the work of empowered employees. HRM can also play a role in giving employees access to the information they need.

4. Identify ways HR professionals can support organizational strategies for quality, growth, efficiency, and international operations.

HR professionals should be familiar with the organization's strategy and may even play a role in developing the strategy. Specific HR practices vary according to the type of strategy. Job design is essential for empowering employees to practice total quality management. In organizations planning major changes such as a merger or acquisition, downsizing, or reengineering,

HRM must provide leadership for managing the change in a way that includes skillful employee relations and meaningful rewards. HR professionals can bring "people issues" to the attention of the managers leading these changes. They can provide training in conflict resolution skills, as well as knowledge of the other organization involved in a merger or acquisition. HR professionals also must resolve differences between the companies' HR systems, such as benefits packages and performance appraisals. For a downsizing, the HR department can help to develop voluntary programs to reduce the workforce or can help identify the least valuable employees to lay off. Employee relations can help maintain the morale of employees who remain after a downsizing. Organizations with international operations hire employees in foreign countries where they operate, so they need knowledge of differences in culture and business practices. Even small businesses serving domestic markets discover that qualified candidates include immigrants, as they account for a significant and growing share of the U.S. labor market, so HRM requires knowledge of different cultures. Organizations also must be able to select and prepare employees for overseas assignments. In reengineering, the HR department can lead in communicating with employees and providing training. It will also have to prepare new approaches for recruiting and appraising employees that are better suited to the reengineered jobs. Outsourcing presents similar issues related to job design and employee selection.

5. Summarize the role of human resource management in an Internet economy.

Information systems have become a tool for more HR professionals, and often these systems are provided through the Internet. In addition, e-business plays a role in a growing number of organizations. At organizations that provide some or all of their services online, HRM must compete for talent in a labor market with heavy demand for expertise. Also, dot-coms often lack depth of management experience and may rely heavily on HR professionals to provide guidance in personnel matters.

6. Discuss how technological developments are affecting human resource management.

The widespread use of the Internet includes HRM applications. Organizations search for talent globally using online job postings and screening candidates online. Organizations' websites feature information directed toward potential employees. Employees may receive training online. At many companies, online information sharing enables employee self-service for many HR needs, from application forms to training

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modules to information about the details of company policies and benefits. Online communications also may link employees and teams, enabling organizations to structure work that involves collaboration among employees at different times and places. In such situations, HR professionals must ensure that communications remain effective enough to detect and correct problems when they arise.

7. Explain how the nature of the employment relationship is changing.
The employment relationship takes the form of a “psychological contract” that describes what employees and employers expect from the employment relationship. It includes unspoken expectations that are widely held. In the traditional version, organizations expected their employees to contribute time, effort, skills, abilities, and loyalty in exchange for job security and opportunities for promotion. Today, modern organizations’ needs are constantly changing, so organizations are requiring top performance and longer work hours

but cannot provide job security. Instead, employees are looking for flexible work schedules, comfortable working conditions, greater autonomy, opportunities for training and development, and performance-related financial incentives. For HRM, the changes require planning for flexible staffing levels.

8. Discuss how the need for flexibility affects human resource management.
Organizations seek flexibility in staffing levels through alternatives to the traditional employment relationship. They may use outsourcing as well as temporary and contract workers. The use of such workers can affect job design, as well as the motivation of the organization’s permanent employees. Organizations also may seek flexible work schedules, including shortened workweeks. They may offer flexible schedules as a way for employees to adjust work hours to meet personal and family needs. Organizations also may move employees to different jobs to meet changes in demand.

