

HUMAN RESOURCE MANAGEMENT

*Gaining a Competitive
Advantage*

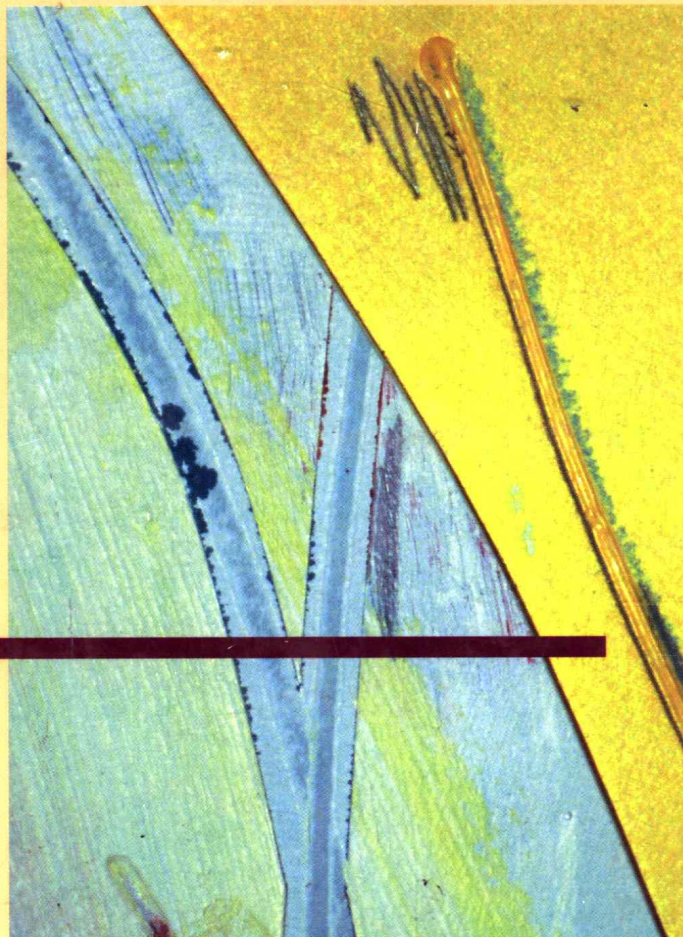
SECOND EDITION

Noe

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*H*UMAN RESOURCE MANAGEMENT

Gaining a Competitive Advantage



SECOND EDITION

To my parents, Raymond and Mildred,
my wife, Ann, and my two sons, Ray and Tim
—R. A. N.

To my children, Jennifer, Marie,
Timothy, and Jeffrey
—J. R. H.

To my parents, Robert and Shirley, my wife, Heather,
and my children, Chris and Annie
—B. G.

To my parents, Patricia and Paul, my wife,
Mary, and my son, Michael
—P. M. W.



PREFACE

To grow and thrive in today's competitive environment, organizations must deal with several major challenges. First, they must provide "value." Traditionally, the concept of value has been considered a function of finance or accounting. However, we believe that how human resources are managed is crucial to the long-term value of a company and ultimately to its survival. Our definition of *value* includes not only profits but employee growth and satisfaction, additional employment opportunities, protection of the environment, and contributions to community programs.

Since the publication of the first edition of *Human Resource Management: Gaining a Competitive Advantage*, value has become even more critical. Organizations' resources are stretched tighter than ever, and allocating those resources wisely is imperative. For that reason, all functions in an organization must work together to contribute wherever they can; and all functions, particularly human resources, are increasingly being scrutinized for the value they add.

We believe that all aspects of human resource management—including how companies interact with the environment; acquire, develop, and compensate human resources; and design and measure work—can help companies meet their competitive challenges and create value. Meeting challenges is necessary to create value and to gain a competitive advantage.

■ THE COMPETITIVE CHALLENGES

The challenges organizations face today can be grouped into four categories:

- **The global challenge.** Increasingly, organizations are finding that to survive they must compete with organizations around the world. Companies must both defend their domestic markets from foreign competitors and broaden their scope to encompass global markets. Recent threats to and successes of U.S. businesses have proven that globalization is a continuing challenge.
- **The quality challenge.** Key to success in today's world is providing customers with high-quality products and services. Companies that cannot give customers quality at a reasonable cost risk losing out to competitors.

