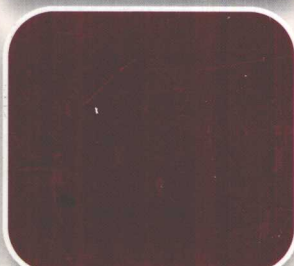
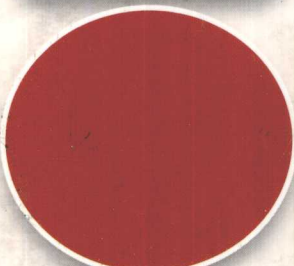
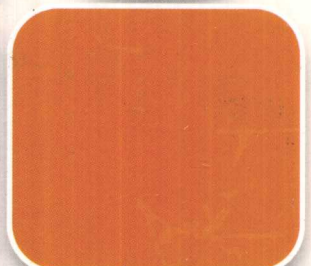
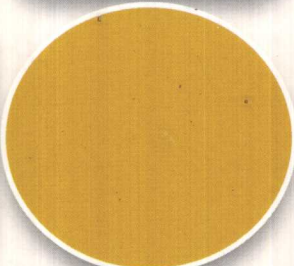
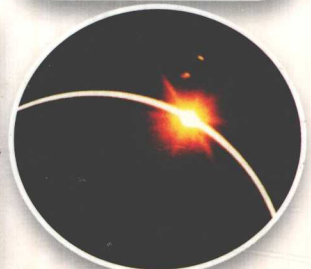
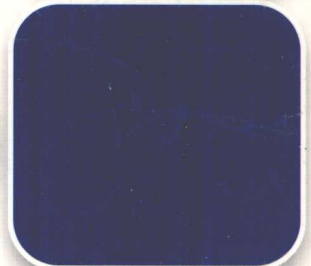
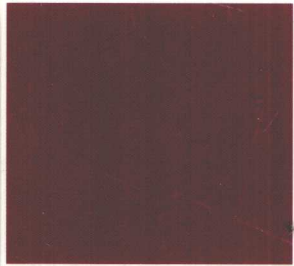


# Human Resource Management

GAINING A  
COMPETITIVE  
ADVANTAGE

FOURTH EDITION



NOE  
HOLLENBECK  
GERHART  
WRIGHT



# Human Resource Management

GAINING A  
COMPETITIVE  
ADVANTAGE

Fourth Edition

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## HUMAN RESOURCE MANAGEMENT: GAINING A COMPETITIVE ADVANTAGE

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To my parents,  
Raymond and Mildred,  
and my children, Ray,  
Tim, and Melissa  
—R. A. N.

To my parents, Harold  
and Elizabeth, my wife,  
Patty, and my children,  
Jennifer, Marie,  
Timothy, and Jeffrey  
—J. R. H.

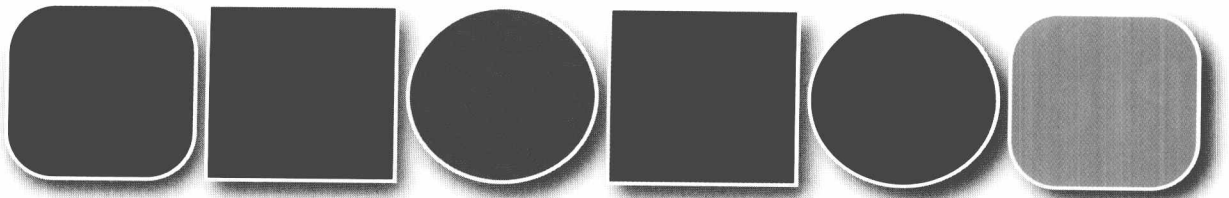
To my parents, Robert  
and Shirley, my wife,  
Heather, and my  
children, Chris and  
Annie  
—B. G.

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

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# Preface

The excitement of e-business, a new president, the fall of the dot-coms, an economy in recession, the tragic events of September 11, 2001, America's war on terrorism—many historical episodes have occurred since the third edition of *Human Resource Management: Gaining a Competitive Advantage*. As a result of these events, many of us have examined our personal and professional priorities and perhaps spent more time in quiet reflection to give thanks for what we have or to consider the value of freedom and democracy. Security, whether in the context of personal safety or employment, has taken on greater meaning.

The events that have occurred also have forced most companies to reexamine their business priorities and place more emphasis on providing value to customers, shareholders, and employees. 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 also employee growth and satisfaction, additional employment opportunities, protection of the environment, and contributions to community programs. 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 whatever they can; and all functions, particularly human resource management, 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, prepare, 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 new economy challenge.** Changes in the economy, including the development of e-business and growth in professional and services jobs, have made it increasingly important for companies to find and keep talented employees. Companies in today's economy use mergers and acquisitions, growth, and downsizing to successfully compete. While companies rely on employees with high math, verbal, and information skills (that is, knowledge workers) to be productive, innovative, and creative, work is demanding, and companies cannot guarantee job security, especially in an economic recession. The human resource management challenge is how to build a committed, productive workforce in turbulent economic conditions that offer opportunity for financial success but can also quickly turn sour, making every employee expendable. To successfully compete in the new economy, compa-

nies are providing more flexible work schedules, training and development opportunities, and incentive-based compensation plans. Companies are also using electronic HRM applications to give employees more ownership of the employment relationship through the ability to enroll in and participate in training programs, change benefits, and communicate with coworkers and customers online.