Review and Discussion Questions

1. How does each of the following labor force trends affect HRM?
 - a. Aging of the labor force.
 - b. Diversity of the labor force.
 - c. Skill deficiencies of the labor force.
2. At many organizations, goals include improving people’s performance by relying on knowledge workers, empowering employees, and assigning work to teams. How can HRM support these efforts?
3. Merging, downsizing, and reengineering all can radically change the structure of an organization. Choose one of these changes, and describe HRM’s role in making the change succeed. If possible, apply your discussion to an actual merger, downsizing, or reengineering effort that has recently occurred.
4. When an organization decides to operate facilities in other countries, how can HRM practices support this change?
5. Why do organizations outsource HRM functions? How does outsourcing affect the role of human resource professionals? Would you be more attracted to the role of HR professional in an organization that outsources many HR activities or in the outside firm that has the contract to provide the HR services? Why?
6. Suppose you have been hired to manage human resources for a small dot-com start-up. The 12-person company has spent the last year preparing to launch on the Internet, and the company’s two founders realize that they will need to prepare for the growth they expect when they go online next month. What challenges will you need to prepare the company to meet? How will you begin?
7. What e-HRM resources might you use to meet the challenges in Question 4?
8. What HRM functions could an organization provide through self-service? What are some advantages and disadvantages of using self-service for these functions?
9. How is the employment relationship typical of modern organizations different from the relationship of a generation ago?

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 test your knowledge of trends in human resource

management. Go online with the Web Exercise to see how well your knowledge works in cyberspace.

BusinessWeek Case

BusinessWeek Click Here for HR

Cardstore.com Inc., an Emeryville, California, online retailer with about 35 employees, is in a hiring frenzy. So you might expect to find the company's human resource manager, Rhonda Mae Botello, buried in forms for payroll, health coverage, taxes, and the like. She's busy all right, but not with paperwork. When a new worker comes on board, Botello simply logs on to the Web, surfs over to eBenefits.com, and enters the new name and start date. The system spits out an I.D. code and password. Then the new hire logs on to the site, fills out forms online, and selects benefits by completing a series of dialog boxes. Botello approves the choices and ships the package to the insurance company and other providers. "This frees HR up to focus on the things that matter," she says. "Like more hiring."

EBenefits is one of a handful of application service providers (ASPs) designed to manage human resources. ASPs deliver software applications over the Web to companies that lack the time, money, or inclination to do it themselves. Analysts predict that entrepreneurs will soon use ASPs to run nearly every aspect of their companies. ASP sales reached nearly \$400 million in 1998 and are expected to hit \$10 billion by 2003, says Rebecca Scholl, an analyst at Dataquest in Mountain View, California.

At present, an ASP with a solid track record is the one that promises to manage one of any company's most onerous and paper-clogged chores, human resources, offering sophisticated HR software systems for a relative pittance in monthly charges.

What's the catch? For one thing, new technology is never foolproof, and few ASPs have the track record of traditional HR systems. Meanwhile, the products primarily handle paperwork, and do not address the "human" aspect of human resources. "This is not a magic formula," says John Donovan, a managing partner at Deloitte Consulting in Minneapolis. ASPs also lack flexibility. Botello of Cardstore.com wishes she could create custom blanks in the electronic forms to record employees' favorite foods and beverages. (Both are free at Cardstore.com.) A bigger problem: eBenefits still requires paper because it isn't linked up electronically to all of its providers. Still, for \$30 a month flat, Botello is not complaining.

If you want a more integrated—and expensive—system, check out Employeease Inc. Employeease doesn't just provide software; it links up small companies with their various providers. To terminate an employee, an employer needs to notify the payroll service, insurance company, and 401(k) administrator—providing the same information over and over. With Employeease, you simply click

Yours for the ASPing: A Sampling of Major Online Human Resources Service Providers

COMPANY	WHAT THEY OFFER
eBenefits.com	Benefits management; employee record keeping; time-off tracking; legal compliance.
ADP (www.adp.com)	Maintains employee records; tracks attendance; monitors compliance with federal regulations.
Employeease.com	Maintains payroll and benefit data; self-service access for employees; employee performance tracking.
Interpath Communications (www.interpath.com)	Internet hosting for SAP's HR applications; e-commerce ASPs for no additional cost.
Employeeservice.com	Benefits management; payroll; employee self-service; report generation; new-hire automation; in-person HR consulting.
Corio (www.corio.com)	Hosts PeopleSoft HR software; one of the most comprehensive and customizable HR systems.

DATA: BW Frontier.

"terminate," and the message goes out to all of them. Employeease requires a one-time \$2,500 fee for implementation, and a monthly fee, ranging from \$2 to \$6 per employee, depending on whether employees have access to the system.

For many companies, it's worth the cost. Insight Management, an Atlanta info-tech incubation company, has 30 employees, 75 percent of whom work in remote locations. "Wherever they are, they can go online and see what kind of insurance they are enrolled in or change their 401(k) contribution," says Colleen Verner, the company's HR coordinator.

