

Chapter 9

Learning Goals

- 1** Explain the importance of human resource management, the responsibilities of human resource managers, and the role of human resource planning in an organization's competitive strategy.
- 2** Describe how recruitment and selection contribute to placing the right person in a job.
- 3** Explain how training programs and performance appraisal help companies grow and develop their employees.
- 4** Outline the methods employers use to compensate employees through pay systems and benefit programs.
- 5** Discuss employee separation and the impact of downsizing and outsourcing.
- 6** Explain how Maslow's hierarchy-of-needs theory, goal setting, job design, and managers' attitudes relate to employee motivation.
- 7** Summarize the role of labor unions and the tactics of labor-management conflicts.

Human Resource Management, Motivation, and Labor- Management Relations

Growing economies need raw materials. But there's a critical labor shortage in the world's mines just as demand is rapidly climbing in expanding markets such as China and India. Both of these countries—with populations of more than 1 billion each—are investing heavily in airports, roads, commercial buildings, and communication systems. As they build, their need for iron ore, coal, and other materials produced by mines is increasing at an unprecedented pace. Meanwhile, mining firms such as Virginia-based Massey Energy are scrambling to hire enough employees to fill their customers' needs, both in the United States and overseas.

Recruiting, hiring, training, and managing a world-class workforce is the goal of every company, and Massey Energy is no exception. To meet increased

skilled workers. "It's a very high-tech business now with a lot of intellectual challenge and opportunities to do interesting things," says Mike Nelson, an associate professor

PHOTODISC/GETTY IMAGES



Massey Energy: Mining for Employees



demand for its products, the company must attract qualified employees who possess specialized skills—or who can learn them—and who are willing to live in remote areas and face physical danger, such as the Sago Mine explosion in West Virginia that killed a dozen miners. In addition, a generation of well-trained engineers, electricians, and miners is beginning to retire. "In order to replace those who are retiring over the next 10 years, we'll have to triple our production of engineers," predicts Kim McCarter, chairman of the University of Utah's mining department. "That's not assuming any kind of growth. That's just replacing those who are retiring." Currently, only about 100 mining engineers graduate each year from U.S. colleges. Katharine Kenny, vice president at Massey, echoes this concern. "In this industry, it's tough enough just to maintain your [existing] workforce," she says. The shortage of labor is "the most difficult business issue we face."

To boost enrollment, institutions that offer mining programs are providing scholarships and job placement assistance for mining engineers with starting salaries ranging from \$50,000 to \$60,000. The industry wants students to understand that mining is not an "old" profession; instead, it uses the latest technologies and needs

of mining engineering at the University of Utah. Louis Cononelos of Kennecott Utah Copper emphasizes the career opportunities for recent graduates. "As the industry now has started to pick up, you have fewer candidates to choose from. It's really a great labor market for these recent graduates because now they have the pick of the jobs." In addition to existing college programs, several specialized training academies have opened near the sites of mining companies to help fill the urgent need for workers. Two such academies with programs designed to train coal miners recently opened in West Virginia. "There is an immediate need to train 1,800 to 2,500 miners in the next 18 months," explains Chris Hamilton of the West Virginia Coal Association.

At Massey Energy, recruitment and training efforts are progressing steadily. "We have a workforce in place which is up about 600 [or] 700 persons over where it was," reports chairman and CEO Don Blankenship. "And it's a matter of getting them trained and getting the equipment in place and beginning the mining. We're gaining ground on it in general, although we fell back a little in [one recent] quarter. But we still believe that the numbers we're projecting will be achieved."¹

The importance of people to the success of any organization is the very definition of **management**: the use of people and other resources to accomplish organizational objectives. In this chapter, we address the critical issues of human resource management and motivation. We begin with a discussion of the ways organizations attract, develop, and retain employees. Then we describe the concepts behind motivation and the way human

resource managers apply them to increase employee satisfaction and organizational effectiveness.

We also explore the reasons for labor unions and focus on legislation that affects labor–management relations. The process of collective bargaining is then discussed, along with tools used by unions and management in seeking their objectives.

human resource management function of attracting, developing, and retaining enough qualified employees to perform the activities necessary to accomplish organizational objectives.

HUMAN RESOURCE MANAGEMENT IS VITAL TO ALL ORGANIZATIONS

As you saw with Massey Energy at the opening of the chapter, most organizations devote considerable attention to **human resource management**, the function of attracting, developing, and retaining enough qualified employees to perform the activities necessary to accomplish organizational objectives. Human resource managers are responsible for developing specific programs and activities as well as creating a work environment that generates employee satisfaction and efficiency.

The core responsibilities of human resource management include planning for staffing needs, recruitment and selection, training and evaluating performance, compensation and benefits, and employee separation. In accomplishing these five tasks, shown in Figure 9.1, human resource managers achieve their objectives of (1) providing qualified, well-trained employees for the organization, (2) maximizing employee effectiveness in the organization, and (3) satisfying individual employee needs through monetary compensation, benefits, opportunities to advance, and job satisfaction.

One of the key ways in which human resource managers accomplish those tasks is to develop *human resource plans* based on their organization’s competitive strategies. They forecast the number of employees their firm will need and determine the types of skills necessary to implement its plans. Human resource managers are responsible for adjusting their company’s workforce to meet the requirements of expanding in new markets; reducing costs, which may require laying off employees; or adapting to new technology. They formulate both long- and short-term plans to provide the right number of qualified employees.

Human resource managers also must plan how to attract and keep good employees with the right combination of pay, benefits, and working conditions. At Trilogy Software, this aspect of human resource planning is at the core of the company’s strategy. Trilogy develops software that handles information processing related to sales and marketing, an industry in which only fast-moving, highly sophisticated companies can succeed. So the company has a strategy to expand its staff of software developers. Knowing that it is competing for talent with software giants such as Microsoft and Cisco Systems, Trilogy targets college campuses, recruiting the brightest, most energetic students it can find. As a substitute for work experi-

“They Said It”

“This may sound soft and mushy, but happy people are better for business. They are more creative and productive, they build environments where success is more likely, and you have a much better chance of keeping your best players.”

—Shelly Lazarus (b. 1947)
Chairwoman and CEO,
Ogilvy & Mather
Worldwide²

ence, the company sends these young recruits to an intense three-month orientation program called Trilogy University, where they work on the firm's products as they learn about the software industry and the company culture. Trilogy appeals to recruits by emphasizing that their contribution to the company matters. "By hiring great people and giving them mission-critical responsibilities from the first day on the job, Trilogy ensures our ability to respond to competitive challenges and to achieve the goal of building a high-impact company," states the company Web site.³

RECRUITMENT AND SELECTION

In recruiting and selecting employees, human resource managers strive to hire applicants who have skills the organization needs. To ensure that potential employees bring the necessary skills or have the capacity to learn them, most firms implement the recruitment and selection process shown in Figure 9.2.

Human Resource Management Responsibilities



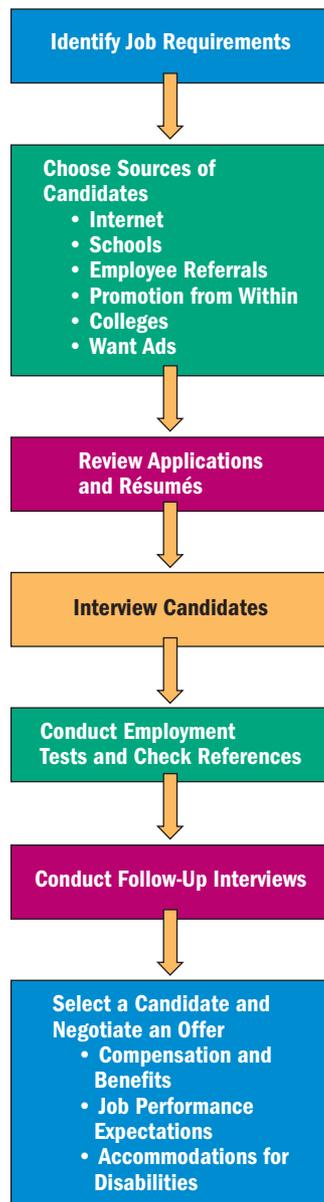
Finding Qualified Candidates

Finding the right candidate for a job isn't as simple as it sounds. For example, more than eight in ten manufacturers report facing moderate or severe shortages of the highly skilled workers they need to run today's computerized factories.⁴ In addition, with 77 million baby boomers in their mid-40s to early 60s beginning to retire in the next five years and with only 46 million so-called Generation X workers, who are age 24 to 40, to take their places, finding talented workers is going to get even more difficult.⁵ So human resource managers must be creative in their search for qualified employees. Businesses look to both internal and external sources to find the best candidates for specific jobs. Policies of hiring from within emphasize internal sources, so many employers consider their own employees first for job openings. Internal recruiting is less expensive than external methods, and it helps boost employee morale. But if recruiters cannot find qualified internal candidates, they must look for people outside the organization. Recruitment from external sources involves advertising on the Internet and in newspapers and trade magazines, placing radio and television ads, and working through state and private employment agencies, college recruiting and internship offices, retiree job banks, and job fairs. One of the most effective external sources is employee referrals, in which employers ask current employees to recommend applicants, rewarding them with bonuses or prizes for new hires.

To recruit new workers, firms' Web sites often contain career sections that provide general employment information and list open positions. Applicants may even be able to submit a résumé and apply for an open position online. As the "Launching Your Business Career" feature in the front matter pointed out, some firms also post job openings at employment Web sites, such as Monster.com. Internet recruiting is such a quick, efficient, and inexpensive way to reach a large pool of job seekers that between 82 and 92 percent of companies currently use the Internet to fill job openings. In fact, Internet recruiting is now second to newspaper advertising in terms of the number of applicants it generates. And, with the addition of a new ".jobs" Internet suffix (for example, <http://cocacola.jobs/> for jobs at The Coca-Cola Company), more and more companies will now use their Web sites to attract, recruit, and screen job applicants.⁶

assessment check

1. Why do human resource managers need to develop staffing plans?
2. How do human resource managers attract and keep good employees?



Selecting and Hiring Employees

In selecting and hiring employees, human resource managers must follow the requirements set out by federal and state laws. Title VII of the Civil Rights Act of 1964 prohibits employers from discriminating against applicants based on their race, religion, color, sex, or national origin. The Americans with Disabilities Act of 1990 prohibits employers from discriminating against disabled applicants. The Civil Rights Act created the Equal Employment Opportunity Commission (EEOC) to investigate discrimination complaints. The EEOC also helps employers set up affirmative action programs to increase job opportunities for women, minorities, disabled people, and other protected groups. The Civil Rights Act of 1991 expanded the alternatives available to victims of employment discrimination by including the right to a jury trial, punitive damages, and damages for emotional distress.

Failure to comply with equal employment opportunity legislation can expose an employer to fines and other penalties, negative publicity, and poor employee morale. The EEOC files hundreds of cases each year, with damages paid by businesses in the tens of millions annually. For example, Morgan Stanley, an investment bank, agreed to pay \$54 million in damages after the EEOC filed a gender discrimination suit on behalf of 300 of Morgan Stanley's female employees. The women were paid less and promoted less often than comparable male employees with whom they worked.⁷ At the same time, opponents to such laws have launched initiatives to restrict affirmative action standards and protect employers against unnecessary litigation. In one instance, California voters passed a proposition that prohibits the state from granting hiring preferences to minorities.

