Managing

Human Resources

Tenth Edition

Productivity, Quality of Work Life, Profits

Wayne F. Cascio

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The Business School
University of Colorado Denver

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To Tanni Lee
Endless Joy

ABOUT THE AUTHOR

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Professor Cascio is past chair of the Society for Human Resource Management Foundation and the Human Resources Division of the Academy of Management, and past president of the Society for Industrial and Organizational Psychology. He is a Fellow of the National Academy of Human Resources, the Academy of Management, the American Psychological Association, and the Australian Human Resources Institute. He received the Distinguished Career award from the HR Division of the Academy of Management in 1999, an honorary doctorate from the University of Geneva, Switzerland, in 2004, and in 2008 he was named by the *Journal of Management* as one of the most influential scholars in management over the past 25 years. In 2010 he won the Michael R. Losey Human Resources Research Award from the Society for Human Resource Management, and in 2013 he received the Distinguished Scientific Contributions Award from the Society for Industrial and Organizational Psychology.

Professor Cascio was a senior editor of the *Journal of World Business* from 2007–2014. His editorial board memberships have included the *Journal of Applied Psychology, Academy of Management Review, Journal of Management, International Journal of Selection and Assessment, Human Performance, Organizational Dynamics,* and *Asia-Pacific Journal of Human Resources.* He has consulted with a wide variety of organizations on six continents, and periodically he testifies as an expert witness in employment discrimination cases. Professor Cascio is an active researcher and writer. He has published more than 180 articles and book chapters, and 27 books.

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BOXES AND SPECIAL FEATURES

PREFACE

I did not write this book for students who aspire to be specialists in human resource management (HRM). Rather, I wrote it for students of general management whose jobs inevitably will involve responsibility for managing people, along with capital, material, and information assets. A fundamental assumption, then, is that all managers are accountable to their organizations in terms of the impact of their HRM activities, and they are expected to add value by managing their people effectively. They also are accountable to their peers and to their subordinates in terms of the quality of work life that they are providing.

As a unifying theme for the text, I have tried to link the content of each chapter to three key outcome variables–productivity, quality of work life, and profits. This relationship should strengthen the student's perception of HRM as an important function affecting individuals, organizations, and society.

Each chapter incorporates the following distinguishing features:

- In keeping with the orientation of the book toward general managers, each chapter opens with "Questions This Chapter Will Help Managers Answer." This section provides a broad outline of the topics that each chapter addresses.
- Following the chapter opener is a split sequential vignette, often from the popular press, that illustrates "Human Resource Management in Action." Events in the vignette are designed to sensitize the reader to the subject matter of the chapter. The events lead to a climax, but then the vignette stops–like a two-part television drama. The reader is asked to predict what will happen next and to anticipate alternative courses of action.
- Then the text for the chapter appears–replete with concepts, research findings, court decisions, HR Buzz boxes, and international comparisons.
- Each chapter includes an "Ethical Dilemma." Its purpose is to identify issues relevant to the topic under discussion where different courses of action may be desirable and possible. The student must choose a course of action and defend the rationale for doing so.
- As in the ninth edition, "Implications for Management Practice" provides insights into the ways in which issues presented in the chapter affect the decisions that managers must make. "Impact" boxes in each chapter reinforce the link between the chapter content and the strategic objectives–productivity, quality of work life, and the bottom line–that influence all HR functions.
- Near the end of the chapter, the vignette introduced at the outset continues, allowing the reader to compare his or her predictions with what actually happened.

Ultimately the aim of each chapter is to teach prospective managers to *make decisions* based on accurate diagnoses of situations that involve people–in domestic as well as global contexts. Familiarity with theory, research, and practice enhances the ability of students to do this. Numerous real-world applications of concepts allow the student to learn from the experiences of others, and the dynamic design of each chapter allows the student to move back and forth from concept to evidence to practice–then back to evaluating concepts–in a continuous learning loop.

WHAT'S NEW IN THE TENTH EDITION?

HR texts have sometimes been criticized for overemphasizing the HR practices of large organizations. There is often scant advice for the manager of a small business who "wears many hats" and whose capital resources are limited. To address this issue explicitly, I have made a conscious effort to provide examples of effective HRM practices in small businesses in almost every chapter.

This was no cosmetic revision. I examined every topic and every example in each chapter for its continued relevance and appropriateness. I added dozens of new company examples and HR Buzz boxes to illustrate current practices, updated legal findings from each area, and cited the very latest research findings in every chapter. I added literally hundreds of new references since the previous edition of the book, and removed older ones that are less relevant today. As in previous editions, I have tried to make the text readable, neither too simplistic nor too complex.

