Fundamentals of Business, Second Edition

Chapter 12

Managing Human Resources

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12. Chapter 12 Managing Human Resources

Learning Objectives

1. Define human resource management and explain how managers develop and implement a human resource plan.
2. Explain how companies train and develop employees, and discuss the importance of a diverse workforce.
3. Identify factors that make an organization a good place to work, including competitive compensation and benefits packages.
4. Explain how managers evaluate employee performance and retain qualified employees.

The Grounds of a Great Work Environment

Howard Schultz has vivid memories of his father slumped on the couch with his leg in a cast.[1] The ankle would heal, but his father had lost another job—this time as a driver for a diaper service. It was a crummy job; still, it put food on the table, and if his father couldn't work, there wouldn't be any money. Howard was seven, but he understood the gravity of the situation, particularly because his mother was seven months pregnant, and the family had no insurance.

Figure 12.1: Starbucks founder Howard Schultz

This was just one of the many setbacks that plagued Schultz's father throughout his life—an honest, hard-working man frustrated by a system that wasn't designed to cater to the needs of common workers. He'd held a series of blue-collar jobs (cab driver, truck driver, factory worker), sometimes holding two or three at a time. Despite his willingness to work, he never earned enough money to move his family out of Brooklyn's federally-subsidized housing projects. Schultz's father died never having found fulfillment in his work life—or even a meaningful job. It was the saddest day of Howard's life.

As a kid, did Schultz ever imagine that one day he'd be the founder and chairman of Starbucks Coffee Company? Of course not. But he did decide that if he was ever in a position to make a difference in the lives of people like his father, he'd do what he could. Remembering his father's struggles and disappointments, Schultz has tried to make Starbucks the kind of company where he wished his father had worked. "Without even a high school diploma," Schultz admits, "my father probably could never have been an executive. But if he had landed a job in one of our stores or roasting plants, he wouldn't have quit in frustration because the company didn't value him. He would have had good health benefits, stock options, and an atmosphere in which his suggestions or complaints would receive a prompt, respectful response."[2]

Schultz is motivated by both personal and business considerations: "When employees have self-esteem and self-respect," he argues, "they can contribute so much more: to their company, to their family, to the world."[3] His commitment to his employees is embedded in Starbuck's mission statement, whose first objective is to "provide a great work environment and treat each other with respect and dignity."[4] Those working at Starbucks are called partners because Schultz believes working for his company is not just a job, it's a passion.[5]

Human Resource Management

Employees at Starbucks are vital to the company's success. They are its public face, and every dollar of sales passes through their hands.[6] According to Howard Schultz, they can make or break the company. If a customer has a positive interaction with an employee, the customer will come back. If an encounter is negative, the customer is probably gone for good. That's why it's crucial for Starbucks to recruit and hire the right people, train them properly, motivate them to do their best, and encourage them to stay with the company. Thus, the company works to provide satisfying jobs, a positive work environment, appropriate work schedules, and fair compensation and benefits. These activities are part of Starbucks's strategy to deploy human resources in order to gain competitive advantage. The process is called **human resource management** (HRM), which consists of all actions that an organization takes to attract, develop, and retain quality employees. Each of these activities is complex. Attracting talented employees involves the recruitment of qualified candidates and the selection of those who best fit the organization's needs. Development encompasses both new-employee orientation and the training and development of current workers. Retaining good employees means motivating them to excel, appraising their performance, compensating them appropriately, and doing what's possible to keep them.

Figure 12.2: A Starbucks barista serving a customer

Human Resource Planning

How does Starbucks make sure that its worldwide retail locations are staffed with just the right number of committed employees? How does Norwegian Cruise Lines make certain that when the Norwegian Dawn pulls out of New York harbor, it has a complete, fully trained crew on board to feed, entertain, and care for its passengers? Managing these tasks is a matter of **strategic human resource planning**–the process of developing a plan for satisfying an organization's human resources (HR) needs.

A strategic HR plan lays out the steps that an organization will take to ensure that it has the right number of employees with the right skills in the right places at the right times. HR managers begin by analyzing the company's mission, objectives, and strategies. Starbucks's objectives, for example, include the desire to "develop enthusiastically satisfied customers" as well as to foster an environment in which employees treat both customers and each other with respect.[7] Thus, the firm's HR managers look for people who are "adaptable, self-motivated, passionate, creative team members."[8] The main goal of Norwegian Cruise Lines—to lavish passengers with personal attention—determines not only the type of employee desired (one with exceptionally good customer-relation skills and a strong work ethic) but also the number needed (one for every two passengers on the Norwegian Dawn).[9]

Job Analysis

To develop an HR plan, HR managers must be knowledgeable about the jobs that the organization needs performed. They organize information about a given job by performing a job analysis to identify the tasks, responsibilities, and skills that it entails, as well as the knowledge and abilities needed to perform it. Managers also use the information collected for the job analysis to prepare two documents:

- A **job description**, which lists the duties and responsibilities of a position
- A **job specification**, which lists the qualifications—skills, knowledge, and abilities— needed to perform the job

HR Supply and Demand Forecasting

Once they've analyzed the jobs within the organization, HR managers must **forecast** future hiring (or firing) needs. This is the three-step process summarized below.