Increases in discrimination lawsuits have elevated the importance of human resource managers in the hiring process. To prevent violations, human resource personnel must train managers involved in interviewing to follow employment law. For example, the law prohibits an interviewer from asking an applicant any questions relating to marital status,

number of children, race, nationality, religion, or age. Interviewers also may not ask questions about applicants' criminal records, mental illness histories, or alcohol-related problems. For more information about employment litigation issues, visit the Web sites of the Society for Human Resource Management (<http://www.shrm.org>) and the EEOC (<http://www.eeoc.gov>).

Employers must also observe various other legal restrictions governing hiring practices. Some firms try to screen out high-risk employees by requiring drug testing for job applicants, particularly in industries in which employees are responsible for public safety,



AP PHOTO/CHARLIE NEIBERGALL

Recognizing the technology and leadership skills of returned Iraq War veterans, many publicly traded businesses are partnering with veterans organizations to actively recruit vets. Private organizations such as the Coalition to Salute America's Heroes, whose spokesperson Robert Jackson is shown here, also provide disabled veterans with job counseling, support, and raise funds and awareness through golf outings and other events.

HOW MUCH INFORMATION SHOULD JOB APPLICANTS REVEAL?

The Americans with Disabilities Act makes it illegal for a company to ask about job applicants' health when they are applying for a job—unless the condition directly affects the person's ability to perform the job.

But suppose a candidate has a chronic illness or condition that means the employer will be paying higher-than-average medical costs through insurance coverage, sick leave, and other related expenses. Even though it is legal to refrain from disclosing the condition, is it ethical?

Should job applicants reveal chronic illnesses or conditions to potential employers?

PRO

1. To be fair, an applicant should tell a potential employer. The law prohibits discrimination, so nothing is lost—and the disclosure may go a long way toward building trust. "If employers feel like they've been duped, they have much less reason to be supportive about your missing work," warns one newspaper reporter who has a chronic condition.
2. It is better for the candidate and the employer to be prepared for

any situations that might arise due to the employee's health. By bringing it up ahead of time, both can discuss the situation and make a plan to cope with it.

CON

1. Despite the law, many firms favor candidates who appear to be 100 percent healthy. "It's a fact of life," says a graphic artist who has scleroderma, a chronic skin disorder.
2. If the condition will not hinder the applicant's job performance, it is his or her right to keep personal information private. Even if the employer does not discriminate, co-workers might do so.

Summary

Every situation is different—for both medical conditions and job activities. A person who has arthritis may be able to design a direct marketing campaign but not lift 50-

pound boxes. One type of cancer could be classified as a disability while another might not. "There's no right or wrong," says Rosalind Joffe, a chronic illness coach. Instead, most experts recommend the use of common sense alongside one's moral compass. It is fair to disclose what a potential employer needs to know—but perhaps foolish to disclose too much more.

Sources: "Avoid Disability Discrimination When Hiring New Employees," Nolo, accessed July 2, 2006, <http://www.nolo.com>; Joann S. Lublin, "Should Job Hunters Reveal Chronic Illness? The Pros and Cons," *Wall Street Journal*, accessed July 2, 2006, <http://online.wsj.com>. "Questions and Answers about Cancer in the Workplace and Americans with Disabilities Act," States News Service, July 26, 2005, <http://www.states.com>; Carole Kanchier, "Working," *Vancouver Sun*, July 23, 2005, <http://www.canada.com>.

solving
an

ETHICAL

controversy



such as airlines and other public transportation. But drug testing is controversial because of concerns about privacy. Also, positive test results may not accurately indicate drug use, and traces of legal drugs, such as prescribed medications, may chemically resemble traces of illegal substances. For more on the issue of employee privacy, see the "Solving an Ethical Controversy" feature, which examines the pros and cons behind job applicants' revealing chronic illnesses or other conditions.

Recruitment and selection are expensive processes because firms incur costs for advertising job openings, interviewing applicants, and conducting background checks, employment tests, and medical exams. A bad hiring decision is even more expensive, though. A hiring mistake causes a firm to spend money to train and motivate a less-than-optimal employee, as well as risk the potential costs of poor decisions by that employee. Other costs resulting from a bad hiring decision may include lawsuits, unemployment compensation claims, recruiting and training a replacement, and reductions in productivity and employee morale.

To avoid the costly results of a bad hiring decision, many employers require applicants to complete employment tests. These tests help verify the skills that candidates list on their application forms or résumés to ensure that they meet the performance expectations of the job.

A variety of tests is available to gauge applicants' knowledge of mechanical, technical, language, and computer skills. One example is the Wonderlic Basic Skills Test, which measures basic math and verbal skills. The Wonderlic, and others like it, are **cognitive ability tests**, which measure job candidates' abilities in perceptual speed, verbal comprehension, numerical aptitude, general reasoning, and spatial aptitude. In other words, these tests indicate how quickly and how well people understand words, numbers, and logic. Cognitive ability tests accurately predict job performance in almost all kinds of jobs. Why is this so? Because people with strong cognitive or mental abilities are usually good at learning new things, processing complex information, solving problems, and making decisions, and these abilities are important in almost all jobs. As a result, if you were allowed to use just one selection test, cognitive ability tests would be the one to use. The Wonderlic test is such an effective way to determine whom to hire that even the National Football League uses it when screening players for its annual draft. Floyd Reese, general manager of the Tennessee Titans, believes that players with higher Wonderlic scores are quicker and better able to understand the complex coverage and alignments typical of today's sophisticated defenses. The St. Louis Rams always rely on the Wonderlic. One NFL head coach said, "So long as he plays at a high level, we'll always choose a guy that is smarter."⁸

assessment check

1. What are some of the costs associated with recruitment and selection?
2. What key federal and state laws apply to recruitment and selection?

ORIENTATION, TRAINING, AND EVALUATION

Once hired, employees need information about what is expected of them and how well they are performing. Companies provide this information through orientation, training, and evaluation. A newly hired employee often completes an orientation program administered jointly by the human resource department and the department in which the employee will work. During orientation, employer representatives inform employees about company policies regarding their rights and benefits. Many organizations give new hires copies of employee manuals that describe benefits programs and working conditions and expectations. They also provide different types of training to ensure that employees get a good start at the company.

Training Programs

Employees are increasing their requests for training so that they can build skills and knowledge that will prepare them for new job opportunities. Training is also a good investment from the employer's perspective. A firm should view employee training as an ongoing process throughout each employee's tenure with the company. Companies such as Trilogy, which was mentioned earlier, make training a vital part of selecting and hiring employees, as well as developing their careers. Houston-based David Weekley Homes, which *Fortune* ranks as one of the best small companies to work for, spends a minimum of \$4,500 a year training each of its employees.⁹ At Rochester, New York-based Wegmans Food Markets, which *Fortune* consistently ranks near the top as among the best companies to work for, regardless of size, the company spends as much as \$5 million training workers before opening a new store. Why? Because according to *Fortune*, "The company never opens a store until its employees are fully prepared."¹⁰

On-the-Job Training One popular instructional method is **on-the-job training**, which prepares employees for job duties by allowing them to perform tasks under the guidance of experienced employees. A variation of on-the-job training is apprenticeship training, in which an employee learns a job by serving for a time as an assistant to a trained worker. Patio Enclo-

tures, a construction firm based in Ohio, made its employees more productive and more committed to the company by setting up an apprenticeship program. Apprenticeship programs are much more common in Europe than in the United States. While American apprenticeships usually focus on blue-collar trades—such as plumbing and heating services and blacksmithing—in Europe, many new entrants to white-collar professions complete apprenticeships.

Classroom and Computer-Based Training Off-the-job training involves some form of classroom instruction such as lectures, conferences, audiovisual aids, computer instruction, and special machines to teach employees everything from basic math and language skills to complex, highly skilled tasks. Cisco Systems, for instance, offers 4,500 e-learning courses to its managers and employees.¹¹

Many firms are replacing classroom training with computer-based training programs. These programs can save employers money by reducing travel costs and employee time away from work. For example, British Telecom used a computer-generated instructor in an online program to train 4,500 salespeople in a little more than a month. Traditional classroom training would have cost twice as much and taken twice as long to deliver.¹² In addition, computer-based training offers consistent presentations, because the training content won't vary with the quality of the instructor. Audio and visual capabilities help these systems simulate the work environment better than some classroom training could, and employees benefit from greater control over the learning process. They can learn at their own pace and convenience, and they generally do not have to wait for the company to schedule a class. Despite these advantages, firms also offer traditional classroom training because it usually provides more opportunities for employees to interact with the instructor and with one another. Some people learn better through human interaction, and some have difficulty completing a computer-based learning program on their own.

Off-the-job training frequently involves use of the Internet. The Web provides a convenient means of delivering text, audio, and video training materials to employees wherever they are located. Online training programs also can offer interactive learning, such as simulations in which employees see the results of their decisions. When CDW account manager Danielle Paden took an online sales course, the computerized instructor would describe a situation, such as an unhappy customer whose computer won't make a high-speed Internet connection. Then a picture of the customer appeared on the screen, along with audio of the customer speaking. Finally, with the program's help, Paden decided what to do and then received feedback and another response from the hypothetical customer. Paden said that the training was "the closest thing you can get to [actual] client interactions."¹³ The "Hit & Miss" feature provides more information on how companies are using computer games to improve training.

Management Development A **management development program** provides training designed to improve the skills and broaden the knowledge of current and potential executives. The share of the workforce in their mid-20s to mid-30s, who traditionally have been developing their management skills, is shrinking, and many members of the workforce are approaching retirement age. It's estimated that the largest 500 companies in the United States will lose half of their senior managers in the next five years.¹⁴ Without the luxury of developing executive talent slowly over the years, organizations instead must provide programs that help managers quickly learn how to lead a fast-moving company through turbulent times.

The content of management development programs may involve reviews of issues facing the company, as well as *benchmarking*, or learning the best practices of the best companies so they can serve as performance standards. The teachers may be the company's own executives. At other times, managers may be encouraged to receive counseling from an outside management coach, who helps them improve their skills. At GE, Robert Cancalosi is one of five executives in



HIT & MISS

Cisco Systems Plays Games to Improve Training

Unfortunately, many traditional training programs are just too dull. Savvy human resource managers know this and have begun to encourage the use of electronic games in training programs to generate interest and excitement. The U.S. military is one organization that does so, using complex computer games to simulate field situations.

In the corporate sector, Cisco Systems has a Creative Learning Studio. This unit develops training programs using games and high-quality video to bolster the programs' interest level. Cisco now has a stock of about 4,500 e-learning training programs—incorporating games—in its files. One such game is SAN Rover (shorthand for Storage Area Network), which requires trainees to race against the clock to gather the “pieces” of the computer network—hard drives, switches, and the like—and correctly assemble them. Sound a little dull? It's not—learners have to complete the game while dodging crashing asteroids. SAN Rover reinforces skills and teaches trainees how the network actually works. “More and more people are learning that gaming can be useful in training in the corporate environment,” says Marcia Sitscoske, head of Cisco's Creative Learning Studio.

Some firms encourage competition through gaming, even awarding prizes to winners. Borland Software uses

games for training and continued learning of its sales staff. Winners are entered in a drawing for Apple iPods. The grand prize winner receives a cash award of \$3,000. “The competition is a motivator,” reports Wynn Johnson, director of field readiness. ERC Properties uses software called Game Show Pro to train its property managers in Internal Revenue Service regulations for affordable housing tax credits. The advantages of using the game are simple, according to corporate training director Candace Armstrong. “Most training is very boring, especially if it's government related. The difference was pretty obvious. People learn more when they laugh.”

