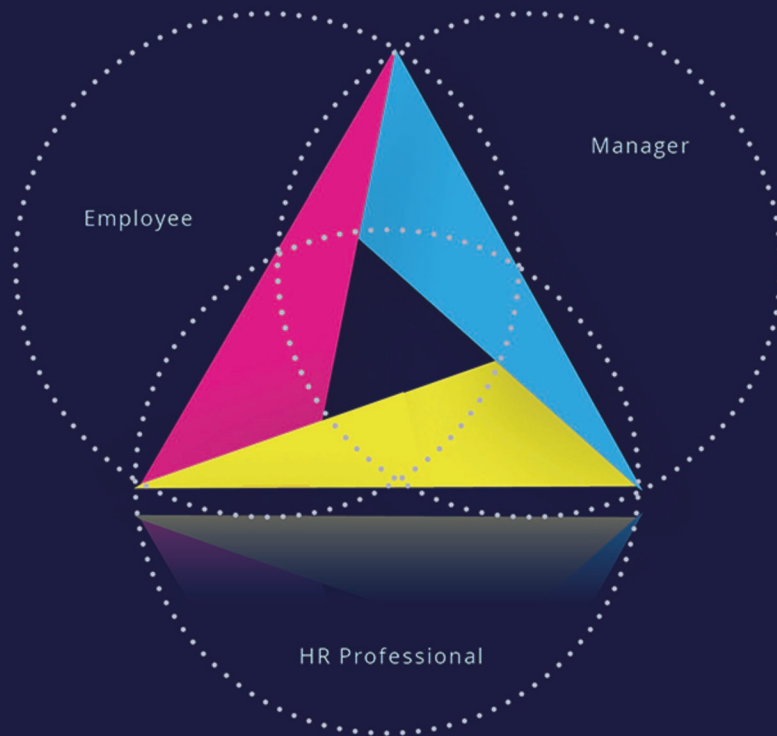


twelfth edition

MANAGING HUMAN RESOURCES



Susan E. Jackson | Randall S. Schuler
Steve Werner

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CONTENTS IN BRIEF

Preface xxv
Acknowledgements xxxii

CHAPTER 1	Managing Human Resources 2
CHAPTER 2	Formulating and Implementing HRM Strategies 38
CHAPTER 3	Ensuring Fair Treatment and Legal Compliance 78
CHAPTER 4	Using Job Analysis and Competency Modeling 124
CHAPTER 5	Managing Talent Through Workforce Planning, Recruitment, and Retention 164
CHAPTER 6	Selecting Employees to Fit the Job and the Organization 208
CHAPTER 7	Training and Developing a Competitive Workforce 256
CHAPTER 8	Conducting Performance Management 300
CHAPTER 9	Developing an Approach to Total Compensation 348
CHAPTER 10	Using Performance-Based Pay to Achieve Strategic Objectives 386
CHAPTER 11	Providing Employee Benefits 430
CHAPTER 12	Promoting and Improving Employee Safety, Health, and Well-Being 472
CHAPTER 13	Understanding Unionization and Collective Bargaining 518
CHAPTER 14	Managing Human Resources Globally 566

Endnotes 618
Name Index 672
Organizations Index 687
Subject Index 690

CONTENTS

Preface xxv

Acknowledgements xxxii

CHAPTER 1

MANAGING HUMAN RESOURCES

The Strategic Importance of Managing Human Resources 4

Satisfying Multiple Stakeholders 4

Owners and Investors 5

Society 6

Customers 8

Other Organizations 8

Organizational Members (The Employees) 9

Gaining and Sustaining a Competitive Advantage 11

Employees Who Are a Source of Added Value 11

Employees Who Are Rare 12

An HRM System That Can't Be Copied 12

A Framework for Managing Human Resources 13

The Importance of HRM Strategies and the Organization's External and Internal Environments 14