- **The social challenge.** The two components of the social challenge are utilizing a diverse work force and operating in an ethical and legal manner. As we approach the twenty-first century, the U.S. work force is becoming increasingly diverse. Women and minorities are entering the work force in record numbers. Forward-looking businesses are coming to terms with this fact and capitalizing on the strengths of diversity. Ethics and legal issues are also receiving greater attention in today's business environment. More and more, businesses are realizing the benefits of behaving ethically and responsibly.
- **The high-performance work systems challenge.** Using new technologies such as computer-aided manufacturing, virtual reality, expert systems, and the Internet can provide companies with an edge. New technologies can result in employees' working in smarter ways as well as providing higher-quality products and services to customers. However, companies that have seen the greatest gains from new technology have human resource practices that support the use of technology. The design of work, training programs, and reward systems often need to be reconfigured to support employees' use of new technology. Thus, the three links of high-performance work systems are (1) human resources and their capabilities, (2) new technology and its opportunities, and (3) efficient work structures and policies that allow employees and technology to interact. The strength of each of these links determines an organization's competitiveness.

We believe that organizations must successfully deal with these challenges to create and maintain value, and the key to facing these challenges is a motivated, well-trained, and committed work force.

■ THE CHANGING ROLE OF THE HUMAN RESOURCE FUNCTION

The human resource (HR) profession and practices have undergone substantial change and redefinition. Many articles written in both the academic and practitioner literature have been critical of the traditional HR function. A January 15, 1996, *Fortune* article suggested that many HR departments should be abolished (the actual phrase used was, "Why not blow the sucker up?"). The reasoning behind the suggestion was that in too many organizations HR services are not providing value but instead are mired down in managing trivial administrative tasks. Where this is true, HR departments can be replaced with new technology or outsourced to a vendor who can provide higher-quality services at a lower cost. While this recommendation is indeed somewhat extreme (and threatening to both HR practitioners and those who teach human resource management!), it does demonstrate that companies need to ensure that their HR functions are creating value for the firm.

Technology should be used where appropriate to automate routine activities, and managers should concentrate on HR activities that can add substantial value to the company. Consider employee benefits: Technology is available to automate the process by which employees enroll in benefits programs and to keep detailed records of benefits usage. This use of technology frees up time for the manager to focus on activities that can create value for the firm (e.g., how to control health care costs and reduce workers' compensation claims).

Although the importance of some HR departments is being debated, everyone agrees on the need to successfully manage human resources for a company to maximize its competitiveness. Three themes emerge from our conversations with managers and our review of research on HR practices. First, in today's flatter organizations, managers

themselves are becoming more responsible for HR practices. Second, most managers believe that their HR departments are not well respected because of a perceived lack of competence, business sense, and contact with operations. Third, many managers believe that for HR practices to be effective they need to be related to the strategic direction of the business. This text emphasizes how HR practices can and should contribute to business goals and help to improve product and service quality and effectiveness.

Our intent is to provide students with the background to be successful HR professionals, to manage human resources effectively, and to be knowledgeable consumers of HR products. Managers must be able to identify effective HR practices to purchase these services from a consultant, to work with the HR department, or to design and implement them personally. The text emphasizes how a manager can more effectively manage human resources and highlights important issues in current HR practice.