The book still includes 16 chapters, presented in the same order as in the previous edition. I paid careful attention to the detailed comments of reviewers of the text, along with feedback from students who have used the book. For example, to provide more topics for class discussion, I doubled the average number of Discussion Questions in each chapter from five to ten. In each chapter I reviewed, and in many cases revised, "Applying Your Knowledge" cases and exercises, and although many of the chapter-opening vignettes ("Human Resource Management in Action") retain the same titles, I have updated each one to reflect current information and content. As in the previous edition, I have boldfaced key terms as they are discussed in the text and included a consolidated list of them at the end of each chapter. A glossary at the back of the book also helps students to locate definitions of important terms quickly.

A final consideration is the treatment of international issues. While there are merits to including a separate chapter on this topic, as well as interspersing international content in each chapter, I do not see this as an either–or matter. I have done both, recognizing the need to frame domestic HR issues in a global context (e.g., recruitment, staffing, compensation, labor-management relations). At the same time, the book covers international issues (e.g., cultural differences, staffing, training, and compensation of expatriates) in more depth in a separate chapter.

NEW TOPICS IN THE TENTH EDITION

Chapter 1–There are new sections on sustainability, and also on SHRM's 2014 HR competencies. There are updated treatments of globalization, technology, demographic changes, the productivity of nations, and their impacts on the management of people. While I made a conscious decision to not be U.S-centric in the treatment of these topics, I did add an HR Buzz Box entitled, "Modern Manufacturing–U.S.

Style." The chapter also includes a new section on Ernst & Young's effort to build a culture of flexibility and its global approach to implementing flexible work arrangements. In response to feedback from users of the ninth edition, I have doubled the number of discussion questions at the end of this and every other chapter from five to ten or eleven.

Chapter 2–New sections include the promise and perils of big data, making HR measures strategic, workforce analytics, and a discussion of whether employee turnover is good or bad for an organization. There is a new treatment of dependent care, including childcare as well as eldercare, and also an updated treatment of the financial effects of work-life initiatives. A completely new section addresses the financial effects of collaboration and sharing knowledge. As is the case in every chapter, updated references reflect the latest findings in relevant areas.

Chapter 3–The chapter-opening case has been modified to reflect a 2013 Supreme Court decision on retaliation. I've also tried to make clearer the distinction between adverse impact and disparate treatment discrimination. Given space constraints, the major emphasis is on laws of broad scope that prohibit illegal discrimination. Discussions of executive orders and laws of limited scope in employment have been deleted. Enforcement statistics and developments in case law with respect to each major area of employment law are now current as of the beginning of 2014. There is a new section on the 2014 Pregnant Workers Fairness Act, a well as an updated definition of a "supervisor," based on a 2013 Supreme Court ruling on this issue. Dozens of new references have been added, and older ones deleted.

Chapter 4–The chapter-opening case now focuses on more than just the business case for diversity. It also adds the ethical dimension as well. There is also a clearer distinction between affirmative action and diversity. All sections on minority buying power and demographic projections have been updated, along with information about the four generations currently in the American workforce. There is also a more nuanced presentation of early and late Boomers and X'ers. As in all chapters, additional discussion questions provide a wider range of issues for class discussion, and at least a third of the references at the end of the chapter are new.

Chapter 5–There is a much stronger presentation of business strategy, and its relationship to HR strategy. At the same time, there is less detailed material on job analysis methods, although the emphasis on job or work analysis remains. The chapter includes updated information on the fastest-growing occupations, as well as strategic workforce planning. The end-of chapter case has also been updated with more recent information on leadership successes and failures.

Chapter 6–The chapter-opening case on the promise and perils of social media has been updated. New to this edition is a supply-chain approach to the recruitment-staffing process–a supply chain for talent acquisition. There are also updated treatments of job posting using social-media virtual career fairs, and diversity-oriented recruiting, along with expanded treatments of internal recruitment and employee referrals. There is also a new section on the American National Standard recruiting metric, cost per hire. As in all other chapters, there are additional discussion questions for instructors and students to consider.

Chapter 7–There is a stronger link between business strategy, culture, and staffing. There are also updated treatments of the topics of convictions and job applications, video résumés, background checks, trends in pre-hire assessments, drug screening, the

use of measures of cognitive ability in the hiring process, and the use of personality measures. With respect to interviews, the chapter now includes not only examples of proper and improper questions, but also explanations of why such questions are improper. Finally, there is revised treatment of executive assessment, the use of assessment centers in staffing decisions, and how Google chooses talent.

