

Human Resource Management

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General Introduction

Cisco Systems is one of the hottest companies in California's fabled Silicon Valley. Founded in 1984 by two enterprising Stanford University employees, Cisco specializes in technology to link networks. By 1997 the firm's annual sales exceeded \$6 billion, and it was selling its products in seventy-five countries.

To maintain its phenomenal growth level, Cisco has had to add new employees at a steady pace. For example, the company recently doubled the size of its workforce in an eighteen month period. In some areas and in some industries, this level of growth would be easy. But in the Silicon Valley and in the world of high technology, finding and keeping bright and talented people is difficult even during periods of normal growth. But the pace of growth experienced by Cisco is dizzying.

Nevertheless, Cisco has been able to identify, hire, and most important of all—retain the best employees through the use of a well-developed and executed recruiting strategy. The strategy began when top managers at Cisco clearly defined the kinds of employees they wanted to hire. In particular, they set a goal of hiring only from among the top 15 percent of the people working in the industry.

Next, Cisco's managers studied exactly how this caliber of person goes about looking for a job. For example, Cisco prefers to hire high-caliber employees who are relatively content with their present jobs but are willing to consider challenging, exciting, and rewarding alternatives. These people often dislike actually looking for new jobs and, instead, are more likely to be enticed by web sites with interesting graphics. That is, these people may not be actively looking for a new job, but frequently surf the Web and look at interesting sites.

And finally, they developed innovative hiring procedures for getting these people interested in Cisco. For example, interested recruits can actually indicate their interest in Cisco via e mail and electronic submission of resumes. And the firm will reply electronically and provide answers to many common questions, such as pay and benefits.

Of course, after the firm hires these employees, it must still work to keep them. Thus Cisco's salaries are among the highest in the industry. The firm also provides an exhaustive set of leading-edge benefits for its employees and maintains a casual and relaxing corporate culture in which employees like to work. As a result, the company also has one of the lowest turnover rates in its industry. Cisco managers believe that these loyal and talented employees will help keep the firm on top for a long time to come.

Human Resource Management

Cisco Systems is one of the most successful businesses around these days. And its human resources are clearly an integral part of Cisco's success. From its earliest days, the firm's managers made a strategic commitment to identify, hire, and retain the best and brightest people available. Moreover, the firm has been able to maintain this strategy and today is still the employer of choice for many talented people in California's Silicon Valley.

This chapter is about how organizations manage people. This set of processes is called human resource management, or HRM. We start by describing the environmental context of HRM. We then discuss how organizations attract human resources. Next we describe how organizations seek to further develop the capacities of their human resources. We also examine how organizations maintain high-quality human resources. Diversity in organizations is examined next, and we conclude by discussing labor relations.

The Environmental Context of Human Resource Management

Human resource management (HRM) is the set of organizational activities directed at attracting, developing, and maintaining an effective workforce. Human resource management takes place within a complex and ever-changing environmental context.

The Strategic Importance of HRM

Human resources are critical for effective organizational functioning. Most managers realize that the effectiveness of their HR function has a substantial impact on the bottom-line performance of the firm. Poor human resource planning can result in spurts of hiring followed by layoffs - costly in terms of unemployment compensation payments, training expenses, and morale. Haphazard compensation systems do not attract, keep, and motivate good employees, and outmoded recruitment practices can expose the firm to expensive and embarrassing discrimination lawsuits. Consequently, the chief human resource executive of most large businesses is a vice president directly accountable to the CEO, and many firms are developing strategic HR plans and are integrating those plans with other strategic planning activities.

Even organizations with as few as two hundred employees usually have a human resource manager and a human resource department charged with overseeing these activities. Responsibility for HR activities, however, is shared between the HR department and line managers. The HR department may recruit and initially screen candidates, but managers in the department where the new employee will work usually make the final selection. Similarly, although the HR department may establish performance appraisal policies and procedures, the actual evaluating and coaching of employees is done by their immediate superiors.

The Legal Environment of HRM

A number of laws regulate various aspects of employee-employer relations, especially in the areas of equal employment opportunity, compensation and benefits, labor relations, and occupational safety and health. The major laws are summarized in the Table below.

Equal Employment Opportunity. Title VII of the Civil Rights Act of 1964

forbids discrimination in all areas of the employment relationship. The intent of Title VII is to ensure that employment decisions are made on the basis of an individual's qualifications rather than personal biases. The law has reduced both direct forms of discrimination (refusing to hire blacks, for example) and indirect forms of discrimination (using employment tests that whites pass at a higher rate than blacks, for example). Selection requirements have an adverse impact on minorities and women when such individuals meet or pass the requirement at a rate less than 80 percent of the rate of majority group members. Criteria that have an adverse impact on protected groups can be used only when there is, solid evidence that those criteria effectively identify individuals who are better able than others to do the job.

Equal Employment Opportunity

Title VII of the Civil Rights Act of 1964

(as amended by the Equal Employment Opportunity Act of 1972): forbids discrimination in all areas of the employment relationship

Age Discrimination in Employment Act

Outlaws discrimination against people older than forty years

Various executive orders, especially Executive Order 11246 in 1965

Requires employers with government contracts to engage in affirmative action

Pregnancy Discrimination Act:

Specifically outlaws discrimination on the basis of pregnancy

Vietnam Era Veterans Readjustment Assistance Act:

Extends affirmative action mandate to military veterans who served during the Vietnam War

Americans with Disabilities Act

Specifically outlaws discrimination against disabled persons

Civil Rights Act of 1991

Makes it easier for employees to sue an organization for discrimination but limits punitive damage awards if they win

Compensation and Benefits

Fair Labor Standards Act

Establishes minimum wage and mandated overtime pay for work in excess of forty hours per week

Equal Pay Act of 1963

Requires that men and women be paid the same amount for doing the same jobs

Employee Retirement Income Security Act of 1974

Regulates how organizations manage their pension funds

Family and Medical Leave Act of 1993

Requires employers to provide up to twelve weeks of unpaid leave for family and medical emergencies

Labor Relations**National Labor Relations Act**

Spells out procedures by which employees can establish labor unions and requires organizations to bargain collectively with legally formed unions; also known as the *Wagner Act*

Labor-Management Relations Act

Limits union power and specifies management rights during a union-organizing campaign; also known as the *Taft-Hartley Act*

Health and Safety**Occupational Safety and Health Act of 1970**

Mandates the provision of safe working conditions

The Equal Employment Opportunity Commission is charged with enforcing Title VII as well as several other employment related laws.