- **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 challenge of meeting stakeholders' needs.** The key to success in today's business environment is to simultaneously meet investor or financial needs and those of other stakeholders including customers, employees, and the community. Companies are challenged to reach financial objectives through meeting customer needs and employee needs. Innovation, cost reduction, and quality objectives that relate directly to the financial success or failure of the firm are influenced by human resource management practices. Forward-looking businesses are capitalizing on the strengths of a diverse workforce. Businesses are realizing the advantages they have in attracting, retaining, and motivating employees through ethical and responsible actions. Successful companies have human resource management practices that motivate and reward employees to provide high-quality products and services.
- **The high-performance work systems challenge.** Using new technologies such as computer-aided manufacturing, virtual reality, expert systems, and the Internet can give companies an edge. New technologies can result in employees' "working smarter" 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 management practices that support the use of technology. 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 workforce.

## The Changing Role of the Human Resource Management Function

The human resource management (HRM) 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 HRM function. Unfortunately, in many organizations HRM services are not providing value but instead are mired down in managing trivial administrative tasks. Where this is true, HRM departments can be replaced with new technology or outsourced to a vendor who can provide higher-quality services at a lower cost. Although this recommendation is indeed somewhat extreme (and threatening to both HRM practitioners and those who



teach human resource management!), it does demonstrate that companies need to ensure that their HRM functions are creating value for the firm.

Technology should be used where appropriate to automate routine activities, and managers should concentrate on HRM 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 (such as how to control health care costs and reduce workers' compensation claims).

Although the importance of some HRM 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 HRM practices. First, in today's flatter organizations, managers themselves are becoming more responsible for HRM practices. Second, most managers believe that their HRM departments are not well respected because of a perceived lack of competence, business sense, and contact with operations. Third, many managers believe that for HRM practices to be effective they need to be related to the strategic direction of the business. This text emphasizes how HRM 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 HRM professionals, to manage human resources effectively, and to be knowledgeable consumers of HRM products. Managers must be able to identify effective HRM practices to purchase these services from a consultant, to work with the HRM 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 HRM practice.

We think this book represents a 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 MBA students as a required and elective course, and more experienced managers and professional employees in weekend and evening MBA 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 HRM function, as well as the management of human resources, can help companies gain a competitive advantage.
- The book discusses current issues such as e-HRM, finding and keeping talented employees, diversity, and use of teams, all of which have a major impact on business and HRM practice.
- Strategic human resource management is introduced early in the book and integrated throughout the text.
- Examples of how new technologies are being used to improve the efficiency and effectiveness of HRM practices are provided throughout the text.

## Organization

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

Chapter 1 provides a detailed discussion of the global, new economy, stakeholder, 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 1 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, the legal environment, and the type of work performed, and physical arrangement of the work.

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. 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 analysis and design of work emphasizes how work systems can improve company competitiveness by alleviating job stress and by improving employees' motivation and satisfaction with their jobs.

Part 2 deals with the acquisition and preparation of human resources, including human resource planning and recruitment, selection, and training. 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. Strategies for recruiting talented employees are emphasized. 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.

We discuss the components of effective training systems and the manager's role in determining employees' readiness for training, creating a positive learning environment, and ensuring that training is used on the job. The advantages and disadvantages of different training methods are described, such as e-learning.

Part 3 explores how companies can determine the value of employees and capitalize on their talents through retention and development strategies. The performance management chapter examines the strengths and weaknesses of performance management methods that use ratings, objectives, or behaviors. The employee development chapter introduces the student to how assessment, job experiences, formal courses, and mentoring relationships are used to develop employees. The chapter on retention and separation discusses how managers can maximize employee productivity and satisfaction to avoid absenteeism and turnover. The use of employee surveys to monitor job and organizational characteristics that affect satisfaction and subsequently retention is emphasized.

Part 4 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 5 covers special topics in human resource management, including labor-management relations, international HRM, and managing the HRM function. 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. Social and political changes, such as introduction of the euro currency in the European Community, are discussed in the chapter on global human resource management. Selecting, preparing, and rewarding employees for foreign assignments are also discussed. The text concludes with a chapter that emphasizes how HRM practices should be aligned to help the company meet its business objectives. The chapter emphasizes that the HRM function needs to have a customer focus to be effective.

Video cases at the end of each part integrate the concepts presented. These cases are intended to give students practice dealing with real HRM issues that companies are facing.

## Acknowledgments

Although this book enters its fourth edition, it is important to acknowledge those who started it all. The first edition of this book would not have been possible if not for the entrepreneurial spirit of two individuals. Bill Schoof, president of Austen Press, gave us the resources and had the confidence that four unproven textbook writers could provide a new perspective for teaching human resource management. John Weimeister, our editor, provided us with valuable marketing information, coordinated all of the book reviews, helped us in making major decisions regarding the book, and made writing this book an enjoyable process. We were fortunate to have the opportunity in the fourth edition to work with John again. Also, Sarah Reed joined our team as developmental editor for the first time. Sarah's suggestions, patience, gentle prodding, and organizational ability kept the author team focused and allowed us to meet publication deadlines. Dana Woo, our marketing coordinator, deserves kudos for her ideas and efforts in creating excitement for the new edition. Amit Shah of Frostburg State University wrote a first-class Instructor's Manual and PowerPoint presentation, and he developed the quiz questions for the Student CD. Roy Johnson of Iowa State University developed the new quizzes for the Online Learning Center. Fred Heidrich of Black Hills State University developed a high-quality Test Bank. Also, many thanks go to Interactive Learning LLC and Nick Kaufman Productions for their help with content for the Student CD and videos.