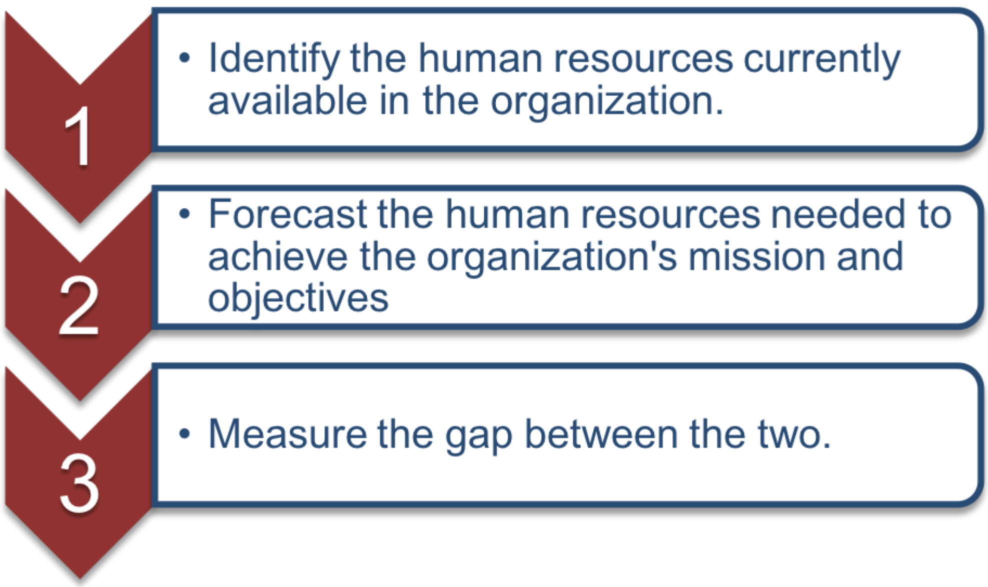

Figure 12.3: How to Forecast Hiring (and Firing) Needs

Starbucks, for instance, might find that it needs three hundred new employees to work at stores scheduled to open in the next few months. Disney might determine that it needs two thousand new cast members to handle an anticipated surge in visitors. The Norwegian Dawn might be short two dozen restaurant workers because of an unexpected increase in reservations.

After calculating the disparity between supply and future demand, HR managers must draw up plans for bringing the two numbers into balance. If the demand for labor is going to outstrip the supply, they may hire more workers, encourage current workers to put in extra hours, subcontract work to other suppliers, or introduce labor-saving initiatives. If the supply is greater than the demand, they may deal with overstaffing by not replacing workers who leave, encouraging early retirements, laying off workers, or (as a last resort) firing workers.

Recruiting Qualified Employees

Armed with information on the number of new employees to be hired and the types of positions to be filled, the HR manager then develops a strategy for recruiting potential employees. **Recruiting** is the process of identifying suitable candidates and encouraging them to apply for openings in the organization.

Before going any further, we should point out that in recruiting and hiring, managers must comply with antidiscrimination laws; violations can have legal consequences. **Discrimination** occurs when a person is treated unfairly on the basis of a characteristic unrelated to ability. Under federal law, it's illegal to discriminate in recruiting and hiring on the basis of race, color, religion, sex, national origin, age, or disability. (The same rules apply to other employment activities, such as promoting, compensating, and firing.)[10] The Equal Employment Opportunity Commission (EEOC) enforces a number of federal employment laws, including the following:

- Title VII of the Civil Rights Act of 1964, which prohibits employment discrimination based on race, color, religion, sex, or national origin. Sexual harassment is also a violation of Title VII.
- The Equal Pay Act of 1963, which protects both women and men who do substantially equal work from sex-based pay discrimination.
- The Age Discrimination in Employment Act of 1964, which protects individuals who are forty or older.
- Title I and Title V of the Americans with Disabilities Act of 1990, which prohibits employment discrimination against individuals with disabilities.[11]

Where to Find Candidates

The first step in recruiting is to find qualified candidates. Where do you look for them, and how do you decide whether they're qualified? Companies must assess not only the ability of a candidate to perform the duties of a job, but also whether he or she is a good "fit" for the company– i.e., how well the candidate's values and interpersonal style match the company's values and culture.

Internal versus External Recruiting

Where do you find people who satisfy so many criteria? Basically, you can look in two places: inside and outside your own organization. Both options have pluses and minuses. Hiring internally sends a positive signal to employees that they can move up in the company—a strong motivation tool and a reward for good performance. In addition, because an internal candidate is a known quantity, it's easier to predict his or her success in a new position. Finally, it's cheaper to recruit internally. On the other hand, you'll probably have to fill the promoted employee's position. Going outside gives you an opportunity to bring fresh ideas and skills into the company. In any case, it's often the only alternative, especially if no one inside the company has just the right combination of skills and experiences. Entry-level jobs are usually filled from the outside.

How to Find Candidates

Whether you search inside or outside the organization, you need to publicize the opening. If you're looking internally in a small organization, you can alert employees informally. In larger organizations, HR managers generally post openings on bulletin boards (often online) or announce them in newsletters. They can also seek direct recommendations from various supervisors.

Recruiting people from outside is more complicated. It's a lot like marketing a product to buyers: in effect, you're marketing the virtues of working for your company. Starbucks uses the following outlets to advertise openings:

- A dedicated section of the **corporate web site** ("Job Center," which lists openings, provides information about the Starbucks experience, and facilitates the submission of online applications)
- **College campus recruiting** (holding on-campus interviews and information sessions and participating in career fairs)
- **Internships** designed to identify future talent among college students
- Announcements on **employment web sites** like Monster.com, Vault.com, Glassdoor.com, and SimplyHired.com
- Newspaper **classified ads**
- Facebook and Twitter
- Local **job fairs**
- In-store recruiting posters
- Informative "business cards" for distribution to customers[12]

When asked what it takes to attract the best people, Starbucks's senior executive Dave Olsen replied, "Everything matters." Everything Starbucks does as a company bears on its ability to attract talent. Accordingly, everyone is responsible for recruiting, not just HR specialists. In fact, the best source of quality applicants is often the company's own labor force.[13]

Figure 12.4: Students talking to a recruiter at a college campus job fair

The Selection Process

Recruiting gets people to apply for positions, but once you've received applications, you still have to select the best candidate—another complicated process.

The **selection process** entails gathering information on candidates, evaluating their qualifications, and choosing the right one. At the very least, the process can be time- consuming—particularly when you're filling a high-level position—and often involves several members of an organization.