The Age Discrimination in Employment Act, passed in 1967, amended in 1978, and amended again in 1986, is an attempt to prevent organizations from discriminating against older workers. This act outlaws discrimination against people older than forty years. Both the Age Discrimination Act and Title VII require passive nondiscrimination, or equal employment opportunity. Employers are not required to seek out and hire minorities, but they must treat fairly all who apply.

Several executive orders, however, require that employers holding government contracts engage in affirmative action-intentionally seeking and hiring employees from groups that are underrepresented in the organization. These organizations must have a written affirmative action plan that spells out employment goals for underutilized groups and how those goals will be met. These employers are also required to act affirmatively in hiring Vietnam-era veterans and qualified handicapped individuals.

In 1990 Congress passed the Americans with Disabilities Act that forbids discrimination on the basis of disabilities and requires employers to provide reasonable accommodations for disabled employees. More recently, the Civil Rights Act of 1991 amended the original Civil Rights Act as well as other related laws by making it easier to bring discrimination lawsuits while simultaneously limiting the amount of punitive damages that can be awarded in those lawsuits.

Compensation and Benefits

The Fair Labor Standards Act, passed in 1938 and amended frequently since then, sets a minimum wage (currently \$5.15 an hour) and requires the payment of overtime rates for work in excess of forty hours per week. Salaried professional, executive, and administrative employees are exempt from the minimum hourly wage and overtime provisions. The Equal Pay Act of 1963 requires that men and women be paid the same amount for doing the same jobs.

The provision of benefits is also regulated in some ways by state and federal laws. Certain benefits are mandatory—for example, worker's compensation insurance for employees who are injured on the job. Employers who provide a pension plan for their employees are regulated by the Employee Retirement Income Security Act of 1974 (ERISA). The purpose of this act is to help ensure the financial security of pension funds by regulating how they can be invested. The Family and Medical Leave Act of 1993 requires employers to provide up to twelve weeks of unpaid leave for family and medical emergencies.

Labor Relations

The National Labor Relations Act (also known as the Wagner Act), passed in 1935, sets up a procedure for employees of a firm to vote on whether to have a union. If they vote for a union, management is required to bargain collectively with the union. The National Labor Relations Board was established by the Wagner Act to enforce its provisions. The Labor-Management Relations Act (also known as the *Taft-Hartley Act*) was passed in 1947 to limit union power and to increase management's rights during an organizing campaign. The Taft-Hartley Act also contains the *Emergency Strike* provision, which allows the president of the United States to prevent or end a strike that endangers national security. Taken together, those laws balance union and management power. Employees can be represented by a properly constituted union, and management can make non employee-related business decisions without interference.

Health and Safety

The Occupational Safety and Health Act of 1970

Directly mandates the provision of safe working conditions. It requires that employers (1) provide a place of employment that is free from hazards that may cause death or serious physical harm and (2) obey the safety and health standards established by the *Occupational Safety and Health Administration* (OSHA). Safety standards are intended to prevent accidents, whereas occupational health standards are concerned with preventing occupational disease. For example, standards limit the concentration of cotton dust in the air because this contaminant has been associated with lung disease in textile workers. OSHA inspections, which are conducted when an employee files a complaint of unsafe conditions or when a serious accident occurs, enforce the standards. OSHA also makes spot inspections of plants in especially hazardous industries such as mining and chemicals. Employers who fail to meet OSHA standards may be fined.

Attracting Human Resources

With an understanding of the environmental context of HRM as a foundation, we are now ready to address its first substantive concern – attracting qualified people who are interested in employment with the organization.

Human Resource Planning

The starting point in attracting qualified human resources is planning. HR planning, in turn, involves job analysis and forecasting the demand and supply of labor.

Job Analysis

Job analysis is a systematic analysis of jobs within an organization and results in two things. The *job description* lists the duties of a job, the job's working conditions, and the tools, materials, and equipment used to perform it. The *job specification* lists the skills, abilities, and other credentials needed to do the job.

Forecasting Human Resource Demand and Supply

After managers fully understand the jobs to be performed within the organization, they can start planning for the organization's future human resource needs. Figure 8.1 summarizes the steps most often followed. The manager starts by assessing trends in past human resources usage, future organizational plans, and general economic trends. A good sales forecast is often the foundation, especially for smaller organizations. Large organizations use more complicated models to predict future human resource needs. Forecasting the supply of labor is really two tasks: forecasting the internal supply (the number and type of employees who will be in the firm at some future date) and forecasting the external supply (the number and type of people who will be available for hiring in the labor market at large). The simplest approach merely adjusts present staffing levels for anticipated turnover and promotions. Again, though, large organizations use extremely sophisticated models to make these forecasts. Union Oil Company of California, for example, has a complex forecasting system for keeping track of present and future distributions of professionals and managers. The system can spot areas where there will eventually be too many qualified professionals competing for too few promotions or, conversely, too few good people available to fill important positions.

At higher levels of the organization, managers plan for specific people and positions. The technique most commonly used is the replacement chart, which lists each important managerial position, who occupies it, how long he or she will probably stay in it before moving on, and who (by name) is now qualified or soon will be qualified to move into the position. This technique allows ample time to plan developmental experiences for persons identified as potential successors to critical managerial jobs. Charles Knight, CEO of Emerson Electric Co., has an entire room dedicated to posting the credentials of his top seven hundred executives.

To facilitate both planning and identifying persons for current transfer or promotion, some organizations also have an employee information system, or skills inventory. Such systems are usually computerized and contain information on each employee's education, skills, work experience, and career aspirations. Such a system can quickly locate all the employees in the organization who are qualified to fill a position requiring, for instance, a degree in chemical engineering, three years of experience in an oil refinery, and fluency in Spanish.

Forecasting the external supply of labor is a different problem altogether. How does a manager, for example, predict how many electrical engineers will be seeking work in Georgia three years from now? To get an idea of the future availability of labor, planners rely on information from outside sources such as state employment commissions, government reports, and figures supplied by colleges on the number of students in major fields.

Matching Human Resource Supply and Demand

After comparing future demand and internal supply, managers can make plans to manage predicted shortfalls or overstaffing. If a shortfall is predicted, new employees can be hired, present employees can be retrained and transferred into the understaffed area, individuals approaching retirement can be convinced to stay on, or labor-saving or productivity-enhancing systems can be installed. If overstaffing is expected to be a problem, the main options are transferring the extra employees, not replacing individuals who quit, encouraging early retirement, and laying off people

Recruiting Human Resources

Once an organization has an idea of its future human resource needs, the next phase is usually recruiting new employees. Recruiting is the process of attracting qualified persons to apply for the jobs that are open. Some recruits are found internally; others come from outside of the organization.