Chapter 8–The title is now "Training and On-Boarding" to reflect that dual emphasis. The opening vignette on technology-delivered instruction has been fully updated, and the closing case on Yum Brands, "Great Job!" is completely new. Other new features include an HR Buzz box on the restaurateur training program at Chipotle Mexican Grill, team building through cooking at Thermo Fisher Scientific, grocery chain Giant Eagle's use of a simulation game played on a desktop computer to teach cashiers how to avoid repetitive stress injuries, and NTT Data's identification of tangible outcomes to evaluate its leadership-development game.

Chapter 9–The chapter-opening vignette, on the dilemma of forced ranking, has been updated and revised to reflect new developments. Senior-management ownership of the performance management process, as opposed to HR ownership, is emphasized, to reflect a developmental, as opposed to a compliance view of the process among employees. New Figure 9-8 shows six strategies that leaders can use to build trust with employees, along with employee reactions to those strategies. The chapter also highlights the latest generation of performance management software, which helps ensure that the process is a year-round, rather than a once-a-year, activity. Finally, the chapter describes topics to emphasize in training managers and employees in the performance management process, the differences between formal and informal feedback, and the results of Google's efforts to identify what makes a good boss.

Chapter 10–There is more emphasis on recent findings with respect to dependent-care options for employees, job-hunting older employees, mentoring, transfers and relocations, and changes in benefits for retirees. As in earlier editions, a primary focus is on teaching students that self reliance–not dependence on an organization for career planning–is key to long-term career success.

Chapter 11–The chapter-opening vignette includes updated information about the trust gap between senior executives and lower-level employees, and what can be done to close it. Table 11-1 now includes an easier-to-read format to enhance students' understanding of the three main provisions of the Fair Labor Standards act–minimum wage, overtime, and restrictions on child labor. The treatment of Internet-based salary-comparison sources has been updated, as has the treatment of pay compression, and there are new sections on geographic differentials and broad banding. Finally, new trends in executive incentives are illustrated in an HR Buzz box on CEO pay at Starbucks.

Chapter 12–The chapter-opening vignette, "The New World of Employee Benefits," has been completely updated, as have dozens of statistics on employee benefits throughout the chapter. To provide a better balance between small- versus large-company approaches to employee benefits, there is a new HR Buzz box, "Small Business Gets Strategic with Voluntary Benefits." There is also an explicit call-out of the three benefits that every employer in the U.S. is legally required to offer: workers' compensation, Social Security (including Medicare), and unemployment insurance. Key requirements of the Patient Protection and Affordable Care Act are

presented, as well as updated treatment of cost-containment strategies, including health savings accounts (HSAs). New information on pensions, 401(k) plans, and benefits-communication strategies is included, expanded discussion questions, and a new end-of-chapter case: "Obesity and McLawsuits."

Chapter 13–Union-management collaboration has become more important than ever, especially since the Great Recession. The chapter-opening vignette continues this theme, and the completely new section on the impact of cooperative labor relations on productivity, quality of work life, and the bottom line describes the efforts of Ford Motor Company and the U.A.W. to steer the company away from bankruptcy and toward long-term profitability that benefits all stakeholders. Dozens of new references have been added throughout the chapter. In response to feedback from users of the previous edition, right-to-work laws are now called out specifically in the context of the Taft-Hartley Act. New topics include the recent proposal by the NLRB to speed representation elections, the use of intermittent strikes by non-union employees, and the use of employee-participation teams that do not violate the NLRA.

Chapter 14–The chapter-opening vignette incorporates new and updated material on alternative dispute resolution (ADR), as do the sections on social media and "at-will" employment, lifestyle discrimination, noncompete agreements, and employee monitoring. In the case of involuntary terminations, advance notification requirements by employers under the WARN Act are now set out explicitly, along with penalties for violators. The chapter also includes new information about terminations for cause, such as advance notification of IT to disable computer-system access and prevent sabotage, and policies about bring-your-own-devices (BYOD) to the workplace. With respect to privacy, the chapter incorporates the latest Supreme Court decision about the right to cellphone privacy, as well as Facebook's 20-year privacy settlement with the U.S. government. The chapter also includes the U.S. Supreme Court's 2014 expansion of whistle-blower protections under SOX to employees of contractors and subcontractors of publicly traded companies. Finally, a new end-of-chapter case–the cover story from the June 18, 2014 *Bloomberg Businessweek*–focuses on the culture at General Motors that silenced whistle-blowers for years, but that ultimately resulted in 20 million recalls.