Let's examine the selection process more closely by describing the steps that you'd take to become a special agent for the Federal Bureau of Investigation (FBI).[14] Most business students don't generally aspire to become FBI agents, but the FBI is quite interested in business graduates—especially if you have a major in accounting or finance. With one of these backgrounds, you'll be given priority in hiring. Why?

Unfortunately, there's a lot of white-collar crime that needs to be investigated, and people who know how to follow the money are well suited for the task.

Application

The first step in a new graduate being hired as an FBI accountant is applying for the job. Make sure you meet the minimum qualifications they advertise. To provide factual information on your education and work background, you'll submit an application, which the FBI will use as an initial screening tool.

Employment Tests

Next comes a battery of tests (a lot more than you'd take in applying for an everyday business position). Like most organizations, the FBI tests candidates on the skills and knowledge entailed by the job. Unlike most businesses, however, the FBI will also measure your aptitude, evaluate your personality, and assess your writing ability. You'll have to take a polygraph (lie-detector) test to determine the truthfulness of the information you've provided, uncover the extent of any drug use, and disclose potential security problems.

Interview

If you pass all these tests (with sufficiently high marks), you'll be granted an interview. It serves the same purpose as it does for business recruiters: it allows the FBI to learn more about you and gives you a chance to learn more about your prospective employer and your possible future in the organization. The FBI conducts structured interviews—a series of standard questions. You're judged on both your answers and your ability to communicate orally.

Physical Exam and Reference Checks

Let's be positive and say you passed the interview. What's next? You still have to pass a rigorous physical examination (including a drug test), as well as background and reference checks. Given its mission, the FBI sets all these hurdles a little higher than the average employer. Most businesses will ask you to take a physical exam, but you probably won't have to meet the fitness standards set by the FBI. Likewise, many businesses check references to verify that applicants haven't lied about (or exaggerated) their education and work experience. The FBI goes to great lengths to ensure that candidates are suitable for law-enforcement work.

Final Decision

The last stage in the process is out of your control. Will you be hired or not? This decision is made by one or more people who work for the prospective employer. For a business, the decision maker is generally the line manager who oversees the position being filled. At the FBI, the decision is made by a team at FBI headquarters.

Contingent Workers

Though most people hold permanent, full-time positions, there's a growing number of individuals who work at temporary or part-time jobs. Many of these are contingent workers hired to supplement a company's permanent workforce. Most of them are independent contractors, consultants, or freelancers who are paid by the firms that hire them. Others are on-call workers who work only when needed, such as substitute teachers. Still others are temporary workers (or "temps") who are employed and paid by outside agencies or contract firms that charge fees to client companies.

The Positives and Negatives of Temp Work

The use of contingent workers provides companies with a number of benefits. Because they can be hired and fired easily, employers can better control labor costs. When things are busy, they can add temps, and when business is slow, they can release unneeded workers. Temps are often cheaper than permanent workers, particularly because they rarely receive costly benefits. Employers can also bring in people with specialized skills and talents to work on special projects without entering into long-term employment relationships. Finally, companies can "try out" temps: if someone does well, the company can offer permanent employment; if the fit is less than perfect, the employer can easily terminate the relationship. There are downsides to the use of contingent workers, including increased training costs and decreased loyalty to the company. Also, many employers believe that because temps are usually less committed to company goals than permanent workers, productivity suffers.

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Developing Employees

Because companies can't survive unless employees do their jobs well, it makes economic sense to train them and develop their skills. This type of support begins when an individual enters the organization and continues as long as he or she stays there.

New-Employee Orientation

Have you ever started your first day at a new job feeling upbeat and optimistic only to walk out at the end of the day thinking that maybe you've taken the wrong job? If this happens too often, your employer may need to revise its approach to orientation—the way it introduces new employees to the organization and their jobs. Starting a new job is a little like beginning college; at the outset, you may be experiencing any of the following feelings:

- Somewhat nervous but enthusiastic
- Eager to impress but not wanting to attract too much attention
- Interested in learning but fearful of being overwhelmed with information
- Hoping to fit in and worried about looking new or inexperienced[15]

The employer who understands how common such feelings are is more likely not only to help newcomers get over them but also to avoid the pitfalls often associated with new-employee orientation:

- Failing to have a workspace set up for you
- Ignoring you or failing to supervise you
- Neglecting to introduce you to coworkers
- Swamping you with facts about the company[16]

A good employer will take things slowly, providing you with information about the company and your job on a need-to-know basis while making you feel as comfortable as possible. You'll get to know the company's history, traditions, policies, and culture over time. You'll learn more about salary and benefits and how your performance will be evaluated. Most importantly, you'll find out how your job fits into overall operations and what's expected of you.

Training and Development

It would be nice if employees came with all the skills they need to do their jobs. It would also be nice if job requirements stayed the same: once you've learned how to do a job, you'd know how to do it forever. In reality, new employees must be trained; moreover, as they grow in their jobs or as their jobs change, they'll need additional training. Unfortunately, training is costly and time-consuming.

How costly? *Training* magazine reported that businesses spent over $55 billion on training in 2013.[17] At Darden Restaurants, the parent company to restaurants such as Olive Garden and Red Lobster, training focuses on diversity skills.[18] What's the payoff? Why are such companies willing to spend so much money on their employees? Darden has been recognized by *Fortune* magazine as a "Diversity Champion," ranking it as one of the Top 20 employers on their list of diverse workforces.[19] At Booz Allen Hamilton, consultants specialize in finding innovative solutions to client problems, and their employer makes sure that they're up-to-date on all the new technologies by maintaining a "technology petting zoo" at its training headquarters. It's called a "petting zoo" because employees get to see, touch, and interact with new and emerging technologies. For example, a *Washington Post* reporter visiting the "petting zoo" in 2007 saw fabric that could instantly harden if struck by a knife or bullet, and "smart" clothing that could monitor a wearer's health or environment.[20]

At Booz Allen Hamilton's technology "petting zoo," employees are receiving off-the-job training. This approach allows them to focus on learning without the distractions that would occur in the office. More common, however, is informal on-the-job training, which may be supplemented with formal training programs. This is the method, for example, by which you'd move up from mere coffee maker to a full-fledged "barista" if you worked at Starbucks.[21] You'd begin by reading a large spiral book (titled Starbucks University) on the responsibilities of the barista, pass a series of tests on the reading, then get hands-on experience in making drinks, mastering one at a time.[22] Doing more complex jobs in business will likely require even more training than is required to be a barista.