Internal recruiting means considering present employees as candidates for openings. Promotion from within can help build morale and keep high-quality employees from leaving the firm. In unionized firms the procedures for notifying employees of internal job change opportunities are usually spelled out in the union contract. For higher-level positions, a skills inventory system may be used to identify internal candidates, or managers may be asked to recommend individuals who should be considered. One disadvantage of internal recruiting, however, is its "ripple effect." When an employee moves to a different job, someone else must be found to take his or her old job. In one organization, 454 r job movements were necessary as a result of filling 195 initial openings.

External recruiting involves attracting persons from outside the organization to apply for jobs. External recruiting methods include advertising, campus interviews, employment agencies or executive search firms, union hiring halls, referrals by present employees, and hiring "walk-ins" or "gate hires" (people who show up without being solicited). Private employment agencies can be a good source of clerical and technical employees, and executive search firms specialize in locating top-management talent. Newspaper ads are often used because they reach a wide audience and thus allow minorities "equal opportunity" to find out about and apply for job openings.

When hiring externally, most experts suggest providing what is called a realistic job preview (RJP) for recruits. As the term suggests, the RJP involves providing a real picture of what the job is like. For example, AT&T used to have very high turnover among its long-distance operators because the firm described the job as being more exciting and rewarding than was really the case. People would accept the job, become disillusioned, and then leave. Now, though, AT&T gives a more realistic description and actually has applicants watch a video showing exactly what an operator does. As a result, turnover is much lower, in part because people who take the job know what to expect.

Selecting Human Resources

Once the recruiting process has attracted a pool of applicants, the next step is to select whom to hire. The intent of the selection process is to gather from applicants information that will predict their job success and then to hire the candidates likely to be most successful. Of course, the organization can only gather information about factors that are predictive of future performance. The process of determining the predictive value of information is called validation. Application Blanks The first step in selection is usually asking the candidate to fill out an application blank.

Application blanks

Application blanks are an efficient method of gathering information about the applicant's previous work history, educational background, and other job-related demographic data. They should not contain questions about areas not related to the job, such as gender, religion, or national origin. This information is generally used to decide whether a candidate merits further evaluation, and interviewers use the applications to familiarize themselves with candidates before interviewing them.

Tests

Tests of ability, skill, aptitude, or knowledge that is relevant to the particular job are usually the best predictors of job success, although tests of general intelligence or personality are occasionally useful as well. In addition to being validated, tests should be administered and scored consistently. All candidates should be given the same directions, should be allowed the same amount of time, and should experience the same testing environment (temperature, lighting, distractions).

Interviews

Although interviews are a popular selection device, they are sometimes poor predictors of job success. For example, biases inherent in the way people perceive and judge others on first meeting affect subsequent evaluations by the interviewer. Interview validity can be improved by training interviewers to be aware of potential biases and by increasing the structure of the interview. In a structured interview, questions are written in advance, and all interviewers follow the same question list with each candidate they interview. This procedure introduces consistency into the interview procedure and allows the organization to validate the content of the questions.' For interviewing managerial or professional candidates, a somewhat less structured approach can be used. Question areas and information-gathering objectives are still planned in advance, but the specific questions vary with the candidates' backgrounds. Trammell Crow Real Estate Investors uses a novel approach in hiring managers. Each applicant is interviewed not only by two or three other managers but also by a secretary or young leasing agent. This technique provides information about how the prospective manager relates to non managers.

Assessment Centers

Assessment centers are a popular method used to select managers and are particularly good for selecting current employees for promotion. A typical center lasts two to three days, with groups of six to twelve persons participating in a variety of managerial exercises. Centers may also include interviews, public speaking, and standardized ability tests. Candidates are assessed by several trained observers, usually managers several levels above the job for which the

candidates are being considered. Assessment centers are quite valid if properly designed and are fair to members of minority groups and women. AT&T pioneered the assessment center concept. For years the firm has used centers to make virtually all of its selection decisions for management positions.

Other Techniques

Organizations also use other selection techniques depending on the circumstances. Polygraph tests, once popular, are declining in popularity. On the other hand, more and more organizations are requiring that applicants in whom they are interested take physical exams. Organizations are also increasingly using drug tests, especially in situations in which drug-related performance problems could create serious safety hazards." For example, applicants for jobs in a nuclear power plant would likely be tested for drug use. And some organizations today even run credit checks on prospective employees.

Developing Human Resources

Regardless of how effective a selection system is, however, most employees need additional training if they are to grow and develop in their jobs. Evaluating their performance and providing feedback are also necessary.

Training and Development

In HRM, training usually refers to teaching operational or technical employees how to do the job for which they were hired. Development refers to teaching managers and professionals the skills needed for both present and future jobs. Most organizations provide regular training and development programs for managers and employees. For example, Shell spends more than \$500 million annually on programs and has a vice president in charge of employee education. U.S. businesses spend more than \$35 billion annually on training and development programs away from the workplace. And this figure doesn't include compensation paid to employees while they are in such programs.

Assessing Training Needs

The first step in developing a training plan is to determine what needs exist. For example, if employees do not know how to operate the machinery necessary to do their jobs, a training program on how to operate the machinery is clearly needed. On the other hand, when a group of office workers is performing poorly, training may not be the answer. The problem could be motivation, aging equipment, poor supervision, inefficient work design, or a deficiency of skills and knowledge. Only the last could be remedied by training. As training programs are developed, the manager should set specific and measurable goals specifying what participants are to learn. Managers should also plan to evaluate the training program after employees complete it.

Common Training Methods

Many training and development methods are available. Selection of methods depends on many considerations, but perhaps, the most important is training content. When the training content is factual material (such as company rules or explanations of how to fill out forms), assigned reading, programmed learning, and lecture methods work well. When the content is interpersonal relations or group decision making, however, firms must use a method that allows interpersonal contact such as role playing or case discussion groups. When employees must learn a physical skill, methods allowing practice and the actual use of tools and material are needed, as in on-the-job training. CD-ROM, Web-based, and distance learning programs are also becoming popular. Xerox, Federal Express, and Ford have reported tremendous success with these methods. In addition, most training programs actually rely on a mix of methods. Boeing, for example, sends managers to an intensive two-week training seminar involving tests, simulations, role-playing exercises, and CD-ROM flight simulation exercises.