Questions for Critical Thinking

1. Does the idea of using gaming in training programs appeal to you? Why or why not?
2. Would the use of gaming be successful with employees of all ages and backgrounds? Why or why not?

Sources: Holly Dolezalek, “Building Better Learners,” *Training Mag.com*, accessed July 2, 2006, <http://www.trainingsupersite.com>; Rob Faulkner, “Playing Video Games at Work Could Make You Smarter,” *Hamilton Spectator*, accessed July 2, 2006, <http://www.hamiltonspectator.com>; Michael Totty, “Better Training through Gaming,” *Wall Street Journal*, accessed July 2, 2006, <http://online.wsj.com>.

charge of leadership development. Says Cancalosi, “We are known and benchmarked as the world's greatest leadership development company, and my job is to make us better at that.” As part of his responsibilities in that position, Cancalosi personally coaches promising managers and has them sign contracts pledging to accept his feedback, which often pushes them out of their comfort zone. However, many of GE's managers, such as regional sales manager Cathy Neville, thrive on Cancalosi's developmental feedback. Says Neville, “He's a total motivator, and he's very engaging; he'll challenge you in front of people.” In the end, says Cancalosi, “My deep-down passion is helping people get better.”¹⁵

Performance Appraisals

Organizations also help employees improve their performance by providing feedback about their past performance. A **performance appraisal** is an evaluation of an employee's job performance that compares actual results with desired outcomes. Based on this evaluation, managers make objective decisions about compensation, promotions, additional training needs, transfers, or terminations. Rating employees' performance and communicating perceptions of their strengths and weaknesses are important elements in improving a firm's effectiveness,

performance appraisal
evaluation of an employee's job performance that compares actual results with desired outcomes.

productivity, or profits. Government agencies, not-for-profit organizations, and academic institutions also conduct performance appraisals.

Some firms conduct peer reviews, in which employees assess the performance of coworkers, while other firms allow employees to review their supervisors and managers. One type of performance appraisal is the **360-degree performance review**, a process that gathers feedback from a review panel of eight to twelve people, including co-workers, supervisors, team members, subordinates, and sometimes customers. The idea is to get as much frank feedback from as many perspectives as possible. However, this approach to performance appraisal tends to generate considerable work for both employees and managers—each of whom may have to review 20 or more people—and volumes of paperwork. Fortunately, though, companies such as Halogen Software offer computer programs that automate the procedures and “paperwork” associated with 360-degree feedback.¹⁶ A potential weakness of 360-degree performance reviews is that because the evaluations are anonymous, staff members might try to use the system to their advantage in personal disputes.

Still, the 360-degree system appears to be gaining in popularity. A survey of large U.S. firms found that a majority are using the multirater system, compared with 40 percent a decade ago. It’s not enough, however, to just gather 360-degree feedback. For real change to occur, managers who receive 360-degree feedback must acknowledge their weaknesses and then commit to improving. One of the best ways to do that is to have managers work through their 360-degree feedback with a coach. Manager Jim Moore has worked with Marshall Goldsmith, a leading executive coach, several times. When his 360-degree feedback indicated that Moore was too critical in his comments about others, Goldsmith got him to agree to put \$5 in a jar every time he made overly critical comments. Moore, who successfully changed this behavior thanks to the feedback and coaching, said, “The money went into a beer fund for the people I worked with. In the first few weeks, we had a lot of beer sessions.”¹⁷

assessment check

1. Describe some aids in off-the-job training.
2. What is a management development program?
3. What is the main way an organization provides employees with feedback about their performance?

COMPENSATION

Human resource managers work to develop an equitable compensation system spanning wages and salaries plus benefits. Because human resource costs represent a sizable percentage of any firm’s total product costs, excessive wage rates may make its goods and services too expensive to compete effectively in the marketplace. Inadequate wages, however, lead to difficulty in attracting qualified people, high turnover rates, poor morale, and inefficient production.

The terms *wages* and *salary* are often used interchangeably but are different. **Wages** represent compensation based on an hourly pay rate or the amount of output produced. Firms pay wages to production employees, maintenance workers, and sometimes retail salespeople. **Salaries** represent compensation calculated periodically, such as weekly or monthly. Office personnel, executives, and professional employees usually receive salaries.

An effective compensation system should attract well-qualified workers, keep them satisfied in their jobs, and inspire them to succeed. Most firms base their compensation policies on the following five factors:

1. Salaries and wages paid by other companies that compete for the same people
2. Government legislation, including the federal, state, or local minimum wage
3. The cost of living
4. The firm’s ability to pay
5. Worker productivity

wage compensation based on an hourly pay rate or the amount of output produced.

salary compensation calculated on a periodic basis, such as weekly or monthly.

(b)usiness (e)tiquette

How to Negotiate a Raise

When you are offered your first entry-level job, there isn't much room for negotiation in pay. Your employer is assuming that, although you will bring some natural ability and skills to the job, you will need to be trained. So you will start at the bottom of the salary ladder. Eventually, though, you'll have opportunities for an increase. Some raises occur automatically, according to a specific scale and after a designated period of time. But others don't. In these cases, you'll probably have to do some negotiating. Don't be intimidated; you can learn to negotiate smoothly and successfully. Here are a few tips:

- If salary discussion is not part of your performance review, make an appointment with your supervisor to discuss your salary.
- Before the meeting, review your own salary and benefits package so that you know exactly how much you are being compensated. If possible, ask the human resource department for the salary range for your position.
- List your major achievements on the job. Include ways in which your initiative has helped support your work unit beyond the basic job description. Also, include any training or education you have pursued on your own. These points will help support your negotiation. When you meet with your supervisor, be prepared to present your list of accomplishments. "Good companies pay for performance. The biggest single thing that gets you a raise is perfor-

mance," says one training consultant.

- Discuss any other reasons why you deserve a raise. Have you been covering for a colleague who has left or is on leave, doing the job of two people? Are you already handling the responsibilities of the next-level job? In this case, you might be a candidate for a promotion and the raise that comes with it.
- Be realistic in your expectations. Consider the general economic environment and your company's current performance in the marketplace. Keep in mind the salary range for your job. "If you are out of step with reality, at worst you might find yourself in a position where you have to leave and, at best, your boss might question your street smarts," warns one career counselor.
- Discuss your request calmly, intelligently, and politely. If you have done your homework, the meeting shouldn't take more than 20 minutes or so. If your request is denied, ask for specific reasons and listen carefully. Ask what you can do on the job to earn the raise—and do it.

Sources: "Negotiating for a Raise," LifeTips, accessed July 2, 2006, <http://career.lifetips.com>; Virginia Galt, "Deserve a Raise?" *Globe and Mail*, accessed July 2, 2006, <http://www.theglobeandmail.com>; Matt Villano, "The Smallest Raise in the Office Was Yours," *New York Times*, accessed July 2, 2006, <http://www.nytimes.com>; Perri Capell, "How Does Your Current Pay Stack Up against a New Offer?" *CareerJournal*, accessed July 2, 2006, <http://www.careerjournal.com>.

If you're wondering how to increase your salary, read the "Business Etiquette" feature on how to negotiate a raise.

Many employers balance rewarding workers with maintaining profits by linking more of their pay to superior performance. They try to motivate employees to excel by offering some type of incentive compensation in addition to salaries or wages. Today, almost one-tenth of the compensation of salaried workers is some form of variable pay. These programs include the following:

- Profit sharing, which awards bonuses based on company profits
- Gain sharing, when companies share the financial value of productivity gains, cost savings, or quality improvements with their workers
- Lump-sum bonuses and stock options, which reward one-time cash payments and the right to purchase stock in the company based on performance
- Pay for knowledge, which distributes wage or salary increases as employees learn new job tasks

Figure 9.3 summarizes the four types of incentive compensation programs.

Employee Benefits

In addition to wages and salaries, firms provide benefits to employees and their families as part of their compensation. **Employee benefits**, such as retirement plans, health and disability insurance, sick leave, child-care and elder care, and tuition reimbursement, are paid entirely or in part at the company's expense. Benefits represent a large component of an employee's total compensation. Although wages and salaries account for around 70 percent of the typical employee's earnings, the other 30 percent takes the form of employee benefits.¹⁸

employee benefits rewards such as retirement plans, health insurance, vacation, and tuition reimbursement provided for employees either entirely or in part at the company's expense.

Four Forms of Incentive Compensation

9.3

Historically, many companies have picked up most of the tab for healthcare benefits, with employees paying little of the cost. However, with costs increasing nearly 15 percent per year, employers are requiring employees to pay a larger share of their healthcare benefits. For example, in terms of costs, General Motors recently spent \$5.6 billion for healthcare, or about \$1,525 for every car that it produces.¹⁹ As a result, GM's unionized autoworkers are paying healthcare premiums for the first time. Other companies, such as GE, Halliburton, and IBM, have placed caps on what they will pay for employee and retiree health benefits. After the caps are reached, individuals are responsible for the remaining costs.

Other companies have begun charging unhealthy employees more for their healthcare coverage. For example, Gannett, the nationwide newspaper publisher, charges smokers an additional \$50 per month if they don't attend smoking cessation programs.²⁰ One increasingly used, but highly controversial, technique involves not hiring unhealthy workers at all. A public-relations storm erupted when an internal Wal-Mart memo on this issue became public. The memo stated, "It will be far easier to attract and retain a healthier work force than it will be to change behavior in an existing one. [These policy changes] would also dissuade unhealthy people from coming to work at Wal-Mart."²¹ While many believe that such strategies are illegal or unethical, particularly under the Americans with Disabilities Act, companies such as Union Pacific are already refusing to hire smokers in states where that is legal.

Some benefits are required by law. U.S. firms are required to make Social Security and Medicare contributions, as well as payments to state unemployment insurance and workers' compensation programs, which protect workers in case of job-related injuries or illnesses. The Family and Medical Leave Act of 1993 requires covered employers to offer up to twelve weeks of unpaid, job-protected leave to eligible employees. Firms voluntarily provide other employee benefits, such as child care and health insurance, to help them attract and retain employees. Recently, California became the first state to make paid family leave into law.²²

Pensions and other retirement plans have been another area of concern for U.S. companies. Some companies have reduced the amount of matching contributions they will make to workers' **401(k) plans**, retirement savings plans to which employees can make pretax contributions to retirement accounts. Some companies have been cutting back on cash contributions to their employees' plans and are contributing company stock instead. Others, such as United Airlines, have gone bankrupt and defaulted on employees' pensions, which originally had guaranteed workers a set monthly payment in retirement. When this occurs, the U.S. government's Pension Benefit Guaranty Corporation pays employees' pensions, but retirement benefits are limited to \$45,614 per year, which is sometimes well below the amount promised by their company pension plans.²³ Such defaults are rare so far.

Facing severe competition from lower-cost air carriers, United Airlines defaulted on its pension obligations to 120,000 workers and retirees. The Pension Benefit Guarantee Corporation stepped in to provide some retirement assistance, but workers will not receive the benefits they thought they had earned.