Chapter 15–All safety and health statistics, of which there are many in this chapter, have been updated. There is a new company example of best practices in reducing repetitive-motion injuries (Unimin Corp.), and a new HR Buzz Box, "Safety Training Moves Online." There is also a major new international application, "The Darker Side of Fast Fashion," focusing attention on the building collapse in Bangladesh that killed more than 1,100 garment-industry workers in 2013. There is also a new section on occupational illnesses and injuries caused by toxic workplace air, an area that is largely unregulated. With respect to HIV/AIDS, a new section emphasizes recent research findings showing how young people treated with antiretroviral therapy (ART) in the United States or Canada can expect to survive into their early 70s. Finally, the treatment of wellness now includes updated treatments of its relation to the ADA and also to the Affordable Care Act.

Chapter 16–The chapter reflects the evolution of the concept of globalization, completely updated facts and figures, as well as discussion of its advantages and disadvantages. All information about the European Union is current, as is updated material on staffing, job aid for trailing spouses, empirical research on the effects of pre-departure motivation on expatriate adjustment, and the effects of pre-departure

cross-cultural training on early-return rates of expatriates. There is a new company example of cross-national action-learning teams as a strategy to develop future international leaders, and also discussion of an emerging approach to international compensation, namely, "local plus." There is a completely updated ethical dilemma on the use of bribery to win business, and a similarly updated discussion of the effects of NAFTA 20 years after its enactment. At least 40 percent of all references in this chapter are new.

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ORGANIZATION AND PLAN OF THE BOOK

The text is based on the premise that three critical strategic objectives guide all HR functions: productivity, quality of work life, and profits. The functions–employment; development; compensation; labor-management accommodation; and safety, health, and international implications–in turn, are carried out in multiple environments: competitive, legal, social, and organizational.

Part 1, "Environment," includes Chapters 1 through 4. It provides the backdrop against which students will explore the nature and content of each HRM function. These first four chapters paint a broad picture of the competitive, legal, social, and organizational environments in which people-management activities take place. They also describe key economic and noneconomic factors that affect productivity, quality of work life, and profits. This is the conceptual framework within which the remaining five parts (12 chapters) of the book unfold.

Logically, "Employment" (Part 2) is the first step in the HRM process. Analyzing work, planning for people, recruiting, and staffing are key components of the employment process. Once employees are on board, the process of "Development" (Part 3) begins, with workplace training, performance management, and career management activities.

Parts 4, 5, and 6 represent concurrent processes. That is, "Compensation" (Part 4), "Labor-Management Accommodation" (Part 5), and "Support and International Implications" (Part 6) are all closely intertwined, conceptually and in practice. They represent a network of interacting activities such that a change in one of them (e.g., a new pay system or a collective-bargaining agreement) inevitably will have an impact on all other components of the HRM system. It is only for ease of exposition that the book presents them separately in Parts 4, 5, and 6.

ACKNOWLEDGMENTS

Wayne F. Cascio

ENVIRONMENT

To manage people effectively in today's world of work, one must understand and appreciate the significant competitive, legal, and social issues. The purpose of Chapters 1 through 4 is to provide insight into these issues. They provide both direction for and perspective on the management of human resources in the 21st century.

1

HUMAN RESOURCES IN A GLOBALLY COMPETITIVE BUSINESS ENVIRONMENT

Questions This Chapter Will Help Managers Answer

LO 1-1 What will 21st-century corporations look like?

LO 1-2 What people-related business issues must managers be concerned about?

LO 1-3 Which features will characterize the competitive business environment in the foreseeable future, and how might we respond to them?

LO 1-4 What people-related problems are likely to arise as a result of changes in the forms of organizations? How can we avoid these problems?

LO 1-5 What are the HR implications of our firm's business strategy?

THE 21ST-CENTURY CORPORATION*

Sparked by new technologies, particularly the Internet, the corporation is undergoing a radical transformation that is nothing less than a new Industrial Revolution. This time around, the revolution is reaching every corner of the globe. The 21st-century corporation that emerges is, in many ways, the polar opposite of the 20th-century organizations that senior managers helped shape.