Evaluation of Training

Training and development programs should always be evaluated. Typical evaluation approaches include measuring one or more relevant criteria (such as attitudes or performance) before and after the training and determining whether the criteria changed. Evaluation data collected at the end of training are easy to get, but actual performance measures collected when the trainee is on the job are more important. Trainees may say that they enjoyed the training and learned a lot, but the true test is whether their performance improves after their training.

Performance Appraisal

When employees are trained and settled into their jobs, one of management's next concerns is performance appraisal. Performance appraisal is a formal assessment of how well employees are doing their job. Employees' performance should be evaluated regularly for many reasons. For example, appraisals may be necessary for validating selection devices or assessing the impact of training programs; to aid in making decisions about pay raises, promotions, and training; and to provide feedback to employees to help them improve their present performance and plan future careers. Because performance evaluations often help determine wages and promotions, they must be fair and nondiscriminatory.

Common Appraisal Methods

Two basic categories of appraisal methods commonly used in organizations are objective methods and judgmental methods. Objective measures of performance include actual output, such as the number of units produced, dollar volume of sales, and number of claims processed. Another type of objective measure, the special performance test, is a method in which each employee is assessed under standardized conditions. For example, operators at GTE Southwest Inc. are graded on their speed, accuracy, and courtesy in handling a series of prerecorded test calls. Performance tests measure ability but do not measure the extent to which one is motivated to use that ability on a daily basis. (A high-ability person may be a lazy performer except when being tested.) Special performance tests must therefore be supplemented by other appraisal methods to provide a complete picture of performance.

Judgmental methods, including ranking and rating techniques, are the most common way to measure performance. Ranking compares employees directly with each other and orders them from best to worst. Rating differs from ranking in that the former compares each employee with a fixed standard rather than with other employees, with a rating scale providing the standard. Figure 8.2 gives examples of three graphic rating scales for a bank teller. Each consists of a performance dimension to be rated (punctuality, congeniality, and accuracy) followed by a scale on which to make the rating. In constructing graphic rating scales, only dimensions that are relevant to performance must be selected. In particular, they should focus on job behaviors and results rather than on personality traits or attitudes.

The Behaviorally Anchored Rating Scale (BARS) is a sophisticated and useful rating method. Supervisors construct rating scales with associated behavioral anchors. Supervisors first identify relevant performance dimensions and then generate anchors-specific, observable behaviors typical of each performance level. Figure 8.3 shows an example of a behaviorally anchored rating scale for the dimension "inventory control."

Errors in Performance Appraisal

Errors or biases can occur in any kind of rating or ranking system. One common problem is recency error - the tendency to base judgments on the subordinate's most recent performance because it is most easily recalled. Other errors include overuse of one part of the scale-being too lenient, being too severe, or giving everyone a rating of "average." Halo error is allowing the assessment of an employee on one dimension to "spread" to ratings of that employee on other dimensions. For instance, if an employee is outstanding on quality of output, a rater might tend to give that employee higher marks than deserved on other dimensions. Errors can also occur because of race, sex, or age discrimination, intentionally or unintentionally. The best way to offset these errors is to ensure that a valid rating system is developed at the outset and then to train managers in how to use it.

Performance Feedback

The last step in most performance appraisal systems is giving feedback to subordinates about their performance. Feedback is usually provided in a private meeting between the person being evaluated and the person's supervisor. The discussion should generally be focused on the facts - the assessed level of performance, how and why that assessment was made, and how it can be improved in the future. Feedback interviews are not easy to conduct. Many managers are uncomfortable with the task, especially if feedback is negative and subordinates are disappointed by what they hear. Proper training can help managers conduct more effective feedback interviews.

A recent innovation in performance appraisal used in many organizations today is called "360 degree" feedback: managers are evaluated by everyone around them-their boss, their peers, and their subordinates. Such a complete and thorough approach provides people with a far richer array of information about their performance than does a conventional appraisal given just by the boss. Of course, such a system also takes considerable time and must be handled to not breed fear and mistrust in the workplace.

Maintaining Human Resources

After organizations have attracted and developed an effective workforce, they must also make every effort to maintain that workforce. To do so requires effective compensation and benefits as well as career planning.

Determining Compensation

Compensation

Compensation is the financial remuneration given by the organization to its employees in exchange for their work. Basic compensation is necessary to provide employees with the means to maintain a reasonable standard of living. Beyond this, however, compensation also provides a tangible measure of the value of the individual to the organization. If employees do not earn enough to meet their basic economic goals, they will seek employment elsewhere. Likewise, if they believe that their contributions are undervalued by the organization, they may leave or exhibit poor work habits, low morale, and little commitment to the organization. Thus, designing an effective compensation system is clearly in the organization's best interests. A good compensation system can help attract qualified applicants, retain present employees, and stimulate high performance at a cost reasonable for one's industry and geographic area. Determining compensation requires decisions regarding wage levels, the wage structure, and individual wages within that structure.

Wage-Level Decision

The wage-level decision is a management policy decision about whether the firm wants to pay above, at, or below the going rate for labor in the industry or the geographic area.⁹ Most firms choose to pay near the average. Large, successful firms may like to cultivate the image of being "wage leaders" by intentionally paying more than average and thus attracting and keeping high-quality employees. IBM, for example, pays top dollar to get the new employees it wants. McDonald's, on the other hand, often pays close to the minimum wage. Once managers make the wage-level decision, they need information to help set actual wage rates. Managers need to know what the maximum, minimum, and average wages are for particular jobs in the appropriate labor market. This information is collected by means of a wage survey. Area wage surveys are conducted by individual firms or by local HR or business associations. Wage-Structure Decision Wage structures are usually set up through a procedure called job evaluation—an attempt to assess the worth of each job relative to other jobs. The simplest method for creating a wage structure is to rank jobs from those that should be paid the most (for example, the president) to those that should be paid the least (for example, a mail clerk or a janitor). At Ben & Jerry's Homemade, company policy dictates that the highest-paid employee in the firm cannot make more than seven times what the lowest-paid employee earns. Larger firms with a greater array of jobs usually require more sophisticated methods and use complex methods of job evaluation.

