



This is “Recruiting, Motivating, and Keeping Quality Employees”, chapter 7 from the book [An Introduction to Business \(index.html\)](#) (v. 1.0).

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Chapter 7

Recruiting, Motivating, and Keeping Quality Employees

The Grounds of a Great Work Environment

Howard Schultz has vivid memories of his father slumped on the couch with his leg in a cast. Introductory material on Howard Schultz and Starbucks comes from Howard Schultz and Dori Jones Yang, *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997), 3–8. The ankle would heal, but his father had lost another job—this time as a driver for a diaper service. It was a crummy job; still, it put food on the table, and if his father couldn't work, there wouldn't be any money. Howard was seven, but he understood the gravity of the situation, particularly because his mother was seven months pregnant, and the family had no insurance.

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

Figure 7.1



Howard Schultz toasts at the launch of their new “everyday” brew, Pike Place Roast, April 8, 2008, in Bryant Park in New York City.

Photo by Mario Tama/Getty Images

As a kid, did Schultz ever imagine that one day he’d be the founder and chairman of Starbucks Coffee Company? Of course not. But he did decide that if he was ever in a position to make a difference in the lives of people like his father, he’d do what he could. Remembering his father’s struggles and disappointments, Schultz has tried to make Starbucks the kind of company where he wished his father had worked. “Without even a high school diploma,” Schultz admits, “my father probably could never have been an executive. But if he had landed a job in one of our stores or roasting plants, he wouldn’t have quit in frustration because the company didn’t value him. He would have had good health benefits, stock options, and an atmosphere in which his suggestions or complaints would receive a prompt, respectful response.” Howard Schultz and Dori Jones Yang, *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997), 138.

Schultz is motivated by both personal and business considerations: “When employees have self-esteem and self-respect,” he argues, “they can contribute so much more: to their company, to their family, to the world.” Howard Schultz and Dori Jones Yang, *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997), 6–7. His commitment to his employees is

embedded in Starbucks's mission statement, whose first objective is to "provide a great work environment and treat each other with respect and dignity." "Starbucks Mission Statement," *Starbucks.com*, <http://www.starbucks.com/aboutus/environment.asp> (accessed May 6, 2006).

Video Clip

[\(click to see video\)](#)

A major piece of the Starbucks success story has been the superior service provided by its motivated employees.

7.1 Human Resource Management

LEARNING OBJECTIVE

1. Define *human resource management* and explain how managers develop and implement a human resource plan.

Employees at Starbucks are vital to the company's success. They are its public face, and every dollar of sales passes through their hands. Howard Schultz and Dori Jones Yang, *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997), 125. According to Howard Schultz, they can make or break the company. If a customer has a positive interaction with an employee, the customer will come back. If an encounter is negative, the customer is probably gone for good. That's why it's crucial for Starbucks to recruit and hire the right people, train them properly, motivate them to do their best, and encourage them to stay with the company. Thus, the company works to provide satisfying jobs, a positive work environment, appropriate work schedules, and fair compensation and benefits. These activities are part of Starbucks's strategy to deploy human resources in order to gain competitive advantage. The process is called **human resource management (HRM)**¹, which consists of all actions that an organization takes to attract, develop, and retain quality employees. Each of these activities is complex. Attracting talented employees involves the recruitment of qualified candidates and the selection of those who best fit the organization's needs. Development encompasses both new-employee orientation and the training and development of current workers. Retaining good employees means motivating them to excel, appraising their performance, compensating them appropriately, and doing what's possible to retain them.

Human Resource Planning

How does Starbucks make sure that its worldwide retail locations are staffed with just the right number of committed employees? How does Walt Disney World ensure that it has enough qualified "cast members" to provide visitors with a "magical" experience? How does Norwegian Cruise Lines make certain that when the *Norwegian Dawn* pulls out of New York harbor, it has a complete, fully trained crew on board to feed, entertain, and care for its passengers? Managing these tasks is a matter of **strategic human resource planning**²—the process of developing a plan for satisfying an organization's human resources (HR) needs.

1. All actions that an organization takes to attract, develop, and retain quality employees.
2. Process of developing a plan for satisfying an organization's human resource needs.

A strategic HR plan lays out the steps that an organization will take to ensure that it has the right number of employees with the right skills in the right places at the right times. HR managers begin by analyzing the company's mission, objectives, and strategies. Starbucks' objectives, for example, include the desire to "develop enthusiastically satisfied customers" Starbucks Mission Statement," *Starbucks.com*, <http://www.starbucks.com/aboutus/environment.asp> (accessed May 6, 2006). as well as to foster an environment in which employees treat both customers and each other with respect. Thus, the firm's HR managers look for people who are "adaptable, self-motivated, passionate, creative team members." "Job Center," *Starbucks.com*, <http://www.starbucks.com/aboutus/jobcenter.asp> (accessed May 6, 2006). Likewise, Disney's overall objectives include not only making all visitors feel as if they're special in a special place but also ensuring that employees' appearance reflects a special image (there's even a forty-seven-page book on the subject). "How Disney Puts the Magic in Recruiting," *Vault*, http://www.vault.com/nr/newsmain.jsp?nr_page=3&ch_id=400&article_id=51875&cat_id=1083 (accessed May 6, 2006). Disney looks for people who best fulfill these job requirements. The main goal of Norwegian Cruise Lines—to lavish passengers with personal attention—determines not only the type of employee desired (one with exceptionally good customer-relation skills and a strong work ethic) but also the number needed (one for every two passengers on the *Norwegian Dawn*). "Overview of Careers on Cruise Ships," *Career Prospects in Virginia*, http://www3.ccps.virginia.edu/career_prospects/briefs/PS/SummaryCruise.shtml (accessed May 6, 2006).

Job Analysis

To develop an HR plan, HR managers must obviously be knowledgeable about the jobs that the organization needs performed. They organize information about a given job by performing a **job analysis**³ to identify the tasks, responsibilities, and skills that it entails, as well as the knowledge and abilities needed to perform it. Managers also use the information collected for the job analysis to prepare two documents:

3. Identification of the tasks, responsibilities, and skills of a job, as well as the knowledge and abilities needed to perform it.
4. Outline of the duties and responsibilities of a position.
5. Detailed list of the qualifications needed to perform a job, including required skills, knowledge, and abilities.

- A **job description**⁴, which lists the duties and responsibilities of a position
- A **job specification**⁵, which lists the qualifications—skills, knowledge, and abilities—needed to perform the job

HR Supply and Demand Forecasting

Once they've analyzed the jobs within the organization, HR managers must forecast future hiring (or firing) needs. This is the three-step process summarized in [Figure 7.2 "How to Forecast Hiring \(and Firing\) Needs"](#).

Figure 7.2 How to Forecast Hiring (and Firing) Needs



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

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

Recruiting Qualified Employees

Armed with information on the number of new employees to be hired and the types of positions to be filled, the HR manager then develops a strategy for recruiting potential employees. **Recruiting**⁶ is the process of identifying suitable candidates and encouraging them to apply for openings in the organization.

Before going any further, we should point out that, in recruiting and hiring, managers must comply with antidiscrimination laws; violations can have legal

6. Process of identifying suitable candidates and encouraging them to apply for openings in the organization.

consequences. **Discrimination**⁷ occurs when a person is treated unfairly on the basis of a characteristic unrelated to ability. Under federal law, it's illegal to discriminate in recruiting and hiring on the basis of race, color, religion, sex, national origin, age, or disability. (The same rules apply to other employment activities, such as promoting, compensating, and firing.) The U.S. Equal Employment Opportunity Commission, "Discriminatory Practices," http://www.eeoc.gov/abouteeo/overview_practices.html (accessed May 6, 2006). The **Equal Employment Opportunity Commission (EEOC)**⁸ enforces a number of federal employment laws, including the following:

- Title VII of the Civil Rights Act of 1964, which prohibits employment discrimination based on race, color, religion, sex, or national origin. Sexual harassment is also a violation of Title VII.
- The Equal Pay Act of 1963, which protects both women and men who do substantially equal work from sex-based pay discrimination.
- The Age Discrimination in Employment Act of 1964, which protects individuals who are forty or older.
- Title I and Title V of the Americans with Disabilities Act of 1990, which prohibits employment discrimination against individuals with disabilities. The U.S. Equal Employment Opportunity Commission, "Federal Equal Employment Opportunity (EEO) Laws," http://www.eeoc.gov/abouteeo/overview_laws.html (accessed May 6, 2006).

Where to Find Candidates

The first step in recruiting is to find qualified candidates. Where do you look for them, and how do you decide whether they're qualified? Let's start with the second part of the question first. A qualified person must be able to perform the duties listed in the job description and must possess the skills, knowledge, and abilities detailed in the job specification. In addition, he or she must be a good "fit" for the company. A Disney recruiter, for example, wants a candidate who fits a certain image—someone who's clean-cut and "wholesome" looking. The same recruiter might also favor candidates with certain qualities—someone who has a "good attitude," who's a "go-getter" and a "team player," and who's smart, responsible, and stable. Bob Nelson and Peter Economy, *Managing for Dummies*, 2nd ed. (New York: Wiley, 2003), 60.

7. Practice of treating a person unfairly on the basis of a characteristic unrelated to ability.

8. Federal agency in charge of enforcing federal laws on employment discrimination.

Internal versus External Recruiting

Where do you find people who satisfy so many criteria? Basically, you can look in two places: inside and outside your own organization. Both options have pluses and minuses. Hiring internally sends a positive signal to employees that they can move

up in the company—a strong motivation tool and a reward for good performance. In addition, because an internal candidate is a known quantity, it's easier to predict his or her success in a new position. Finally, it's cheaper to recruit internally. On the other hand, you'll probably have to fill the promoted employee's position. Going outside gives you an opportunity to bring fresh ideas and skills into the company. In any case, it's often the only alternative, especially if no one inside the company has just the right combination of skills and experiences. Entry-level jobs usually have to be filled from the outside.

How to Find Candidates

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

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

- Newspaper classified ads
- Local job fairs
- A dedicated section of the corporate Web site ("Job Center," which lists openings, provides information about the Starbucks experience, and facilitates the submission of online applications)
- Announcements on employment Web sites like Monster.com and Vault.com
- In-store recruiting posters
- Informative "business cards" for distribution to customers "Target Your Recruitment Market," *InFocus: Recruiter News*, <http://www.net-temps.com/recruiters/infocus/article.htm?op=view&id=662> (accessed May 6, 2006).
- College-campus recruiting (holding on-campus interviews and information sessions and participating in career fairs)
- Internships designed to identify future talent among college students

When asked what it takes to attract the best people, Starbucks' senior executive Dave Olsen replied, "Everything matters." Everything Starbucks does as a company bears on its ability to attract talent. Accordingly, everyone is responsible for recruiting, not just HR specialists. In fact, the best source of quality applicants is the company's own labor force. David Lee, "Becoming a Talent Magnet: Your First Task

as a Recruiter: Recruit Senior Management onto Your Team,” <http://www.humannatureatwork.com/Recruiting-Employees.htm> (accessed May 6, 2006).

The Selection Process

Recruiting gets people to apply for positions, but once you’ve received applications, you still have to select the best candidate—another complicated process. The **selection**⁹ process entails gathering information on candidates, evaluating their qualifications, and choosing the right one. At the very least, the process can be time-consuming—particularly when you’re filling a high-level position—and often involves several members of an organization.

Let’s examine the selection process more closely by describing the steps that you’d take to become a special agent for the Federal Bureau of Investigation (FBI). The information in this section comes from two sources: Federal Bureau of Investigation, “Jobs: Special Agents,” <http://www.fbijobs.com/JobDesc.asp?scr=001&requisitionid=368> (accessed May 6, 2006); *Special Agent Selection Process: Applicant Information Booklet*, rev. September 1997, <http://www.fbi.gov/employment/booklet/SAapplinfobooklet.pdf> (accessed May 6, 2006). Most business students don’t generally aspire to become FBI agents, but the FBI is quite interested in business graduates—especially if you have a major in accounting or finance. With one of these backgrounds, you’ll be given priority in hiring. Why? Unfortunately, there’s a lot of white-collar crime that needs to be investigated, and people who know how to follow the money are well suited for the task.