We think this book represents a new and valuable approach to teaching human resource management for several reasons:

- The text draws from the diverse research, teaching, and consulting experiences of four authors. They have taught human resource management to undergraduates, traditional day M.B.A. students as a required and elective course, and more experienced managers and professional employees in weekend and evening M.B.A. programs. The teamwork approach gives a depth and breadth to the coverage that is not found in other texts.
- Human resource management is viewed as critical to the success of a business. The text emphasizes how the HR function, as well as the management of human resources, can help companies gain a competitive advantage.
- The book discusses current issues such as work-force diversity, organizational flexibility, the quality movement, work teams, and technology, all of which have a major impact on business and HR practice.
- Chapters related to global human resource management and strategic human resource management are introduced early in the book, and these issues are integrated throughout the text. These are key topics in human resource management today.
- A complete chapter is provided on technology and human resource effectiveness. This chapter looks at effectiveness from three perspectives. First, we discuss how the effectiveness of HR practices can be determined. Second, we discuss how benchmarking, process reengineering, and change models can be used to ensure that HR practices and new technologies are accepted and implemented effectively. Third, the chapter discusses how new technologies (such as imaging, expert systems, and the Internet) are being used to improve the efficiency and effectiveness of HR practices.

■ CHANGES IN THE SECOND EDITION

In the swiftly changing business environment, currency is vital. Several important changes in the second edition of *Human Resource Management: Gaining a Competitive Advantage* maintain the text's competitive edge:

- Each chapter has been thoroughly updated to reflect the most recent academic research findings and new best company practices. New examples have been added throughout the text in each chapter.
- New chapter-opening vignettes are provided. Many of the companies illustrated have been recognized for their strong HR practices. For example, Mirage Resorts, whose HR practices are described in the opening for Chapter 1, was recently ranked sixth in *Fortune* magazine's 1996 annual survey of corporate reputa-

tions. Many companies illustrated have also had to deal with difficult human resource management issues. For example, the opening vignette of Chapter 8, “Work Attitudes and Job Withdrawal,” describes how both IBM and AT&T have had to cope with downsizing in a way that remaining employees (the survivors) are motivated to provide high-quality services or products to the customer.

- All boxed features have been replaced for the second edition to provide the most current real-world examples possible.
- A new box titled “Competing through High-Performance Work Systems” replaces the first edition’s “Competing through Technology” box. This new box better reflects the continuous challenge that companies face of how to integrate people and technology to more quickly adapt to customer needs. The challenge that companies face is how to make sure that HR practices and technology mesh to maximize productivity. For example, companies need to ensure that they reward individual competence and flexibility as well as motivate teams and departments to cooperate.
- All end-of-chapter cases have been replaced or revised. The new cases provide more detailed information about the situation presented, including the company and/or the incident portrayed. The questions require the student to critically evaluate the situation or problem and apply chapter content to resolve the case. Also, we provide World Wide Web Home Page addresses for the companies discussed in the cases so that students and instructors can obtain additional information about the companies’ history, products and services, finances, and latest news releases.
- The discussion of HR effectiveness is new to this edition. We have changed the emphasis from understanding the details of human resource information systems to broader coverage of technologies that are being used to improve the effectiveness of HR practices. In Chapter 19, “Increasing the Effectiveness of HR Practices through Technology,” we first discuss how the effectiveness of the HR function can be evaluated. We discuss the use of benchmarking, process reengineering, and a change model to ensure that new HR programs and technology are appropriate and effective. In the second part of the chapter, we discuss how new technologies are being used to improve the effectiveness of HR practices. Computer imaging, expert systems, the Internet, networks, groupware, and various software applications are presented.
- Chapter 9, “Human Resource Planning,” includes expanded coverage of organizational downsizing, use of contingent employees, and outsourcing. The implications of these issues for competitiveness and HR practices are discussed throughout the text. Also, Internet and World Wide Web sites related to HR practices are identified.
- The videos and video cases have been updated to reflect current company information and competitiveness.
- Internet and World Wide Web addresses related to selection, training, recruiting, legal issues, quality, compensation, and labor force issues are provided. These addresses give students and instructors access to the latest developments in human resource management and the ability to talk to experts in a particular HR practice area.

■ ORGANIZATION

Human Resource Management: Gaining a Competitive Advantage includes an introductory chapter (Chapter 1) and six parts.

Chapter 1 provides a detailed discussion of the global, quality, social, and work system challenges that influence companies' abilities to successfully meet the needs of shareholders, customers, employees, and other stakeholders. We discuss how the management of human resources can help companies meet the competitive challenges.