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|  |  | Raymond A. Noe<br>John R. Hollenbeck<br>Barry Gerhart<br>Patrick M. Wright<br>December 2001 |

# A Guided Tour

The Fourth Edition of **Human Resource Management: Gaining a Competitive Advantage** was developed to teach students how to face and meet a variety of challenges within their organizations and how to gain a competitive advantage for their companies.

Throughout this text, special boxed areas focus on four distinct categories—in order to teach readers about all the aspects of human resource management. These boxes are found in every chapter and provide excellent real-business examples to underscore key concepts throughout the text.

Please take a moment to learn about this new edition and its exciting enhancements by paging through this visual guide outlining the text's new features.

## NEW

**"Competing in the New Economy"** boxes provide examples of how companies are using HRM practices to successfully compete in the digital age. Successful companies use technology such as the Web to streamline HRM practices, bring training and performance feedback to employees' desktops, and get employees more involved in making choices about compensation and benefits; they also focus on practices that encourage employees to be innovative, creative, and satisfied. Topical coverage includes e-HRM, e-commerce, knowledge workers, off-site workers, knowledge management, and more.

### COMPETING IN THE NEW ECONOMY

To succeed in the new economy, companies need to identify employees with managerial talent and help managers develop skills needed to be more effective. To attract and retain talented employees who are in short supply, companies must offer training and development opportunities on the Web to meet the needs of geographically dispersed force dealing with many demands. IBM's "Basic Business Managers" program uses e-learning and face-to-face classroom experiences. The program helps managers understand their responsibility for managing performance, employee relations, diversity, multicultural issues. It moves the learning of all basic management skills to the Web using classroom experience. It also gives managers and their bosses greater responsibility for development while the company provides support in the form of unlimited access to development activities and support network. The learning model includes five levels:

- Management quick views: These provide practical information on over 40 common management topics related to how to conduct business, leadership and management competencies, productivity, and HRM issues.
- Interactive learning modules and simulations: These inter-

netive. Through challenging activities and assignments managers gain increased awareness of themselves, their work teams, and IBM.

The program recognizes the roles of the boss as coach, supporter, and role model. The boss is involved in the program

### E-Learning Helps Build Management Talent

### COMPETING THROUGH GLOBALIZATION

One way to recognize employees' contributions to their company is to offer them stock options, which allow them to buy shares of the firm's stock in the future at a previously set price. Although this practice has been widespread in the United States for a number of years, European businesses are now embracing the idea as a method of retaining the best employees and competing in a global marketplace. In fact, European companies that have North American operations have been feeling the greatest pressure to join the stock option club for some time. For instance, executives at the French telecommunications equipment manufacturer Alcatel SA recently realized that they needed to broaden the scope of their compensation when they began to buy North American firms like Canada's Newbridge Networks. Afraid

that failing to do so would mean qualified employees would quickly leave the newly acquired firm, Alcatel announced a plan that would award options to 35 percent of its engineers and middle managers outside the United States (the rate inside the United States is 75 percent).

The major difference between the way U.S. and European firms award stock options is that the European companies usually link them to specific performance goals, such as a company's share price increase compared with its competitors'. German law actually requires this, and British firms such as Barclays are beginning to enforce stricter guidelines. Belgium and Switzerland still discourage the use of stock options through high taxes, but Italy and Norway have passed legislation and tax changes that make stock options more at-

### Stock Options Heat Up in Europe

tractive to firms and their employees. As competition in the European market increases, experts predict that companies not offering options will have a harder time recruiting the best employees.

Back in the United States, there may be a silver lining for new employees who are now receiving their options. With the faltering stock market driving prices down, these workers are now locking in low share prices that will probably earn them handsome profits in years to come as the stock market recovers. If they and their companies perform well, everyone will win.

SOURCE: "Transition of European Stock Options," *The European Commission* (June 26, 2001), <http://europa.eu.int>; D. Woodruff, "Europe, a Laborer: Enhances Options Even as Market Sours," *The Wall Street Journal* (May 15, 2001), [www.wsj.com](http://www.wsj.com); "Eager Europeans Push Their Noses to the Glass," *BusinessWeek* Online (April 19, 1999), [www.businessweek.com](http://www.businessweek.com).

### How Does Pay Influence Labor Force Composition?

Traditionally, using pay to recognize employee contributions has been thought of as a way to influence the behavior and attitudes of current employees, whereas pay level and benefits have been seen as a way to influence so-called membership behaviors: decisions about whether to join or remain with the organization. However, there is increasing recognition that individual pay programs may also affect the nature and composition of an organization's workforce.<sup>11</sup> For example, it is possible that an organization that links pay to performance may attract more high performers than an

**"Competing through Globalization"** boxes examine the effective HRM practices that U.S. businesses have used to deal with global threats and create global successes.



## COMPETING BY MEETING STAKEHOLDERS' NEEDS



### Has Downsizing Become a Way of Life?

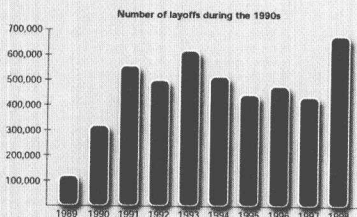
One would have great difficulty ignoring the massive "war for talent" that went on during the late 1990s, particularly with the notable dot-com craze. Firms during this time sought to become "employers of choice," to establish "employment brands," and to develop "employee value propositions" as ways to ensure that they would be able to attract and retain talented employees. However, what few probably noticed was that in spite of the hiring craze, this was also a

time of massive layoffs. In fact, 1998, the height of the war for talent, also saw the largest number of layoffs in the decade.