Application

The first step in becoming a gun-toting accountant is, obviously, applying for the job. Don’t bother unless you meet the minimum qualifications: you must be a U.S. citizen, be age twenty-three to thirty-seven, be physically fit, and have a bachelor’s degree. To provide factual information on your education and work background, you’ll submit an **application**¹⁰, which the FBI will use as an initial screening tool.

9. Process of gathering information on candidates, evaluating their qualifications, and choosing the right one.

10. Document completed by a job applicant that provides factual information on the person’s education and work background.

Employment Tests

Next comes a battery of tests (a lot more than you’d take in applying for an everyday business position). Like most organizations, the FBI tests candidates on the skills and knowledge entailed by the job. Unlike most businesses, however, the FBI will also measure your aptitude, evaluate your personality, and assess your writing ability. You’ll have to take a polygraph (lie-detector) test to determine the

truthfulness of the information you've provided, uncover the extent of any drug use, and disclose potential security problems.

Interview

If you pass all these tests (with sufficiently high marks), you'll be granted an **interview**¹¹. It serves the same purpose as it does for business recruiters: it allows the FBI to learn more about you and gives you a chance to learn more about your prospective employer and your possible future in the organization. The FBI conducts *structured interviews*—a series of standard questions. You're judged on both your answers and your ability to communicate orally.

Figure 7.3



Interviewing candidates is the main way to gather the information necessary to make good hiring decisions.

© 2010 Jupiterimages Corporation

Physical Exam and Reference Checks

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

Final Decision

The last stage in the process is out of your control. Will you be hired or rejected? This decision is made by one or more people who work for the prospective employer. For a business, the decision maker is generally the line manager who oversees the position being filled. At the FBI, the decision is made by a team at FBI headquarters. If you're hired as a special agent, you'll spend sixteen weeks of intensive training at the FBI Academy in Quantico, Virginia.

Contingent Workers

Though most people hold permanent, full-time positions, there's a growing number of individuals who work at temporary or part-time jobs. Many of these are

11. Formal meeting during which the employer learns more about an applicant and the applicant learns more about the prospective employer.

contingent workers¹² hired to supplement a company's permanent workforce. Most of them are independent contractors, consultants, or freelancers who are paid by the firms that hire them. Others are *on-call workers* who work only when needed. Still others are *temporary workers* (or "temps") who are employed and paid by outside agencies or contract firms that charge fees to client companies.

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

The Pluses and Minuses of Temp Work

What about you? Does temporary work appeal to you? On the plus side, you can move around to various companies and gain a variety of skills. You can see a company from the inside and decide up front whether it's the kind of place you'd like to work at permanently. There are also some attractive lifestyle benefits. You might, for example, work at a job or series of jobs for, say, ten months and head for the beach for the other two. On the other hand, you'll probably get paid less, receive no benefits, and have no job security. For most people, the idea of spending two months a year on the beach isn't *that* appealing.

12. Temporary or part-time worker hired to supplement a company's permanent workforce.

KEY TAKEAWAYS

- The process of **human resource management** consists of all the actions that an organization takes to attract, develop, and retain quality employees.
- To ensure that the organization is properly staffed, managers engage in **strategic human resource planning**—the process of developing a plan for satisfying the organization’s human resource needs.
- Managers organize information about a given job by performing a **job analysis**, which they use to prepare two documents: a **job description** listing the duties and responsibilities of a position and a **job specification**, which lists the qualifications—skills, knowledge, and abilities—needed to perform the job.
- After analyzing the jobs that must be performed, the HR manager forecasts future hiring needs and begins the **recruiting** process to identify suitable candidates and encourage them to apply.
- In recruiting and hiring, managers must comply with antidiscrimination laws enforced by the **Equal Employment Opportunity Commission (EEOC)**.
- **Discrimination** occurs when a person is treated unfairly on the basis of a characteristic unrelated to ability, such as race, color, religion, sex, national origin, age, or disability.
- Once a pool of suitable candidates has been identified, managers begin the **selection** process, reviewing information provided by candidates on employment **applications** and administering tests to assess candidates’ skills and knowledge.
- Candidates who pass this stage may be granted an **interview** and, perhaps, offered a job.

EXERCISE

You’re the chairperson of the management department at your college. Describe the steps you’d take to ensure that your department has enough qualified faculty to meet its needs.

7.2 Developing Employees

LEARNING OBJECTIVE

1. Explain how companies train and develop employees, and discuss the importance of a diverse workforce.

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

New-Employee Orientation

Have you ever started your first day at a new job feeling upbeat and optimistic only to walk out at the end of the day thinking that maybe you've taken the wrong job? If this happens too often, your employer may need to revise its approach to **orientation**¹³—the way it introduces new employees to the organization and their jobs. Starting a new job is a little like beginning college; at the outset, you may be experiencing any of the following feelings:

- Somewhat nervous but enthusiastic
 - Eager to impress but not wanting to attract too much attention
 - Interested in learning but fearful of being overwhelmed with information
 - Hoping to fit in and worried about looking new or inexperienced
- "Induction: Orienting the New Employee," *HRM Guide Network*, <http://www.bestbooks.biz/learning/induction.html> (accessed May 6, 2006).

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

- Failing to have a workspace set up for you
- Ignoring you or failing to supervise you

13. Activities involved in introducing new employees to the organization and their jobs.

- Neglecting to introduce you to coworkers (or introducing you to so many people that you have no chance of remembering anybody's name)
- Assigning you no work or giving you busywork unrelated to your actual job
- Swamping you with facts about the company Susan Heathfield, "Top Ten Ways to Turn Off a New Employee," *About, Inc.*, <http://humanresources.about.com/library/weekly/aa022601a.htm> (accessed May 6, 2006).

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

Training and Development

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

How costly? For every \$1 in payroll that it spends, the consulting firm Booz Allen Hamilton invests almost \$0.08 in employee training and development. At Pfizer, the world's largest pharmaceutical company, the total is \$0.14 out of every payroll dollar. "Top 100: Top Five Profile and Rank," *Training Magazine*, March 2004, 42. What's the payoff? Why are such companies willing to spend so much money on their employees? Pfizer, whose motto is "Succeed through People," regards employee growth and development as its top priority. At Booz Allen Hamilton, consultants specialize in finding innovative solutions to client problems, and their employer makes sure that they're up-to-date on all the new technologies by maintaining a "technology petting zoo" at its training headquarters. It's called a "petting zoo" because employees get to see, touch, and interact with new technologies such as the Segway Human Transporter (a battery-operated vehicle that responds to the rider's movements) even before they hit the market. Tammy Galvin, "The 2003 Training Top 100," *Training Magazine*, March 2003, 2.

At Booz Allen Hamilton's technology "petting zoo," employees are receiving **off-the-job training**¹⁴. This approach allows them to focus on learning without the distractions that would occur in the office. More common, however, is informal **on-the-job training**¹⁵, which may be supplemented with formal training programs. This is the method, for example, by which you'd move up from mere coffee maker to a full-fledged "barista" if you worked at Starbucks. Brooke Locascio, "Working at Starbucks: More Than Just Pouring Coffee," *Tea and Coffee*, January/February 2004, <http://www.teaandcoffee.net/0104/coffee.htm> (accessed May 6, 2006). You'd begin by reading a large spiral book (titled *Starbucks University*) on the responsibilities of the barista. After you've passed a series of tests on the reading material, you'll move behind the coffee bar, where a manager or assistant manager will give you hands-on experience in making drinks. According to the rules, you can't advance to a new drink until you've mastered the one you're working on; the process, therefore, may take a few days (or even weeks). Next, you have to learn enough about different types of coffee to be able to describe them to customers. (Because this course involves drinking a lot of coffee, you don't have to worry about staying awake.) Eventually, you'll be declared a coffee connoisseur, but there's still one more set of skills to master: you must complete a customer-service course, which trains you in making eye contact with customers, anticipating their needs, and making them feel welcome. Howard Schultz and Dori Jones Yang, *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997), 250–51.

Diversity in the Workplace

The makeup of the U.S. workforce has changed dramatically over the past 50 years. In the 1950s, more than 60 percent was composed of white males. Judith Lindenberger and Marian Stoltz-Loike, "Diversity in the Workplace," The Economics and Policy Resource Center, <http://www.advertisingknowhow.com/article-archives/Business/Diversity-In-The-Workplace.html> (accessed May 6, 2006). Today's workforce, however, reflects the broad range of differences in the population—differences in gender, race, ethnicity, age, physical ability, religion, education, and lifestyle. As you can see in **Table 7.1 "Employment by Gender and Ethnic Group"**, more women and minorities have entered the workforce, and white males now make up only 37 percent of the workforce. U.S. Equal Employment Opportunity Commission, "Occupational Employment in Private Industry by Race/Ethnic Group/Sex, and by Industry, United States, 2002," <http://www.eeoc.gov/stats/jobpat/2002/us.html> (accessed May 6, 2006). Their percentage representation diminished as more women and minorities entered the workforce.

14. Formal employee training that occurs in a location away from the office.
15. Employee training (often informal) that occurs while the employee is on the job.

Most companies today strive for diverse workforces. HR managers work hard to recruit, hire, develop, and retain a workforce that's representative of the general population. In part, these efforts are motivated by legal concerns: discrimination in recruiting, hiring, advancement, and firing is illegal under federal law and is

prosecuted by the EEOC.U.S. Equal Employment Opportunity Commission, “Federal Laws Prohibiting Job Discrimination: Questions and Answers,” Federal Equal Employment Opportunity (EEO) Laws, <http://www.eeoc.gov/facts/qanda.html> (accessed May 6, 2006). Companies that violate antidiscrimination laws not only are subject to severe financial penalties but also risk damage to their reputations. In November 2004, for example, the EEOC charged that recruiting policies at Abercrombie & Fitch, a national chain of retail clothing stores, had discriminated against minority and female job applicants between 1999 and 2004. The employer, charged the EEOC, had hired a disproportionate number of white salespeople, placed minorities and women in less visible positions, and promoted a virtually all-white image in its marketing efforts. Six days after the EEOC filed a lawsuit, the company settled the case at a cost of \$50 million, but the negative publicity will hamper both recruitment and sales for some time to come.U.S. Equal Employment Opportunity Commission, “EEOC Agrees to Landmark Resolution of Discrimination Case Against Abercrombie & Fitch,” <http://www.eeoc.gov/press/11-18-04.html> (accessed May 6, 2006).

Table 7.1 Employment by Gender and Ethnic Group

Group	Total (%)	Males (%)	Females (%)
All employees	100	52	48
White	70	37	33
African American	14	6	8
Hispanic or Latino	11	6	5
Asian/Pacific Islander/Other	5	3	2

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

KEY TAKEAWAYS

- The process of introducing new employees to their jobs and to the company is called **orientation**.
- An effective approach is to take things slowly, providing new employees with information on a need-to-know basis while making them feel as comfortable as possible.
- New employees will need initial training to start their jobs, and they'll need additional training as they grow in or change their jobs.
- **Off-the-job training** allows them to focus on learning without the distractions that would occur in the office, but **on-the-job training** is more common.
- In addition to having well-trained employees, it's important that a workforce reflects the broad range of differences in the population.
- The efforts of HR managers to build a workforce that's representative of the general population are driven in part by legal concerns: discrimination is illegal, and companies that violate antidiscrimination laws are subject to prosecution.
- But ensuring a diverse workforce goes well beyond both legal compliance and ethical commitment. It's good business, because a diverse group of employees can bring fresh points of view that may be valuable in generating ideas and solving problems.
- Additionally, people from varied backgrounds can help an organization connect with an ethnically diverse customer base.

EXERCISES

1. (AACSB) Reflective Skills

Think about a full-time or part-time job that you've held. Was your orientation to the job satisfactory? If not, how would you have improved the process? Did you receive any training? Was it useful? What additional training would have helped you do a better job? How would it have benefited the company?

2. (AACSB) Diversity

While visiting a mall in Los Angeles, you noticed two stores located side by side selling electronic-entertainment products—CDs, DVDs, and so on. All the employees in one store were white males. The mix of workers in the other store—which happened to be more profitable—was more diverse. Why do you think the store with the diverse workforce did more business? In terms of diversity, what would be your ideal workforce in a store similar to these in Los Angeles?