Many factors are driving change, but none is more important than the rise of Internet technologies. Like the steam engine or the assembly line, the Internet has already become an advance with revolutionary consequences, most of which we have only begun to feel. The Internet gives everyone in the organization, from the lowliest clerk to the chairman of the board, the ability to access a mind-boggling array of information–instantaneously from anywhere. Instead of seeping out over months or years, ideas can be zapped around the globe in the blink of an eye. That means that the 21st-century corporation must adapt itself to management via the Web. It must be predicated on constant change, not stability; organized around networks, not rigid hierarchies; built on shifting partnerships and alliances, not self-sufficiency; and constructed on technological advantages, not bricks and mortar.

The organization chart of the large-scale enterprise had long been defined as a pyramid of ever-shrinking layers leading to an omnipotent CEO at its apex. The 21st-century corporation, in contrast, is far more likely to look like a web: a flat, intricately woven form that links partners, employees, external contractors, suppliers, and customers in various collaborations. The players will grow more and more interdependent, and managing this intricate network will be as important as managing internal operations.

In contrast to factories of the past 100 years that produced cookie-cutter products, the company of the future will tailor its products to each individual by turning customers into partners and giving them the technology to design and demand exactly what they want. Mass customization will result in waves of individualized products and services, as well as huge savings for companies, which no longer will have to guess what and how much customers want.

Intellectual capital will be critical to business success. Bringing breakthrough products to market first will provide little advantage to companies because technology will let competitors match or exceed them almost instantly. To keep ahead of the steep new-product curve, it will be crucial for businesses to attract and retain the best thinkers. Companies will need to build a deep reservoir of talent–including both employees and free agents–to succeed in this new era. But attracting and retaining top talent will require more than just huge paychecks. Organizations will need to create the kinds of cultures and reward systems that keep the best minds engaged. The old command-and-control hierarchies are fast crumbling in favor of organizations that empower vast numbers of people and reward the best of them as if they were owners of the enterprise.

Sources: World Economic Forum and Boston Consulting Group. (2011). *Global talent risk–Seven responses.* Cologny/Geneva, Switzerland: Author; *Economist Intelligence Unit.* (2014, Feb.). What's next: Future global trends affecting your organization. Alexandria, VA: SHRM Foundation; McKinsey Global Institute. (2013, May). Disruptive technologies: Advances that will transform life, business, and the global economy. Retrieved from *http://www.mckinsey.com/insights/business_technology/disruptive_technologies* on August 20, 2013; Rotman, D. (2013, June 12). How technology is destroying jobs. *MIT Technology Review*, accessed on August 20, 2013 from *http://www.technologyreview.com/featuredstory/515926/how-technology-is-destroying-jobs/*; Hamm, S. (2007, Apr. 16). People are his bottom line. *Fortune*, p. 30; Byrne, J. A. (2000, Aug. 28). Management by web. *BusinessWeek*, pp. 84–96; Pfeffer, J. and Veiga, J. F. (1999). Putting people first for organizational success. *Academy of Management Executive* 13(2), pp. 37–48.

It's Global.   In the beginning, the global company was defined as one that simply sold its goods in overseas markets. Later, global companies assumed a manufacturing presence in numerous countries. The company of the future will call on talent and resources–especially intellectual capital–wherever they can be found around the globe, just as it will sell its goods and services around the globe. Indeed, the very notion of a headquarters country may no longer apply, as companies migrate to places of greatest advantage. The new global corporation might be based in the United States but do its software programming in Sri Lanka, its engineering in Germany, and its manufacturing in China. Every outpost will be connected seamlessly by the Internet, so that far-flung employees and freelancers can work together in real time.

It's about Speed.   Call it the innovation imperative. Competition is more intense than ever because of the rise of the Asian powerhouses and the spread of disruptive new Internet technologies and business models. If companies are to thrive in this hypercompetitive environment, they must innovate more and faster. Here's just one example: Amazon's Kiva robots are designed to scurry across large warehouses, fetching racks of ordered goods and delivering the products to humans who package the orders. A warehouse equipped with Kiva robots can handle up to four times as many orders as an unautomated warehouse, where workers might spend as much as 70 percent of their time walking about to retrieve goods. With everything from product cycles to employee turnover on fast-forward, there is simply not enough time for deliberation or bureaucracy.

The 21st-century corporation will not have one ideal form. Some will be completely disaggregated, wholly dependent on a network of suppliers, manufacturers, and distributors for their survival. Others, less so. Some of the most successful companies will be very small and very specialized. Others will be gargantuan in size, scope, and complexity. Table 1-1 presents a summary of these changes.