This new trend seems to represent a "churn" of employees, in which firms lay off those with outdated skills or cut whole businesses that are in declining markets while simultaneously building businesses and employee bases in newer, high-growth markets. For example, IBM cut 69,256 people and increased its

workforce by 16,000 in 1996. The important question facing firms is, How can we develop a reputation as an employer of choice, and engage employees to the goals of the firm, while constantly laying off a significant portion of our workforce? How firms answer this question will determine how they can compete by meeting the stakeholder needs of their employees.

SOURCE: J. Lasba, "Has Downsizing Missed Its Mark?" *Workforce*, April, 1999, pp. 31-38.



people while churning employees in response to changing skill requirements demanded by the dynamic competitive environment.

Research has indicated that few companies have fully integrated HRM into the strategy formulation process.<sup>22</sup> As we've mentioned before, companies are beginning

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"Competing by Meeting Stakeholders' Needs" boxes discuss the continuous challenges that companies face of how to reach their financial objectives and meet the needs of multiple stakeholders, including shareholders, employees, and the community.

"Competing through High-Performance Work Systems" boxes give examples of companies that developed new technologies and efficient work structures and policies that made them more competitive.

## COMPETING THROUGH HIGH-PERFORMANCE WORK SYSTEMS



### Team-Based Job Redesign and Error Prevention

When Reggie Peterson showed up at the emergency department of his local university medical center, he was displaying flu-like symptoms. He was tested and examined first by a nurse, who suspected he had meningitis, an inflammation of the brain. A doctor who subsequently examined him diagnosed the problem as simple flu and sent him home, recommending rest and plenty of fluids. Six hours later, Peterson died of spinal meningitis. Unfortunately, the nurse who suspected meningitis was not working alongside the doctor, and because she was earlier chastised by this same doctor for not "sticking to nursing" she never shared her opinions with him.

According to a recent study by the Institute of Medicine, an arm of the National Academy of Sciences, this type of medical error occurs all too frequently in today's hospitals and medical centers. Our widely distributed, fragmented health care system, along with secretive and unpublicized errors, makes it hard for the general public to appreciate the problem. However, if all the errors in U.S. hospitals were aggregated daily, the Institute of Medicine likened the situation to that of a 747 airplane crashing every single day.

One solution to this problem offered by the National Academy of Sciences was to organize work around teams, as opposed to individual doctors and nurses. For example, Suburban Hospital in Bethesda, Maryland, has adopted a team-based approach in its Intensive Care Unit (ICU). Each team includes an ICU specialist, a pharmacist, a nutritionist, a social worker, a nurse, a respiratory specialist, and a chaplain who go room-to-room each morning, visiting every patient—sometimes accompanied by a family member. The team meets with each patient's bedside nurse to discuss and debate the best action for this patient from all possible angles.

This focus on teamwork has a long tradition in other high-pressure work contexts such as aviation and the military, and it is increasingly being adopted in many businesses and industries. Indeed, enhanced communication technologies such as e-mail, teleconferencing, and videoconferencing have allowed the creation of "virtual teams" that work together despite being separated in space and time. The use of these technologies eliminates the need for travel and truly allows organizations to put together the best teams possible, free of traditional constraints.

At Suburban Hospital, this team-based approach is credited with reducing errors, shortening the time patients spend in the small (12-bed) ICU unit, and improving the communication between patients, their families, and the medical staff. It also has reduced the time patients spend on ventilators by 25 percent, which is critical because the use of ventilators increases the chances of pneumonia, which, in turn, greatly increases both costs and the chance of patients dying. Indeed, the cost savings from avoiding complications more than offsets the increased expense associated with team formation, and this does not even calculate the reduced amount of human suffering. As Dr. Joseph Fontana, an ICU specialist at Suburban, notes, "It's good to have people with different backgrounds and opinions looking at the same problem—it makes a huge difference because small problems that can turn into big ones are headed off early."

SOURCE: J. Appleby and R. Davis, "Teamwork Used to Be a Money Saver: Now It's a Lifesaver," *USA Today* (March 1, 2001), pp. B1-B2; L. Kahn, J. Corrigan, and M. Donaldson, *To Err is Human: Building a Safer Health System* (Washington, DC: National Academy Press, 2001); C. M. Solomon, "Managing Virtual Teams," *Workforce* (June 2001), pp. 41-43.



# 5 Chapter

## Human Resource Planning and Recruitment

### Objectives

After reading this chapter, you should be able to:

1. Discuss how to align a company's strategic direction with its human resource planning.
2. Determine the labor demand for workers in various job categories.
3. Discuss the advantages and disadvantages of various ways of eliminating a labor surplus and avoiding a labor shortage.
4. Describe the various recruitment policies organizations adopt to make job vacancies more attractive.
5. List the various sources from which job applicants can be drawn, their relative advantages and disadvantages, and the methods for evaluating them.
6. Explain the recruiter's role in the recruitment process, the limits the recruiter faces, and the opportunities available.



While most other airlines were laying off employees in the fall of 2001, Southwest Airlines was able to avoid any layoffs. Other cuts needed to be made, but the employees remained at the forefront of their company. What advantages and disadvantages may occur because of these decisions?