Diversity in the Workplace

The makeup of the U.S. workforce has changed dramatically over the past 50 years. In the 1950s, more than 60 percent was composed of white males.[23] Today's workforce reflects the broad range of differences in the population—differences in gender, race, ethnicity, age, physical ability, religion, education, and lifestyle. As you can see in Figure 12.5, more women and minorities have entered the workforce, and white males now make up only 36 percent of the workforce.[24]

Group	Total	Males	Females
All employees	100%	53%	47%
White	79%	54%	46%
African American	12%	47%	53%
Asian/Pacific Islander/Other	9%	53%	47%
Hispanic/Latino Ethnicity	16%	58%	42%

Figure 12.5: Employment by Gender and Ethnic Group, 2015

Most companies today strive for diverse workforces. HR managers work hard to recruit, hire, develop, and retain a diverse workforce. In part, these efforts are motivated by legal concerns: discrimination in recruiting, hiring, advancement, and firing is illegal under federal law and is prosecuted by the EEOC.[25] Companies that violate antidiscrimination laws are subject to severe financial penalties and also risk reputational damage. In November 2004, for example, the EEOC charged that recruiting policies at Abercrombie & Fitch, a national chain of retail clothing stores, had discriminated against minority and female job applicants between 1999 and 2004. The EEOC alleged that A&F had hired a disproportionate number of white salespeople, placed minorities and women in less visible positions, and promoted a virtually all-white image in its marketing efforts. Six days after the EEOC filed a lawsuit, the company settled the case at a cost of $50 million, but the negative publicity may hamper both recruitment and sales for some time.[26]

Figure 12.6: Models pose at the grand opening of an Abercrombie and Fitch store in Ireland, 2012

Reasons for building a diverse workforce go well beyond mere compliance with legal standards. It even goes beyond commitment to ethical standards. It's good business. People with diverse backgrounds bring fresh points of view that can be invaluable in generating ideas and solving problems. In addition, they can be the key to connecting with an ethnically diverse customer base. If a large percentage of your customers are Hispanic, it might make sense to have a Hispanic marketing manager. In short, capitalizing on the benefits of a diverse workforce means that employers should view differences as assets rather than liabilities.

What Makes a Great Place to Work?

Every year, the Great Places to Work Institute analyzes comments from thousands of employees and compiles a list of "The 100 Best Companies to Work for in America®," which is published in *Fortune* magazine. Having compiled its list for more than twenty years, the institute concludes that the defining characteristic of a great company to work for is trust between managers and employees. Employees overwhelmingly say that they want to work at a place where employees "trust the people they work for, have pride in what they do, and enjoy the people they work with."[27] They report that they're motivated to perform well because they're challenged, respected, treated fairly, and appreciated. They take pride in what they do, are made to feel that they make a difference, and are given opportunities for advancement.[28] The most effective motivators, it would seem, are closely aligned with Maslow's higher-level needs and Herzberg's motivating factors. The top ten companies are listed in Figure 12.7.

Rank	Company
1	Google
2	Acuity Insurance
3	Boston Consulting Group
4	Wegman's Food Markets
5	Quicken Loans
6	Robert W. Baird & Co.
7	Kimley-Horn
8	SAS Institute
9	Camden Property Trust
10	Edward Jones

Figure 12.7: The top ten from the 2016 Fortune Best Companies to Work For®. Each name is a link to that company's career page.

Job Redesign

The average employee spends more than two thousand hours a year at work. If the job is tedious, unpleasant, or otherwise unfulfilling, the employee probably won't be motivated to perform at a very high level. Many companies practice a policy of job redesign to make jobs more interesting and challenging. Common strategies include job rotation, job enlargement, and job enrichment.

Job Rotation

Specialization promotes efficiency because workers get very good at doing particular tasks. The drawback is the tedium of repeating the same task day in and day out. The practice of job rotation allows employees to rotate from one job to another on a systematic basis, often but not necessarily cycling back to their original tasks. A computer maker, for example, might rotate a technician into the sales department to increase the employee's awareness of customer needs and to give the employee a broader understanding of the company's goals and operations. A hotel might rotate an accounting clerk to the check- in desk for a few hours each day to add variety to the daily workload. Through job rotation, employees develop new skills and gain experience that increases their value to the company. So great is the benefit of this practice that many companies have established rotational training programs that include scheduled rotations during the first 2-3 years of employment. Companies benefit because cross-trained employees can fill in for absentees, thus providing greater flexibility in scheduling, offer fresh ideas on work practices, and become promotion-ready more quickly.

Job Enlargement

Instead of a job in which you performed just one or two tasks, wouldn't you prefer a job that gave you many different tasks? In theory, you'd be less bored and more highly motivated if you had a chance at job enlargement—the policy of enhancing a job by adding tasks at similar skill levels. The job of sales clerk, for example, might be expanded to include gift-wrapping and packaging items for shipment. The additional duties would add variety without entailing higher skill levels.

Job Enrichment

Merely expanding a job by adding similar tasks won't necessarily "enrich" it by making it more challenging and rewarding. Job enrichment is the practice of adding tasks that increase both responsibility and opportunity for growth. It provides the kinds of benefits that, according to Maslow and Herzberg, contribute to job satisfaction: stimulating work, sense of personal achievement, self-esteem, recognition, and a chance to reach your potential.