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What about security? How safe are your data? Employease uses a system similar to E*Trade Group Inc. or Yahoo! Inc.—with password protection, firewalls, secure socket-layer encryption, even armed guards. A similar system exists at eBenefits. But with all the high-tech safeguards, common sense says that nothing is completely secure. “You just have to take a leap of faith,” admits Botello.

Some entrepreneurs have another reservation. Numerous “high-touch” aspects of HR—mediating disputes, providing career-path strategy—are unsuited to the Web, says Gus Stieber, director of business development at VMC Behavioral Health Care Services, an employee assistance program in Gurnee, Illinois. “There’s still no substitute for face-to-face,” Stieber says.

ASP boosters would argue that Stieber has it backwards, that using the Web reduces administrative chores, freeing up time to focus on workers’ needs. But if you want an ASP with a human touch, look at San Francisco’s EmployeeService.com. It provides the same services as Employease—and also sends people out to assist with HR problems, which can include everything from setting up the human resources system to answering employee questions. The handholding drives up the cost to \$80 to \$130 per employee per month. Customized systems cost even more.

The main reason to consider paying the premium: integration with other ASPs, including customer service, sales, and e-commerce software—which eventually paves the way for businesses to move more of their operations to the Web without having to go through multiple ASPs. Integrated systems are probably the wave of the future, says Scholl at Dataquest. But for now, most users would settle for anything that helps take the “paper” out of paperwork.

SOURCE: A. S. Wellner, “Click Here for HR,” *BusinessWeek*, April 24, 2000.

Questions

1. Compare the descriptions of software in this case with the HR functions described in Chapter 1. Which functions are available through application service providers? Which additional functions can you envision ASPs adding? Are there HR functions that could not appropriately be outsourced to an ASP? Explain.
2. Does the use of ASPs, as described in this case, fit well with the trend toward employee empowerment? Why or why not?
3. Visit the websites of one or two ASPs listed in the table. How have their services changed since the *BusinessWeek* article was written? Can you identify any trends that would explain these changes?

Case: HRM Flies through Turbulence at Delta Air Lines

In 1994 executives at Delta Air Lines faced a crucial decision about the company’s direction. Delta had established a reputation in the industry for having highly committed employees who delivered the highest-quality customer service. In fact, Delta employees were so committed to the airline that in the 1980s they had pitched in and bought Delta a new plane. But the company had been losing money—at a rate of \$10 for every share of stock—for two straight years. There were several reasons. The company had spent \$491 million to acquire Pan Am in 1991, and then war in the Persian Gulf had driven up fuel costs. Delta’s cost per available seat mile (the cost to fly one passenger one mile) was 9.26 cents, among the highest in the industry. A recession in the early 1990s lowered the demand for air travel, and a growing share of those who did fly chose discount carriers. The company had to act, and whatever it did, the changes were sure to affect Delta’s human resources.

Chairman and chief executive officer Ron Allen launched a cost-cutting strategy, which he named Leadership 7.5. To reduce the cost per available seat mile to 7.5 cents, Delta would have to cut labor costs, the largest single controllable cost for any airline. The company began downsizing, cutting 11,458 people from its 69,555-

employee workforce over three years through buyouts, early retirement, extended leaves, and layoffs. The company laid off many experienced customer service representatives, replacing them with lower-paid, inexperienced, part-time workers. Delta outsourced the cleaning of planes and baggage handling, again laying off long-term Delta employees. The numbers of maintenance workers and flight attendants were reduced substantially. Outsourcing saved a lot of money. For example, Delta had often hired college graduates to clean its planes; these employees were willing to start at \$7.80 an hour to get their foot in the company’s door. The outside contractors received lower wages, fewer benefits, and no travel privileges.

These cuts improved the company’s financial performance, but by other measures, Delta was worse off. Customer complaints about dirty airplanes rose from 219 in 1993 to 358 in 1994 and 634 in 1995. On-time performance became so bad that passengers joked that Delta stands for “Doesn’t Ever Leave The Airport.” In passenger ratings of airline performance, Delta slipped from fourth to seventh in baggage handling among the top 10 carriers. Employee morale hit an all-time low, and unions were beginning to make headway toward organizing some of Delta’s employee groups.