Part I includes a discussion of the environmental forces that companies face in attempting to capitalize on their human resources as a means to gain competitive advantage. The environmental forces include the strategic direction of the business, global issues in the management of human resources, the legal environment, and employee relations.

A key focus of the strategic human resource management chapter is highlighting the role that staffing, performance management, training and development, and compensation play in different types of business strategies. Social and political changes, such as the formation of the European Union and the North American Free Trade Agreement, are discussed in the chapter on global human resource management. Issues related to how to select, prepare, and reward employees for foreign assignments, given the country's cultural, educational, political, and economic environment, are also discussed. A key focus of the legal chapter is enhancing managers' understanding of laws related to sexual harassment, affirmative action, and accommodations for disabled employees. The various types of discrimination and ways they have been interpreted by the courts are discussed. The chapter on employee relations emphasizes how practices and policies related to employee safety, health, job security, and working conditions can improve company competitiveness by alleviating health care costs and job stress, which can result from an unfair and unsafe work environment.

Part II deals with work design, employee performance, and work attitudes. Here we explore how work can be designed to improve productivity and efficiency, employee safety, and job satisfaction. The performance management chapter examines the strengths and weaknesses of performance management methods that use ratings, objectives, or behaviors. The influence of total quality management on performance management systems is also examined. The chapter on work attitudes identifies work attitudes (e.g., job satisfaction) that can influence company productivity and competitiveness. Interventions that can help managers maximize employee productivity and satisfaction to avoid withdrawal behaviors such as absenteeism are discussed.

Part III explores how companies can determine their human resource needs and recruit and select employees who will contribute to company productivity. The recruitment chapter illustrates the process by which individuals choose jobs and the role of the manager in shaping job choices. The chapter emphasizes the actions that employers can take during the recruitment process to ensure that job candidates make choices that further the company's goals as well as their own. The human resource planning chapter illustrates the process of developing a human resource plan. Also, the strengths and weaknesses of staffing options such as outsourcing, use of contingent workers, and downsizing are discussed. The selection chapter emphasizes ways to minimize errors in employee selection and placement to improve the company's competitive position. Selection method standards such as validity and reliability are discussed in easily understandable terms without compromising the technical complexity of these issues. The chapter discusses selection methods such as interviews and various types of tests (including personality, honesty, and drug tests) and compares them on measures of validity, reliability, utility, and legality.

Part IV focuses on the development of human resources: training, employee development, and career management are each discussed in separate chapters. We discuss the components of effective training systems and the manager's role in deter-

mining employees' readiness for training, creating a positive learning environment, and ensuring training is used on the job. The advantages and disadvantages of different training methods are described, such as virtual reality and distance learning. These new training methods have emerged as technology has developed.

Current issues in employee development, including managing work-force diversity, managing work teams, and cross-cultural preparation, are emphasized. The use of assessment, job experiences, formal courses, and mentoring relationships to develop employees is discussed. The career management chapter begins with a discussion of the development needs of employees at different career stages. Several issues related to the competitive challenges are discussed, including work and family conflict, plateauing, career planning, and effective outplacement and management of survivors.

Part V covers rewarding and compensating human resources, including designing pay structures, recognizing individual contributions, and providing benefits. Here we explore how managers should decide the pay rate for different jobs, given the company's compensation strategy and the worth of jobs. The advantages and disadvantages of merit pay, gainsharing, and skill-based pay are discussed. The benefits chapter highlights the different types of employer-provided benefits and discusses how benefit costs can be contained. International comparisons of compensation and benefit practices are provided.

Part VI covers special topics in human resource management, including labor-management relations, technology, and evaluation and improvement of the effectiveness of human resource practices. The collective bargaining and labor relations chapter focuses on traditional issues in labor management relations, such as union structure and membership, the organizing process, and contract negotiations; it also discusses new union agendas and less adversarial approaches to labor-management relations. The chapter on technology and effectiveness of HR practices focuses on how to evaluate and develop effective HR practices, then discusses new technologies that can help managers more effectively and efficiently manage human resources and allow employees to work in smarter ways. The chapter provides the student with an overview of new technologies, such as the Internet, expert systems, networks, imaging, CD-ROM and laser disk, groupware, and other software applications. It then explores how they can be used to more effectively manage human resources. The chapter also provides a change model that managers should use to increase the likelihood that customers (employees, upper-level managers) will accept and use new HR practices and technology.