Individual Wage Decisions

After wage-level and wage-structure decisions are made, individual wage decisions must be addressed. This decision concerns how much to pay each employee in a particular job. Although the easiest decision is to pay a single rate for each job, more typically a range of pay rates is associated with each job. For example, the pay range for an individual job might be \$6.85 to \$8.39 per hour, with different employees earning different rates within the range. Individual rates within this range may then be set on the basis of seniority (enter the job at \$6.85, for example, and increase 10 cents per hour every six months on the job), of initial qualifications (inexperienced people start at \$6.85, more experienced start at a higher rate), or merit (raises above the entering rate are given for good performance).

Determining Benefits

Benefits are things of value other than compensation that the organization provides to its workers. The average company spends an amount equal to more than one-third of its cash payroll on employee benefits. Thus an average employee who is paid \$18,000 per year averages about \$6,588 more per year in benefits. Benefits come in several forms, including pay for time not worked (sick leave, vacation, holidays, and unemployment compensation), insurance (life and health insurance for employees and their dependents), workers' compensation (a legally required insurance benefit that provides medical care and disability income for employees injured on the job), and Social Security (a government pension plan to which both employers and employees contribute). Many employers also provide a private pension plan to which they and their employees contribute. Employee service benefits include such things as tuition reimbursement and recreational opportunities.

Some organizations have instituted "cafeteria benefit plans," whereby basic coverage is provided for all employees but employees are then allowed to choose which additional benefits they want (up to a cost limit based on salary). Such flexible systems are expected to encourage people to stay in the organization and even help the company attract new employees. Some companies have also started offering even more innovative benefits as a way of accommodating different needs. On-site childcare, mortgage assistance, and generous paid leave programs are becoming popular.

Managing Workforce Diversity

Workforce diversity has become a very important issue in many organizations. The management of diversity is often seen as a key human resource function today.

The Meaning of Diversity

Diversity exists in a group or organization when its members differ from one another along one or more important dimensions. Especially important dimensions of diversity include gender, age, and ethnicity. For example, the average age of the U.S. workforce is gradually increasing and will continue to do so for the next several

years. Similarly, as more females have entered the workforce, organizations have experienced changes in the relative proportions of male and female employees. And within the United States, most organizations reflect varying degrees of ethnicity with workforces comprising whites, African Americans, Hispanics, and Asians. 14 Other groups such as single parents, dual-career couples, same-sex couples, and the physically challenged are also important.

The Impact of Diversity

There is no question that organizations are becoming ever more diverse. This diversity provides both opportunities and challenges for organizations.

Diversity as a Competitive Advantage

Many organizations are finding that diversity can be a source of competitive advantage in the marketplace. For example, businesses that manage diversity effectively will generally have higher levels of productivity and lower levels of turnover and absenteeism, thus lowering costs. Ortho Pharmaceuticals estimates that it has saved \$500,000 by lowering turnover among women and ethnic minorities.²⁶ In addition, organizations that manage diversity effectively will become known among women and minorities as good places to work, thus attracting qualified employees from among these groups. Moreover, organizations with diverse workforces may have the edge in being able to understand different market segments. For example, a cosmetics firm like Avon that wants to sell its products to African-American women can better understand how to create such products and to effectively market them if African-American women managers are available to provide inputs into product development, design, packaging, advertising, and so forth. Finally, organizations with diverse workforces will generally be more creative and innovative compared to organizations in which the workforce is less diverse.

Diversity as a Source of Conflict

Unfortunately, diversity can also become a major source of conflict. One potential avenue for conflict is when an individual thinks that someone has been hired, promoted, or fired because of her or his diversity status. Another source of conflict stemming from diversity is through misunderstood, misinterpreted, or inappropriate interactions between people of different groups. Conflict may also arise as a result of fear, distrust, or individual prejudice. Members of the dominant group in an organization may worry that newcomers from other groups pose a personal threat to their own position in the organization. For example, when U.S. firms have been taken over by Japanese firms, U.S. managers have sometimes been resentful or hostile to Japanese managers assigned to work with them. Employees may also be unwilling to accept people who are different from themselves. And personal bias and prejudices are still very real among some people today and can lead to potentially harmful conflict.

Managing Diversity in Organizations

Because of the tremendous potential that diversity holds for competitive advantage, as well as the possible consequences of diversity-related conflict, much

attention has been focused in recent years on how individuals and organizations can better manage diversity.

Individual Strategies

One key element of managing diversity consists of things that individuals can do. Understanding, of course, is the starting point. While people need to be treated fairly and equitably, managers must understand that differences do, in fact, exist among people. People should also try to understand the perspective of others. Tolerance is also important. Even though managers learn to understand diversity and even though they may try to empathize with others, the fact remains that they may still not accept or enjoy some aspect of behavior on the part of others. Communication is also important. Problems often get magnified over diversity issues because people are afraid or otherwise unwilling to openly discuss issues that relate to diversity. For example, suppose a younger employee has a habit of making jokes about the age of an elderly colleague. Perhaps the younger colleague means no harm and is just engaging in what she sees as good-natured kidding. But the older employee may find the jokes offensive. If there is no communication between the two, the jokes will continue and the resentment will grow. Eventually, what started as a minor problem may erupt into a much bigger one.

Organizational Approaches to Managing Diversity

While individuals can play an important role in managing diversity, the organization itself must also play a fundamental role. The starting point in managing diversity is the policies that an organization adopts that affect how it treats people. Another aspect of organizational policies that affects diversity is how the organization addresses and responds to problems that arise from diversity. For example, consider the example of a manager charged with sexual harassment. If the organization puts an excessive burden of proof on the individual being harassed and invokes only minor sanctions against the guilty party, it is sending a clear signal as to the importance of such matters. But the organization that has a balanced set of policies for addressing questions like sexual harassment sends its employees a different message as to the importance of diversity and individual rights and privileges. Organizations can also help manage diversity through a variety of ongoing practices and procedures. Avon has created networks for various groups within the firm. Benefit packages can be structured to better accommodate individual situations. Differences in family arrangements, religious holidays, cultural events, and so forth may dictate that employees have some degree of flexibility in when they work. Many organizations are finding that diversity training is an effective means for managing diversity and minimizing its associated conflict. More specifically, *diversity training* is training that is specifically designed to better enable members of an organization to function in a diverse workplace. The ultimate test of an organization's commitment to managing diversity, however, is its culture. Regardless of what managers say or put in writing, unless there is a basic and fundamental belief that diversity is valued, it cannot ever become a truly integral part of an organization.

Managing Labor Relations

Labor relations is the process of dealing with employees who are represented by a union. Managing labor relations is an important part of HRM.