7.3 Motivating Employees

LEARNING OBJECTIVE

1. Define *motivation* and describe several theories of motivation.

Motivation¹⁶ refers to an internally generated drive to achieve a goal or follow a particular course of action. Highly motivated employees focus their efforts on achieving specific goals; those who are unmotivated don't. It's the manager's job, therefore, to motivate employees—to get them to try to do the best job they can. But what motivates employees to do well? How does a manager encourage employees to show up for work each day and do a good job? Paying them helps, but many other factors influence a person's desire (or lack of it) to excel in the workplace. What are these factors? Are they the same for everybody? Do they change over time? To address these questions, we'll examine four of the most influential theories of motivation: *hierarchy-of-needs theory*, *two-factor theory*, *expectancy theory*, and *equity theory*.

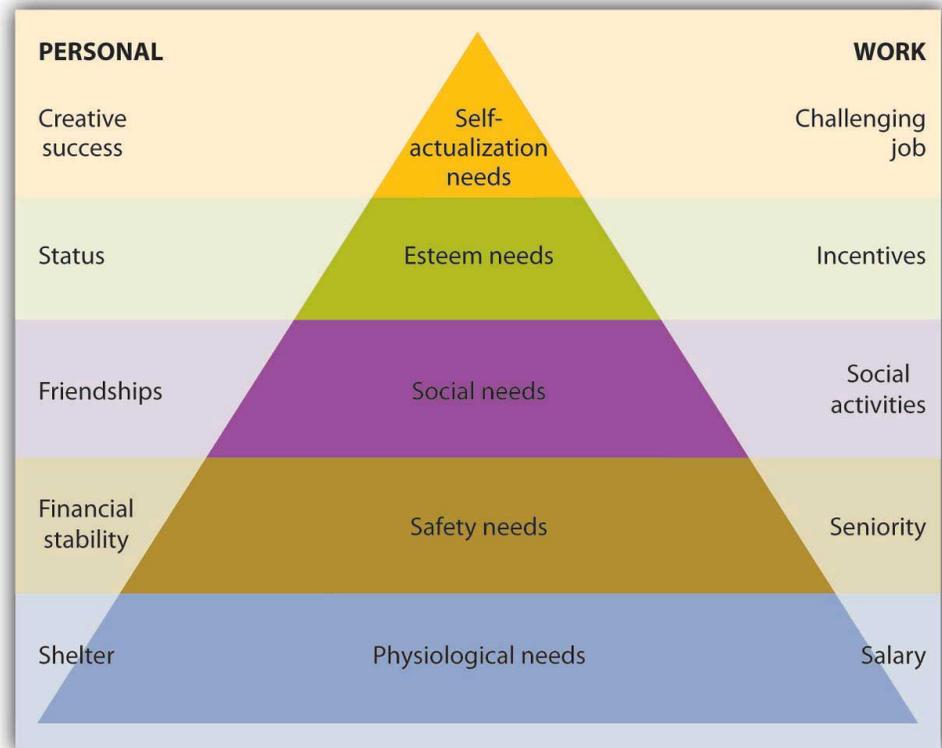
Hierarchy-of-Needs Theory

Psychologist Abraham Maslow's **hierarchy-of-needs theory**¹⁷ proposed that we are motivated by the five unmet needs, arranged in the hierarchical order shown in [Figure 7.4 "Maslow's Hierarchy-of-Needs Theory"](#), which also lists examples of each type of need in both the personal and work spheres of life. Look, for instance, at the list of personal needs in the left-hand column. At the bottom are *physiological* needs (such life-sustaining needs as food and shelter). Working up the hierarchy we experience *safety* needs (financial stability, freedom from physical harm), *social* needs (the need to belong and have friends), *esteem* needs (the need for self-respect and status), and *self-actualization* needs (the need to reach one's full potential or achieve some creative success).

16. Internally generated drive to achieve a goal or follow a particular course of action.

17. Theory of motivation that holds that people are motivated by a hierarchical series of unmet needs.

Figure 7.4 Maslow's Hierarchy-of-Needs Theory



There are two things to remember about Maslow's model:

1. We must satisfy lower-level needs before we seek to satisfy higher-level needs.
2. Once we've satisfied a need, it no longer motivates us; the next higher need takes its place.

Let's say, for example, that you've just returned to college and that for a variety of reasons that aren't your fault, you're broke, hungry, and homeless. Because you'll probably take almost any job that will pay for food and housing (*physiological* needs), you go to work repossessing cars. Fortunately, your student loan finally comes through, and with enough money to feed yourself, you can look for a job that's not so risky (a *safety* need). You find a job as a night janitor in the library, and though you feel secure, you start to feel cut off from your friends, who are active during daylight hours. You want to work among people, not books (a *social* need). So now you join several of your friends selling pizza in the student center. This job improves your social life, but even though you're very good at making pizzas, it's not terribly satisfying. You'd like something that will let you display your intellectual talents (an *esteem* need). So you study hard and land a job as an intern

in the governor's office. On graduation, you move up through a series of government appointments and eventually run for state senator. As you're sworn into office, you realize that you've reached your full potential (a *self-actualization* need) and you comment to yourself, "It doesn't get any better than this."

Needs Theory and the Workplace

Figure 7.5



Employees are motivated by different factors. For some, the ability to have fun at work is a priority.

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What implications does Maslow's theory have for business managers? There are two key points: (1) Not all employees are driven by the same needs and (2) the needs that motivate individuals can change over time. Managers should consider which needs different employees are trying to satisfy and should structure rewards and other forms of recognition accordingly. For example, when you got your first job repossessing cars, you were motivated by the need for money to buy food. If you'd been given a choice between a raise or a plaque recognizing your accomplishments, you'd undoubtedly have opted for the money. As a state senator, by contrast, you may prefer public recognition of work well done (say, election to higher office) to a pay raise.

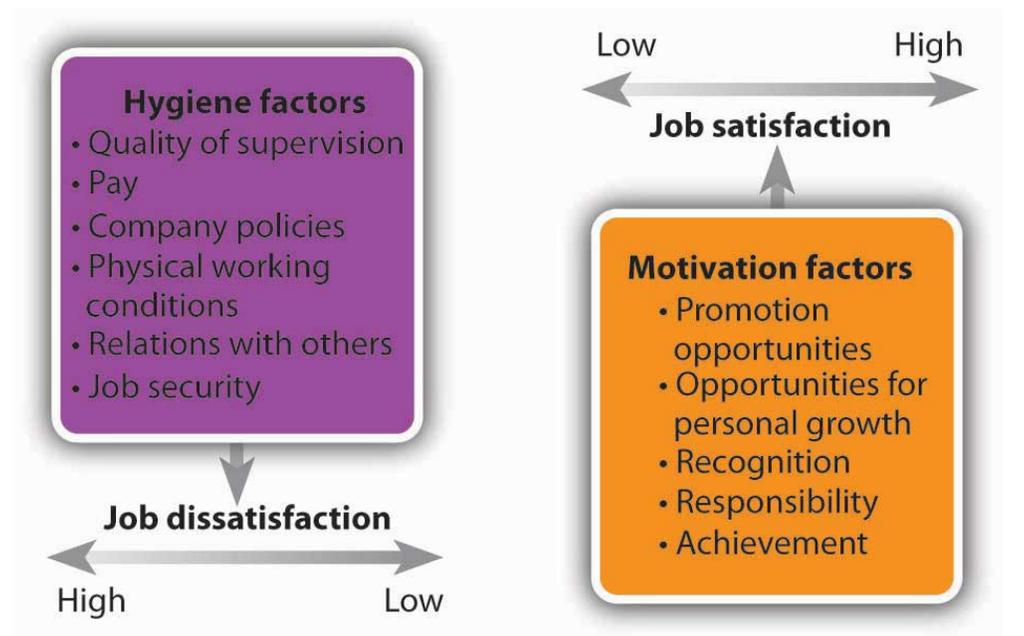
Two-Factor Theory

Another psychologist, Frederick Herzberg, set out to determine which work factors (such as wages, job security, or advancement) made people feel good about their jobs and which factors made them feel bad about their jobs. He surveyed workers, analyzed the results, and concluded that to understand employee *satisfaction* (or *dissatisfaction*), he had to divide work factors into two categories:

- *Motivation factors*. Those factors that are strong contributors to job satisfaction
- *Hygiene factors*. Those factors that are *not* strong contributors to satisfaction but that must be present to meet a worker's expectations and prevent job dissatisfaction

Figure 7.6 "Herzberg's Two-Factor Theory" illustrates Herzberg's **two-factor theory**¹⁸. Note that motivation factors (such as promotion opportunities) relate to *the nature of the work itself and the way the employee performs it*. Hygiene factors (such as physical working conditions) relate to *the environment in which it's performed*. (Note, too, the similarity between Herzberg's motivation factors and Maslow's esteem and self-actualization needs.)

Figure 7.6 Herzberg's Two-Factor Theory



18. Theory that holds that motivation involves both motivation factors (which contribute to job satisfaction) and hygiene factors (which help to prevent job dissatisfaction).

Two-Factor Theory and the Workplace

We'll ask the same question about Herzberg's model as we did about Maslow's: What does it mean for managers? Suppose you're a senior manager in an accounting firm, where you supervise a team of accountants, each of whom has been with the firm for five years. How would you use Herzberg's model to motivate the employees who report to you? Let's start with hygiene factors. Are salaries reasonable? What about working conditions? Does each accountant have his or her own workspace, or are they crammed into tiny workrooms? Are they being properly supervised or are they left on their own to sink or swim? If hygiene factors like these don't meet employees' expectations, they may be dissatisfied with their jobs.

As you can see in [Figure 7.6 "Herzberg's Two-Factor Theory"](#), fixing problems related to hygiene factors may alleviate job *dissatisfaction*, but it won't necessarily improve anyone's job *satisfaction*. To increase satisfaction (and motivate someone to perform better), you must address motivation factors. Is the work itself challenging and stimulating? Do employees receive recognition for jobs well done? Will the work that an accountant has been assigned help him or her to advance in the firm? According to Herzberg, motivation requires a twofold approach: eliminating dissatisfiers and enhancing satisfiers.

Expectancy Theory

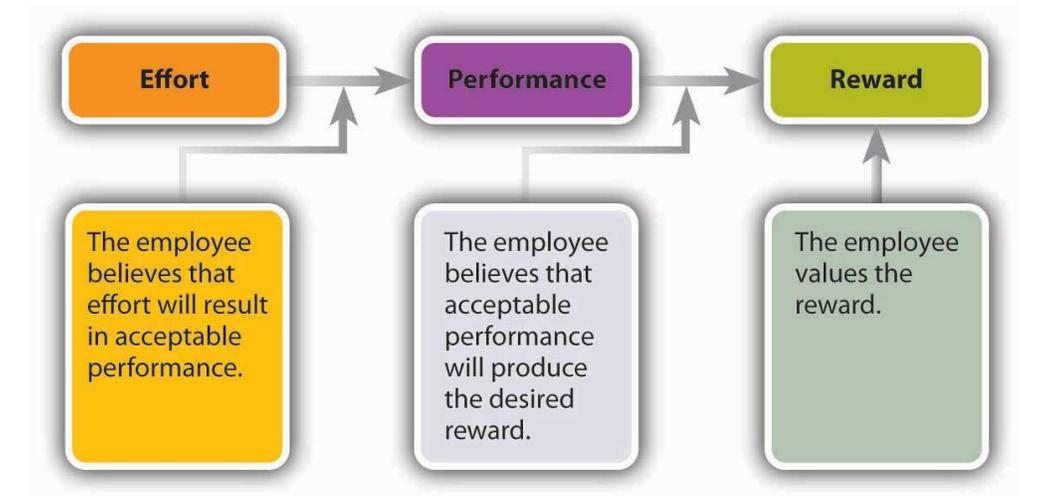
If you were a manager, wouldn't you like to know how your employees decide to work hard or goof off? Wouldn't it be nice to know whether a planned rewards program will have the desired effect—namely, motivating them to perform better in their jobs? Wouldn't it be helpful if you could measure the effect of bonuses on employee productivity? These are the issues considered by psychologist Victor Vroom in his **expectancy theory**¹⁹, which proposes that employees will work hard to earn rewards that they value and that they consider obtainable.

As you can see from [Figure 7.7 "Vroom's Expectancy Theory"](#), Vroom argues that an employee will be motivated to exert a high level of effort to obtain a reward under three conditions:

1. The employee believes that his or her efforts will result in acceptable performance.
2. The employee believes that acceptable performance will lead to the desired outcome or reward.
3. The employee values the reward.