Video cases at the end of each part integrate the concepts presented. These cases are intended to give students practice in real-life situations by allowing them to consider a variety of human resource issues simultaneously.

■ FEATURES DESIGNED TO AID LEARNING

Human Resource Management provides several features designed to aid learning:

- Learning objectives at the beginning of each chapter inform students about what they should know about managing human resources when they read the chapter.
- A chapter-opening vignette presents a real business problem or issue that provides background for the issues discussed in the chapter.
- “Competing through Globalization,” “Competing through Quality,” “Competing through Social Responsibility,” and “Competing through High-Performance Work Systems” boxes in the chapters highlight how companies have gained a

competitive advantage through effective human resource management practices designed to meet global, quality, social, and work system challenges. The examples are drawn from a wide spectrum of businesses in different sectors of the economy, such as manufacturing, health care, service, and sales.

For example, in Chapter 3, the “Competing through Globalization” box focuses on the difficulty that European, Asian, and U.S. companies face in trying to enter the Indian market. The steps to understanding Indian culture that TCBY (“The Country’s Best Yogurt”) has taken to ease the company’s entry into the Indian market illustrate how business must be attuned to cultural differences.

In Chapter 7 the “Competing through High-Performance Work Systems” box shows how, through the installation of high-tech inventory and sales systems, Pier 1 Imports was able (and willing) to give store managers and salespeople access to “real time” sales information, performance information for the current day, and comparisons with the previous day and month. Sharing this type of information with managers and sales associates helps create more ownership of store performance and motivates the staff to pay closer attention to each customer’s needs.

The “Competing through Social Responsibility” box in Chapter 11 describes how the Chicago Marriott has reached out to put mentally and physically disabled individuals to work. This expansion of the traditional labor pool has provided employment opportunities for disabled persons and helped managers develop listening, training, and communication skills that can enhance customer service.

In Chapter 12, the “Competing through Quality” box discusses how Nalco Chemical’s training strategy contributed to the company’s quality strategy. Managers, not training specialists, played a key role in providing the work force with training in quality skills.

- Important terms used in human resource management are boldfaced in each chapter.
- In-text examples feature companies from the service, retail, and manufacturing sectors of the economy.
- Discussion questions at the end of each chapter help students learn the concepts presented in the chapter and understand potential applications of the chapter material.
- End-of-chapter cases present business problems related to the management of human resources. The cases give students the opportunity to immediately apply what they have learned in the chapter.
- End-of-part video cases provide examples of companies that have used human resource management practices to gain a competitive advantage. The 12- to 15-minute videos contain conversations with managers and employees and footage of the operations of the business. The video cases and accompanying questions challenge students to view human resource issues and problems from multiple perspectives. References to World Wide Web sites help students and instructors find additional company information for classroom use.
- An end-of-book glossary defines key terms used in human resource management.
- Name and subject indexes at the end of the book aid in finding topics and key people and companies.
- State-of-the-art use of design and color make the book more readable for students and enhance learning.

■ READINGS BOOK

Readings in Human Resource Management, second edition, a companion publication to *Human Resource Management*, provides up to three current articles for each of the

chapters covered in this text. These articles discuss important techniques, trends, issues, and research findings related to the management of human resources. The articles are appropriate for undergraduate and graduate students in human resource management courses in masters of business administration, industrial relations, and human resource management curricula.