### Enter the World of Business

#### Southwest Airlines: Focused on Take-Offs, Not Layoffs

In the summer of 2001, the airline industry was facing severe problems due to slumping business travel and vacationer demand. In fact, Northwest Airlines announced draconian cuts in both schedules and service; Midway Airlines declared bankruptcy in August of that year, citing "calamitous" decline in air traffic. However, as bad as things were, they soon got worse. The September 11, 2001, terrorist attacks

on New York and Washington, D.C., devastated the whole nation, but few segments of the economy felt the impact as dramatically as the already struggling airline industry. Even after reducing scheduled flights by more than 20 percent, most planes were taking off with fewer than half their seats filled, and airline shares lost a third of their value on the stock exchange. Most airlines needed to cut costs drastically in order to make ends meet, and over 100,000 employees were eventually laid off from American Airlines, United Airlines, US Airways, Continental Airlines, and America West.

Southwest Airlines bucked this trend, however. Indeed, despite the regular ups and downs of the airline industry, in its 30 years of operation, Southwest has never laid off employees; remarkably, it was able to maintain this record even during the difficult Fall 2001 period. Southwest's no-layoff policy is one of the core values that underlie its human resource strategy, and insiders stress that it is one of the main reasons why the Southwest workforce is so fiercely loyal, productive, and flexible.

The high productivity of these workers helps keep labor costs low, and these savings are passed on to consumers in the form of lower prices that are sometimes half those offered by competitors. High levels of job security also promote a willingness on the part of Southwest employees to be innovative on the job without fearing that they will be punished for any mistakes. Southwest also finds that satisfied employees help create satisfied customers and can even help in recruiting new employees when economic conditions are conducive to growth.

In order to keep this perfect no-layoff record in 2001, Southwest executives assembled into an emergency command and control center in Dallas and brain-

Learning objectives at the beginning of each chapter inform students about the key concepts they should understand after reading through the chapter.

The chapter-opening vignettes present a real business problem or issue that provides background for the issues discussed in the chapter.

### NEW

#### "Finding and Keeping the Best Employees"

information appears throughout the text, showing the various strategies through which companies hire and retain talent.

### 544 PART 4 Compensation of Human Resources

provide vouchers or discounts for employees to use at existing child care facilities (5 percent of companies). At the highest level, firms provide child care at or near their workites (9 percent of companies). Toyota's Child Development Program provides 24-hour-a-day care for children of workers at its Georgetown, Kentucky, plant. This facility is designed to meet the needs of employees working evening and night shifts who want their children to be on the same schedule. In this facility, the children are kept awake all night. At the end of the night shift, the parents pick up their children and the whole family goes home to bed.<sup>49</sup>

An organization's decision to staff its own child care facility should not be taken lightly. It is typically a costly venture with important liability concerns. Moreover, the results, in terms of reducing absenteeism and enhancing productivity, are often mixed. One reason for this is that many organizations are "jumping on the day care bandwagon" without giving much thought to the best form of assistance for their specific employees.<sup>50</sup> Organizations that fail to do an adequate needs assessment often wind up purchasing the wrong alternative. For example, one Fortune 500 company found that less than 2 percent of its workforce used a flexible spending account that had been adopted as the chief company policy on child care. The waste and inefficiency of this practice could have been avoided had a more thorough needs analysis been conducted before the program was implemented.<sup>51</sup>

As an alternative example, Memphis-based First Tennessee Bank, which was losing 1,500 days of productivity a year because of child care problems, considered creating its own on-site day care center. Before acting, however, the company surveyed its employees. This survey indicated that the only real problem with day care occurred when the parents' regular day care provisions fell through because of sickness on the part of the child or provider. Based on these findings, the bank opted to establish a sick-child care center, which was less costly and smaller in scope than a full-time center and yet still solved the employees' major problem. As a result, absenteeism dropped so dramatically that the program paid for itself in the first nine months of operation.<sup>52</sup>

#### Finding and Keeping the Best Employees

PriceWaterhouseCoopers (PWC), the accounting and consulting firm, has seen many of its clients turn to cost cutting as the economy slows. That, in turn, has led PWC to examine its own expenses, including those in the area of employee benefits. But that overhaul has not touched one key benefit: flexible work arrangements. Employees are still free to leave work early or to telecommute to help them balance work and nonwork responsibilities. Even as employers slash jobs and cut small perquisites such as free food and drinks, they continue to provide programs that help employees juggle work and personal lives—mostly because they believe these programs help retain valued workers, who are being asked to do more as workforce reductions eliminate positions but not necessarily work. At Cisco Systems, which has also faced difficult financial times, telecommuting continues to be a core benefit, and its day care center at company headquarters in San Jose, California, continues to operate at capacity. Cisco feels that these benefits enhance productivity, which is all the more important given difficult times. These companies are looking ahead to a future that will once again bring growth; they want to be ready by retaining a group of dedicated and productive employees to take advantage of that opportunity when it comes.

SOURCE: "Benefits and the Bottom Line," *The News and Observer*, Raleigh, NC (October 14, 2001).

characteristics of the job will "inoculate" them to such characteristics seems unwarranted, based on the research conducted to date.<sup>49</sup> Thus we return to the conclusion that an organization's decisions about personnel policies that directly affect the job's attributes (pay, security, advancement opportunities, and so on) will probably be more important than recruiter traits and behaviors in affecting job choice.

**Enhancing Recruiter Impact.** Although research suggests that recruiters do not have much influence on job choice, this does not mean recruiters cannot have an impact. Most recruiters receive little training.<sup>50</sup> Recent research has attempted to find conditions in which recruiters do make a difference. Based on this research, an organization can take several steps to increase the impact that recruiters have on those they recruit.