19. Theory of motivation that proposes that employees will work hard to earn rewards they value and consider obtainable.

Figure 7.7 Vroom's Expectancy Theory



Expectancy Theory and the Workplace

To apply expectancy theory to a real-world situation, let's analyze an automobile-insurance company with one hundred agents who work from a call center. Assume that the firm pays a base salary of \$2,000 a month, plus a \$200 commission on each policy sold above ten policies a month. In terms of expectancy theory, under what conditions would an agent be motivated to sell more than ten policies a month?

1. The agent would have to believe that his or her efforts would result in policy sales (that, in other words, there's a positive link between effort and performance).
2. The agent would have to be confident that if he or she sold more than ten policies in a given month, there would indeed be a bonus (a positive link between performance and reward).
3. The bonus per policy—\$200—would have to be of value to the agent.

Now let's alter the scenario slightly. Say that the company raises prices, thus making it harder to sell the policies. How will agents' motivation be affected? According to expectancy theory, motivation will suffer. Why? Because agents may be less confident that their efforts will lead to satisfactory performance. What if the company introduces a policy whereby agents get bonuses only if buyers don't cancel policies within ninety days? How will this policy affect motivation? Now agents may be less confident that they'll get bonuses even if they do sell more than ten policies. Motivation will decrease because the link between performance and reward has been weakened. Finally, what will happen if bonuses are cut from \$200 to \$25? Obviously, the reward would be of less value to agents, and, again, motivation will suffer. The message of expectancy theory, then, is fairly clear:

managers should offer rewards that employees value, set performance levels that they can reach, and ensure a strong link between performance and reward.

Equity Theory

What if you spent thirty hours working on a class report, did everything you were supposed to do, and handed in an excellent assignment (in your opinion). Your roommate, on the other hand, spent about five hours and put everything together at the last minute. You know, moreover, that he ignored half the requirements and never even ran his assignment through a spell-checker. A week later, your teacher returns the reports. You get a C and your roommate gets a B+. In all likelihood, you'll feel that you've been treated unfairly relative to your roommate.

Your reaction makes sense according to the **equity theory**²⁰ of motivation, which focuses on our perceptions of how fairly we're treated *relative to others*. Applied to the work environment, this theory proposes that employees analyze their contributions or job inputs (hours worked, education, experience, work performance) and their rewards or job outcomes (salary, benefits, recognition). Then they create a contributions/rewards ratio and compare it to those of other people. The basis of comparison can be any one of the following:

- Someone in a similar *position*
- Someone holding a different position in the same *organization*
- Someone with a similar *occupation*
- Someone who shares certain *characteristics* (such as age, education, or level of experience)
- Oneself at another point in time

When individuals perceive that the ratio of their contributions to rewards is comparable to that of others, they perceive that they're being treated equitably; when they perceive that the ratio is out of balance, they perceive inequity. Occasionally, people will perceive that they're being treated better than others. More often, however, they conclude that others are being treated better (and that they themselves are being treated worse). This is what you concluded when you saw your grade. You've calculated your ratio of contributions (hours worked, research and writing skills) to rewards (project grade), compared it to your roommate's ratio, and concluded that the two ratios are out of balance.

20. Theory of motivation that focuses on our perceptions of how fairly we're treated relative to others.

What will an employee do if he or she perceives an inequity? The individual might try to bring the ratio into balance, either by decreasing inputs (working fewer hours, refusing to take on additional tasks) or by increasing outputs (asking for a raise). If this strategy fails, an employee might complain to a supervisor, transfer to

another job, leave the organization, or rationalize the situation (perhaps deciding that the situation isn't so bad after all). Equity theory advises managers to focus on treating workers fairly, especially in determining compensation, which is, naturally, a common basis of comparison.

KEY TAKEAWAYS

- **Motivation** describes an internally generated drive that propels people to achieve goals or pursue particular courses of action.
- There are four influential theories of motivation: hierarchy-of-needs theory, two-factor theory, expectancy theory, and equity theory.
- **Hierarchy-of-needs theory** proposes that we're motivated by five unmet needs—physiological, safety, social, esteem, and self-actualization— and must satisfy lower-level needs before we seek to satisfy higher-level needs.
- **Two-factor theory** divides work factors into motivation factors (those that are strong contributors to job satisfaction) and hygiene factors (those that, though not strong contributors to satisfaction, must be present to prevent job dissatisfaction). To increase satisfaction (and motivate someone to perform better), managers must address motivation factors.
- **Expectancy theory** proposes that employees work hard to obtain a reward when they value the reward, believe that their efforts will result in acceptable performance, and believe that acceptable performance will lead to a desired outcome or reward.
- **Equity theory** focuses on our perceptions of how fairly we're treated relative to others. This theory proposes that employees create contributions/rewards ratios that they compare to those of others. If they feel that their ratios are comparable to those of others, they'll perceive that they're being treated equitably.

EXERCISE

This chapter describes four theories of motivation: hierarchy-of-needs theory, two-factor theory, expectancy theory, and equity theory. Briefly describe each theory. Which one makes the most intuitive sense to you? Why do you find it appealing?

7.4 What Makes a Great Place to Work?

LEARNING OBJECTIVE

1. Identify factors that make an organization a good place to work, including competitive compensation and benefits packages.

Every year, the Great Places to Work Institute analyzes comments from thousands of employees and compiles a list of “The 100 Best Companies to Work for in America,” which is published in *Fortune* magazine. Having compiled its list for more than twenty years, the Institute concludes that the defining characteristic of a great company to work for is trust between managers and employees. Employees overwhelmingly say that they want to work at a place where employees “trust the people they work for, have pride in what they do, and enjoy the people they work with.” “What Makes a Great Place to Work?” Great Place to Work Institute, <http://www.greatplacetowork.com/great/index.php> (accessed May 6, 2006). They report that they’re motivated to perform well because they’re challenged, respected, treated fairly, and appreciated. They take pride in what they do, are made to feel that they make a difference, and are given opportunities for advancement. “What do Employees Say?” Great Place to Work Institute, <http://www.greatplacetowork.com/great/employees.php> (accessed May 6, 2006). The most effective motivators, it would seem, are closely aligned with Maslow’s higher-level needs and Herzberg’s motivating factors.

Job Redesign

The average employee spends more than two thousand hours a year at work. If the job is tedious, unpleasant, or otherwise unfulfilling, the employee probably won’t be motivated to perform at a very high level. Many companies practice a policy of **job redesign**²¹ to make jobs more interesting and challenging. Common strategies include *job rotation*, *job enlargement*, and *job enrichment*.

Job Rotation

Specialization promotes efficiency because workers get very good at doing particular tasks. The drawback is the tedium of repeating the same task day in and day out. The practice of **job rotation**²² allows employees to rotate from one job to another on a systematic basis, eventually cycling back to their original tasks. A computer maker, for example, might rotate a technician into the sales department

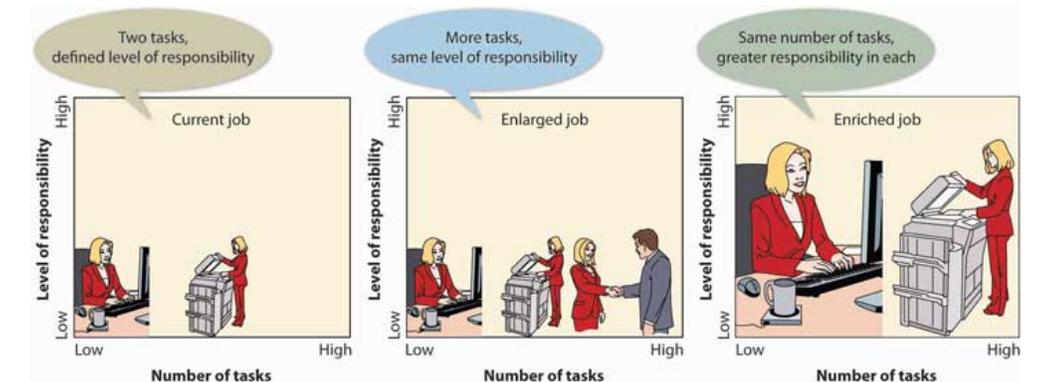
21. Management strategy used to increase job satisfaction by making jobs more interesting and challenging.
22. Job redesign strategy that allows employees to rotate from one job to another on a systematic basis.

to increase the employee’s awareness of customer needs and to give the employee a broader understanding of the company’s goals and operations. A hotel might rotate an accounting clerk to the check-in desk for a few hours each day to add variety to the daily workload. Rotated employees develop new skills and gain experience that increases their value to the company, which benefits management because cross-trained employees can fill in for absentees, thus providing greater flexibility in scheduling.

Job Enlargement

Instead of a job in which you performed just one or two tasks, wouldn’t you prefer a job that gave you many different tasks? In theory, you’d be less bored and more highly motivated if you had a chance at **job enlargement**²³—the policy of enhancing a job by adding tasks at similar skill levels (see [Figure 7.8 "Job Enlargement versus Job Enrichment"](#)). The job of sales clerk, for example, might be expanded to include gift-wrapping and packaging items for shipment. The additional duties would add variety without entailing higher skill levels.

Figure 7.8 Job Enlargement versus Job Enrichment



Job Enrichment

As you can see from [Figure 7.8 "Job Enlargement versus Job Enrichment"](#), merely expanding a job by adding similar tasks won’t necessarily “enrich” it by making it more challenging and rewarding. **Job enrichment**²⁴ is the practice of adding tasks that increase both responsibility and opportunity for growth. It provides the kinds of benefits that, according to Maslow and Herzberg, contribute to job satisfaction: stimulating work, sense of personal achievement, self-esteem, recognition, and a chance to reach your potential.

- 23. Job redesign strategy in which management enhances a job by adding tasks at similar skill levels.
- 24. Job redesign strategy in which management enriches a job by adding tasks that increase both responsibility and opportunity for growth.

Consider, for example, the evolving role of support staff in the contemporary office. Today, employees who used to be called “secretaries” assume many duties previously in the domain of management, such as project coordination and public relations. Information technology has enriched their jobs because they can now apply such skills as word processing, desktop publishing, creating spreadsheets, and managing databases. That’s why we now hear such a term as *administrative assistant* instead of *secretary*. Sandra Kerka, “The Changing Role of Support Staff,” <http://calpro-online.com/eric/docgen.asp?tbl=archive&ID=A019> (accessed May 6, 2006).

Work/Life Quality

Building a career requires a substantial commitment in time and energy, and most people find that they aren’t left with much time for nonwork activities. Fortunately, many organizations recognize the need to help employees strike a balance between their work and home lives. Jeffrey Greenhaus, Karen Collins, and Jason Shaw, “The Relationship between Work-Family Balance and Quality of Life,” *Journal of Vocational Behavior* 63, 2003, 510–31. By helping employees combine satisfying careers and fulfilling personal lives, companies tend to end up with a happier, less-stressed, and more productive workforce. The financial benefits include lower absenteeism, turnover, and health care costs.

Alternative Work Arrangements

The accounting firm KPMG, which has made the list of the “100 Best Companies for Working Mothers” for twelve years, KPMG firm Web site, Careers Section, <http://www.kpmgcareers.com/whoweare/awards.shtml> (accessed November 2, 2008). is committed to promoting a balance between its employees’ work and personal lives. KPMG offers a variety of work arrangements designed to accommodate different employee needs and provide scheduling flexibility. For information on KPMG’s programs and benefits, see “KPMGCareers.com,” <http://www.us.kpmg.com/careers/index.asp> (accessed May 6, 2006).

Flextime

Employers who provide for **flextime**²⁵ set guidelines that allow employees to designate starting and quitting times. Guidelines, for example, might specify that all employees must work eight hours a day (with an hour for lunch) and that four of those hours must be between 10 a.m. and 3 p.m. Thus, you could come in at 7 a.m. and leave at 4 p.m., while coworkers arrive at 10 a.m. and leave at 7 p.m. With permission you could even choose to work from 8 a.m. to 2 p.m., take two hours for lunch, and then work from 4 p.m. to 6 p.m.