AP PHOTOM. SPENCER GREEN



Flexible Benefits

In response to the increased diversity of the workplace, human resource managers are developing creative ways to tailor their benefit plans to the varying needs of employees. One approach sets up **flexible benefit plans**, also called *cafeteria plans*. Such a benefit system offers employees a range of options from which they can choose, including different types of medical insurance, dental and vision plans, and life and disability insurance. This flexibility allows one working spouse to choose his or her firm's generous medical coverage for the entire family, and the other spouse can allocate benefit dollars to purchasing other types of coverage. "Employees don't want all the same benefits," explains Jamie Berge, owner of a tax and financial services firm in Anchorage that administers cafeteria plans for small businesses. "With cafeteria plans, you pick and choose."²⁴ Typically, each employee receives a set allowance (called *flex dollars* or *credits*) to pay for purchases from the benefits menu. A healthy, single employee might choose to allocate fewer flex dollars to health insurance, say, by choosing a higher deductible, and put more flex dollars toward an optional dental or vision plan. By contrast, an older employee might earmark some flex dollars to pay for elder care for aging parents.

Contributions to cafeteria accounts are commonly made by both the employee and employer. Cafeteria plans also offer tax benefits to both employees and employers. Employee contributions are made using so-called *pretax dollars*, meaning that employees don't pay taxes on their contributions. Also, employers don't have to pay unemployment taxes or Social Security and Medicare taxes on the amount deducted from employee paychecks.

When it comes to offering employees benefit choices, many companies now recognize the importance of offering "family-friendly" benefits that help employees care for children, aging parents, or other dependents. Such benefits—ranging from child-care facilities to paid time off and flexible work hours—help employees juggle responsibilities. Almost nine out of ten large U.S. companies offer dependent-care spending accounts to help pay for child care, and almost half offer some form of elder-care program. SAS Institute offers employees an excellent on-

site child-care facility for a monthly fee of only \$300, a cafeteria with pianists, an on-site health clinic, and a huge fitness center. Men's Wearhouse, which sells men's suits and jackets, offers workers three-week paid sabbaticals every five years, while Starbucks provides domestic partner benefits.²⁵ For more on how companies are using employee sabbaticals, see the "Hit & Miss" feature on whether corporate sabbaticals pay off.

Another way of increasing the flexibility of employee benefits involves time off from work. Instead of establishing set numbers of holidays, vacation days, and sick days, some employers give each employee a bank of **paid time off (PTO)**. Employees use days from their PTO accounts without having to explain why they need the time. At Republic Bancorp, employees get 35 days of paid time off, or seven weeks per year, to use however they like.²⁶ CUNA Mutual Group takes a partial approach to paid time off by letting employees use unused sick, vacation, and personal leave days to care for sick children, parents, or



COURTESY OF THE TIMBERLAND COMPANY

Timberland is widely known for its community service efforts. Employees can take service sabbaticals to work in communities both in the United States and throughout the world. In its most recent "Serv-a-palooza" program, Timberland employees completed projects at 100 U.S. sites from coast to coast and in 27 countries ranging across the globe—from China to Turkey to the Dominican Republic.



HIT & MISS

Corporate Sabbaticals: Do They Pay Off?

Imagine having several months or even a year off from your job—paid. This type of time off with pay is known as a *sabbatical*, which stems from a Hebrew word meaning “to rest.” Sabbaticals have been around in academic circles for a long time. But increasingly, U.S. companies are recognizing the value of sabbaticals in reducing employee turnover and increasing productivity and loyalty. Firms such as Procter & Gamble, Nike, Intel, *Newsweek*, and Timberland offer sabbaticals to employees. So does publisher Bertelsmann AG’s Random House division.

Eligibility requirements for and benefits of the programs vary widely from firm to firm. At Procter & Gamble, employees are eligible for up to 12 weeks of unpaid sabbatical after only 1 year and every 7 years after that. At *Newsweek*, reporters and editors can take 6 months of sabbatical at half their salaries after 15 years. At Random House, full-time employees may take 4 paid weeks off at the end of 10 years; after 20 years, they may take 5 weeks of sabbatical.

Peter Olson, CEO of Random House, admits that the sabbatical plan was “initially met with skepticism by several senior executives.” Legitimate concerns included calculating the cost of sabbaticals and figuring out how the work would be accomplished while employees were gone. But Olson believed that sabbaticals would be a simple, low-cost way to motivate and retain his best employees—to encourage them to explore avenues that could result in innovation for the company—so he went ahead with the program. To date, more than 800 Ran-

dom House employees have participated in the sabbatical program. One editor returned to work with an idea for a new list of books, which is now being launched. An unexpected benefit to the program has been the opportunity for lower-level employees to fill in for their supervisors, giving them a chance to broaden their knowledge and skills on the job. “It’s become a developmental opportunity,” reports Olson.

Human resource experts agree that sabbaticals can motivate employees to return better than ever. Sabbaticals combat a culture “where being overworked is seen as a red badge of courage,” reports the Families and Work Institute.

Questions for Critical Thinking

1. Do you think the benefits of a sabbatical outweigh the costs to a firm? Explain.
2. What challenges might a firm face in establishing and maintaining a sabbatical program?

Sources: “Are Employee Sabbaticals Worth the Hassle?” Vault, accessed July 2, 2006, <http://www.vault.com>; Erin White and Jeffrey A. Trachtenberg, “Sabbaticals Can Be The Pause That Refreshes,” *Wall Street Journal*, accessed July 2, 2006, <http://online.wsj.com>; Kelley M. Butler, “Faced with Worker Burnout, Employers Pay Employees to Get Away,” *Employee Benefit News*, accessed July 2, 2006, <http://www.benefitnews.com>; Alan R. Earls, “Sabbaticals Aren’t Just for Academia Anymore,” *Boston Globe*, accessed July 2, 2006, <http://www.boston.com>.

spouses.²⁷ And 58 percent of companies reward employees who don’t use all of their paid time off by “buying back” that time in cash.²⁸ One recent trend involves giving employees paid time off for volunteer service. Timberland is well known for doing this. The boot and apparel maker gives every employee 40 hours of paid time a year for volunteer work, and its New Hampshire headquarters actually closes one day a year so that Timberland employees can build playgrounds, work at the local SPCA, and assist the elderly. Employees are also eligible for six months of “social service leave” at full pay.²⁹

Flexible Work

Another part of the trend toward responsiveness to employee needs is the option of **flexible work plans**. Flexible work plans are benefits that allow employees to adjust their working hours and places of work to accommodate their personal needs. Flexible work plan options

include flextime, compressed workweeks, job sharing, and home-based work. By implementing these benefit programs, employers have reduced employee turnover and absenteeism and boosted productivity and job satisfaction.

Flextime is a scheduling system that allows employees to set their own work hours within constraints specified by the firm. Rather than requiring everyone to work the regular work hours of 8 a.m. to 5 p.m., an employer may require employees to be at work between the core hours of 10 a.m. and 3 p.m. but vary their start times. Outside the core hours, employees can choose when to start and end their workdays, opting either to arrive at work early, say at 6 a.m., and leave early, or to arrive later and work later. Flextime works well in jobs in which employees can work relatively independently, but not so well when they must work together in teams, such as in manufacturing, or must provide direct customer service. The practice is common in European countries; an estimated 40 percent of the Swiss workforce and 25 percent of German workers have flextime schedules. Growing numbers of U.S. firms—particularly those that are not involved in manufacturing—are offering flextime, and increasing numbers of employees are taking advantage of this benefit.

The **compressed workweek** is a scheduling option that allows employees to work the regular number of weekly hours in fewer than the typical five days. Employees might work four ten-hour days and then have three days off each week. Such arrangements not only reduce the number of hours employees spend commuting each week but can stretch out the company's overall workday, providing more availability to customers in other time zones. Hospitals, police and fire departments, and airlines often offer work schedules that allow several long days matched by several days off. Six years ago, PNC Financial Services in Philadelphia switched to a compressed workweek of four ten-hour days after an initial seven-month study found strong increases in productivity, an 85 percent drop in absenteeism, and a reduction in turnover costs (costs associated with employees leaving the company) of nearly \$6,000 per worker. Kathleen D'Appolonia, PNC's senior vice president for corporate recruiting, said, "If you engage employees and provide them with flexibility, they will be more committed to [the] business and serve customers better."³⁰

A **job sharing program** allows two or more employees to divide the tasks of one job. This plan appeals to a growing number of people who prefer to work part time rather than full time—such as older workers, students, working parents, and people of all ages who want to devote time to personal interests or leisure—so companies are offering this option and even suggest these arrangements to help attract and retain valuable employees. Job sharing requires a high degree of cooperation and communication between the partners, but it can let a company benefit from the talents of people who do not want to work full time. At AT&T, Mary Kay Ross and Sharon Snyder share one phone number, one e-mail address, one cubicle, and one résumé, with each working 25 hours a week, or three days a week (they both work on Wednesdays). Said Ross, "We're able to hold challenging jobs together that as individual part-timers we might not be able to secure."³¹ A successful job sharing arrangement requires partners who work well together, ongoing communication, and dedication to making the partnership work. That's been the case for Ross and Snyder, who have shared four jobs, including a promotion, for more than a decade. Said Ross, "I just feel very, very fortunate that we've had this opportunity for so long."³²

A **home-based work program** allows employees to perform their jobs from home instead of at the workplace. Home-based workers are sometimes called *teleworkers* or **telecommuters** because many "commute" to work via telephones, e-mail, computers, and fax machines. Working from home has great appeal to employees with disabilities, older workers, and parents with small children. Forty-five million Americans have telecommuted from home at some point. However, with the advent of high-speed Internet connections in home offices, more than

"They Said It"

"High motivation is as precious as talent. Barriers which must be hurdled bring highly motivated people to the top."

—John W. Gardner
(1912–2002)
American writer
and public official

26 million telecommute from home one day per month, and more than 22 million telecommute from home at least once a week.³³

Because telecommuters work with minimal supervision, they need to be self-disciplined and reliable employees. They also need managers who are comfortable with setting goals and managing from afar.

assessment check

1. Explain the difference between wage and salary.
2. What is another name for a cafeteria plan?
3. What types of organizations typically use a compressed workweek?

EMPLOYEE SEPARATION

Employee separation is a broad term covering the loss of an employee for any reason, voluntary or involuntary. It also includes businesses' efforts to control the cost of their workforces, such as downsizing or outsourcing.

Voluntary and Involuntary Turnover

Either employer or employee can decide to terminate employment. *Voluntary turnover* occurs when employees leave firms to start their own businesses, take jobs with other firms, move to another city, or retire. Some firms ask employees who leave voluntarily to participate in *exit interviews* to find out why they decided to leave. These interviews give employers a chance to learn about problems in the workplace, such as unreasonable supervisors or unfair work practices. Because of recruitment and replacement costs, as well as lost productivity, the best companies actively work to minimize turnover by creating a positive work environment, training bosses to be good managers, and offering competitive compensation and benefits. In addition, successful companies are clearly focused on retaining their best workers. At Schlumberger, a multinational oil-field services company based in Houston, crew manager Eric Bartz, who manages an office in Victoria, Texas, said that because employees “are a big investment . . . , we essentially treat attrition, especially if someone has a high potential, as a catastrophic incident.”³⁴ Consequently, each time an employee leaves Schlumberger, an exit interview is conducted to find out why they are leaving and what they were dissatisfied with, and the results are then posted online so that any manager in the company can view them.

Involuntary turnover occurs when employers terminate employees because of poor job performance, negative attitudes toward work and co-workers, or misconduct such as dishonesty or sexual harassment. Terminating poor performers is necessary because they lower productivity and employee morale. Co-workers resent employees who receive the same pay and benefits as they do without contributing fairly to the company's work. But employers need to carefully document reasons when terminating employees. Protests against wrongful dismissal are often involved in complaints filed by the EEOC or by lawsuits brought by fired employees.