First, recruiters can provide timely feedback. Applicants react very negatively to delays in feedback, often making unwarranted attributions for the delays (such as, the organization is uninterested in my application). Second, recruiters need to avoid behaviors that might convey the wrong organizational impression.<sup>51</sup> Table 5.5 lists quotes from applicants who felt that they had had extremely bad experiences with recruiters. Third, recruiting can be done in teams rather than by individuals. As we have seen, applicants tend to view line personnel (job incumbents and supervisors) as more credible than personnel specialists, so these kinds of recruiters should be part of any team. On the other hand, personnel specialists have knowledge that is not shared by line personnel (who may perceive recruiting as a small part of their "real" jobs), so they should be included as well.

### A Look Back

The chapter opener showed how Southwest Airlines steadfastly refused to lay off workers, despite the pressure applied by the external environment. This one instance of behavior, however, was simply an extension of a long-term culture that used methods other than layoffs as a means of managing a labor surplus.

#### Questions

1. Based on this chapter, what steps can other firms that want to emulate Southwest take in order to avoid layoffs? That is, what are some alternatives to lay offs for avoiding a labor surplus?
2. How does the way a firm reacts to a labor shortage affect its ability to successfully manage a labor surplus?

### Summary

Human resource planning uses labor supply and demand forecasts to anticipate labor shortages and surpluses. It also entails programs that can be utilized to reduce a labor surplus (such as downsizing and early retirement programs) and eliminate a labor shortage (like bringing in temporary workers or expanding overtime). When done well, human resource planning can enhance the success of the organization while minimizing the human suffering resulting

from poorly anticipated labor shortages or shortages. Human resource recruiting is a buffer activity that creates an applicant pool that the organization can draw from in the event of a labor shortage that is to be filled with new hires. Organizational recruitment programs affect applications through personnel policies (such as promote-from-within policies or due process provisions) that affect the attributes of the vacancies themselves. They can also

employees perceive the company's affirmative action policies. If the OFCCP finds that the contractors or subcontractors are not complying with the executive order, then its representatives may notify the EEOC; (if there is evidence that Title VII has been violated), advise the Department of Justice to institute criminal proceedings, request that the Secretary of Labor cancel or suspend any current contracts, and forbid the firm from bidding on future contracts. This last penalty, called debarment, is the OFCCP's most potent weapon.

Having discussed the major laws defining equal employment opportunity and the agencies that enforce these laws, we now address the various types of discrimination and the ways these forms of discrimination have been interpreted by the courts in a number of cases.

### Types of Discrimination

How would you know if you had been discriminated against? Assume that you have applied for a job and were not hired. How do you know if the organization decided not to hire you because you are unqualified, because you are less qualified than the individual ultimately hired, or simply because the person in charge of the hiring decision "didn't like your type"? Discrimination is a multifaceted issue. It is often not easy to determine the extent to which unfair discrimination affects an employer's decisions.

Legal scholars have identified three theories of discrimination: disparate treatment, disparate impact, and reasonable accommodation. In addition, there is protection for those participating in discrimination in cases of opposing discriminatory actions. In the act, these theories are stated in very general terms. However, the court system has defined and delineated these theories through the cases brought before it. A comparison of the theories of discrimination is given in Table 3.3.

#### Disparate Treatment

**Disparate treatment** exists when individuals in similar situations are treated differently and the different treatment is based on the individual's race, color, religion, sex, national origin, age, or disability status. If two people with the same qualifications apply for a job and the employer decides whom to hire based on one individual's race, the individual not hired is a victim of disparate treatment. In the disparate treatment case the plaintiff must prove that there was a discriminatory motive—that is, that the employer intended to discriminate.

Whenever individuals are treated differently because of their race, sex, or the like, there is disparate treatment. For example, if a company fails to hire women with school-age children (claiming the women will be frequently absent) but hires men with school-age children, the applicants are being treated differently based on sex. Another example would be an employer who checks the references of minority applicants but does not do so for white applicants. Why are managers advised not to ask about marital status? Because in most cases, a manager will either ask only the female applicants or, if the manager asks both males and females, he or she will make different assumptions about females (such as "She will have to move if her husband gets a job elsewhere") and males (such as "He's very stable"). In all these examples, notice that (1) people are being treated differently and (2) there is an actual intent to treat them differently.<sup>52</sup>

#### Disparate treatment

A theory of discrimination based on different treatments given to individuals because of their race, color, religion, sex, national origin, age, or disability status.

way with both the flight attendants and the mechanics. In addition, labor costs have been driven up as a result of the union activity. The pilots signed a lucrative five-year contract that will place them at the highest pay in the industry. In an effort to head off the organizing drive, the mechanics were recently given raises to *significantly* put them at the industry top. Now the flight attendants are seeking industry-leading pay irrespective of but certainly encouraged by the union drive.<sup>53</sup> The Delta Air Lines story provides a perfect example of the perils that can await firms that fail to adequately address human resource issues in the formulation and implementation of strategy.

#### Questions

1. How does the experience of Delta Air Lines illustrate the interdependence between strategic decisions of "how to compete" and "with what to compete?" Consider this with regard to both strategy formulation and strategy implementation.
2. If you were in charge of HRM for Delta Air Lines now, given the issues described in the "A Look Back" section, what would be your major priorities? How would you approach and solve these issues?