25. Alternative work arrangement that allows employees to designate starting and quitting times.

Compressed Workweeks

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

Part-Time Work

If you're willing to have your pay and benefits adjusted accordingly you can work fewer than forty hours a week.

Job Sharing

Under **job sharing**²⁶, two people share one full-time position, splitting the salary and benefits of the position as each handles half the job. Often they arrange their schedules to include at least an hour of shared time during which they can communicate about the job.

Telecommuting

Telecommuting²⁷ means that you regularly work from home (or from some other nonwork location). You're connected to the office by computer, fax, and phone. You save on commuting time, enjoy more flexible work hours, and have more opportunity to spend time with your family. A study of 5,500 IBM employees (one-fifth of whom telecommute) found that those who worked at home not only had a better balance between work and home life but also were more highly motivated and less likely to leave the organization. Reported in "Study Finds No Downside to Telework," *Work & Family Newsbrief*, February 2004, http://www.findarticles.com/p/articles/mi_m0IIN/is_2004_Feb/ai_113315775 (accessed May 6, 2006).

Though it's hard to count telecommuters accurately, some estimates put the number at more than thirty million (about 20 percent of the 145 million U.S. workforce). Leslie Truex, "Work-at-Home Success,"

<http://workathomesuccess.com/wahsnews.htm> (accessed May 6, 2006).

Telecommuting isn't for everyone. Working at home means that you have to discipline yourself to avoid distractions, such as TV or pets, and some people feel isolated from social interaction in the workplace.

26. Work arrangement in which two people share one full-time position.

27. Work arrangement in which the employee regularly works from home.

Family-Friendly Programs

In addition to alternative work arrangements, many employers, including KPMG, offer programs and benefits designed to help employees meet family and home

obligations while maintaining busy careers. KPMG offers each of the following benefits.

Dependent Care

Caring for dependents—young children and elderly parents—is of utmost importance to some employees, but combining dependent-care responsibilities with a busy job can be particularly difficult. KPMG provides on-site child care during tax season (when employees are especially busy) and offers emergency backup dependent care all year round, either at a provider’s facility or in the employee’s home. To get referrals or information, employees can call KPMG’s LifeWorks Resource and Referral Service. KPMG is by no means unique in this respect: more than eight thousand companies maintain on-site day care, Bonnie Harris, “Child Care Comes to Work,” *Los Angeles Times*, November 19, 2000, <http://www.childrennow.org/newsroom/news-00/ra-11-19-00.htm> (accessed June 24, 2004). and 18 percent of all U.S. companies offer child-care resources or referral services. “New List of Best Companies for Mom,” *CNNMoney*, September 23, 2003 http://money.cnn.com/2003/09/23/news/companies/working_mother/?cnn=yes (accessed May 6, 2006).

Paid Parental Leave

Any employee (whether male or female) who becomes a parent can take two weeks of paid leave. New mothers also get time off through short-term disability benefits.

Caring for Yourself

Like many companies, KPMG allows employees to aggregate all paid days off and use them in any way they want. In other words, instead of getting, say, ten sick days, five personal days, and fifteen vacation days, you get a total of thirty days to use for anything. If you’re having personal problems, you can contact the Employee Assistance Program. If staying fit makes you happier and more productive, you can take out a discount membership at one of more than nine thousand health clubs.

Unmarried without Children

You’ve undoubtedly noticed by now that many programs for balancing work and personal lives target married people, particularly those with children. Single individuals also have trouble striking a satisfactory balance between work and nonwork activities, but many single workers feel that they aren’t getting equal consideration from employers. See Karen Collins and Elizabeth Hoover, “Addressing the Needs of the Single Person in Public Accounting,” *Pennsylvania CPA Journal*, June

1995, 16. They report that they're often expected to work longer hours, travel more, and take on difficult assignments to compensate for married employees with family commitments.

Needless to say, requiring singles to take on additional responsibilities can make it harder for them to balance their work and personal lives. It's harder to plan and keep personal commitments while meeting heavy work responsibilities, and establishing and maintaining social relations is difficult if work schedules are unpredictable or too demanding. Frustration can lead to increased stress and job dissatisfaction. In several studies of stress in the accounting profession, unmarried workers reported higher levels of stress than any other group, including married people with children. Data was obtained from 1988 and 1991 studies of stress in public accounting by Karen Collins and from a 1995 study on quality of life in the accounting profession by Collins and Jeffrey Greenhaus. Analysis of the data on single individuals was not separately published.

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

Compensation and Benefits

Though paychecks and benefits packages aren't the only reasons why people work, they do matter. Competitive pay and benefits also help organizations attract and retain qualified employees. Companies that pay their employees more than their competitors generally have lower turnover. Consider, for example, The Container Store, which regularly appears on *Fortune* magazine's list of "The 100 Best Companies to Work For." Robert Levering and Milton Moskowitz, "Special Report: The 100 Best Companies to Work For," *Fortune*, January 12, 2004, 56–62. The retail chain staffs its stores with fewer employees than its competitors but pays them more—in some cases, three times the industry average for retail workers. This strategy allows the company to attract extremely talented workers who, moreover, aren't likely to leave the company. Low turnover is particularly valuable in the

retail industry because it depends on service-oriented personnel to generate repeat business.

In addition to salary and wages, compensation packages often include other financial incentives, such as bonuses and profit-sharing plans, as well as benefits, such as medical insurance, vacation time, sick leave, and retirement accounts.

Wages and Salaries

The largest, and most important, component of a compensation package is the payment of wages or salary. If you're paid according to the number of hours you work, you're earning **wages**²⁸. Counter personnel at McDonald's, for instance, get wages, which are determined by multiplying an employee's hourly wage rate by the number of hours worked during the pay period. On the other hand, if you're paid for fulfilling the responsibilities of a position—regardless of the number of hours required to do it—you're earning a **salary**²⁹. The McDonald's manager gets a salary for overseeing the operations of the restaurant. He or she is expected to work as long as it takes to get the job done, without any adjustment in compensation.

Piecework and Commissions

Sometimes it makes more sense to pay workers according to the quantity of product that they produce or sell. Byrd's Seafood, a crab-processing plant in Crisfield, Maryland, pays workers on **piecework**³⁰: Workers' pay is based on the amount of crabmeat that's picked from recently cooked crabs. (A good picker can produce fifteen pounds of crabmeat an hour and earn about \$100 a day.) See "Crab Pickers," *Crisfield Off the Beaten Path*, <http://www.crisfield.com/sidestreet/ickers.html> (accessed May 6, 2006); Neil Learner, "Ashore, A Way of Life Built around the Crab," *Christian Science Monitor*, June 26, 2000, <http://csmonitor.com/cgi-bin/durableRedirect.pl?durable/2000/06/26/fp15s1-csm.shtml> (accessed May 6, 2006). If you're working on **commission**³¹, you're probably getting paid for quantity of sales. If you were a sales representative for an insurance company, like The Hartford, you'd get a certain amount of money for each automobile or homeowner policy that you sell. The Hartford, "Career Opportunities," <http://thehartford.hire.com/joblist.html> (accessed May 6, 2006).

Incentive Programs

In addition to regular paychecks, many people receive financial rewards based on performance, whether their own, their employer's, or both. At computer-chip maker Texas Instruments (TI), for example, employees may be eligible for bonuses, profit sharing, and stock options. All three plans are **incentive programs**³²:

28. Compensation paid to employees based on the number of hours worked.
29. Compensation paid for fulfilling the responsibilities of a position regardless of the number of hours required to do it.
30. Compensation paid to workers according to the quantity of a product that they produce or sell.
31. Compensation paid to employees based on the dollar amount of sales that they make.
32. Program designed to financially reward employees for good performance.

programs designed to reward employees for good performance. Texas Instruments, “Benefits,” <http://www.ti.com/recruit/docs/benefits.shtml> (accessed May 6, 2006).

Bonus Plans

TI’s year-end **bonuses**³³—annual income given in addition to salary—are based on company-wide performance. If the company has a profitable year, and if you contributed to that success, you’ll get a bonus. If the company doesn’t do well, you’re out of luck, regardless of what you contributed.

Bonus plans have become quite common, and the range of employees eligible for bonuses has widened in recent years. In the past, bonus plans were usually reserved for managers above a certain level. Today, however, companies have realized the value of extending plans to include employees at virtually every level. The magnitude of bonuses still favors those at the top. High-ranking officers (such as CEOs and CFOs) often get bonuses ranging from 30 percent to 50 percent of their salaries. Upper-level managers may get from 15 percent to 25 percent and middle managers from 10 percent to 15 percent. At lower levels, employees may expect bonuses from 3 percent to 5 percent of their annual compensation. Jeff D. Opdyke, “Getting a Bonus Instead of a Raise,” *Wall Street Journal*, December 29, 2004, <http://www.azcentral.com/business/articles/1229wsj-bonuses29-ON.html> (accessed December 29, 2004).

Profit-Sharing Plans

TI also maintains a **profit-sharing plan**³⁴, which relies on a predetermined formula to distribute a share of the company’s profits to eligible employees. Today, about 40 percent of all U.S. companies offer some type of profit-sharing program. Lee Ann Obringer, “How Employee Compensation Works—Stock Options/Profit Sharing,” *HowStuffWorks*, <http://money.howstuffworks.com/benefits.htm> (accessed May 6, 2006). TI’s plan, however, is a little unusual: while most plans don’t allow employees to access profit-sharing funds until retirement or termination, TI employees get their shares immediately—in cash.

TI’s plan is also pretty generous—as long as the company has a good year. Here’s how it works. An employee’s profit share depends on the company’s operating profit for the year. If profits from operations reach 10 percent of sales, the employee gets a bonus worth 4 percent of his or her salary. If operating profit soars to 20 percent, the employee bonuses go up to 26 percent of salary. But if operating profits fall short of a certain threshold, nobody gets anything. Texas Instruments, “Benefits,” <http://www.ti.com/recruit/docs/profit.shtml> (accessed May 6, 2006).

33. Annual income given to employees (in addition to salary) based on company-wide performance.

34. Incentive program that uses a predetermined formula to distribute a share of company profits to eligible employees.

(This is what happened in 2001 through 2003 and is happening again today because of poor economic times.)

Stock-Option Plans

Like most **stock-option plans**³⁵, the TI plan gives employees the right to buy a specific number of shares of company stock at a set price on a specified date. At TI, an employee may buy stock at its selling price at the time when he or she was given the option. So, if the price of the stock goes up, the employee benefits. Say, for example, that the stock was selling for \$30 a share when the option was granted in 2005. In 2007, it was selling for \$40 a share. Exercising his or her option, the employee could buy TI stock at the 2005 price of \$30 a share—a bargain price. Texas Instruments, “Benefits,” <http://www.ti.com/recruit/docs/profit.shtml> (accessed May 6, 2006).

At TI, stock options are used as an incentive to attract and retain top people. Starbucks, by contrast, isn’t nearly as selective in awarding stock options. At Starbucks, all employees can earn “Bean Stock”—the Starbucks employee stock-option plan. Both full- and part-time employees get options to buy Starbucks shares at a set price. If the company does well and its stock goes up, employees make a profit. CEO Howard Schultz believes that Bean Stock pays off: because employees are rewarded when the company does well, they have a stronger incentive to add value to the company (and so drive up its stock price). Shortly after the program was begun, the phrase “bean-stocking” became workplace lingo for figuring out how to save the company money.

Benefits

Another major component of an employee’s compensation package is **benefits**³⁶—compensation other than salaries, hourly wages, or financial incentives. Types of benefits include the following:

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

35. Incentive program that allows eligible employees to buy a specific number of shares of company stock at a set price on a specified date.

36. Compensation other than salaries, hourly wages, or financial incentives.

Unfortunately, the cost of providing benefits is staggering. According to the U.S. Chamber of Commerce, it costs an employer 42 percent of a worker’s salary to provide the same worker with benefits. So if you’re a manager making \$100,000 a year, your employer is also paying out another \$42,000 for your benefits. The most

money goes for health care (15 percent of salary costs), paid time off (12 percent), and retirement benefits (6 percent). U.S. Chamber of Commerce, “Chamber Survey Shows Worker Benefits Continue Growth,” January 2004, <http://www.uschamber.com/press/releases/2004/january/04-07.htm> (accessed May 6, 2006).