■ INSTRUCTOR MATERIALS

- **Instructor's Manual, Video Guide, and Transparency Masters.** Authored by Denise Tanguay Hoyer and Fraya Wagner-Marsh of Eastern Michigan University, the *Instructor's Manual* contains a lecture outline and notes, answers to the discussion questions, additional discussion questions and exercises, teaching suggestions, term paper and project topics, answers to the end-of-chapter cases, and video case notes and answers. Transparency masters are included at the back of the *Instructor's Manual*. Color acetates are provided in a separate package to complement the *Instructor's Manual*. Some contain completely new material; some are drawn from key figures and tables in the text.
- **Test Bank.** Authored by Nicholas Mathys of DePaul University, the *Test Bank* contains 25 true/false, 50 multiple-choice, and 10 essay questions per chapter, for a total of more than 1,600 questions. Questions are graded by level of difficulty, and text page references where answers can be found are provided.
- **Computerized Testing Program.** Available through Richard D. Irwin, this test generator allows instructors to add and edit questions, create up to 99 different versions of the test, and more.
- **Videos.** The end-of-part videos can be used to generate in-class discussion and draw students' interest. A wide variety of company settings gives the videos broad appeal. All video cases have been updated or completely revised to reflect the most current company information.
- **PowerPoint.** New to this edition are PowerPoint presentation slides authored by Nicholas Mathys of DePaul University. The software contains tables and figures from the text, plus additional graphic material. A self-contained viewer is packaged with each disk so that those who do not have the PowerPoint software can easily view the presentation.

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John R. Hollenbeck is Professor of Management at the Eli Broad Graduate School of Business Administration at Michigan State University. He received his PhD in management and organizational behavior from New York University in 1984. Professor Hollenbeck is the incoming editor of *Personnel Psychology* and also serves on the editorial boards of *Organizational Behavior and Human Decision Processes*, the *Journal of Management*, and the *Journal of Applied Psychology*. Professor Hollenbeck has been recognized for both his research and teaching. He was the first recipient of the Ernest J. McCormick Award for Distinguished Early Career Contributions to the field of Industrial and Organizational Psychology in 1992 and was the 1987 Teacher-Scholar Award winner at Michigan State University. Dr. Hollenbeck's research focuses on self-regulation theories of work motivation, employee separation and acquisition processes, and team decision making and performance.

Barry Gerhart is the Frances Hampton Currey Professor of Organization Studies at the Owen School of Management, Vanderbilt University. He was previously Associate Professor and Chairman of the Department of Human Resource Studies, School of Industrial and Labor Relations at Cornell University. He received his BS in psychology from Bowling Green State University in 1979 and his PhD in industrial relations from the University of Wisconsin–Madison in 1985. His research is in the areas of compensation/rewards, staffing, and employee attitudes. Professor Gerhart has worked with a variety of organizations, including TRW, Corning, and Bausch & Lomb. His work has appeared in the *Academy of Management Journal*, *Industrial Relations*, *Industrial and Labor Relations Review*, *Journal of Applied Psychology*, *Personnel Psychology*, and *Handbook of Industrial and Organizational Psychology*, and he has served on the editorial boards of the *Academy of Management Journal*, *Industrial and Labor Relations Review*, and the *Journal of Applied Psychology*. He was a corecipient of the 1991 Scholarly Achievement Award, Human Resources Division, Academy of Management.

Patrick M. Wright is Associate Professor in the School of Industrial and Labor Relations at Cornell University. He was formerly Associate Professor of Management and Coordinator of the Master of Science in Human Resource Management program in the College of Business Administration and Graduate School of Business at Texas A & M University. He holds a BA in psychology from Wheaton College and an MBA and a PhD in organizational behavior/human resource management from Michigan State University. He teaches, conducts research, and consults in the areas of personnel selection, employee motivation, and strategic human resource management. His research articles have appeared in journals such as the *Academy of Management Journal*, *Journal of Applied Psychology*, *Organizational Behavior and Human Decision Processes*, *Journal of Management*, and *Human Resource Management Review*. He has served on the editorial boards of *Journal of Applied Psychology* and *Journal of Management* and also serves as an ad hoc reviewer for *Organizational Behavior and Human Decision Processes*, *Academy of Management Journal*, and *Academy of Management Review*. In addition, he has consulted for a number of organizations, including Whirlpool Corporation, Amoco Oil Company, and the North Carolina State Government.