Downsizing

During the early years of the 21st century, employers terminated thousands of employees, including many middle managers, through downsizing. **Downsizing** is the process of reducing the number of employees within a firm by eliminating jobs. Many downsizing firms have reduced their workforces by offering early retirement plans, voluntary severance programs, and opportunities for internal reassignment to different jobs. Employers who value their employees have helped them find jobs with other companies and set up job counseling centers.

Companies downsize for many reasons. The two most common objectives of downsizing are to cut overhead costs and streamline the organizational structure. In a move to reduce costs

downsizing process of reducing the number of employees within a firm by eliminating jobs.



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Once the largest corporation in the world, General Motors has fallen on hard times recently. To survive, the company had to lay off 25,000 employees and close plants amongst other actions.

by 70 billion yen, Sanyo Electric of Japan announced that it would cut 14,000 jobs, 8,000 of those within Japan, and close or sell 20 percent of its factories. The reason, said Sanyo's president, Toshimasa Iue, is that "We will no longer conduct operations that don't produce profits."³⁵

While some firms report improvements in profits, market share, employee productivity, quality, and customer service after downsizing, studies show that downsizing doesn't guarantee those improvements. Why? A big reason is that eliminating jobs through downsizing can have devastating effects on employee morale. Workers who remain after a downsizing worry about job security and become angry when they have to work harder for the same pay. As commitment to their jobs and their firms weakens, many employees will leave to seek employment offering greater job security. In general, corporate downsizing has encouraged

employees to put individual career success before employer loyalty, which has declined in the last two decades.

Employee surveys reveal that many workers are more interested in career security than job security. Specifically, the typical employee may seek training to improve the skills needed for the next job. People are willing to work hard at their current jobs, but they also want to share in the success of their companies in the form of pay-for-performance and stock options. For human resource managers, the new employee-employer relationship requires developing continuous training and learning programs for employees.

Outsourcing

outsourcing contracting with another business to perform tasks or functions previously handled by internal staff members.

In their continuing efforts to remain competitive against domestic and international rivals, a growing number of firms hold down costs by evolving into leaner organizations. Functions that were performed previously by company employees may be contracted to other firms whose employees will perform them in a practice called **outsourcing**. Outsourcing began on a small scale, with firms contracting out services such as maintenance, cleaning, and delivery. Services commonly outsourced today include housekeeping; architectural design; grounds, building, utility, and furniture maintenance; food service; security; and relocation services. Today, outsourcing has expanded to include outside contracting of many tasks once considered fundamental internal functions.

Outsourcing complements today's focus on business competitiveness and flexibility. It allows a firm to continue performing the functions it does best, while hiring other companies to do tasks that they can handle more competently and cost-effectively. Another benefit of outsourcing is the firm's ability to negotiate the best price among competing bidders and the chance to avoid the long-term resource costs associated with in-house operations. Firms that outsource also gain flexibility to change vendors at the end of contract periods if they desire. The key to successful outsourcing is a strong commitment by both parties to form a partnership from which each derives benefits. Having had previous success with outsourcing, Dallas-

based Electronic Data Systems (EDS), which provides computer and data services to major companies and has 117,000 employees worldwide, is planning to double the number of jobs that it outsources overseas to lower-wage workers in companies in India and Asia.³⁶

assessment check

1. What is the difference between voluntary and involuntary turnover?
2. What is downsizing? How is it different from outsourcing?

MOTIVATING EMPLOYEES

Employee motivation is the key to effective management. And motivation starts with good employee morale. **Morale** is the mental attitude of employees toward their employer and jobs. It involves a sense of common purpose among the members of work groups and throughout the organization as a whole. High morale is a sign of a well-managed organization because workers' attitudes toward their jobs affect the quality of their work. One of the most obvious signs of poor manager-worker relations is poor morale. It lurks behind absenteeism, employee turnover, and strikes. It shows up in falling productivity and rising employee grievances.

In contrast, high employee morale occurs in organizations in which employees feel valued and heard and can contribute what they do best. This climate reinforces a human tendency—that people perform best when they believe they are capable of succeeding. High morale also results from an organization's understanding of human needs and its success at satisfying those needs in ways that reinforce organizational goals.

Each person is motivated to take action designed to satisfy needs. A need is simply a lack of some useful benefit. It reflects a gap between an individual's actual state and his or her desired state. A motive is an inner state that directs a person toward the goal of satisfying a felt need. Once the need—the gap between where a person is now and where he or she wants to be—becomes important enough, it produces tension. The individual is then moved—the root word for *motive*—to reduce the tension and return to a condition of equilibrium. Figure 9.4 depicts the principle behind this process. A need produces a motivation, which leads to goal-directed behavior, resulting in need satisfaction.

Maslow's Hierarchy-of-Needs Theory

The studies of psychologist Abraham H. Maslow suggest how employers can motivate employees. **Maslow's hierarchy of needs** has become a widely accepted list of human needs based on these important assumptions:

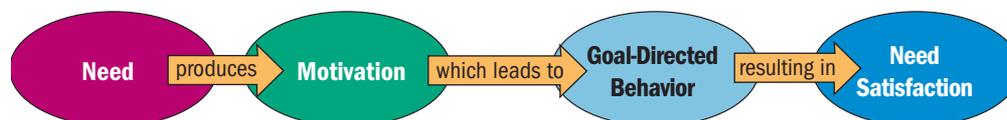
- People's needs depend on what they already possess.
- A satisfied need is not a motivator; only needs that remain unsatisfied can influence behavior.
- People's needs are arranged in a hierarchy of importance; once they satisfy one need, at least partially, another emerges and demands satisfaction.

Maslow's hierarchy of needs theory of motivation proposed by Abraham Maslow. According to the theory, people have five levels of needs that they seek to satisfy: physiological, safety, social, esteem, and self-actualization.

Figure

9.4

The Process of Motivation



“They Said It”

“I wanted and was excited by the challenge [of a new type of job]. If you don’t know how to do something or if something scares you or looks impossible, you’re going to work a lot harder, and in the end you’re going to be gratified.”

—Anne Sweeney (b. 1957)
TV executive³⁷

In his theory, Maslow proposed that all people have basic needs such as hunger and protection that they must satisfy before they can consider higher-order needs such as social relationships or self-worth. He identified five types of needs:

1. *Physiological needs.* These basic human needs include food, shelter, and clothing. In the workplace, employers satisfy these needs by paying salaries and wages and establishing comfortable working environments.
2. *Safety needs.* These needs refer to desires for physical and economic protection. Employers satisfy these needs by providing benefits such as retirement plans, job security, and safe workplaces.
3. *Social (belongingness) needs.* People want to be accepted by family and other individuals and groups. At work, employees want to maintain good relationships with their coworkers and managers and to participate in group activities.
4. *Esteem needs.* People like to receive attention, recognition, and appreciation from others. Employees feel good when they are recognized for good job performance and respected for their contributions.
5. *Self-actualization needs.* These needs drive people to seek fulfillment, realizing their own potential and fully using their talents and capabilities. Employers can satisfy these needs by offering challenging and creative work assignments and opportunities for advancement based on individual merit.

According to Maslow, people must satisfy the lower-order needs in the hierarchy (physiological and safety needs) before they are motivated to satisfy higher-order needs (social, esteem, and self-actualization needs). Table 9.1 elaborates on employers’ efforts to motivate employees by satisfying each level of needs.

Goal-Setting Theory

As shown in Figure 9.4, a need produces motivation, which leads to goal-directed behavior, which results in need satisfaction. In other words, needs motivate people to direct their behavior toward something that will satisfy their needs. That something is a goal. A **goal** is a target, objective, or result that someone tries to accomplish. **Goal-setting theory** says that people will be motivated to the extent to which they accept specific, challenging goals and receive feedback that indicates their progress toward goal achievement. As shown in Figure 9.5 on page 306, the basic components of goal-setting theory are goal specificity, goal difficulty, goal acceptance, and performance feedback.

Goal specificity is the extent to which goals are detailed, exact, and unambiguous. Goals such as “we want to lower our costs” are not as motivating as goals that are more specific, such as “we want to lower our costs by 2 percent.” *Goal difficulty* is the extent to which a goal is hard or challenging to accomplish. More difficult goals, such as “we want to lower costs by 5 percent,” are more motivating than less difficult goals, such as “we want to lower costs by 2 percent.” *Goal acceptance* is the extent to which people consciously understand and agree to goals. If the stated goal was to “lower costs by 20 percent,” people might not accept or be committed to that goal because they view it as unreasonable and unattainable. Finally, *performance feedback* is information about the quality or quantity of past performance and indicates whether progress is being made toward accomplishing a goal. When people know how near they are to their goals, they adjust their strategies to reach them. Goal setting typically won’t work unless performance feedback is provided.

How does goal setting work? To start, challenging goals focus employees’ attention—their direct effort—on the critical aspects of their jobs and away from unimportant areas. Goals also energize behavior, motivating employees to develop plans and strategies to reach them. Goals

goal target, objective, or result that someone tries to accomplish.

goal-setting theory theory that people will be motivated to the extent to which they accept specific, challenging goals and receive feedback that indicates their progress toward goal achievement.

Maslow's Hierarchy of Human Needs

Human Needs	Key Ingredients	Example
1. Physiological needs	Wages and working environment	Dallas-based Container Store has one of the highest pay scales in the retail industry. Entry-level sales professionals' salaries top \$37,000, and entry-level hourly distribution center workers earn more than \$20,000. Not surprisingly, the company enjoys low turnover.
2. Safety needs	Protection from harm, employee benefits	After a study revealed that Transportation Security Administration baggage screeners suffered an unusually high number of back strains, cuts, bruises, and even broken bones, the TSA spent hundreds of millions of dollars to improve the mechanical baggage-handling systems and to provide employees with training in proper lifting techniques.
3. Social (belongingness) needs	Acceptance by other employees	Valassis Communications, which prints coupon inserts for newspapers, sends employees memos introducing new hires. The employees, including the president of the company, then write "welcoming" notes to the new employee. "On your first day on the job, you're so nervous and you feel uncomfortable, and it just really makes a difference and makes you feel comfortable," says one new employee.
4. Esteem needs	Recognition and appreciation from others	Entrepreneur Candace Bryan, chief executive of Kendle, a firm that designs clinical tests for drugs, keeps a photo gallery of her employees engaged in their favorite outside activities from scuba diving to grandparenting. The recognition boosts employee morale and helps make Bryan an inviting supervisor for prospective employees.
5. Self-actualization needs	Accomplishment, opportunities for advancement, growth, and creativity	Ohio-based J. M. Smucker allows its employees to take unlimited paid time off to volunteer and better their communities. Some of the programs with which employees are involved are the Orrville, Ohio, Heartland Education community, which focuses on improving high school education; Adopt-a-School programs; Junior Achievement classroom volunteers; and Secondary Education Partnerships with local colleges.

also create tension between the goal, which is the desired future state of affairs, and the employee's or company's current state. This tension can be satisfied in only two ways: by achieving or abandoning the goal. Finally, goals influence the persistence of employee efforts. Because goals "go away" only when they are accomplished, employees are more likely to persist in their attempts when they have goals.