If people are so critical to business success in the 21st-century organization, what will it take to attract and retain the best? According to John T. Chambers, CEO of Cisco Systems, Inc.: "The reason people stay at a company is that it's a great place to work. It's like playing on a great sports team. Really good players want to be around other really good players. Secondly, people like to work for good leadership. So creating a culture of leaders that people like is key. And the third is, are you working for a higher purpose than an IPO or a paycheck? Our higher purpose is to change the way the world works, lives, and plays."[a]

So if firms are to produce profits through people, what should they do? In the case conclusion at the end of the chapter, we will examine seven practices of successful organizations.

Challenges

1. In Table 1-1, which dimensions of the 21st-century prototype model require effective skills in managing people?
2. How might the Internet change the ways that employees and managers interact?
3. If the 21st-century prototype model of organizations is to be successful, how must companies change their approaches to managing people?

[a]Hamm, 2007 (April 16), op. cit.

Table 1–1

WHAT A DIFFERENCE A CENTURY CAN MAKE: CONTRASTING VIEWS OF THE CORPORATION

Characteristic	20th century	21st century
Organization	The pyramid	The web or network
Focus	Internal	External
Style	Structured	Flexible
Source of strength	Stability	Change
Structure	Self-sufficiency	Interdependencies
Resources	Atoms (physical assets)	Bits (information)
Operations	Vertical integration	Virtual integration
Products	Mass production	Mass customization
Reach	Domestic	Global
Financials	Quarterly	Real-time
Inventories	Months	Hours
Strategy	Top-down	Bottom-up
Leadership	Dogmatic	Inspirational
Workers	Employees	Employees + free agents
Job Expectations	Security	Personal growth
Motivation	To compete	To build
Improvements	Incremental	Revolutionary
Quality	Affordable best	No compromise

THE ENTERPRISE IS THE PEOPLE

Organizations are managed and staffed by people. Without people, organizations cannot exist. Indeed, the challenge, the opportunity, and also the frustration of creating and managing organizations frequently stem from the people-related problems that arise within them. People-related problems, in turn, frequently stem from the mistaken belief that people are all alike, that they can be treated identically. Nothing could be further from the truth. Like snowflakes, no two people are exactly alike, and everyone differs physically and psychologically from everyone else. Sitting in a sports arena, for example, will be tall people, small people, fat people, thin people, people of color, white people, elderly people, young people, and so on. Even within any single physical category there will be enormous variability in psychological characteristics. Some will be outgoing, others reserved; some will be intelligent, others not so intelligent; some will prefer indoor activities, others outdoor activities. The point is that these differences demand attention so that each person can maximize his or her potential, so that organizations can maximize their effectiveness, and so that society as a whole can make the wisest use of its human resources.

This book is about managing people, the most vital of all resources, in work settings. Rather than focus exclusively on issues of concern to the human resource

specialist, however, we will examine human resource management (HRM) issues in terms of their impact on management in general. A changing world order has forced us to take a hard look at the ways we manage people. Research has shown time and again that HRM practices can make an important, practical difference in terms of three key organizational outcomes: productivity, quality of work life, and profit. Each chapter in this book considers the impact of a different aspect of human resource management on these three broad themes. To study these impacts, we will look at the latest theory and research in each topical area, plus examples of actual company practices.

This chapter begins by considering what human resources management is all about, how it relates to the work of the line manager, and how it relates to profits. Then we will consider some current competitive challenges in the business environment, emphasizing the importance of business and human resources (HR) strategy–both of which have direct implications for productivity and quality of work life. Let's begin by considering the nature of HRM.

MANAGING PEOPLE: A CRITICAL ROLE FOR EVERY MANAGER

Managers are responsible for optimizing all of the resources available to them–material, capital, and human.[1] When it comes to managing people, however, all managers must be concerned to some degree with the following five activities: staffing, retention, development, adjustment, and managing change.

Staffing comprises the activities of (1) identifying work requirements within an organization; (2) determining the numbers of people and the skills mix necessary to do the work; and (3) recruiting, selecting, and promoting qualified candidates.

Retention comprises the activities of (1) rewarding employees for performing their jobs effectively; (2) ensuring harmonious working relations between employees and managers; and (3) maintaining a safe, healthy work environment.

Development is a function whose objective is to preserve and enhance employees' competence in their jobs through improving their knowledge, skills, abilities, and other characteristics; HR specialists use the term "competencies" to refer to these items.

Adjustment comprises activities intended to maintain compliance with the organization's HR policies (e.g., through discipline) and business strategies (e.g., cost leadership).