Some workers receive only benefits required by law, including Social Security, unemployment, and workers’ compensation. Low-wage workers generally get only limited benefits and part-timers often nothing at all. *National Compensation Survey: Employee Benefits in Private Industry, 2003*, U.S. Department of Labor, Bureau of Labor Statistics, March 2003, 2, <http://www.bls.gov/ncs/ebs/home.htm> (accessed May 6, 2006). Again, Starbucks is generous in offering benefits. The company provides benefits even to the part-timers who make up two-thirds of the company’s workforce; anyone working at least twenty hours a week gets medical coverage.

KEY TAKEAWAYS

- Employees report that they're motivated to perform well when they're challenged, respected, treated fairly, and appreciated.
- Other factors may contribute to employee satisfaction. Some companies use **job redesign** to make jobs more interesting and challenging.
 - **Job rotation** allows employees to rotate from one job to another on a systematic basis.
 - **Job enlargement** enhances a job by adding tasks at similar skill levels.
 - **Job enrichment** adds tasks that increase both responsibility and opportunity for growth.
- Many organizations recognize the need to help employees strike a balance between their work and home lives and offer a variety of work arrangements to accommodate different employee needs.
- **Flextime** allows employees to designate starting and quitting times, compress workweeks, or perform part-time work.
- With **job sharing**, two people share one full-time position.
- **Telecommuting** means working from home. Many employers also offer dependent care, paid leave for new parents, employee-assistance programs, and on-site fitness centers.
- Competitive compensation also helps.
- Workers who are paid by the hour earn **wages**, while those who are paid to fulfill the responsibilities of the job earn **salaries**.
- Some people receive **commissions** based on sales or are paid for output, based on a **piecework** approach.
- In addition to pay, many employees can earn financial rewards based on their own and/or their employer's performance.
- They may receive year-end **bonuses**, participate in **profit-sharing plans** (which use predetermined formulas to distribute a share of company profits among employees), or receive **stock options** (which let them buy shares of company stock at set prices).
- Another component of many compensation packages is **benefits**—compensation other than salaries, wages, or financial incentives. Benefits may include paid time off, insurance, and retirement benefits.

EXERCISE

(AACSB) Analysis

1. Describe the ideal job that you'd like to have once you've finished college. Be sure to explain the type of work schedule that you'd find most satisfactory, and why. Identify family-friendly programs that you'd find desirable and explain why these appeal to you.
2. Describe a typical compensation package for a sales manager in a large organization. If you could design your own compensation package, what would it include?

7.5 Performance Appraisal

LEARNING OBJECTIVE

1. Explain how managers evaluate employee performance and retain qualified employees.

Employees generally want their managers to tell them three things: what they should be doing, how well they're doing it, and how they can improve their performance. Good managers address these issues on an ongoing basis. On a semiannual or annual basis, they also conduct formal **performance appraisals**³⁷ to discuss and evaluate employees' work performance.

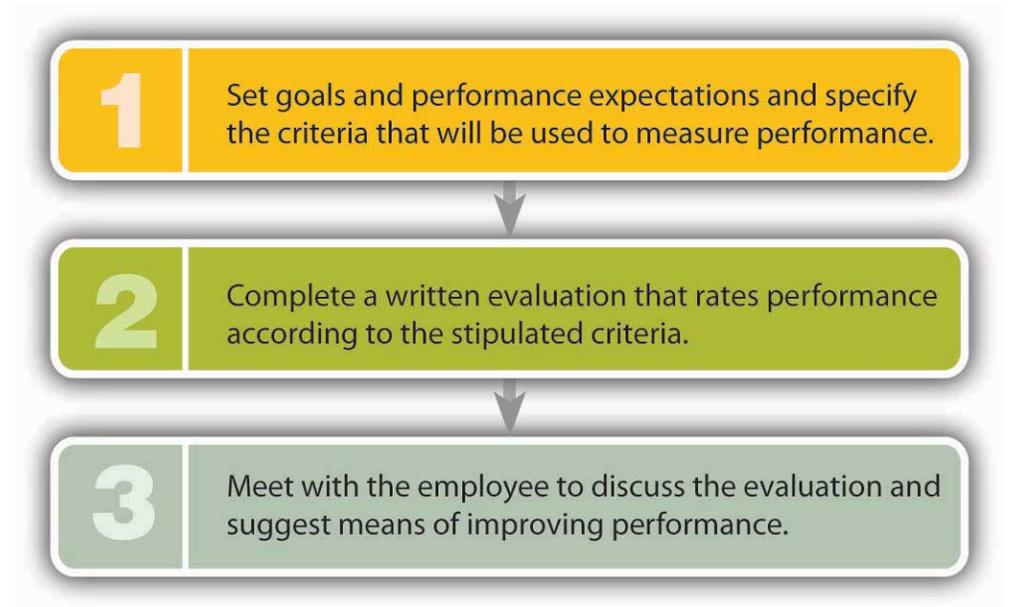
The Basic Three-Step Process

Appraisal systems vary both by organization and by the level of the employee being evaluated, but as you can see in [Figure 7.9 "How to Do a Performance Appraisal"](#), it's generally a three-step process:

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

37. Formal process in which a manager evaluates an employee's work performance.

Figure 7.9 How to Do a Performance Appraisal



It sounds fairly simple, but why do so many managers report that, except for firing people, giving performance appraisals is their least favorite task? Susan Heathfield, “Performance Appraisals Don’t Work,” *About*, <http://humanresources.about.com/cs/perfmeasurement/1/aa061100a.htm> (accessed May 6, 2006). To get some perspective on this question, we’ll look at performance appraisals from both sides, explaining the benefits and identifying potential problems with some of the most common practices.

Among other benefits, formal appraisals provide the following:

- An opportunity for managers and employees to discuss an employee’s performance and to set future goals and performance expectations
- A chance to identify and discuss appropriate training and career-development opportunities for an employee
- Formal documentation of the evaluation that can be used for salary, promotion, demotion, or dismissal purposes Bob Nelson and Peter Economy, *Managing for Dummies*, 2nd ed. (New York: Wiley, 2003), 140.

As for disadvantages, most stem from the fact that appraisals are often used to determine salaries for the upcoming year. Consequently, meetings to discuss performance tend to take on an entirely different dimension: the manager appears judgmental (rather than supportive), and the employee gets defensive. It’s the adversarial atmosphere that makes many managers not only uncomfortable with

the task but also unlikely to give honest feedback. (They tend to give higher marks in order to avoid delving into critical evaluations.) HR professionals disagree about whether performance appraisals should be linked to pay increases. Some experts argue that the connection eliminates the manager's opportunity to use the appraisal to improve an employee's performance. Others maintain that it increases employee satisfaction with the process and distributes raises on the basis of effort and results. Archer North & Associates, "Reward Issues," *Performance Appraisal*, <http://www.performance-appraisal.com/rewards.htm> (accessed May 6, 2006).

360-Degree and Upward Feedback

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

Some experts, however, regard the 360-degree approach as too cumbersome. An alternative technique, called *upward feedback*, requires only the manager's subordinates to provide feedback. Computer maker Dell uses this approach as part of its manager-development plan. Every six months, forty thousand Dell employees complete a survey in which they rate their supervisors on a number of dimensions, such as practicing ethical business principles and providing support in balancing work and personal life. Like most companies using this technique, Dell uses survey results for development purposes only, not as direct input into decisions on pay increases or promotions. Michele M. Melendez, "Business Can Gain When Worker Gets to Evaluate Boss," *Newhouse News Service*, June 6, 2004, <http://www.mindbridge.com/news/boss.htm> (accessed May 6, 2006).

Retaining Valuable Employees

When a valued employee quits, the loss to the employer can be serious. Not only will the firm incur substantial costs to recruit and train a replacement, but it also may suffer temporary declines in productivity and lower morale among remaining employees who have to take on heavier workloads. Given the negative impact of **turnover**³⁸—the permanent separation of an employee from a company—most organizations do whatever they can to retain qualified employees. Compensation plays a key role in this effort: companies that don't offer competitive compensation packages (including benefits) tend to lose employees. But other factors come into play, some of which we discussed earlier, such as training and development, as well as helping employees achieve a satisfying work/nonwork balance. In the following

38. Permanent separation of an employee from a company.

sections, we'll look at a few other strategies for reducing turnover and increasing productivity. Gregory P. Smith, "How to Attract, Keep and Motivate Your Workforce," *Business Know-How*, <http://www.businessknowhow.com/manage/attractworkforce.htm> (accessed May 6, 2006).

Creating a Positive Work Environment

Employees who are happy at work are more productive, provide better customer service, and are more likely to stay with the company. A study conducted by Sears, for instance, found a positive relationship between customer satisfaction and employee attitudes on ten different issues: a 5 percent improvement in employee attitudes results in a 1.3 percent increase in customer satisfaction and a 0.5 percent increase in revenue. "Companies Are Finding It Really Pays to Be Nice to Employees," *Wall Street Journal*, July 22, 1998, B1, <http://www.octanner.com/news/July1998.html> (accessed May 6, 2006).

The Employee-Friendly Workplace

What sort of things improve employee attitudes? The ten thousand employees of software maker SAS Institute fall into the category of "happy workers." They choose the furniture and equipment in their own (private) offices; eat subsidized meals at one of three on-site restaurants; enjoy free soft drinks, fresh fruit on Mondays, M&M's on Wednesdays, and a healthy breakfast snack on Fridays in convenient break rooms; and swim and work out at a seventy-seven-thousand-square-foot fitness center. They set their own work hours, and they're encouraged to stay home with sick children. They also have job security: no one's been laid off in twenty-six years. The employee-friendly work environment helps SAS employees focus on their jobs and contribute to the attainment of company goals. Great Place to Work Institute, "Innovation Awards: SAS," <http://www.greatplacetowork.com/education/innovate/honoree-2003-sas.php> (accessed May 6, 2006); Morley Safer, *CBS 60 Minutes*, interview with Jim Goodnight, president and founder of SAS Institute, April 20, 2003, <http://www.cbsnews.com/stories/2003/04/18/60minutes/main550102.shtml> (accessed May 6, 2006); "SAS Makes Fortune's '100 Best Companies to Work For,'" <http://www.sas.com/news/feature/12jan06/fortune.html> (accessed May 6, 2006). For a description of the company's work/life initiatives, visit its Web site at <http://www.sas.com/corporate/worklife/index.html>. Not surprisingly, it also results in very low turnover.

Recognizing Employee Contributions

Thanking people for work done well is a powerful motivator. People who feel appreciated are more likely to stay with a company than those who don't. Robert McGarvey, "A Tidal Wave of Turnover," *American Way*, December 15, 2004, 32-36.

While personal thank-yous are always helpful, many companies also have formal programs for identifying and rewarding good performers. The Container Store, a national storage and container retailer, rewards employee accomplishments in a variety of ways. Recently, for example, twelve employees chosen by coworkers were rewarded with a Colorado vacation with the company's owners, and the seven winners of a sales contest got a trip to visit an important supplier—in Sweden. The Container Store, "Careers," <http://www.containerstore.com/careers/index.jhtml;jsessionid=0C2Q2LP3RTG0XQFIAIMCM44AVABBMJVC> (accessed May 6, 2006). The company is known for its supportive environment and has frequently been selected as one of the top U.S. companies to work for.

Involving Employees in Decision Making

Companies have found that involving employees in decisions saves money, makes workers feel better about their jobs, and reduces turnover. Some have found that it pays to take their advice. When General Motors asked workers for ideas on improving manufacturing operations, management was deluged with more than forty-four thousand suggestions during one quarter. Implementing a few of them cut production time on certain vehicles by 15 percent and resulted in sizable savings. Freda Turner, "An Effective Employee Suggestion Program Has a Multiplier Effect," *The CEO Refresher*, <http://www.refresher.com/!ftmultiplier.html> (accessed May 6, 2006).

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

Why People Quit

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

- Making unreasonable work demands
- Refusing to value their opinions
- Failing to be clear about what's expected of subordinates
- Rejecting work unnecessarily

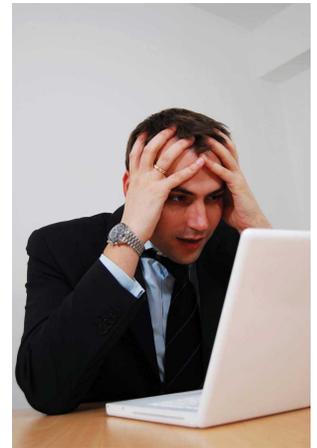
- Showing favoritism in compensation, rewards, or promotions Gregory P. Smith, “Top Ten Reasons Why People Quit Their Jobs,” *The CEO Refresher*, <http://www.refresher.com/!gpsquit.html> (accessed May 6, 2006).