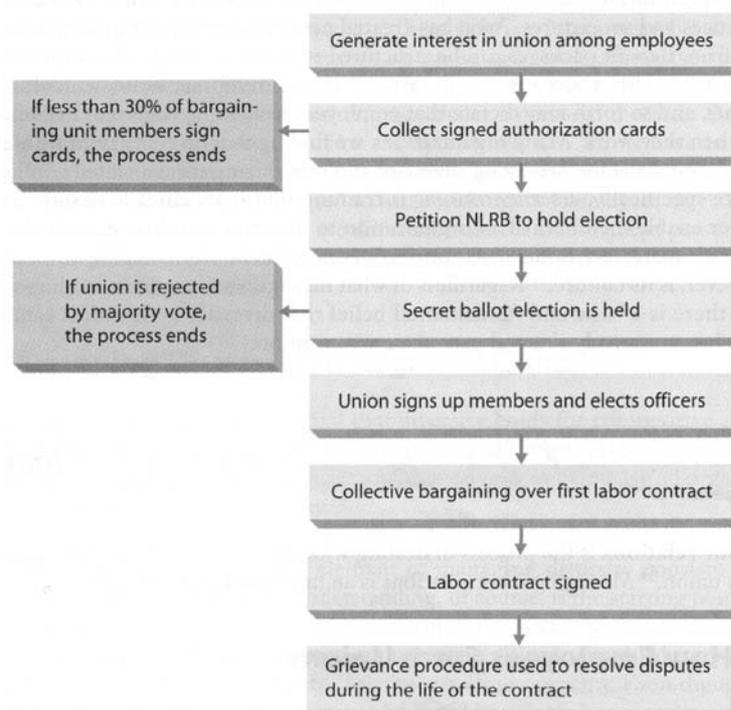
How Employees Form Unions

For employees to form a new local union, several things must occur. First, employees must become interested in having a union. Non-employees who are professional organizers employed by a national union (such as the Teamsters or United Auto Workers) may generate interest by making speeches and distributing literature outside the workplace. Inside, employees who want a union try to convince other workers of the benefits of a union.

The second step is to collect employees' signatures on authorization cards. These cards state that the signer wishes to vote to determine whether the union will represent him or her. Thirty percent of the employees in the potential bargaining unit must sign these cards to show the National Labor Relations Board (NLRB) that interest is sufficient to justify holding an election. Before an election can be held, however, the bargaining unit must be defined. The bargaining unit consists of all employees who will be eligible to vote in the election and to join and be represented by the union if one is formed.

The election is supervised by an NLRB representative (or, if both parties agree, the American Arbitration Association—a professional association of arbitrators) and is conducted by secret ballot. If a simple majority of those voting (not of all those eligible to vote) votes for the union, then the union becomes certified as the official representative of the bargaining unit. The new union then organizes itself by officially signing up members and electing officers; it will soon be ready to negotiate the first contract. The union-organizing process is diagrammed in Figure 8.4. If workers become disgruntled with their union or if management presents strong evidence that the union is not representing workers appropriately, the NLRB can arrange a de-certification election. The results of such an election determine whether the union remains certified.

Organizations usually prefer that employees not be unionized because unions limit management's freedom in many areas. Management may thus wage its own campaign to convince employees to vote against the union. "Un fair labor



practices" are often committed at this point. For instance, it is an unfair labor practice for management to promise to give employees a raise (or any other benefit) if the union is defeated. Experts agree that the best way to avoid unionization is to practice good employee relations all the time-not just when threatened by a union election. Providing absolutely fair treatment with clear standards in the areas of pay, promotion, layoff, and discipline; having a complaint or appeal system for persons who feel unfairly treated; and avoiding any kind of favoritism will help make employees feel that a union is unnecessary.

Collective Bargaining

The intent of collective bargaining is to agree on a labor contract between management and the union that is satisfactory to both parties. The contract contains agreements about issues such as wages and hours; conditions of employment, promotion, and layoff; discipline; benefits; methods of allocating overtime, vacations, and rest periods; and the grievance procedure. The process of bargaining may go on for weeks, months, or longer, with representatives of management and the union meeting to make proposals and counterproposals. The resulting agreement must be ratified by the union membership. If it is not approved, the union may strike to put pressure on management, or it may choose not to strike and simply continue negotiating until a more acceptable agreement is reached.

The grievance procedure is the means by which the contract is enforced: Most of what is in a contract concerns how management will treat employees. When employees feel that they have not been treated fairly under the contract, they file a grievance to correct the problem. The first step in a grievance procedure is for the aggrieved employee to discuss the alleged contract violation with her immediate superior. Often the grievance is resolved at this stage. If the employee still believes that she is being mistreated, however, the grievance can be appealed to the next level. A union official can help an aggrieved employee present her case. If the manager's decision is also unsatisfactory to the employee, additional appeals to successively higher levels are made, until finally all in-company steps are exhausted. The final step is to submit the grievance to binding arbitration. An arbitrator is a labor-law expert who is paid jointly by the union and management. The arbitrator studies the contract, hears both sides of the case, and renders a decision that both parties must obey. The grievance system for resolving disputes about contract enforcement heads off any need to strike during the term of the contract.

Summary of Key Points

Human resource management is concerned with acquiring, developing, and maintaining the human resources an organization needs. Its environmental context consists of its strategic importance and the legal and social environments that affect human resource management.

Attracting human resources is an important part of the HRM function. Human resource planning starts with job analysis and then focuses on forecasting the

organization's future need for employees, forecasting the availability of employees both within and outside the organization, and planning programs to ensure that the proper number and type of employees will be available when needed. Recruitment and selection are the processes by which job applicants are attracted, assessed, and hired. Methods for assessing applicants include application blanks, tests, interviews, and assessment centers. Any method used for selection should be properly validated.

Organizations must also work to develop their human resources. Training and development enable employees to perform their present jobs well and to prepare for future jobs. Performance appraisals are important for determining training needs, deciding pay raises and promotions, and providing helpful feedback to employees. Both objective and judgmental methods of appraisal can be applied, and a good system usually includes several methods. The validity of appraisal information is always a concern because it is difficult to accurately evaluate the many aspects of a person's job performance.

Maintaining human resources is also important. Compensation rates must be fair compared with rates for other jobs within the organization and with rates for the same or similar jobs in other organizations in the labor market. Properly designed incentive or merit pay systems can encourage high performance, and a good benefits program can help attract and retain employees. Career planning is also a major aspect of HRM.