### Summary

A strategic approach to human resource management seeks to proactively provide a competitive advantage through the company's most important asset: its human resources. The HRM function needs to be integrally involved in the formulation of strategy to identify the people-related business issues the company faces. Once the strategy has been determined, HRM has a profound impact on the implementation of the plan by developing and aligning HRM practices that ensure that the company has motivated employees with the necessary skills. Finally,

the emerging strategic role of the HRM function requires that HR professionals in the future develop business, professional-technical, change management, and integration competencies. As you will see more clearly in later chapters, this strategic approach requires more than simply developing a valid selection procedure or state-of-the-art performance management systems. Only through these competencies can the HR professional take a strategic approach to human resource management.

### Discussion Questions

1. Pick one of your university's major sports teams (like football or basketball). How would you characterize that team's generic strategy? How does the composition of the team members (in terms of size, speed, ability, and so on) relate to that strategy? What are the strengths and weaknesses of the team? How do those dictate the team's generic strategy and its approach to a particular game?
2. Do you think that it is easier to tie human resources to the strategic management process in large or in small organizations? Why?
3. Consider one of the organizations you have been affiliated with. What are some examples of human resource practices that were consistent with that organization's strategy? What are examples of practices that were inconsistent with its strategy?
4. How can strategic management within the HRM department ensure that HRM plays an effective role in the company's strategic management process?
5. What types of specific skills (such as knowledge of financial accounting methods) do you think HR professionals will need to have the business, professional-technical, change management, and integrative competencies necessary in the future? Where can you develop each of these skills?
6. What are some of the key environmental variables that you see changing in the business world today? What impact will those changes have on the HRM function in organizations?

### NEW

A new end-of-chapter segment, "A Look Back," encourages students to recall the chapter's opening vignette and apply it to what they have just learned.

### NEW

Key terms are highlighted and defined in the margin in order to help students learn the language of HRM.

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.

What is the balanced scorecard? Identify the four perspectives included in the balanced scorecard. How can HRM practices influence the four perspectives? Is HRM becoming more strategic? Explain your answer. Explain the implications of each of the following labor force trends for HRM: (1) aging workforce, (2) diverse workforce, (3) skill deficiencies.

### Web Exercise

In this chapter we discuss four competitive challenges that companies face (the new economy, global competition, managing stakeholders, and high-performance work systems). Go to the Society for Human Resource Management (SHRM) home page on the Web. SHRM is an important professional society for human resource management. The address is [www.shrm.org](http://www.shrm.org). Here you will find current articles related to HR issues. SHRM also publishes *HR Magazine*, a business magazine for human resource managers.

Managing People: From the Pages of *BusinessWeek*

**BusinessWeek** The Human Factor

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

Accenture hopes the program will offer it some security, too. The economic slowdown has pinched the company's business, forcing it to rein in costs. But after years of scrambling to find scarce talent, Accenture is reluctant to lay off workers it hopes to need when the economy turns north again. Accenture did cut 600 support staff jobs in June. But to retain skilled employees, it cooked up the idea of partially paid sabbaticals, such as the one Jones is taking. About 1,000 employees took up the offer, which allows them to do whatever they want for 60 to 12 months, says Larry Solomon, Accenture's managing partner in

7. What role do HRM practices play in a business decision to expand internationally?
8. Is business emphasis on quality a fad? Why or why not? What might a quality goal and high-performance work systems have in common in terms of HRM practices?
9. What disadvantages might result from outsourcing HRM practices? From employee self-service? From increased line manager involvement in designing and using HR practices?

## Questions

1. How are companies dealing with the competitive challenges? Use Web resources to find an article that relates to how a company is dealing with the competitive challenges. Go to "HR Channels." Click on any of the HR practices listed to find an article.
2. Summarize the main topic of the article.
3. Identify how it relates to one of the competitive challenges discussed in the chapter.

### Discussion Questions

1. The opening vignette described how relationships between employers and employees are changing. What are the likely consequences of this change? Where does the social responsibility of employers end, and where does the need to operate more efficiently begin?
2. Your company, like many others, is experiencing double-digit percentage increases in health care costs. What suggestions can you offer that may reduce the rate of cost increases?
3. Why is communication so important in the employee benefits area? What sorts of programs can a company use to communicate more effectively? What are the no-

### Web Exercise

The Health Insurance Portability and Accountability Act (HIPAA) of 1996 is a major health care reform mandate that sets minimum standards to improve the access, portability, and renewability of health insurance coverage. Visit [www.hcfa.gov](http://www.hcfa.gov) (the Web site for HIPAA), which answers some commonly asked questions for small employers about the provisions of HIPAA. Click on HIPAA, then Employees.

## Questions

1. What does *portability* mean?
2. What is a *preexisting condition*? How does HIPAA affect how businesses can apply preexisting condition exclusions to employees?
3. How does HIPAA benefit small employers?

tential positive consequences of more effective benefits communication?

4. What are the potential advantages of flexible benefits and flexible spending accounts? Are there any potential drawbacks?
5. Although benefits account for a large share of employee compensation, many feel there is little evidence on whether an employer receives an adequate return on the benefits investment. One suggestion has been to link benefits to individual, group, or organization performance. Explain why you would or would not recommend this strategy to an organization.