Consider, for example, the evolving role of support staff in the contemporary office. Today, employees who used to be called "secretaries" assume many duties previously in the domain of management, such as project coordination and public relations. Information technology has enriched their jobs because they can now apply such skills as word processing, desktop publishing, creating spreadsheets, and managing databases. That's why we now use a term such as administrative assistant instead of secretary.[29]

Work/Life Quality

Building a career requires a substantial commitment in time and energy, and most people find that they aren't left with much time for non-work activities. Fortunately, many organizations recognize the need to help employees strike a balance between their work and home lives.[30] By helping employees combine satisfying careers and fulfilling personal lives, companies tend to end up with a happier, less-stressed, and more productive workforce. The financial benefits include lower absenteeism, turnover, and health care costs.

Alternative Work Arrangements

The accounting firm KPMG, which has made the list of the "100 Best Companies for Working Mothers" for nineteen years,[31] is committed to promoting a balance between its employees' work and personal lives. KPMG offers a variety of work arrangements designed to accommodate different employee needs and provide scheduling flexibility.[32]

Flextime

Employers who provide for flextime set guidelines that allow employees to designate starting and quitting times. Guidelines, for example, might specify that all employees must work eight hours a day (with an hour for lunch) and that four of those hours must be between 10 a.m. and 3 p.m. Thus, you could come in at 7 a.m. and leave at 4 p.m., while coworkers arrive at 10 a.m. and leave at 7 p.m. With permission you could even choose to work from 8 a.m to 2 p.m., take two hours for lunch, and then work from 4 p.m. to 6 p.m.

Compressed Workweeks

Rather than work eight hours a day for five days a week, you might elect to earn a three-day weekend by working ten hours a day for four days a week.

Job Sharing

Under job sharing, two people share one full-time position, splitting the salary and benefits of the position as each handles half the job. Often they arrange their schedules to include at least an hour of shared time during which they can communicate about the job.

Telecommuting

Telecommuting means that you regularly work from home (or from some other non-work location). You're connected to the office by computer, fax, and phone. You save on commuting time, enjoy more flexible work hours, and have more opportunity to spend time with your family. A study of 5,500 IBM employees (one-fifth of whom telecommute) found that those who worked at home not only had a better balance between work and home life but also were more highly motivated and less likely to leave the organization.[33]

Though it's hard to count telecommuters accurately, Global Workplace Analytics estimates that, in 2016, "at least 3.7 million people (2.8 percent of the workforce) work from home at least half the time."[34] Telecommuting isn't for everyone. Working at home means that you have to discipline yourself to avoid distractions, such as TV, personal phone calls, and home chores and also not be impacted by feeling isolated from the social interaction in the workplace.

Family-Friendly Programs

In addition to alternative work arrangements, many employers, including KPMG, offer programs and benefits designed to help employees meet family and home obligations while maintaining busy careers. KPMG offers each of the following benefits.[35]

Dependent Care

Caring for dependents—young children and elderly parents—is of utmost importance to some employees, but combining dependent-care responsibilities with a busy job can be particularly difficult. KPMG provides on-site child care during tax season (when employees are especially busy) and offers emergency backup dependent care all year round, either at a provider's facility or in the employee's home. To get referrals or information, employees can call KPMG's LifeWorks Resource and Referral Service.

KPMG is by no means unique in this respect: more than 7 percent of U.S. companies maintained on-site day care in 2012,[36] and 17 percent of all U.S. companies offered child-care resources or referral services.[37]

Paid Parental Leave

The United States is one of only two countries in the world that does not guarantee paid leave to new mothers (or fathers), although California, Rhode Island and New Jersey are implementing state programs, and many employers offer paid parental leave as an employee benefit.[38] Any KPMG employee (whether male or female) who becomes a parent can take two weeks of paid leave. New mothers may also get time off through short-term disability benefits.

Caring for Yourself

Like many companies, KPMG allows employees to aggregate all paid days off and use them in any way they want. In other words, instead of getting, say, ten sick days, five personal days, and fifteen vacation days, you get a total of thirty days to use for anything. If you're having personal problems, you can contact the Employee Assistance Program. If staying fit makes you happier and more productive, you can take out a discount membership at one of more than nine thousand health clubs. In fact, many employers, like North Carolina software company SAS, now have on-site fitness centers for employee use.[39]

Unmarried without Children

You've undoubtedly noticed by now that many programs for balancing work and personal lives target married people, particularly those with children. Single individuals also have trouble striking a satisfactory balance between work and non-work activities, but many single workers feel that they aren't getting equal consideration from employers.[40] They report that they're often expected to work longer hours, travel more, and take on difficult assignments to compensate for married employees with family commitments.

Needless to say, requiring singles to take on additional responsibilities can make it harder for them to balance their work and personal lives. It's harder to plan and keep personal commitments while meeting heavy work responsibilities. Frustration can lead to increased stress and job dissatisfaction. In several studies of stress in the accounting profession, unmarried workers reported higher levels of stress than any other group, including married people with children.[41]

With singles, as with married people, companies can reap substantial benefits from programs that help employees balance their work and non-work lives. PepsiCo, for example, offers a "concierge service," which maintains a dry cleaner, travel agency, convenience store, and fitness center on the premises of its national office in Somers, New York.[42] Single employees seem to find these services helpful, but what they value most of all is control over their time. In particular, they want predictable schedules that allow them to plan social and personal activities. They don't want employers assuming that being single means that they can change plans at the last minute. It's often more difficult for singles to deal with last-minute changes because, unlike married coworkers, they don't have the at-home support structure to handle such tasks as tending to elderly parents or caring for pets.