Diversity exists in a group or organization when its members differ from one another along one or more important dimensions. Three of the more important dimensions of diversity are age, gender, and ethnicity. Diversity affects organizations in many different ways. Managing diversity in organizations can be done by both individuals and the organization itself.

If a majority of a company's non management employees so desire, they have the right to be represented by a union. Management must engage in collective bargaining with the union in an effort to agree on a contract. While the contract is in effect, the grievance system is used to settle labor disputes.

Discussion Questions

Questions for Review

1. Describe recruiting and selection. What are the major sources for recruits? What are the common selection techniques?
2. What is the role of compensation and benefits in organizations? How should the amount of compensation and benefits be determined?
3. Identify the major dimensions of diversity and discuss recent trends for each.
4. Summarize the basic impact of diversity on organizations.
5. What are the basic steps that employees can follow if they wish to create a union?

Questions Analysis

1. What are the advantages and disadvantages of internal and external recruiting? Which do you feel is best in the long term? Why? Be sure to think about this issue from the standpoint of both the organization and individuals (whether inside or outside of the organization) who might be considered for positions.

2. How do you know if a selection device is valid? What are the possible consequences of using invalid selection methods? How can an organization ensure that its selection methods are valid?
3. Are benefits more important than compensation to an organization? to an individual? Why?
4. The text outlines many different advantages of diversity in organizations. Can you think of any disadvantages?
5. When you finish school and begin your career, what should you be prepared to do to succeed in a diverse workforce?

Technical Skills

Exercise Overview

Technical skills refer to the manager's abilities to accomplish or understand work done in an organization. Many managers must have technical skills to hire appropriate people to work in the organization. This exercise helps you use technical skills as part of the selection process.

Exercise Background

Variation one: If you currently work full-time, or have worked full-time in the past, select two jobs with which you have some familiarity. One job should be relatively low in skill level, responsibility, required education, and pay; the other should be relatively high in skill level, responsibility, required education, and pay. The exercise will be more useful to you if you use real jobs that you can relate to at a personal level.

Variation two: If you have never worked full-time or if you are not personally familiar with an array of jobs, assume that you are a manager for a small manufacturing facility. You need to hire individuals to fill two jobs. One job is for the position of plant custodian. This individual will sweep floors, clean bathrooms, empty trash cans, and so forth. The other person will be office manager. This individual will supervise a staff of three clerks and secretaries, administer the plant payroll, and coordinate the administrative operations of the plan.

Exercise Task

With the information above as background, do the following:

1. Identify the most basic skills that you think are necessary for someone to perform each job effectively.
2. Identify the general indicators or predictors of whether or not a given individual can perform each job.
3. Develop a brief set of interview questions that you might use to determine whether or not an applicant has the qualifications to perform each job.
4. How important is it for a manager hiring employees to perform a job to have the technical skills to do that job him- or herself?

Communication Skills

Exercise Overview

All managers must be able to effectively communicate with others in the organization. Communication is especially important in the human resource area, since people are the domain of HRM.

Exercise Background

Many companies provide various benefits to their workers. These benefits may include such things as pay for time not worked, insurance coverage, pension plans, and so forth. These benefits are often very costly to the organization. As noted in the text, for example, benefits often equal around one-third of what employees are paid in wages and salaries. In some countries, such as Germany, the figures are even higher.

Yet, many employees often fail to appreciate the actual value of the benefits their employers provide. For example, employees frequently underestimate the dollar value of their benefits. And when comparing their income to that of others or when comparing alternative job offers, many people focus almost entirely on direct compensation—wages and salaries directly paid to the individual.

For example, consider a college graduate who has two offers. One job offer is for \$20,000 a year, and the other is for \$22,000. The individual is likely to see the second offer as being more attractive even if the first offer has sufficiently more attractive benefits to make the total compensation packages equivalent to one another.

Exercise Task

With this information as context, respond to the following:

1. Why do you think most people focus on pay when assessing their compensation?
2. If you were the human resource manager for a firm, how would you go about communicating benefit value to your employees?
3. Suppose an employee comes to you and says that he is thinking about leaving for a "better job." You then learn that he is defining "better" only in terms of higher pay. How might you help him compare total compensation (including benefits)?
5. Some firms today are cutting their benefits. How would you communicate a benefit cut to your employees?

Decision Making Skills

Exercise Overview

Decision-making skills include the manager's ability to correctly recognize and define problems and opportunities and to then select an appropriate course of action to solve problems and capitalize on opportunities. This exercise helps you develop decision-making skills by applying them to a human resource problem. Managers must frequently select one or more employees from a pool of employees for termination, layoff, special recognition, training, or promotion. Each such selection represents a decision.

Your company recently developed a plan to identify and train top hourly employees for promotion to first-line supervisor. As part of this program, your boss has requested a ranking of the six hourly employees who report to you with respect to their promotion potential. Given their biographical data, rank them in the order in which you would select them for promotion to first-line supervisor; that is, the person ranked number one would be first in line for promotion. Repeat this process in a group with three or four of your classmates.

Biographical Data

1. Sam Nelson: White male, age forty-five, married, with four children. Sam has been with the company for five years, and his performance evaluations have been average to above average. He is well liked by the other employees in the department. He devotes his spare time to farming and plans to farm after retirement.
2. Ruth Hornsby: White female, age thirty-two, married, with no children; husband has a management-level job with a power company. Ruth has been with the company for two years and has received above-average performance evaluations. She is very quiet and keeps to herself at work. She says she is working to save for a down payment on a new house.
3. Joe Washington: Black male, age twenty-six, single. Joe has been with the company for three years and has received high performance evaluations. He is always willing to take on new assignments and to work over time. He is attending college in the evenings and someday wants to start his own business. He is well liked by the other employees in the department.
4. Ronald Smith: White male, age thirty-five, recently divorced, with one child, age four. Ronald has received excellent performance evaluations during his two years with the company. He seems to like his present job but has removed himself from the line of progression. He seems to have personality conflicts with some of the employees in the department.
5. Betty Norris: Black female, age forty-four, married, with one grown child. Betty has been with the company for ten years and is well liked by fellow employees. Her performance evaluations have been average to below-average, and her advancement has been limited by a lack of formal education. She has participated in a number of technical training programs conducted by the company.

- Roy Davis: White male, age thirty-six, married, with two teenage children. Roy has been with the company for ten years and has received excellent performance evaluations until last year. His most recent evaluation was average. He is friendly and well liked by his fellow employees. One of his children has had a serious illness for over a year, resulting in a number of large medical expenses. Roy is working a second job on weekends to help with these expenses. He has expressed a serious interest in promotion to first-line supervisor.