Managing change is an ongoing process whose objective is to enhance the ability of an organization to anticipate and respond to developments in its external and internal environments, and to enable employees at all levels to cope with the changes.

Needless to say, these activities can be carried out at the individual, workteam, or larger organizational unit (e.g., department) level. Sometimes they are initiated by the organization (e.g., recruitment efforts or management development programs), and sometimes they are initiated by the individual or work team (e.g., voluntary retirement, safety improvements). Whatever the case, the responsibilities for carrying out these activities are highly interrelated. Together, these activities constitute the **HRM system.** To understand how each of the major activities within HRM relates to every other one, consider the following scenario.

As a result of a large number of unexpected early retirements, the Hand Corporation finds that it must recruit extensively to fill the vacated jobs. The firm is well aware of the rapid changes that will be occurring in its business over the next 3 to 5 years, so it must change its recruiting strategy in accordance with the expected

changes in job requirements. It also must develop selection procedures that will identify the kinds of competencies required of future employees. Compensation policies and procedures may have to change because job requirements will change, and new incentive systems will probably have to be developed. Since the firm cannot identify all the competencies that will be required 3 to 5 years from now, it will have to offer new training and development programs along the way to satisfy those needs. Assessment procedures will necessarily change as well, because different competencies will be required in order to function effectively at work. As a result of carrying out all this activity, the firm may need to lay off, promote, or transfer some employees to accomplish its mission, and it will have to provide mechanisms to enable all remaining employees to cope effectively with the changed environment.

It is surprising how that single event, an unexpectedly large number of early retirees, can change the whole ballgame. So it is with any system or network of inter-related components. Changes in any single part of the system have a reverberating effect on all other parts of the system. Simply knowing that this will occur is healthy because then we will not make the mistake of confining our problems to only one part. We will recognize and expect that whether we are dealing with problems of staffing, training, compensation, or labor relations, all parts are interrelated. In short, the systems approach provides a conceptual framework for integrating the various components within the system and for linking the HRM system with larger organizational needs.

To some, the activities of staffing, retention, development, and adjustment are the special responsibilities of the HR department. But these responsibilities also lie within the core of every manager's job throughout any organization and because line managers have **authority** (the organizationally granted right to influence the actions and behavior of the workers they manage), they have considerable impact on the ways workers actually behave.

Thus a broad objective of HRM is to optimize the usefulness (i.e., the productivity) of all workers in an organization. A special objective of the HR department is to help line managers manage those workers more effectively. As Jack Welch, legendary former CEO of General Electric noted: "Look, HR should be every company's 'killer app.' What could possibly be more important than who gets hired, developed, promoted, or moved out the door? Business is a game, and as with all games, the team that puts the best people on the field and gets them playing together wins. It's that simple."[2]

This is consistent with the findings of a recent survey by the Economist Intelligence Unit (EIU), based on responses from 636 senior executives. Over the next 5 to 10 years, they identified the top 5 challenges facing their organizations as: (1) people management (47 percent), (2) innovation (34 percent), (3) government regulation (31 percent), (4) disruptive technological change (30 percent), and environmental issues (26 percent).[3] Meeting the people-management challenge is a responsibility that is shared by the HR department and line managers, as shown in Table 1–2.

In the context of Table 1–2, note how line and HR managers share people-related business activities. Generally speaking, HR provides the technical expertise in each area, while line managers (or, in some cases, self-directed work teams) use this expertise in order to manage people effectively. In a small business, however, line managers are responsible for both the technical and managerial aspects of HRM. In a recent survey of chief HR officers, one described his or her greatest challenge as follows: "Creating a true sense of ownership among the senior leaders regarding their roles as "Chief Talent Officers." Recognizing that having the right people in critical leadership roles is not an HR thing, or responsibility, but rather it is a business imperative and must be truly owned by the leaders of the respective businesses/functions."[4]