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Compensation and Benefits

Though paychecks and benefits packages aren't the only reasons why people work, they do matter. Competitive pay and benefits also help organizations attract and retain qualified employees. Companies that pay their employees more than their competitors generally have lower turnover. Consider, for example, The Container Store, which regularly appears on Fortune magazine's list of "The 100 Best Companies to Work For."[43] The retail chain staffs its stores with fewer employees than its competitors but pays them more—in some cases, three times the industry average for retail workers. This strategy allows the company to attract extremely talented workers who, moreover, aren't likely to leave the company. Low turnover is particularly valuable in the retail industry because it depends on service-oriented personnel to generate repeat business. In addition to salary and wages, compensation packages often include other financial incentives, such as bonuses and profit-sharing plans, as well as benefits, such as medical insurance, vacation time, sick leave, and retirement accounts.

Wages and Salaries

The largest, and most important, component of a compensation package is the payment of wages or salary. If you're paid according to the number of hours you work, you're earning wages. Counter personnel at McDonald's, for instance, get wages, which are determined by multiplying an employee's hourly wage rate by the number of hours worked during the pay period. On the other hand, if you're paid for fulfilling the responsibilities of a position—regardless of the number of hours required to do it— you're earning a salary. The McDonald's manager gets a salary for overseeing the operations of the restaurant. He or she is expected to work as long as it takes to get the job done, without any adjustment in compensation.

Piecework and Commissions

Sometimes it makes more sense to pay workers according to the quantity of product that they produce or sell. Byrd's Seafood, a crab-processing plant in Crisfield, Maryland, pays workers on **piecework**: workers' pay is based on the amount of crabmeat that's picked from recently cooked crabs. (A good picker can produce fifteen pounds of crabmeat an hour and earn about $100 a day.)[44] On the other hand, if you're working on **commission**, you're probably getting paid a percentage of the total dollar amount you sell. If you were a sales representative for an insurance company, like The Hartford, you'd get a certain amount of money for each automobile or homeowner policy you sold.[45]

Incentive Programs

In addition to regular paychecks, many people receive financial rewards based on performance, whether their own, their employer's, or both. Other incentive programs designed to reward employees for good performance include bonus plans and stock options.

Bonus Plans

Texas Instruments' (TI) year-end bonuses—annual income given in addition to salary—are based on individual and company-wide performance. If the company has a profitable year, and if you contributed to that success, you'll get a bonus.[46] If the company doesn't do well, you may be out of luck – regardless of your personal performance, you might not receive a bonus.

Bonus plans have become quite common, and the range of employees eligible for bonuses has widened in recent years. In the past, bonus plans were usually reserved for managers above a certain level. Today, companies have realized the value of extending plans to include employees at virtually every level. The magnitude of bonuses still favors those at the top. High-ranking officers often get bonuses ranging from 30 percent to 50 percent of their salaries. Upper-level managers may get from 15 percent to 25 percent and middle managers from 10 percent to 15 percent. At lower levels, employees may expect bonuses from 3 percent to 5 percent of their annual compensation.[47]

Pro it-Sharing Plans

Delta Airlines[48] and General Motors[49] both have profit-sharing arrangements with employees. Today, about 40% of all U.S. companies offer some type of profit-sharing program.[50]

TI's plan is also pretty generous—as long as the company has a good year. Here's how it works. An employee's profit share depends on the company's operating profit for the year. If profits from operations reach 10 percent of sales, the employee gets a bonus worth 2 percent of his or her salary. In 2011, TI's operating profit was 22 percent, and employee bonuses were 7.9 percent of salary. But if operating profits are below 10 percent, nobody gets anything.[51]

Stock-Option Plans

The TI compensation plan also gives employees the right to buy shares of company stock at a 15% discount four times a year.[52] So, if the price of the stock goes up, the employee benefits. Say, for example, that the stock was selling for $30 a share when the option was granted in 2007. The employee would be entitled to buy shares at a price of $25.50, earning them an immediate 15% gain in value. Any increase in share price would add to that gain.[53]

At TI, stock options are used as an incentive to attract and retain top people.[54] Starbucks, by contrast, isn't nearly as selective in awarding stock options. At Starbucks, all employees can earn "Bean Stock"—the Starbucks employee stock-option plan. Both full- and part-time employees get Starbucks shares based on their earnings and their time with the company. If the company does well and its stock goes up, employees make a profit. CEO Howard Schultz believes that Bean Stock pays off because employees are rewarded when the company does well, they have a stronger incentive to add value to the company (and so drive up its stock price). Starbucks has a video explaining their employee stock option program on this webpage.[55]

Benefits

Another major component of an employee's compensation package is benefits— compensation other than salaries, hourly wages, or financial incentives. Types of benefits include the following:

- Legally required benefits (Social Security and Medicare, unemployment insurance, workers' compensation)
- Paid time off (vacations, holidays, sick leave)
- Insurance (health benefits, life insurance, disability insurance)
- Retirement benefits

The cost of providing benefits is staggering. According to the U.S. Bureau of Labor Statistics, it costs an average employer about 30 percent of a worker's salary to provide the same worker with benefits. If you include pay for time not worked (while on vacation or sick and so on), the percentage increases to 37 percent. The most money goes for paid time off (6.9% of salary costs), health care (8.1%), and retirement benefits (3.8%).[56]

Some workers receive only the benefits required by law while part-timers often receive no benefits at all.[57] Again, Starbucks is generous in offering benefits. The company provides benefits even to the part-timers who make up two-thirds of the company's workforce; anyone working at least twenty hours a week is eligible to participate in group medical coverage.[58]

Performance Appraisal

Employees generally want their managers to tell them three things: what they should be doing, how well they're doing it, and how they can improve their performance. Good managers address these issues on an ongoing basis. On a semiannual or annual basis, they also conduct formal performance appraisals to discuss and evaluate employees' work performance.