Source

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You Make the Call

Mark Spenser decided that rather than talking to the two crew chiefs together, it might be more productive to meet with them individually. Thus, he asked one of them, Betty Bickham, to come by after work on Tuesday and the other one, Jason Taber, to come by on Wednesday.

His conversation with Betty was a bit tense to begin with. She had been the first woman he had hired for his lawn-care business, and she had worked hard to prove that she could perform the physically challenging work as well as any one. She had worked hard enough, she believed, that she should have been promoted instead of Manuel Hernandez. Mark assured her that he recognized and appreciated her hard work. He pointed out, however, that Manuel had worked for SLS three years longer than Betty and that he, too, had an exemplary performance record.

Mark also pointed out that because of her strong performance record she was being paid more than any of the other three crew chiefs. He assured her that if she got her crew back on track and kept up her strong performance, she would be next in line for a promotion. After thinking things over for a few minutes, Betty decided that Mark was right. She indicated that she had, indeed, not been working very hard or pushing her crew but that she would turn things around starting the very next day.

On Wednesday, Mark was pleased to see that Betty's crew was the first one finished and back at the warehouse. Jason Taber's crew came in last, but Mark was optimistic that his meeting with Jason would also be productive. Unfortunately, however, Mark's optimism was ill-founded. During their meeting, Mark was both surprised and disappointed to realize that Jason was prejudiced against ethnic minorities. Although he had had no trouble working with Manuel when they were both crew chiefs, he indicated that he had trouble taking orders from Manuel and seeing him in a position of authority.

Mark asked Jason point-blank if he could set his prejudices aside and get his performance back to where it needed to be. Jason said that he could not and that he assumed that he would have to resign. Mark indicated that he was sorry that Jason felt as he did but that it would indeed be necessary for Jason to leave.

The next day Mark and Manuel met and decided to promote one of the regular crew members from Jason's team to the position of crew chief. Manuel placed a

help-wanted ad in the newspaper and called the local office of the Texas Employment Commission to inform them of the new job opening. Within a few days, a new lawn-care team member had been hired and things were under control again.

Discussion Questions

1. Evaluate how Mark handled this situation.
2. If Jason had said that, even though he was prejudiced, he could "hide it" and still work effectively, should Mark still have fired him?
3. What recruiting and selection approaches are most likely to be used in a business like SLS?

Skills Self-Assessment Instrument

DIAGNOSING POOR PERFORMANCE AND ENHANCING MOTIVATION

Introduction

Formal performance appraisal and feedback are part of assuring proper performance in an organization. The following assessment is designed to help you understand how to detect poor performance and overcome it. Instructions: Please respond to these statements by entering a number from the following rating scale. Your answers should reflect your attitudes and behaviors as they are now.

Rating Scale

6 Strongly agree

5 Agree

4 Slightly agree

3 Slightly disagree

2 Disagree

1 Strongly disagree

When another person needs to be motivated:

1. I always approach a performance problem by first establishing whether it is caused by a lack of motivation or ability.
2. I always establish a clear standard of expected performance.
3. I always offer to provide training and information, without offering to do the task myself.
4. I am honest and straightforward in providing feedback on performance and assessing advancement opportunities.
5. I use a variety of rewards to reinforce exceptional performances.
6. When discipline is required, I identify the problem, describe its consequences, and explain how it should be corrected.
7. I design task assignments to make them interesting and challenging.
8. I determine what rewards are valued by the person and strive to make those available.
9. I make sure that the person feels fairly and equitably treated.
10. I make sure that the person gets timely feedback from those affected by task performance.

11. I carefully diagnose the causes of poor performance before taking any remedial or disciplinary actions.
12. I always help the person establish performance goals that are challenging, specific, and time bound.
13. Only as a last resort do I attempt to reassign or release a poor performing individual.
14. Whenever possible I make sure that valued rewards are linked to high performance.
15. I consistently discipline when effort is below expectations and capabilities.
16. I try to combine or rotate assignments so that the person can use a variety of skills.
17. I try to arrange for the person to work with others in a team, for the mutual support of all.
18. I make sure that the person is using realistic standards for measuring fairness.
19. I provide immediate compliments and other forms of recognition for meaningful accomplishments.
20. I always determine whether the person has the necessary resources and support to succeed in the task.

For interpretation see Appendix.

Source: D. Whetten/K. Cameron, *Developing Management Skills*, 3rd ed. (pages 358-359). © 1995 Addison Wesley Educational Publishers Inc. Reprinted by permission of Addison Wesley Longman.

Experiential Exercise

Choosing A Composition Strategy

Purpose

This exercise helps you better understand how internal and external market forces affect compensation strategies.

Introduction

Assume that you are the head of a large academic department in a major research university. Your salaries are a bit below external market salaries. For example, your assistant professors make between \$45,000 and \$55,000 a year, your associate professors make between \$57,000 and \$65,000 a year, and your full professors make between \$67,000 and \$75,000 a year.

Faculty who have been in your department for a long time enjoy the work environment and appreciate the low cost of living in the area. They know that they are somewhat underpaid, but offset this against the advantages of being in your department. Recently, however, external market forces have caused salaries for people in your field to escalate rapidly. Unfortunately, while your university acknowledges this problem, you have also been told that no additional resources can be made available to your department.

You currently have four vacant positions that need to be filled. One of these is at the rank of associate professor, and the other three are at the rank of assistant professor. You have surveyed other departments in similar universities, and realize

that to hire the best new assistant professors you will need to offer at least \$58,000 a year, and to get a qualified associate professor you will need to pay at least \$70,000. You have been given the budget to hire new employees at more competitive salaries, but cannot do anything to raise the salaries of faculty currently in your department. You have identified the following options:

1. You can hire new faculty from lower-quality schools that pay salaries that are below market rate.
2. You can hire the best people available, pay market salaries, and deal with internal inequities later.
3. You can hire fewer new faculty, use the extra money to boost the salaries of your current faculty, and cut class offerings in the future.

Instructions

Step One: Working alone, decide how you will proceed.

Step Two: Form small groups with your classmates and compare solutions.

Step Three: Identify the strengths and weaknesses of each option.

Follow-up Questions

1. Are there other options that might be pursued?
2. Assume that you chose option 2. How would you go about dealing with the internal equity problems?
3. Discuss with your instructor the extent to which this problem exists at your school.