Managing People: From the Pages of *BusinessWeek*

**BusinessWeek** Dr. Goodnight's Company Town

The war for talent has businesses transforming their corporate campuses into country clubs—offering everything from hot-stirred lunches to concierges willing to arrange employees' lawn mowing and haircuts. But long before the words "labor crunch" put employee perks in vogue, SAS Institute Inc. founder James Goodnight was lavishing money on his programmers instead of headhunters. It worked: SAS turnover is 4 percent in an industry for which 20 percent is typical. The Cary (North Carolina)-based company may compete against Oracle Corp. and PeopleSoft Inc., and Sun Microsystems Inc., but SAS employees aren't asked to move their Silicon Valley brethren's sleep-starved lives. Goodnight, a shy billionaire who until recently drove a Buick Roadmaster wagon, believes in leaving the office at 5 p.m., sharp. Dinner, he says, should be spent with your family, not at your desk.

**THE PERK FACTORY.** Goodnight remembers working as a programmer for NASA—a place so cheap it wouldn't even spring for workers' sodas. Insulted, he vowed to do things differently. Today he's become a Willy Wonka to his workers, creating a corporate perk factory where even the plain and peanut-filled M&M's, replen-

ished like clockwork every Wednesday, are free. Goodnight believes that if you treat people as if they make a difference, they will. The turnover savings he reaps from his largesse are huge: an estimated \$75 million a year. This means Goodnight can afford all those banana trees and cracker-and-cheese-stocked snack rooms. It may be too Stepford-like for cynics, but the T-shirt- and Teva-sporting SAS employees say they wouldn't have it any other way.

On-site benefits at the Institute include day care, Montessori school, the Atrium, and lunchtime entertainment. For \$25 a month, the center will take babies after SAS's six-week paid maternity leave. Sixty percent of the employees use the on-site day care; parents can visit or pick up their kids for lunch. Employees also get private of-

The perks aren't limited to the on-site stuff. Goodnight offers discounts on everything from land in his ritzy subdivision to memberships at his country club. Employees make only industry-average salaries, but they get a generous year-end bonus, profit sharing, and an extra week of paid vacation at Christmas. Employees can also enjoy

End-of-chapter Internet exercises require students to use their Web skills to further understand the value of the Internet for managing human resources, and as a professional resource.

*BusinessWeek* cases look at incidents and real companies as reported by the nation's number one business weekly, and encourage students to critically evaluate each problem and apply the chapter concepts.

End-of-part video cases and accompanying questions challenge students to view HRM issues and problems from multiple perspectives.

## VIDEO CASE



## Developing a Diverse Workforce

Most jobs start with an interview, whether it's conducted in person, by phone, or even online. Interpersonal dynamics can affect the interview, so a human resource manager who is looking to develop a diverse workforce to meet company needs must be able to ask the right questions of a candidate and listen to the answers in an objective, controlled manner. The ultimate goal is to evaluate the candidate fairly and accurately so that he or she fits well with job requirements. As you'll see in the video, two managers for the Beck's<sup>®</sup> Call company are interviewing two job applicants, and how they conduct the interviews and evaluate the applicants will affect both the organization and the individuals—in the composition of the company's workforce and the way those employees interact with their positions. Both racial and gender issues enter into play in this scenario.

The U.S. workforce is becoming increasingly diverse. Experts estimate that by 2006 the American workforce will be 72 percent Caucasian, 11 percent African American, 12 percent Hispanic, and 5 percent Asian and other ethnic or cultural groups. Companies that want to grow and remain competitive need to utilize the talents, experience, and knowledge of workers from different backgrounds and cultures. If they do not, they may miss a golden opportunity to reach a larger customer base. The customer base for Beck'n' Call is growing more and more diverse, with African Ameri-

can and Hispanic communities increasing in population where Beck 'n' Call is located. So it makes sense to recruit, develop, and retain employees who can relate to this broadening customer base and meet their needs in specific ways.

Managers at all companies, whether producer or service oriented, can reap the rewards of diversity for their organizations if they practice the following guidelines. First, all groups and subcultures are inherently equal. The first step toward this belief may be consciously recognizing their own tendencies toward ethnocentrism, that is, their own culture is superior. Once a person recognizes and acknowledges his or her own attitudes and ethnocentric beliefs, he or she can open up his or her mind and begin to change. For future studies, a structured interview process with questions that are standardized and focused on accomplishing defined goals would be a more objective ethnocentrism as opposed to the current study. In addition, the interview should contain questions that allow the job applicant to respond and demonstrate his or her own attitudes in ways that are job related, not personality. Hunches and gut feelings should play a tiny part in such an interview, because once a job applicant is hired, the manager will have concrete evidence of performance that counts, not whether the interview and employer went to the same college or like the same sports team.

After employees are hired, it is important to give them opportunities to develop their skills. This practice not only enhances the employee-employer relationship but also boosts overall productivity of the company. Managers must also be aware of the possibility of a "glass ceiling" or an invisible barrier that separates females from advancement to different cultural or ethnic backgrounds from top levels of the organization. One way to guard against barriers to advancement is to examine workforce composition and statistics, including the number of employees on each of a number of job levels. Is there a cluster of women and minorities near the bottom of the employment ladder? Is upper management made up entirely of Caucasian males? If so, why? Do all employees have equal training and opportunities for advancement, or do they receive preferential treatment, even if it isn't obvious? Some studies indicate that companies may have "glass ceilings," which are invisible barriers to advancement for women in a company. These barriers are just as important as the glass ceiling because a glass wall can prevent an employee from receiving training or experience in certain areas that would enable them to advance in the company. Studies confirm the existence of the glass ceiling and glass walls; one showed recently that 97 percent of the top U.S. managers are Caucasian males and 95 percent of them are male.