The Basic Three-Step Process

Appraisal systems vary both by organization and by the level of the employee being evaluated, but as you can see in Figure 12.8, it's generally a three-step process:

1. Before managers can measure performance, they must set goals and performance expectations and specify the criteria (such as quality of work, quantity of work, dependability, initiative) that they'll use to measure performance.
2. At the end of a specified time period, managers complete written evaluations that rate employee performance according to the predetermined criteria.
3. Managers then meet with each employee to discuss the evaluation. Jointly, they suggest ways in which the employee can improve performance, which might include further training and development.

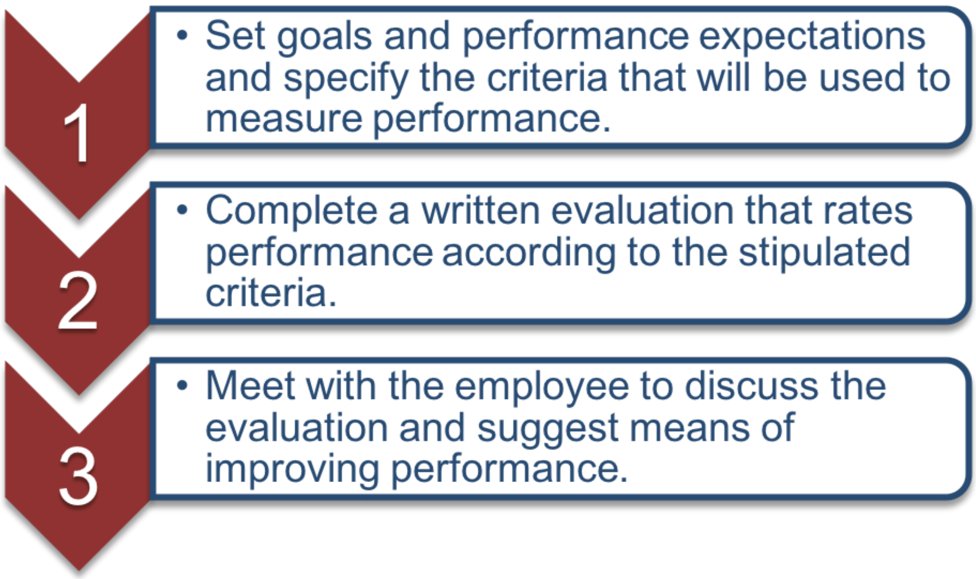

Figure 12.8: The three steps in the performance appraisal process

It sounds fairly simple, but why do so many managers report that, except for firing people, giving performance appraisals is their least favorite task?[59] To get some perspective on this question, we'll look at performance appraisals from both sides, explaining the benefits and identifying potential problems with some of the most common practices.

Among other benefits, formal appraisals provide the following:

- An opportunity for managers and employees to discuss an employee's performance and to set future goals and performance expectations
- A chance to identify and discuss appropriate training and career-development opportunities for an employee
- Formal documentation of the evaluation that can be used for salary, promotion, demotion, or dismissal purposes[60]

As for disadvantages, most stem from the fact that appraisals are often used to determine salaries for the upcoming year. Consequently, meetings to discuss performance tend to take on an entirely different dimension: the manager may appear judgmental (rather than supportive), and the employee may get defensive. This adversarial atmosphere can make many managers not only uncomfortable with the task but also less likely to give honest feedback. (They may give higher marks in order to avoid delving into critical evaluations.) HR professionals disagree about whether performance appraisals should be linked to pay increases. Some experts argue that the connection eliminates the manager's opportunity to use the appraisal to improve an employee's performance. Others maintain that it increases employee satisfaction with the process and distributes raises on the basis of effort and results.[61]

360-Degree and Upward Feedback

Instead of being evaluated by one person, how would you like to be evaluated by several people—not only those above you in the organization but those below and beside you? The approach is called 360-degree feedback, and the purpose is to ensure that employees (mostly managers) get feedback from all directions—from supervisors, reporting subordinates, coworkers, and even customers. If it's conducted correctly, this technique furnishes managers with a range of insights into their performance in a number of roles.

Some experts, however, regard the 360-degree approach as too cumbersome. An alternative technique, called upward feedback, requires only the manager's subordinates to provide feedback. Computer maker Dell uses this approach as part of its manager-development plan. Every year, forty thousand Dell employees complete a survey in which they rate their supervisors on a number of dimensions, such as practicing ethical business principles and providing support in balancing work and personal life. Dell uses survey results for development purposes only, not as direct input into decisions on pay increases or promotions.[62]

Retaining Valuable Employees

When a valued employee quits, the loss to the employer can be serious. Not only will the firm incur substantial costs to recruit and train a replacement, but it also may suffer temporary declines in productivity and lower morale among remaining employees who have to take on heavier workloads. Given the negative impact of turnover—the permanent separation of an employee from a company—most organizations do whatever they can to retain qualified employees. Compensation plays a key role in this effort: companies that don't offer competitive compensation packages tend to lose employees. Other factors also come into play, such as training and development, as well as helping employees achieve a satisfying work/non-work balance. In the following sections, we'll look at a few other strategies for reducing turnover and increasing productivity.[63]

Creating a Positive Work Environment

Employees who are happy at work are more productive, provide better customer service, and are more likely to stay with the company. A study conducted by Sears, for instance, found a positive relationship between customer satisfaction and employee attitudes on ten different issues: a 5 percent improvement in employee attitudes results in a 1.3 percent increase in customer satisfaction and a 0.5 percent increase in revenue.[64]

The Employee-Friendly Workplace

What sort of things improve employee attitudes? The 12,000 employees of software maker SAS Institute fall into the category of "happy workers." They choose the furniture and equipment in their offices, eat subsidized meals at one of three on-site restaurants, and enjoy other amenities like a 77,000 square-foot fitness center. They also have job security: no one's ever been laid off because of an economic downturn. The employee-friendly work environment helps SAS employees focus on their jobs and contribute to the attainment of company goals.[65] Not surprisingly, it also results in very low 3 percent turnover.