Although goal setting is one of the most effective ways to motivate people, managers often make the mistake of setting unreachable goals or of setting short-term goals that hurt a company's long-term performance. Commenting on the effect of unreachable goals, a Texas manager wrote, "I'm watching this happen in my wife's company. She made President's Club last year for being 220% above quota, and her whole team did well and was recognized as tops in the company. Their reward: The VP raised their overall quota by 65% this year, an impossible target. Teams in adjacent areas that did not do nearly as well had their quotas raised 15%. Her whole team is out looking for new jobs and is very discouraged. For my wife,

9.5 Components of Goal-Setting Theory



job enlargement job design that expands an employee's responsibilities by increasing the number and variety of tasks assigned to the worker.

job enrichment change in job duties to increase employees' authority in planning their work, deciding how it should be done, and learning new skills.

employees' authority in planning their work, deciding how it should be done, and learning new skills that help them grow. Many companies have developed job enrichment programs that empower employees to take responsibility for their work. The Pampered Chef, a direct seller of kitchen products that is owned by Berkshire Hathaway, gives its managers and consultants the power to make decisions about many aspects of their work. Kitchen consultants, who organize selling and demonstration parties at customers' homes, can choose how much or how little they want to work and receive various incentive rewards for performance. "Over the years, thousands of people from all walks of life have joined our Pampered Chef family. They've found a truly unlimited opportunity and life-changing possibilities," notes founder and chairman Doris Christopher.³⁹

it means she will not make as much this year, and in fact will have a hard time even making quota."³⁸

Job Design and Motivation

In their search for ways to improve employee productivity and morale, a growing number of firms are focusing on the motivation inherent in the job itself. Rather than simplifying the tasks involved in a job, employers are broadening tasks to add meaning and satisfaction to employees' work. Two ways employers are applying motivational theories to restructure jobs are job enlargement and job enrichment.

Job enlargement is a job design that expands an employee's responsibilities by increasing the number and variety of tasks they entail. Some firms have successfully applied job enlargement by redesigning the production process. A typical approach is to replace assembly lines on which each worker repeats the same step on each product with modular work areas in which employees perform several tasks on a single item. Similarly, many companies have enlarged administrative assistants' jobs in areas such as communications.

Job enrichment is a change in job duties to increase



AP PHOTO/RICHARD PATTERSON

Managers' Attitudes and Motivation

The attitudes that managers display toward employees also influence worker motivation. Managers' traditional view of workers as cogs in the production process—much like lathes, drill presses, and other equipment—led them to believe that money was the best way to motivate employees. Maslow's theory has helped managers understand that employees feel needs beyond those satisfied by monetary rewards.

To provide more variety and prevent boredom in their jobs, security screeners working for the Transportation Security Administration are rotated to other tasks. These workers are checking bags from a Miami cruise ship for passengers headed to flights home.

Psychologist Douglas McGregor, a student of Maslow, studied motivation from the perspective of how managers view employees. After observing managers' interactions with employees, McGregor coined the terms *Theory X* and *Theory Y* as labels for the assumptions that different managers make about worker behavior and how these assumptions affect management styles.

Theory X assumes that employees dislike work and try to avoid it whenever possible. So managers must coerce or control them or threaten punishment to achieve the organization's goals. Managers who accept this view feel that the average person prefers to receive direction, wishes to avoid responsibility, has relatively little ambition, and can be motivated only by money and job security. Managers who hold these assumptions are likely to keep their subordinates under close and constant observation, hold out the threat of disciplinary action, and demand that they adhere closely to company policies and procedures.

Theory Y assumes that the typical person likes work and learns, under proper conditions, to accept and seek responsibilities to fulfill social, esteem, and self-actualization needs. Theory Y managers consider the expenditure of physical and mental effort in work as an ordinary activity, as natural as play or rest. They assume that most people can think of creative ways to solve work-related problems but that most organizations do not fully utilize the intelligence that most employees bring to their jobs. Unlike the traditional management philosophy that relies on external control and constant supervision, Theory Y emphasizes self-control and self-direction.

Theory Y requires a different management approach that includes worker participation in decisions that Theory X would reserve for management. If people actually behave in the manner described by Theory X, they may do so because the organization satisfies only their lower-order needs. If the organization instead designs ways to satisfy their social, esteem, and self-actualization needs as well, employees may be motivated to behave in different ways.

Another perspective on management proposed by management professor William Ouchi has been labeled **Theory Z**. Organizations structured on Theory Z concepts attempt to blend the best of American and Japanese management practices. This approach views worker involvement as the key to increased productivity for the company and improved quality of work life for employees. Many U.S. firms have adopted the participative management style used in Japanese firms by asking workers for suggestions to improve their jobs and then giving them the authority to implement proposed changes.

LABOR-MANAGEMENT RELATIONS

In nations throughout the world, employees have joined together to increase their power to achieve the goals of improved wages and benefits, fewer working hours, and better working conditions. These efforts have succeeded, especially in the United States; today's workplace is far different from that of a century ago, when child labor, unsafe working conditions, and a 72-hour workweek (six 12-hour days a week) were common. In this section, we review the development of labor unions, labor legislation, the collective bargaining process, settling labor-management disputes, and competitive tactics of unions and management.

Development of Labor Unions

A **labor union** is a group of workers who have banded together to achieve common goals in the areas of wages, hours, and working conditions. Workers gradually learned that bargaining

"They Said It"

"If you perform well, we're going to get along. If you don't, you've got to do push-ups."

—Colin Powell (b. 1937)
American military leader and former U.S. Secretary of State, speaking to his staff

assessment check

1. In an organization, what conditions are likely to produce high morale?
2. Explain how goal setting works.
3. Identify two ways that employers structure jobs for motivation.
4. Compare and contrast Theory X, Theory Y, and Theory Z.

labor union group of workers who have banded together to achieve common goals in the areas of wages, hours, and working conditions.

as a unified group could bring them improvements in job security, wages, working conditions, and other areas. The organized efforts of Philadelphia printers in 1786 resulted in the first U.S. minimum wage—\$1 a day. After 100 more years, New York City streetcar conductors were able to negotiate a reduction in their workday from seventeen to twelve hours.

Labor unions can be found at the local, national, and international levels. A *local union* represents union members in a specific area, such as a single community, while a *national union* is a labor organization consisting of numerous local chapters. An *international union* is a national union with membership outside the United States, usually in Canada. Large national and international unions in the United States include the United Auto Workers, the National Education Association, the Teamsters, the International Brotherhood of Electrical Workers, the International Association of Machinists and Aerospace Workers, the United Steelworkers of America, and the American Federation of Teachers. Over half of U.S. union members belong to one of these giant organizations.

Almost 16 million U.S. workers—close to 13 percent of the nation’s full-time workforce—belong to labor unions.⁴⁰ Although only about 8 percent of workers in the private sector are unionized, more than one in three government workers belong to unions. The 1.8-million-member Service Employees International Union (SEIU) is the largest union in the United States. In addition to a wide range of service workers—clerical staff, nurses’ aides, and janitors—SEIU has also organized such professionals as nurses, doctors, engineers, and librarians. Other large unions include the 1.4 million members of the United Food and Commercial Workers, the 1.4 million members of the International Brotherhood of Teamsters, and the 710,000 members of the United Auto Workers.

Labor Legislation

Government attitudes toward unions have varied considerably over the past century. These shifting attitudes influenced major pieces of legislation enacted during this period. Let’s look at the major pieces of labor legislation:

- *National Labor Relations Act of 1935 (Wagner Act)*: Legalized collective bargaining and required employers to negotiate with elected representatives of their employees. Established the National Labor Relations Board (NLRB) to supervise union elections and prohibit unfair labor practices such as firing workers for joining unions, refusing to hire union sympathizers, threatening to close if workers unionize, interfering with or dominating the administration of a union, and refusing to bargain with a union.
- *Fair Labor Standards Act of 1938*: Set the initial federal minimum wage (25 cents an hour, with exceptions for farm workers and retail employees) and maximum basic workweek for workers employed in industries engaged in interstate commerce. Outlawed child labor.
- *Taft-Hartley Act of 1947 (Labor-Management Relations Act)*: Limited unions’ power by prohibiting such practices as coercing employees to join unions; coercing employers to discriminate against employees who are not union members, except for failure to pay union dues under union shop agreements; discrimination against nonunion employees; picketing or conducting secondary boycotts or strikes for illegal purposes; featherbedding; and excessive initiation fees under union shop agreements.
- *Landrum-Griffin Act of 1959 (Labor-Management Reporting and Disclosure Act)*: Amended the Taft-Hartley Act to promote honesty and democracy in running unions’ internal affairs. Required unions to set up a constitution and bylaws and to hold regularly scheduled elections of union officers by secret ballot. Set forth a bill of rights for members. Required unions to submit certain financial reports to the U.S. secretary of labor.

The Collective Bargaining Process

Labor unions work to increase job security for their members and improvement of wages, hours, and working conditions. These goals are achieved primarily through **collective bargaining**, the process of negotiation between management and union representatives for the purpose of arriving at mutually acceptable wages and working conditions for employees.

Issues covered in collective bargaining include wages, work hours, benefits, union activities and responsibilities, grievance handling and arbitration, layoffs, and employee rights and seniority. As in all types of negotiations, the collective bargaining process involves demands, proposals, and counterproposals that ultimately result in compromise and agreement. The initial demands represent a starting point in negotiations. They are rarely, if ever, accepted by the other party without some compromise. The final agreement depends on the negotiating skills and relative power of management and union representatives.

Union contracts, which typically cover a two- or three-year period, are often the result of weeks or more of discussion, disagreement, compromise, and eventual agreement. Once agreement is reached, union members must vote to accept or reject the contract. If the contract is rejected, union representatives may resume the bargaining process with management representatives, or union members may strike to obtain their demands.

Settling Labor-Management Disputes

Although strikes make newspaper and television headlines, most labor-management negotiations result in a signed agreement without a work stoppage. Approximately 140,000 union contracts are currently in force in the United States. Of these, on average no more than 20 labor-management contract negotiations involve a work stoppage of some kind.⁴¹ The courts are the most visible and familiar vehicle for dispute settlement, but most disputes are settled by negotiations. Dispute resolution mechanisms, such as grievance procedures, mediation, and arbitration, are quicker, cheaper, and less complicated procedurally and receive less publicity.

The union contract serves as a guide to relations between the firm's management and its employees. The rights of each party are stated in the agreement. But no contract, regardless of how detailed, will eliminate the possibility of disagreement. Such differences can be the beginning of a **grievance**, a complaint—by a single employee or by the entire union—that management is violating some provision of the union contract. Almost all union contracts require these complaints to be submitted to a formal grievance procedure similar to the one shown in Figure 9.6.

The procedure typically begins with the employee's supervisor and then moves up the company's chain of command. If the highest company officer cannot settle the grievance, it is submitted to an outside party for mediation or arbitration.

Mediation is the process of settling labor-management disputes through recommendations of an impartial third party. Although the mediator does not serve as a decision maker, union and management representatives can be assisted by the mediator's suggestions, advice, and compromise solutions.

collective bargaining
process of negotiation between management and union representatives for the purpose of arriving at mutually acceptable wages and working conditions for employees.