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

Involuntary Termination

Before we leave this section, we should say a word or two about *termination*—getting fired. Though turnover—voluntary separations—can create problems for employers, they’re not nearly as devastating as the effects of involuntary termination on employees. Losing your job is what psychologists call a “significant life change,” and it’s high on the list of “stressful life events” regardless of the circumstances. Sometimes, employers lay off workers because revenues are down and they must resort to **downsizing**³⁹—to cutting costs by eliminating jobs. Sometimes a particular job is being phased out, and sometimes an employee has simply failed to meet performance requirements.

Figure 7.10



Trying to meet unreasonable work demands can be extremely stressful and is a major reason people quit their jobs.

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Employment at Will

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

39. Practice of eliminating jobs to cut costs.

40. Legal doctrine that allows an employer to fire an employee at will.

Fortunately for you, over the past several decades, the courts have undercut employers’ rights under the **employment-at-will**⁴⁰ doctrine. Charles J. Muhl, “The

Employment-at-Will Doctrine: Three Major Exceptions,” *Monthly Labor Review*, January 2001, 1-11, <http://www.bls.gov/opub/mlr/2001/01/art1full.pdf> (accessed May 6, 2006). By and large, management can no longer fire employees at will: usually, employers must show just cause for termination, and in some cases, they must furnish written documentation to substantiate the reasons for terminating an employee. If it’s a case of poor performance, the employee is generally warned in advance that his or her current level of performance could result in termination. As a rule, managers give employees who have been warned a reasonable opportunity to improve performance. When termination is unavoidable, it should be handled in a private conversation, with the manager explaining precisely why the action is being taken.

KEY TAKEAWAYS

- Managers conduct **performance appraisals** to evaluate work performance, usually following a three-step process:
 1. Setting goals and performance expectations and specifying the criteria for measuring performance
 2. Completing written evaluations to rate performance according to predetermined criteria
 3. Meeting with employees to discuss evaluations and ways to improve performance
- **Turnover**—the permanent separation of an employee from a company—has a negative effect on an organization.
- In addition to offering competitive compensation, companies may take a variety of steps to retain qualified employees:
 1. Providing appropriate training and development
 2. Helping employees achieve a satisfying work/nonwork balance in their lives
 3. Creating a positive work environment
 4. Recognizing employee efforts
 5. Involving employees in decision making
- On the other hand, employers may have to terminate the employment of (that is, fire) some workers.
 1. They may lay off workers because revenues are down and they have to **downsize**—to cut costs by eliminating jobs.
 2. Sometimes a job is phased out, and sometimes an employee simply fails to meet performance requirements.
- If there's no written employment contract, the employment relationship falls under the principle of **employment-at-will**, by which an employer can end it at any time. Usually, however, the employer must show just cause.

EXERCISES

1. What steps does a manager take in evaluating an employee's performance? Explain the benefits of performance appraisals, and identify some of the potential problems entailed by the performance-evaluation process.
2. As an HR manager, what steps would you take to retain valuable employees? Under what circumstances would you fire an employee? Can you fire someone without giving that person a warning?

7.6 Labor Unions

LEARNING OBJECTIVE

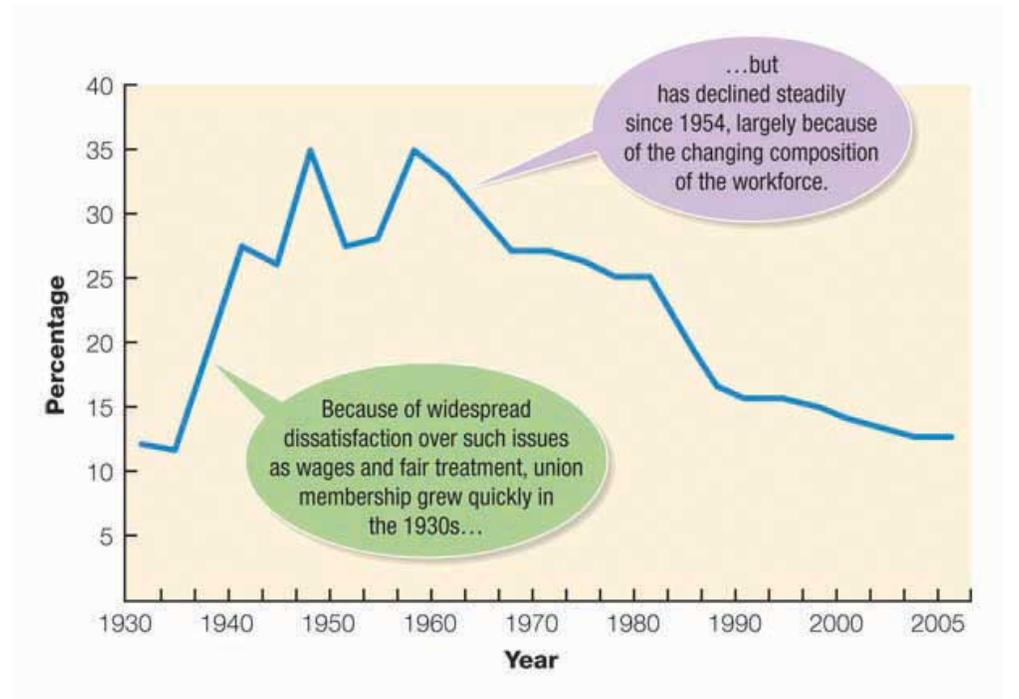
1. Explain why workers unionize and how unions are structured, and describe the collective-bargaining process.

As we saw earlier, Maslow believed that individuals are motivated to satisfy five levels of unmet needs (physiological, safety, social, esteem, and self-actualization). From this perspective, employees should expect that full-time work will satisfy at least the two lowest-level needs: they should be paid wages that are sufficient for them to feed, house, and clothe themselves and their families, and they should have safe working conditions and some degree of job security. Organizations also have needs: they need to earn profits that will satisfy their owners. Sometimes, the needs of employees and employers are consistent: the organization can pay decent wages and provide workers with safe working conditions and job security while still making a satisfactory profit. At other times, there is a conflict—real, perceived, or a little bit of both—between the needs of employees and those of employers. In such cases, workers may be motivated to join a **labor union**⁴¹—an organized group of workers that bargains with employers to improve its members' pay, job security, and working conditions.

Figure 7.11 "Labor Union Density, 1930–2005" charts *labor-union density*—union membership as a percentage of payrolls—in the United States from 1930 to 2005. As you can see, there's been a steady decline since the mid-1950s. Only membership among public workers (those employed by federal, state, and local governments, such as teachers, police, and firefighters) has remained steady, and, today, only about 12.5 percent of U.S. workers (about 10 percent in the private sector and 40 percent in the public sector) belong to unions. See Michael R. Carrell and Christina Heavrin, *Labor Relations and Collective Bargaining: Cases, Practice, and Law*, 7th ed. (Upper Saddle River, NJ: Pearson Education, 2004), 52–54.

41. Organized group of workers that bargains with employers to improve its members' pay, job security, and working conditions.

Figure 7.11 Labor Union Density, 1930–2005



Why the decline? Many factors come into play. For one thing, there are more women in the workforce, and they're more likely to work part-time or intermittently. In addition, we've shifted from a manufacturing-based economy characterized by large, historically unionized companies to a service-based economy made up of many small firms that are hard to unionize. U.S. Department of Labor, Bureau of Labor Statistics, "Union Members in 2003" January 2004, <http://www.bls.gov/cps> (accessed December 30, 2004); U.S. Department of Labor, Bureau of Labor Statistics, Union Members Summary, January 20, 2006, <http://www.bls.gov/news.release/union2.nr0.htm> (accessed May 6, 2006).

Union Structure

Unions have a pyramidal structure much like that of large corporations. At the bottom are *locals* that serve workers in a particular geographical area. Certain members are designated as *shop stewards* to serve as go-betweens in disputes between workers and supervisors. Locals are usually organized into *national unions* that assist with local contract negotiations, organize new locals, negotiate contracts for entire industries, and lobby government bodies on issues of importance to organized labor. In turn, national unions may be linked by a *labor federation*, such as the American Federation of Labor/Congress of Industrial Organizations (AFL/CIO), which provides assistance to member unions and serves as the principal political organ for organized labor.

Collective Bargaining

In a nonunion environment, the employer makes largely unilateral decisions on issues affecting its labor force, such as salary and benefits. Management, for example, may simply set an average salary increase of 3 percent and require employees to pay an additional \$50 a month for medical insurance. Typically, employees are in no position to bargain for better deals. (At the same time, however, for reasons that we've discussed earlier in this chapter, employers have a vested interest in treating workers fairly. A reputation for treating employees well, for example, is a key factor in attracting talented people.)

The process is a lot different in a union environment. Basically, union representatives determine with members what they want in terms of salary increases, benefits, working conditions, and job security. Union officials then tell the employer what its workers want and ask what they're willing to offer. When there's a discrepancy between what workers want and what management is willing to give—as there usually is—union officials serve as *negotiators* to bring the two sides together. The process of settling differences and establishing mutually agreeable conditions under which employees will work is called **collective bargaining**⁴².

The Negotiation Process

Negotiations start when each side states its position and presents its demands. As in most negotiations, these opening demands simply stake out starting positions. Both parties expect some give-and-take and realize that the final agreement will fall somewhere between the two positions. If everything goes smoothly, a tentative agreement is reached and then voted on by union members. If they accept the agreement, the process is complete and a contract is put into place to govern labor-management relations for a stated period. If workers reject the agreement, negotiators go back to the bargaining table.

Mediation and Arbitration

If negotiations stall, the sides may call in outsiders. One option is **mediation**⁴³, under which an impartial third party assesses the situation and makes recommendations for reaching an agreement. A mediator's advice can be accepted or rejected. If the two sides are willing to accept the decision of a third party, they may opt instead for **arbitration**⁴⁴, under which the third party studies the situation and arrives at a binding agreement.

42. Process by which management and union-represented workers settle differences.

43. Approach used to resolve a labor-contract dispute by following the recommendation of an impartial third party.

44. Process of resolving a labor-contract dispute by having a third party study the situation and arrive at a *binding* agreement.

Grievance Procedures

Another difference between union and nonunion environments is the handling of **grievances**⁴⁵—worker complaints on contract-related matters. When nonunion workers feel that they’ve been treated unfairly, they can take up the matter with supervisors, who may or may not satisfy their complaints. When unionized workers have complaints (such as being asked to work more hours than stipulated under their contract), they can call on union representatives to resolve the problem, in conjunction with supervisory personnel. If the outcome isn’t satisfactory, the union can take the problem to higher-level management. If there’s still no resolution, the union may submit the grievance to an arbitrator.

When Negotiations Break Down

At times, labor and management can’t resolve their differences through collective bargaining or formal grievance procedures. When this happens, each side may resort to a variety of tactics to win support for its positions and force the opposition to agree to its demands.

Union Tactics

The tactics available to the union include *striking*, *picketing*, and *boycotting*. When they go on **strike**⁴⁶, workers walk away from their jobs and refuse to return until the issue at hand has been resolved. As undergraduates at Yale discovered when they arrived on campus in fall 2003, the effects of a strike can engulf parties other than employers and strikers: with four thousand dining room workers on strike, students had to scramble to find food at local minimarkets. The strike—the ninth at the school since 1968—lasted twenty-three days, and in the end, the workers got what they wanted: better pension plans.

Though a strike sends a strong message to management, it also has consequences for workers, who don’t get paid when they’re on strike. Unions often ease the financial pressure on strikers by providing cash payments. (Some unionized workers, by the way, don’t have the right to strike. Strikes by federal employees, such as air-traffic controllers, are illegal because they jeopardize the public interest.)

45. Union worker complaints on contract-related matters.

46. Union tactic by which workers walk away from their jobs and refuse to return until a labor-management dispute has been resolved.