Recognizing Employee Contributions

Thanking people for work done well is a powerful motivator. People who feel appreciated are more likely to stay with a company than those who don't.[66] While a personal thank-you is always helpful, many companies also have formal programs for identifying and rewarding good performers. The Container Store rewards employee accomplishments in a variety of ways. For example, employees with 20 years of service are given a "dream trip"—one employee went on a seven day Hawaiian cruise.[67] The company is known for its supportive environment and in 2016 celebrated its seventeenth year on *Fortune*'s 100 Best Companies to Work For®.[68]

Involving Employees in Decision Making

Companies have found that involving employees in decisions saves money, makes workers feel better about their jobs, and reduces turnover. Some have found that it pays to take their advice. When General Motors asked workers for ideas on improving manufacturing operations, management was deluged with more than forty-four thousand suggestions during one quarter. Implementing a few of them cut production time on certain vehicles by 15 percent and resulted in sizable savings.[69]

Similarly, in 2001, Edward Jones, a personal investment company, faced a difficult situation during the stock-market downturn. Costs had to be cut, and laying off employees was one option. Instead, however, the company turned to its workforce for solutions. As a group, employees identified cost savings of more than $38 million. At the same time, the company convinced experienced employees to stay with it by assuring them that they'd have a role in managing it.[70]

Why People Quit

As important as such initiatives can be, one bad boss can spoil everything. The way a person is treated by his or her boss may be the primary factor in determining whether an employee stays or goes. People who have quit their jobs cite the following behavior by superiors:

- Making unreasonable work demands
- Refusing to value their opinions
- Failing to be clear about what's expected of subordinates
- Showing favoritism in compensation, rewards, or promotions[71]

Holding managers accountable for excessive turnover can help alleviate the "bad-boss" problem, at least in the long run. In any case, whenever an employee quits, it's a good idea for someone—other than the individual's immediate supervisor—to conduct an exit interview to find out why. Knowing why people are quitting gives an organization the opportunity to correct problems that are causing high turnover rates.

Involuntary Termination

Before we leave this section, we should say a word or two about termination—getting fired. Though turnover—voluntary separations—can create problems for employers, they're not nearly as devastating as the effects of involuntary termination on employees. Losing your job is what psychologists call a "significant life change," and it's high on the list of "stressful life events" regardless of the circumstances. Sometimes, employers lay off workers because revenues are down and they must resort to downsizing—to cutting costs by eliminating jobs. Sometimes a particular job is being phased out, and sometimes an employee has simply failed to meet performance requirements.

Employment at Will

Is it possible for you to get fired even if you're doing a good job and there's no economic justification for your being laid off? In some cases, yes—especially if you're not working under a contract. Without a formal contract, you're considered to be employed at will, which means that both you and your employer have the right to terminate the employment relationship at any time. You can quit whenever you want, but your employer can also fire you whenever they want.

Fortunately for employees, over the past several decades, the courts have made several decisions that created exceptions to the employment-at-will doctrine.[72] Since managers generally prefer to avoid the expense of fighting wrongful discharge claims in court, many no longer fire employees at will. A good practice in managing terminations is to maintain written documentation so that employers can demonstrate just cause when terminating an employee. If it's a case of poor performance, the employee would be warned in advance that his or her current level of performance could result in termination and then be permitted an opportunity to improve performance. When termination is necessary, communication should be handled in a private conversation, with the manager explaining precisely why the action is being taken.

To check your understanding in an online quiz, visit the eBook at: https://otn.pressbooks.pub/fundamentalsofbusiness/?p=149

Key Takeaways

1. The process of **human resource management** consists of actions that an organization takes to attract, develop, and retain quality employees.
2. Human resource managers engage in **strategic human resource planning**—the process of developing a plan for satisfying the organization's human resource needs
3. The HR manager forecasts future hiring needs and begins the **recruiting** process to fill those needs.
4. In recruiting and hiring, managers must comply with antidiscrimination laws enforced by the **Equal Employment Opportunity Commission** (EEOC). They cannot treat people unfairly on the basis of a characteristic unrelated to ability, such as race, color, religion, sex, national origin, age, or disability.
5. HR managers also oversee employee training, from the first **orientation** to continuing **on**– or **off-the-job training**.
6. Attracting a **diverse workforce** goes beyond legal compliance and ethical commitments, because a diverse group of employees can offer perspectives that may be valuable in generating ideas, solving problems, and connecting with an ethnically diverse customer base.
7. Employees are motivated to perform well when they're challenged, respected, treated fairly, and appreciated.
8. Some other factors that contribute to employee satisfaction include **job redesign** to make jobs more interesting and challenging, **job rotation,** which allows employees to rotate from one job to another, **job enlargement,** which enhances a job by adding tasks at similar skill levels, and **job enrichment,** which adds tasks that increase both responsibility and opportunity for growth.
9. Many organizations recognize the need to help employees strike a balance between their work and home lives and offer a variety of work arrangements to accommodate different employee

needs, such as **flextime** (flexible scheduling), **job sharing** (when two people share a job), and **telecommuting** (working from outside the office).

10. Compensation includes pay and benefits. Workers who are paid by the hour earn **wages**, while those who are paid to fulfill the responsibilities of the job earn **salaries**. Some people receive **commissions** based on sales or are paid for output, based on a **piecework** approach.
11. In addition employees can may receive year-end **bonuses**, participate in **profit-sharing plans**, or receive **stock options**.
12. Managers conduct **performance appraisals** to evaluate work performance.
13. **Turnover** is the permanent separation of an employee from a company and may happen if an employee is unsatisfied with their job, or because the organization is not satisfied with the employee. Sometimes, firms lay off workers, or **downsize**, to cut costs.

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