“They Said It”

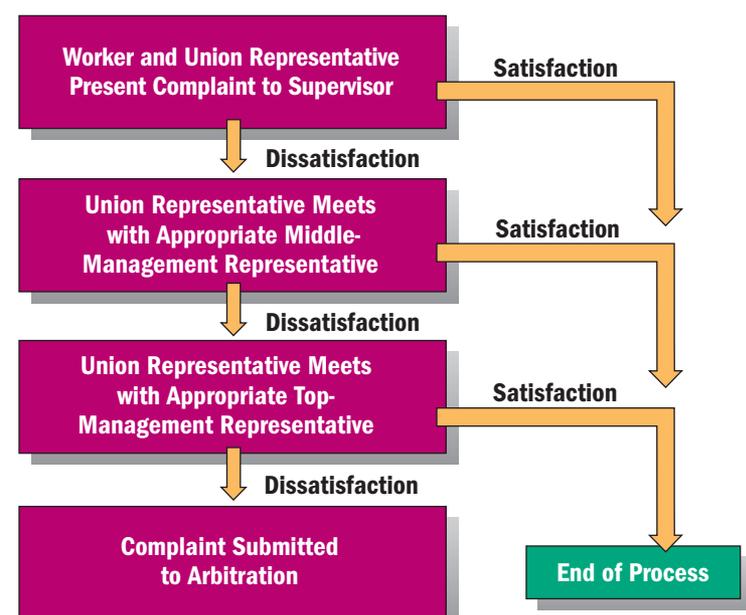
“When two teams are interested, you negotiate. When only one team is interested, you beg.”

—Mark Schlereth (b. 1966)
Former professional football player, Denver Broncos

Figure

9.6

Steps in the Grievance Procedure



When disputes cannot be solved voluntarily through mediation, the parties can turn to **arbitration**—bringing in an impartial third party, called an *arbitrator*, who renders a legally binding decision. The arbitrator must be acceptable both to the union and to management, and his or her decision is legally enforceable. In essence, the arbitrator acts as a judge, making a decision after listening to both sides of the argument. Most union contracts call for the use of arbitration if union and management representatives fail to reach an agreement.

Competitive Tactics of Unions and Management

Although most differences between labor and management are settled through the collective bargaining process or through a formal grievance procedure, both unions and management occasionally resort to various tactics to make their demands known.

Union Tactics The chief tactics of unions are strikes, picketing, and boycotts. The **strike**, or *walkout*, is one of the most effective tools of the labor union. It involves a temporary work stoppage by employees until a dispute has been settled or a contract signed. Although strikes are relatively rare, they do make headlines. In recent years, strikes have involved workers at Supervalu, Ralphs (a supermarket chain owned by Kroger's), home health care agencies in New York City, and hotel and casino employers in Atlantic City.⁴²

Although the power to strike represents unions' ultimate tactic, they do not wield it lightly because strikes can do damage in a number of ways, affecting not only one company but an entire industry, as well as related businesses. When 60,000 southern California grocery store workers went on a four-month strike, Safeway, Kroger, and Supervalu lost tens of millions of dollars. However, because profits were weak and the companies were losing business to Wal-Mart, the unions still had to make cost concessions, dropping the pay of new workers from \$17.90 to \$15.10. Plus, new workers no longer receive free healthcare.⁴³

Picketing—workers marching at the entrances of the employer's business as a public protest against some management practice—is another effective form of union pressure. As long as picketing does not involve violence or intimidation, it is protected under the U.S. Constitution as freedom of speech. Picketing may accompany a strike, or it may be a protest against alleged unfair labor practices. When union workers for Boeing, the airplane manufacturer, went on strike and began picketing, it cost the company \$70 million a day in lost production. The union and Boeing management eventually agreed on a new contract after a monthlong strike.⁴⁴ Because members of other unions often refuse to cross picket lines, the picketed firm may be unable to obtain deliveries and other services. Unions occasionally stage “informational” picketing during contract negotiations to pressure management while still working.

A **boycott** is an organized attempt to keep the public from purchasing the products of a firm. Some unions have been quite successful in organizing boycotts, and some unions even fine members who defy a primary boycott. The United Food and Commercial Workers International Union,



AP PHOTO/JIM MONE

Sometimes strikes cannot be prevented. But when they occur, they are costly to both employees and companies. Shown here are members of the Aircraft Mechanics Fraternal Association picketing against Northwest Airlines.

which would like to unionize Wal-Mart's workers, created a "Wake Up Wal-Mart" campaign in which it encouraged schoolteachers, many of whom are members of teachers' unions, to boycott Wal-Mart for back-to-school purchases.⁴⁵

Management Tactics Management also has tactics for dealing with organized labor. In the past, it has used the **lockout**—in effect, a management strike to put pressure on union members by closing the firm. However, other than a few high-profile cases, the lockout is not commonly used unless a union strike has partially shut down a plant or engaged in a work slowdown. Firms can easily recruit strikebreakers in high-status fields such as professional sports and in high-paying industries located in areas of high unemployment. Yet even in favorable conditions, management frequently has difficulties securing enough replacement workers with required skills. Some employers get around these difficulties by using supervisors and nonunion replacement employees to continue operations during strikes. When Northwest Airline's 4,400 mechanics went on strike after company management demanded a 25 percent wage cut, Northwest temporarily hired 1,200 replacement workers, employed 300 managers who had been formally trained as mechanics, and relied on 400 mechanics from outside vendors. Northwest's replacement mechanics were so effective that it was able to fly 98 percent of its normal flights during the strike.⁴⁶

The Future of Labor Unions

Union membership and influence grew through most of the 20th century by giving industrial workers a voice in decisions about their wages, benefits, and working conditions. Today, however, union members and influence are declining. As the United States, western Europe, and Japan have shifted from manufacturing economies to information and service economies, the makeup of the workforce has become less favorable for unions. While almost 8 percent of private-sector workers are union members today, that's down from nearly 17 percent in 1983. Likewise, unions have won only 7,224 of the 13,144 union votes (in which employees decide whether they want to be represented by a union) over the last five years.⁴⁷ That is a historically low percentage. In fact, unions have been unable to organize any of the Japanese-owned automobile plants in the United States (Toyota, Honda, Nissan) or those of Mercedes Benz, BMW, and Hyundai. Their biggest lack of success has been their inability to organize Wal-Mart's 1.2 million U.S. workers.

Why are unions shrinking and why are they having difficulty attracting members? Debbie Moore, who was in a union fourteen years ago when she worked in a manufacturing plant, now works for Wal-Mart in an automotive repair department, where she and her co-workers voted 19–0 to reject union representation. Said Moore, "Right now, in this day and era, I don't think I need a union to pay for anybody to protect me. Years ago, I believe work conditions were bad, and unions had their place of bringing standards up and making jobs safe. Unions are headed downward now. And the government is there to help."⁴⁸ Mary Gillece, director of an information technology school in Somerville, Massachusetts, summarizes the thoughts of many of today's workers when she says, "If it's a decent company, you don't need a union."⁴⁹

At nonunion companies, management often offers a compensation and benefit structure comparable to those of unionized firms in the area. Willingness to offer comparable wages and working conditions, coupled with effective communications, emphasis on promotions from within, employee empowerment, and employee participation in goal setting and grievance handling clearly helps employers avert unionization. Satisfied workers such as Mary Gillece conclude that they would receive few additional benefits for the union dues they would have to pay.

How will labor unions have to change to maintain their relevance? More than anything else, with manufacturing jobs shrinking from increasing productivity and overseas outsourcing,

assessment check

1. How many U.S. workers are represented by labor unions?
2. Identify the major issues covered in the collective bargaining process.
3. Explain picketing, boycotts, and lockouts.

labor unions are reaching out to nonmanufacturing workers, such as healthcare, high-tech, and service workers. Another possibility is offering affiliate or partial memberships, which offer the same benefits as full memberships except for collective bargaining or grievance issues.⁵⁰ Finally, labor unions will have to overcome the widespread belief that they can't succeed unless company management loses. Today, most workers realize that they prosper when their companies prosper, and that it's better for management and workers to work together and to have positive rather than adversarial relationships.

WHAT'S AHEAD

Treating employees well by enriching the work environment will continue to gain importance as a way to recruit and retain a highly motivated workforce. In addition, managers can tap the full potential of their employees by empowering them to make decisions, leading them to work effectively as teams, and fostering clear, positive communication. The next chapter covers these three means of improving performance. By involving employees more fully through empowerment, teamwork, and communication, companies can benefit from their knowledge while employees enjoy a more meaningful role in the company.

**Summary of Learning Goals**

1 Explain the importance of human resource management, the responsibilities of human resource managers, and the role of human resource planning in an organization's competitive strategy.

Organizations devote considerable attention to attracting, training, and retaining employees to help maintain their competitiveness. Human resource managers are responsible for recruiting, selecting, training, compensating, terminating, and motivating employees. They accomplish these tasks by developing specific programs and creating a work environment that generates employee satisfaction and efficiency. A human resource plan is designed to implement a firm's competitive strategies by providing the right number of employees, training them to meet job requirements, and motivating them to be productive and satisfied workers.

Assessment Check Answers

1.1 Why do human resource managers need to develop staffing plans?

Staffing plans help managers determine how many employees their firms will need and the kinds of skills those employees will need.

1.2 How do human resource managers attract and keep good employees?

Using the right combination of pay, benefits, and working conditions helps managers attract and keep good employees.

2 Describe how recruitment and selection contribute to placing the right person in a job.

Firms use internal and external methods to recruit qualified employees. For needs that the company cannot meet with existing employees, it may find candidates by encouraging employee referrals, advertising, accepting résumés at its Web site, and using job search Web sites. In selecting qualified candidates, human resource managers must follow legal requirements designed to promote equal employment opportunity. Employment tests, such as cognitive ability tests, are often used to assess job candidates' capabilities and help companies hire more qualified workers.

Assessment Check Answers

2.1 What are some of the costs associated with recruitment and selection?

Firms incur costs for advertising job openings, interviewing applicants, and conducting background checks,

employment tests, and medical exams. Hiring mistakes increase training costs, can result in lawsuits and unemployment compensation claims, and reduce productivity and employee morale.

2.2 What key federal and state laws apply to recruitment and selection?

Recruitment and selection practices must adhere to Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Civil Rights Act of 1991, and other regulations of the Equal Employment Opportunity Commission.

3 Explain how training programs and performance appraisal help companies grow and develop their employees.

Human resource managers use a variety of training techniques, including on-the-job training, computerized training programs, and classroom methods. In addition, management development programs help managers make decisions and improve interpersonal skills. Companies conduct performance appraisals to assess employees' work, as well as their strengths and weaknesses.

Assessment Check Answers

3.1 Describe some aids in on-the-job training.

In on-the-job training, you learn how to perform tasks under the guidance of experienced employees. A variation of on-the-job training is apprenticeship training, in which an employee learns a job by serving for a longer time as an assistant to a trained worker.

3.2 What is a management development program?

A management development program provides training designed to improve the skills and broaden the knowledge of current and potential executives.

3.3 What is the main way an organization provides employees with feedback about their performance?

The main method is a performance appraisal, in which an employee's job performance is compared with desired outcomes. Peer reviews and 360-degree performance reviews are also used to provide feedback.

4 Outline the methods employers use to compensate employees through pay systems and benefit programs.

Firms compensate employees with wages, salaries, and incentive pay systems, such as profit sharing, gain sharing, lump-sum bonuses, stock options, and pay-for-knowledge programs. Benefit programs vary among

firms, but most companies offer healthcare programs, insurance, retirement plans, paid time off, and sick leave. A growing number of companies are offering flexible benefit plans and flexible work plans, such as flextime, compressed workweeks, job sharing, and home-based work.

Assessment Check Answers

4.1 Explain the difference between wage and salary.

Wages represent compensation based on an hourly pay rate or the amount of output produced. Salaries represent compensation calculated periodically, such as weekly or monthly.