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CEO Allen was convinced the changes were necessary. In 1996 he was quoted as saying, “This has tested our people. There have been some morale problems. But so be it. You go back to the question of survival, and it makes the decision very easy.” Shortly after that, employees began donning buttons bearing a cynical “so be it” slogan.

Delta’s board of directors began to question whether the company had given enough attention to its human resources. The directors saw union organizers stirring workers’ discontent, employee morale destroyed, Delta’s reputation for customer service in shambles, and senior managers exiting the company in droves. Less than a year after his notorious comments, Allen was fired, despite Delta’s financial turnaround. His firing came “not because the company was going broke, but because its spirit was broken.”

Delta is still trying to compose a happy ending to this story. With the family atmosphere gone and the bond between management and rank-and-file employees broken, employees sought other ways to gain voice and security. In the fall of 2001, two union organizing drives were under way, involving Delta’s flight attendants and mechanics. Although less than one-third of eligible flight attendants voted in favor of the union (which is seeking a new election), the union activity has driven up labor costs. The pilots earlier that year signed a lucrative five-year contract giving them the highest pay in the industry. To head off the mechanics’ organizing drive, Delta gave the mechanics raises to put them at the industry top. Not surprisingly, the flight attendants are seeking industry-leading pay for themselves.

Delta’s replacement for Allen, Leo Mullin, has declared customer service and employee relations to be top priorities. Under Mullin’s leadership, Delta employees have heard speeches emphasizing leadership and received such incentives as pay raises, discounts on computers, and more generous benefits. Mullin says his focus on restoring customer service improves morale. As employees see the company succeed, they “feel good about Delta.” Delta has conducted employee surveys that show morale improving substantially. Explains Mullin, “I think the most important ingredient [in this change] was just to create a winning company. People feel good if they believe they’re part of a company that’s committed to excellent customer ser-

vice.” Customers see a difference, too. In a recent Airline Quality Rating, an annual survey of airline performance, Delta for the first time was rated best in overall quality and customer service.

An economic slowdown and fear of terrorism devastated the demand for air travel in 2001, testing Delta’s new focus on employees. In September 2001, Delta determined that reduced demand would require cutting flight capacity and reducing the workforce by up to 13,000 jobs. To minimize the pain, the company offered voluntary programs, including early retirement, a package of benefits to those who accepted voluntary layoffs, and leaves of absence ranging from one to five years. Over 9,500 employees opted for these arrangements.

An antagonistic relationship between workers and managers is just one of the perils that can await organizations that fail to adequately address human resource issues. However, Mullin sees evidence that such a relationship can be changed when the goals are right.

SOURCE: M. Brannigan and E. De Lissar, “Cost Cutting at Delta Raises the Stock Price but Lowers the Service,” *The Wall Street Journal*, June 20, 1996, pp. A1, A8; M. Brannigan and J. White, “So Be It: Why Delta Air Lines Decided It Was Time for CEO to Take Off,” *The Wall Street Journal*, May 30, 1997, p. A1; M. Brannigan, “Delta Lifts Mechanics’ Pay to Top of Industry Amid Push by Union,” *The Wall Street Journal*, Interactive Edition, August 16, 2001; M. Adams, “Delta May See Second Big Union,” *USA Today*, August 27, 2001, p. 1B; M. Sanchanta, “Delta Pilots Ratify Contract,” *Financial Times*, October 26, 2001, <http://news.ft.com>; A. Higgins, “Delta Family Has Grown Dysfunctional,” *Cincinnati Enquirer*, April 15, 2001, <http://enquirer.com>; “How Did They Do That?” *Leaders*, January 2001, p. 161; M. Brannigan, “Delta Wins Round in Fight over Union for Flight Attendants,” *The Wall Street Journal*, Interactive Edition, February 4, 2002; “Delta Workers Sign Up for Voluntary Separation,” *The Wall Street Journal*, October 26, 2001, p. A4; “Delta Tops Poll,” *Travel Agent*, April 9, 2001, downloaded from FindArticles.com.

Questions

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2. When an organization is losing money, as Delta has been, can human resource management enable a more positive outcome than Delta experienced with Leadership 7.5? Explain.
3. How has human resource management changed under CEO Mullin? What additional changes or actions can you recommend?

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