When you see workers parading with signs outside a factory or an office building (or even a school), they're probably **picketing**⁴⁷. The purpose of picketing is informative—to tell people that a workforce is on strike or to publicize some management practice that's unacceptable to the union. In addition, because other union workers typically won't cross picket lines, marchers can interrupt the daily activities of the targeted organization. How would you like to show up for classes to find faculty picketing outside the classroom building? In April 2001, faculty at the University of Hawaii, unhappy about salaries, went on strike for thirteen days. Initially, many students cheerfully headed for the beach to work on their tans, but before long, many more—particularly graduating seniors—began to worry about finishing the semester with the credits they needed to keep their lives on schedule. "Hawaii Professors End Strike," *USA Today*, June 19, 2001, <http://www.usatoday.com/news/nation/2001-04-18-hawaii.htm> (accessed May 6, 2006).

Figure 7.12



The adverse affects of a strike can impact management and workers alike.

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The final tactic available to unions is **boycotting**⁴⁸, in which union workers refuse to buy a company's products and try to get other people to follow suit. The tactic is often used by the AFL/CIO, which maintains a national "Don't Buy or Patronize" boycott list. In 2003, for example, at the request of two affiliates, the Actor's Equity Association and the American Federation of Musicians, the AFL/CIO added the road show of the Broadway musical *Miss Saigon* to the list. Why? The unions objected to the use of nonunion performers who worked for particularly low wages and to the use of a "virtual orchestra," an electronic apparatus that can replace a live orchestra with software-generated orchestral accompaniment. Union Label and Service Department, AFL/CIO, "AFL-CIO National Boycott List," November–December 2004, <http://www.unionlabel.org/boycott.jsp> (accessed May 6, 2006).

Management Tactics

Management doesn't sit by passively, especially if the company has a position to defend or a message to get out. One available tactic is the **lockout**⁴⁹—closing the workplace to workers—though it's rarely used because it's legal only when unionized workers pose a credible threat to the employer's financial viability. Another tactic is replacing striking workers with **strikebreakers**⁵⁰—nonunion workers who are willing to cross picket lines to replace strikers. Though the law prohibits companies from permanently replacing striking workers, it's often

- 47. Union tactic of parading with signs outside a factory or other facility to publicize a strike.
- 48. Method used by union members to voice displeasure with certain organizations by refusing to buy the company's products and encouraging others to follow suit.
- 49. Management tactic of closing the workplace to union workers.
- 50. Nonunion workers who are willing to cross picket lines to replace strikers.

possible for a company to get a court injunction that allows it to bring in replacement workers.

Lockout tactics were used in the 2004–2005 labor dispute between the National Hockey League (NHL) and the National Hockey League Players Association. When club owners and players failed to reach a salary agreement before the 2004 season, the owners imposed a lockout. Neither side would give in: the players wanted to retain a market-based salary system that let them negotiate salaries individually, while owners argued for a salary structure with some type of salary cap that would put a limit on total salaries. With the 2004–2005 season defunct, the NHL considered the option of declaring an impasse and bringing in replacement players (strikebreakers) for the next season. Though legally possible (at least in the United States), the action would certainly have been unpopular among the consumers of their product (the fans). National Hockey League Labor Dispute (2004), *Wikipedia*, [http://en.wikipedia.org/wiki/National_Hockey_League_labor_dispute_\(2004\)](http://en.wikipedia.org/wiki/National_Hockey_League_labor_dispute_(2004)) (accessed May 6, 2006).

The Future of Unions

As we noted earlier, union membership in the United States is declining. So, what's the future of organized labor? Will membership continue to decline and unions lose even more power? The AFL/CIO is optimistic about union membership, pointing out recent gains in membership among women and immigrants, as well as health care workers, graduate students, and professionals. AFL-CIO, "How & Why People Join Unions," *Unions 101*, <http://www.aflcio.org/joinaunion/union101.cfm> (accessed May 6, 2006).

But convincing workers to unionize is still more difficult than it used to be and could become even harder in the future. For one thing, employers have developed strategies for dissuading workers from unionizing—in particular, tactics for withholding job security. If unionization threatens higher costs for wages and benefits, they can resort to part-time or contract workers. They can also outsource work, eliminating jobs entirely, and more employers are now investing in technology designed to reduce the amount of human labor needed to produce goods or offer services.

KEY TAKEAWAYS

- Some workers belong to **labor unions**—organized groups of workers that bargain with employers to improve members’ pay, job security, and working conditions.
 - Unions have a pyramidal structure. At the bottom are *locals*, who serve workers in a particular geographical area.
 1. Locals are usually organized into *national unions* that assist with local contract negotiations and negotiate industry-wide contracts.
 2. Nationals may be linked by a *labor federation*, such as the AFL/CIO, which provides assistance to member unions and serves as the principal political organ for organized labor.
 - When there’s a discrepancy between what workers want in terms of salary increases, benefits, working conditions, and job security and what management is willing to give, the two sides engage in a process called **collective bargaining**.
 1. If everything goes smoothly, a contract is soon put into place.
 2. If negotiations break down, the sides may resort to **mediation** (in which an impartial third party makes recommendations for reaching an agreement) or **arbitration** (in which the third party imposes a binding agreement).
 - When unionized workers feel that they’ve been treated unfairly, they can file **grievances**—complaints over contract-related matters that are resolved by union representatives and employee supervisors.
 - If labor differences can’t be resolved through collective bargaining or formal grievance procedures, each side may resort to a variety of tactics. The union can do the following:
 1. Call a **strike** (in which workers leave their jobs until the issue is settled)
 2. Organize **picketing** (in which workers congregate outside the workplace to publicize their position)
 3. Arrange for **boycotting** (in which workers and other consumers are urged to refrain from buying an employer’s products)

- Management may resort to a **lockout**—closing the workplace to workers—or call in **strikebreakers** (nonunion workers who are willing to cross picket lines to replace strikers).

EXERCISES

1. You've just gotten a job as an autoworker. Would you prefer to work in a unionized or nonunionized plant? Why? If you were hired as a high-level manager in the company, would you want your workers to be unionized? Why, or why not? What's your opinion on the future of organized labor? Will union membership grow or decline in the next decade? Why, or why not?
2. What happens in a unionized company when negotiations between labor and management break down? Identify and describe the tactics that unions can use against management and those that management can use against unions.

7.7 Cases and Problems

LEARNING ON THE WEB (AACSB)

What's Your (Emotional) IQ?

If you were an HR manager, on what criteria would you base a hiring decision—intelligence (IQ), education, technical skills, experience, references, or performance on the interview? All these can be important determinants of a person's success, but some experts believe that there's an even better predictor of success. It's called *emotional intelligence* (or EI), and it gained some currency in the mid-1990s thanks to Daniel Goleman's book *Emotional Intelligence: Why It Can Matter More Than IQ*. EI is the ability to understand both our own emotions and those of others, as well as the ability to use that understanding in managing our behavior, motivating ourselves, and encouraging others to achieve goals.

An attractive aspect of EI is that, unlike IQ, it's not fixed at an early age. Rather, its vital components—self-awareness, self-management, social awareness, and relationship management—can be strengthened over time. To assess your level of EI, go to the Web site maintained by the Hay Group, a management-consulting firm, and take the ten-item test that's posted there (http://psychology.about.com/library/quiz/bl_eq_quiz.htm?questnum=6&cor=2399). After completing the test, you'll get your EI score, some instructions for interpreting it, and an answer key.

When you've finished with the test, rank the following items according to the importance that you'd give them in making a hiring decision: intelligence, education, technical skills, experience, references, interview skills, and emotional intelligence. Explain your ranking.

CAREER OPPORTUNITIES

Are You a People Person?

You might not like the idea of sitting across the desk from a corporate college recruiter and asking for a job, but what if you were on the other side of the desk? As a recruiter, you'd get to return to campus each year to encourage students to join your company. Or, maybe you'd like to help your company develop a new compensation and benefits program, implement a performance-evaluation system, or create a new training program. All these activities fall under the umbrella of HR.

To learn more about the field of HR, go to the WetFeet Web site (<http://wetfeet.com/Careers-and-Industries/Industries/Human-Resources.aspx#jobdescriptions>) and read the page "Human Resources Overview." Then answer these questions:

1. What is the human resources field like?
2. What do HR professionals like about their jobs? What do they dislike?
3. Are job prospects in the HR field positive or negative? Which HR areas will experience the fastest growth?
4. Based on the job descriptions posted, which specific HR job would you want?

Finally, write a paragraph responding to this question: Do you find the HR field interesting? Why, or why not?

ETHICS ANGLE (AACSB)

Misstating the Facts

Life couldn't get much better for George O'Leary when he was named the head football coach at Notre Dame. Unfortunately, he barely had time to celebrate his new job before he was ruled ineligible: after just a week on the job, he was forced to resign, embarrassing himself, his family, his friends, and Notre Dame itself. Why? Because of a few lies that he'd put on his résumé twenty years earlier. To get the facts behind this story, go to the *Sports Illustrated* Web site (http://sportsillustrated.cnn.com/football/college/news/2001/12/14/oleary_notredame) and read the article "Short Tenure: O'Leary Out at Notre Dame After One Week." Then, answer the following questions:

1. Was O'Leary's punishment appropriate? If you were the athletic director at Notre Dame, would you have meted out the same punishment? Why, or why not?
2. False information on his résumé came back to haunt O'Leary after twenty years. Once he'd falsified his résumé, was there any corrective action that he could have taken? If so, what?
3. If O'Leary had told Notre Dame about the falsifications before they came to light, would they have hired him?
4. Would his previous employer take him back?
5. O'Leary was later hired as a head coach by the University of Central Florida. Will the episode involving his résumé undermine his ability to encourage players to act with integrity? Will it affect his ability to recruit players?
6. What's the lesson to be learned from O'Leary's experience? In what ways might a few (theoretical) misstatements on your résumé come back to haunt you?

TEAM-BUILDING SKILLS (AACSB)

Dorm Room Rescue

Any night of the week (at least as of this writing), you can relax in front of the TV and watch a steady stream of shows about how to improve your living space—such as *Trading Spaces*, *While You Were Out*, and *New Spaces*. You like the concept of these programs well enough, but you're tired of watching them in a tiny, cluttered dorm room that's decorated in early barracks style. Out of these cramped conditions, however, you and a team of friends come up with an idea. On graduation, you'll start a business called Dorm Room Rescue to provide decorating services to the dorm dwellers who come after you. You'll help college students pick colors and themes for their rooms and select space-saving furniture, storage materials, area rugs, and wall decorations. Your goal will be to create attractive dorm rooms that provide comfort, functionality, and privacy, as well as pleasant spaces in which students can relax and even entertain.

The team decides to develop a plan for the HR needs of your future company. You'll need to address the following issues:

1. HR plan
 - Number of employees
 - Job descriptions: duties and responsibilities for each type of employee
 - Job specifications: needed skills, knowledge, and abilities
2. Recruitment of qualified employees
 - Recruitment plan: how and where to find candidates
 - Selection process: steps taken to select employees
3. Developing employees
 - New-employee orientation
 - Training and development
4. Compensation and benefits

- Wages, salaries, and incentive programs
 - Benefits
5. Work/Life quality
- Work schedules and alternative work arrangements
 - Family-friendly programs
6. Performance appraisal
- Appraisal process
 - Retaining valuable employees

You might want to divide up the initial work, but you'll need to regroup as a team to make your final decisions on these issues and to create a team-prepared report.

THE GLOBAL VIEW (AACSB)

Sending Ed to China

You're the HR manager for a large environmental consulting firm that just started doing business in China. You've asked your top engineer, Ed Deardon, to relocate to Shanghai for a year. Though China will be new to Deardon, working overseas won't be; he's already completed assignments in the Philippines and Thailand; as before, his wife and three children will be going with him.

You've promised Deardon some advice on adapting to living and working conditions in Shanghai, and you intend to focus on the kinds of cultural differences that tend to create problems in international business dealings. Unfortunately, you personally know absolutely nothing about living in China and so must do some online research. Here are some promising sites:

- Executive Planet (<http://www.executiveplanet.com/index.php?title=China>)
- China Window (<http://china-window.com>)
- Los Angeles Chinese Learning Center (<http://chinese-school.netfirms.com>)

Instructions

Prepare a written report to Deardon in which you identify and explain five or six cultural differences between business behavior in the United States and China, and offer some advice on how to deal with them.