4.2 What is another name for a cafeteria plan?

Cafeteria plans are also called *flexible benefit plans*.

4.3 What types of organizations typically use a compressed workweek?

Hospitals, police and fire departments, airlines, and manufacturing organizations often use compressed workweeks. However, many other kinds of companies are now finding success with compressed workweeks.

5 Discuss employee separation and the impact of downsizing and outsourcing.

Either employers or employees can decide to terminate employment (called *involuntary turnover* and *voluntary turnover*, respectively). Downsizing reduces a company's workforce to reduce labor costs in an effort to improve the firm's competitive position. The company may transfer some responsibilities to contractors, a practice called *outsourcing*. The goals of outsourcing are to reduce costs by giving work to more efficient specialists and to allow the company to focus on the activities it does best.

Assessment Check Answers

5.1 What is the difference between voluntary and involuntary turnover?

Voluntary turnover occurs when employees leave firms to start their own businesses, take jobs with other firms, move to another city, or retire. Involuntary turnover occurs when employers terminate employees because of poor job performance, negative attitudes toward work and co-workers, or misconduct.

5.2 What is downsizing? How is it different from outsourcing?

Downsizing is the process of reducing the number of employees within a firm by eliminating jobs.

Downsizing is done to cut overhead costs and streamline the organizational structure. With outsourcing, companies contract with other firms to perform non-core jobs or business functions, such as housekeeping, maintenance, or relocation services. This allows companies to focus on what they do best, and can result in a downsized workforce.

6 Explain how Maslow’s hierarchy-of-needs theory, goal setting, job design, and managers’ attitudes relate to employee motivation.

Employee motivation starts with good employee morale. Maslow’s hierarchy-of-needs theory states that all people have basic needs (physiological and safety) that they must satisfy before they can consider higher-order needs (social, esteem, and self-actualization). Goal-setting theory, job enlargement, and job enrichment are three ways in which managers can motivate employees and satisfy various levels of needs. Managers’ attitudes can also affect employee motivation. Theory X managers keep their subordinates under close and constant observation. Theory Y managers emphasize workers’ self-control and self-direction. Theory Z managers believe that worker involvement is the key to increased productivity for the company and improved quality of work life for employees.

Assessment Check Answers

6.1 In an organization, what conditions are likely to produce high morale?

High employee morale occurs when employees feel valued and heard and can contribute what they do best. High morale also results from an organization’s understanding of human needs and its success at satisfying those needs in ways that reinforce organizational goals.

6.2 Explain how goal setting works.

People will be motivated to the extent to which they accept specific, challenging goals and receive feedback that indicates their progress toward goal achievement.

6.3 Identify two ways that employers structure jobs for motivation.

Two ways that employers apply motivational theories to restructure jobs are job enlargement and job enrichment. Job enlargement is a job design that expands an employee’s responsibilities by increasing the number and variety of tasks they entail. Job enrichment is a change in job duties to increase employees’ authority in planning their work, deciding how it should be done, and learning new skills that help them grow.

6.4 Compare and contrast Theory X, Theory Y, and Theory Z.

Theory X assumes that employees dislike work and try to avoid it whenever possible. Theory Y assumes that the typical person likes work and learns, under proper conditions, to accept and seek responsibilities to fulfill social, esteem, and self-actualization needs. Theory Z views worker involvement as the key to increased productivity for the company and improved quality of work life for employees.

7 Summarize the role of labor unions and the tactics of labor-management conflicts.

A labor union is a group of workers who have banded together to achieve common goals in the key areas of wages, working hours, and working conditions. Labor unions exist at local, national, and international levels. Government attitudes toward unions have varied considerably during the past century and are reflected in the major pieces of labor legislation enacted during this period. Labor unions work to achieve their goals of increased job security and improvements in wages, hours, and working conditions through a process known as *collective bargaining*. Most labor-management negotiations result in a signed agreement without a work stoppage. Even after an agreement is signed, disputes can arise. A grievance is a complaint that management is violating some provision of the union contract. Mediation is the process of settling labor-management disputes through recommendations of an impartial third party. Arbitration is a process in which an impartial third party renders a legally binding decision. Some tactics available to labor unions during disputes include strikes (walkouts), picketing, and boycotts. Tactics available to management include lockouts and hiring replacement workers.

Assessment Check Answers

7.1 How many U.S. workers are represented by labor unions?

Almost 16 million U.S. workers—close to 13 percent of the nation’s full-time workforce—belong to labor unions. Although only about 8 percent of workers in the private sector are unionized, more than one in three government workers belong to unions.

7.2 Identify the major issues covered in the collective bargaining process.

The major issues covered in collective bargaining include wages, work hours, benefits, union activities

and responsibilities, grievance handling and arbitration, layoffs, and employee rights and seniority.

7.3 Explain picketing, boycotts, and lockouts.

Picketing is when workers march at the entrances of the employer's business to protest against some man-

agement practice. A boycott is an organized attempt to keep the public from purchasing the products of a firm. A lockout is a management strike, in which company management pressures labor union members by locking them out of the company and closing the firm.

Business Terms You Need to Know

human resource management 288
performance appraisal 294
wage 295
salary 295
employee benefits 296

downsizing 301
outsourcing 302
Maslow's hierarchy of needs 303
goal 304
goal-setting theory 304

job enlargement 306
job enrichment 306
labor union 307
collective bargaining 309

Other Important Business Terms

management 288
cognitive ability tests 292
on-the-job training 292
management development program 293
360-degree performance review 295
401(k) plan 297
flexible benefit plan 298

paid time off (PTO) 298
flexible work plan 299
flextime 300
compressed workweek 300
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morale 303
Theory X 307
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grievance 309
mediation 309
arbitration 310
strike 310
picketing 310
boycott 310
lockout 311

Review Questions

1. What are the core responsibilities of human resource management? What are the three main objectives of human resource managers?
2. What methods do companies use to recruit and select employees?
3. What types of training programs are popular today? How does 360-degree feedback work?
4. On what five factors are compensation policies usually based? Name at least three employee benefits that are required by law and three more that are provided voluntarily by many firms.
5. Describe four types of flexible work plans. Identify an industry that would be well suited to each type of plan and explain why.
6. Outline the major reasons for terminating employees. Why do companies downsize? What are some of the difficulties they may encounter in doing so?

7. Explain Maslow's hierarchy-of-needs theory. How do companies attempt to satisfy employee needs at each level in the hierarchy?
8. How is goal setting related to need satisfaction? What mistakes need to be avoided when setting goals?
9. How do companies use job design to motivate employees?
10. What are the chief tactics of unions and management in their contract negotiations? Are they usually effective? Why or why not?

Projects and Teamwork Applications

1. Choose one of the following organizations (or select one of your own) and write a memo outlining a plan for outsourcing some of the tasks currently performed by employees. Cite reasons for your choices.
 - a. summer resort in Wisconsin
 - b. regional high school in Arizona
 - c. software development firm in California
 - d. major hospital in Massachusetts
 - e. manufacturing plant in Kentucky
2. Would you accept a job you didn't particularly like because the firm offered an attractive benefits package? Why or why not? Do you think your answer would change as you get older? Why or why not?
3. Not every unionized worker has the right to strike. All federal employees and many state and municipal employees—such as police officers and firefighters—cannot strike. Suppose you were a teacher or an airline pilot. Do you think members of your union should be allowed to strike? Why or why not?
4. Do you think the downward trend in union membership will continue? In what ways might this trend change the relationship between companies and employees over the next decade?
5. Suppose you are a human resource manager and you have determined that your company would benefit from hiring some older workers. Write a memo explaining your reasons for this conclusion.

Case 9.1

Best Buy's Workers Thrive with Flexible Scheduling

Best Buy wasn't always the best place to work. Despite the firm's mission to "make life fun and easy for millions of people across North America," its employees were pressured to work long hours and sacrifice themselves for the company. One store manager used to award a plaque to the employee who "turns on the lights in the morning and turns them off at night." But things have changed at the company with the big yellow price tag.

More than 90,000 people work at Best Buy in distribution centers and stores. Employees perform a variety of tasks: designing advertisements, selling products, installing computer software, and ensuring efficient shipping. To provide superior service to customers, the firm must find ways to motivate its work-

force to do their best, without burning them out. Recently, Best Buy launched a new program that centers on flexible scheduling for employees. Called a Results Oriented Work Environment (ROWE), the program allows employees to work when and where they prefer—as long as they get their jobs done. The new focus is a breakthrough for many employees—working parents, students, and those who live a long commuting distance away.

Carrying out a program like ROWE takes planning and flexibility on the part of managers. They had to learn to relax their control over employees, trusting that they would get the job done. "Trust doesn't cost me anything," said one manager, who discovered that the morale of his workers increased dramatically.

Each department found its own way to make the transition and obtained input from all employees. The public-relations group decided to get pagers so everyone could be reached when necessary. The finance department purchased software that transcribes voice mail into e-mails that can be accessed from anywhere. Many teams decided immediately that they needed far fewer meetings than they'd been required to hold before the ROWE program. By using more phone calls and e-mails, they discovered that much less time was wasted.

Not surprisingly, some blips have occurred at Best Buy. Some managers are more resistant to the change than others. And some jobs simply don't lend themselves to as much flexibility as others. For instance, administrative assistants need to be at their workstations when their supervisors are in the office; security guards need to be on-site; and salespeople need to be on hand during store hours. And some workers struggle to determine how to make their performance stand out under the new system. "I had all this panic," says one employee who had grown accustomed to arriving first at work and leaving last. "Everything we knew about success was suddenly changing." Employees who thrive on set routines have felt somewhat lost without the time clock. The new system is "harder for people who want order in their lives," explains sociologist Phyllis Moen. And some employees just still can't let go—they check their e-mail and voice mail messages on their days off.

Despite these challenges, Best Buy managers are reporting higher productivity among their employees, along with rising morale. Employees like the idea of

being evaluated on their job performances, not how long they toil. Hourly employees still track their hours, but they enjoy more freedom in scheduling their work time. Turnover and absenteeism have begun to drop as well. Employees who previously considered leaving the firm to achieve a better balance between family and career have decided to stay. Best Buy now expects more training and increased initiative from its employees—and the company is getting it. All of this bodes well for the firm, which needs its employees in order to remain competitive in the marketplace. "We can embrace that reality and ride it," says executive vice president Shari Ballard, "or we can fight it." Best Buy has chosen the reality.

Questions for Critical Thinking

1. How might Best Buy's recruitment, selection, training, and evaluation processes be different under the new ROWE program?
2. In what ways would you expect employee-management relations at Best Buy to change under the ROWE program?

Sources: Best Buy Web site, accessed July 2, 2006, <http://www.bestbuy.com>; Leah Carlson, "Flexibility Proves Profitable for Large Firms," *Employee Benefit News*, accessed July 2, 2006, <http://www.benefitnews.com>; Jyoti Thottam, "Reworking Work," *Time*, accessed July 2, 2006, <http://www.time.com>; Charlotte Huff, "With Flex-time, Less Can Be More," *Workforce Management*, accessed July 2, 2006, <http://www.workforce.com>; Leah Carlson, "Flex Benefits: Swinging away from 9 to 5," *Employee Benefit News*, accessed July 2, 2006, <http://www.benefitnews.com>.

VIDEO

Case 9.2

Allstate Employees Are in Good Hands

This video case appears on page 617. A recently filmed video, designed to expand and highlight the written case, is available for class use by instructors.