Table 1–2		
HRM ACTIVITIES AND THE RESPONSIBILITIES OF LINE MANAGERS AND THE HR DEPARTMENT		
Activity	**Line management responsibility**	**HR department responsibility**
Staffing	Providing data for job or competency analyses and minimum qualifications; integrating strategic plans with HR plans; interviewing candidates, integrating information collected by the HR department, making final decisions on entry-level hires and promotions	Job/competency analysis, workforce planning, recruitment; compliance with civil rights laws and regulations; application forms, written tests, performance tests, interviews, background investigations, reference checks, physical examinations
Retention	Fair treatment of employees, open communication, face-to-face resolution of conflict, promotion of teamwork, respect for the dignity of each individual, pay increases based on merit	Compensation and benefits, employee relations, health and safety, employee services
Development	On-the-job training, job enrichment, coaching, applied motivational strategies, performance feedback to subordinates	Development of legally sound performance management systems, morale surveys, technical training; management and organizational development; career planning, counseling; talent analytics
Adjustment	Discipline, discharge, layoffs, transfers	Investigation of employee complaints, outplacement services, retirement counseling
Managing change	Provide a vision of where the company or unit is going and the resources to make the vision a reality	Provide expertise to facilitate the overall process of managing change

WHY DOES EFFECTIVE HRM MATTER?

At a broad level, HRM is concerned with choices–choices that organizations make from a wide variety of possible policies, practices, and structures for managing employees.[5] More specifically, there exists a substantial and growing body of research evidence showing a strong connection between how firms manage their people and the economic results they achieve. For example, a recent meta-analysis (a quantitative summary of empirical results) included 66 studies with 68 samples involving 12,163 observations.[6] Results indicated that the average correlation between measures of human capital (e.g., the executive experience of the top-management team) and measures of performance (e.g., profitability, customer satisfaction), was 0.21. Results were even stronger for studies that used specific measures of human capital, as opposed to general measures, and for those that relied on operational performance measures (e.g., innovation, customer-service satisfaction) rather than global performance measures (e.g., return on assets, return on sales).

Another study done by accounting professors at Wharton and Stanford used data from 153 publicly traded companies to assess the impact of several HR management practices on stock returns 12 months later.[7] They found that a 10 percent increase in

a measure of goal-setting activity at firms was associated with a 6 percent increase in industry-adjusted stock returns. A 6 percent stock boost also was associated with a 10 percent increase in a measure of the extent to which managers used the full spectrum of the rating scale when evaluating employees. In short, managers in companies that are clear with employees about work expectations and that provide honest feedback on a regular basis drive successful performance. Needless to say, the extent to which these practices actually will pay off depends on the skill and care with which the many HR practices available are implemented to solve real business problems and to support a firm's operating and strategic initiatives.

Such high-performance work practices provide a number of important sources of enhanced organizational performance.[8] People work harder because of the increased involvement and commitment that comes from having more control and say in their work. They work smarter because they are encouraged to build skills and competence. They work more responsibly because their employers place more responsibility in the hands of employees farther down in the organization. What's the bottom line in all of this? HR systems have important, practical impacts on the survival and financial performance of firms, and on the productivity and quality of work life of the people in them.

Now that we know what HRM is, and why it matters, the next step is to understand some significant features of the competitive business environment in which HRM activities take place. Four such features are globalization, technology, sustainability, and demographic changes.

FEATURES OF THE COMPETITIVE BUSINESS ENVIRONMENT

Globalization

At its core, the **globalization** of business refers to the free movement of capital, goods, services, ideas, information, and people across national boundaries. Markets in every country have become fierce battlegrounds where both domestic and foreign competitors fight for market share. For example, Coca-Cola earns more than 75 percent of its revenues from outside the United States! The top 5 of the 500 largest firms in the world (Walmart Stores, Royal Dutch Shell, Exxon Mobil, Sinopec-China Petroleum, and BP) gross almost $2.5 trillion; the top 5 in profits (Apple, Gazprom, Exxon Mobil, Industrial and Commercial Bank of China, and China Construction Bank) make more than $195 billion in profits; and the top 5 biggest employers (Walmart Stores, China National Petroleum, State Grid Corporation China, Sinopec Group, and Hon Hai Precision Industry) employ more than 7.4 million people.[9]

The Backlash against Globalization.   In no small part, the booming economies of recent years in developed countries have been fueled by globalization. Open borders have allowed new ideas and technology to flow freely around the globe, accelerating productivity growth and allowing companies to be more competitive than they have been in decades. Yet there is a growing fear on the part of many people that globalization benefits big companies instead of average citizens, as stagnating wages and growing job insecurity in developed countries create rising disenchantment. In theory, less-developed countries win from globalization because they get jobs making low-cost products for rich countries. Rich countries win because, in addition to being able to buy inexpensive imports, they also can sell more sophisticated products like financial services to emerging economies. The problem, according to many experts, is that workers in the West are not equipped for today's pace of change, in which jobs come and go and skills can quickly become redundant.[10] In the public eye, multinational corporations are