Activities for Managing Human Resources 16

The HR Triad 19

HR Professionals Provide Special Expertise 19

Line Managers 21

Employees Share Responsibility 23

 **THE HR TRIAD:** Roles and Responsibilities for Managing Human Resources 24

Looking Ahead: Five Special Themes 24

Managing with Teams 25

Managing with Diversity and Inclusion 26

Managing with Ethics and Corporate Social Responsibility 26


Managing with New Technologies 28

Managing with Metrics and Analytics 29

Current Issues	31
The Changing Role of the HR Function	31
Employee Engagement	31
CHAPTER SUMMARY WITH LEARNING GOALS	32
TERMS TO REMEMBER	33
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	33
PROJECTS TO EXTEND YOUR LEARNING	34
CASE STUDY: CAN KNIGHTS APPAREL SATISFY ALL OF ITS STAKEHOLDERS AND SURVIVE?	35


CHAPTER 2

FORMULATING AND IMPLEMENTING HRM STRATEGIES

The Importance of Formulating and Implementing HRM Strategies	40
Elements of the Environment for Managing Human Resources	41
Formulating and Implementing HRM Strategies	42
The HR Triad	42
 THE HR TRIAD: Roles and Responsibilities for Formulating and Implementing HRM Strategies	43
Understanding the External Environment	43
The Economic Landscape	44
The Demographic Landscape	45
The Socio-Cultural Landscape	48
The Political Landscape	48
Understanding the Internal Environment	49
Technology	49
Company Culture	51
Business Strategies	55
Financial, Organizational, Reputation, and Human Resources	56
HRM Strategies	56
Strategic Alignment	57
Types of HRM Strategies	57
HRM Strategy Formulation	59
Aligning HRM Strategy Formulation with the Business Strategy	60
Specifying Strategic Objectives	61
Designing an Integrated HRM System to Achieve Strategic Objectives	62
HRM Strategy Implementation	63
Reasons for Resistance	64
Overcoming Resistance	64
Review and Revise	67


Current Issues	68
Managing a Multi-Generational Workplace	68
Mergers and Acquisitions	70
CHAPTER SUMMARY WITH LEARNING GOALS	71
TERMS TO REMEMBER	72
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	72
PROJECTS TO EXTEND YOUR LEARNING	73
CASE STUDY: LEVI STRAUSS & COMPANY	75

CHAPTER 3**ENSURING FAIR TREATMENT AND LEGAL COMPLIANCE**

The Strategic Importance of Fairness and Legal Compliance	80
Society's Concerns About Fairness	80
Concerns of the Labor Force	80
Customers Win When Employers Treat Employees Fairly	81
The HR Triad	81
HR Professionals	81
 THE HR TRIAD: Roles and Responsibilities to Ensure Fair Treatment and Legal Compliance	82
Line Managers	82
Other Employees	82
What Fairness Means to Employees	83
Distributive Justice	83
Procedural Justice	84
Interactional Justice	84
Reactions to Unjust Treatment	85
The Legal Landscape	85
Societal Factors	86
Laws	86
Agencies	89
Courts	89
Company Responses	90
Title VII of the Civil Rights Act	91
The EEOC	91
Categories of Discrimination Covered by Title VII	93
Harassment	94
Defending Discrimination Allegations	97
Other Discrimination Laws and Executive Orders	99
Age Discrimination in Employment Act	99

Americans with Disabilities Act	100
Genetic Information Non-Discrimination Act	101
Executive Orders 11246, 11375, 11478, and 13672	102
Settling Disputes	103
Company Grievance Procedures	103
Mediation and Arbitration	104
Using the Courts to Settle Disputes	105
Diversity and Inclusion Initiatives for Ensuring Fair Treatment	106
Who is Covered by Diversity and Inclusion Initiatives?	106
A Culture of Inclusion	106
Evaluating the Effectiveness of Diversity and Inclusion Initiatives	109
Economic Benefits of Diversity	111
Current Issues	112
Sexual Orientation	112
Autism in the Workplace	112
CHAPTER SUMMARY WITH LEARNING GOALS	113
TERMS TO REMEMBER	115
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	115
PROJECTS TO EXTEND YOUR LEARNING	116
CASE STUDY: UNITED WAY AND THE BOY SCOUTS OF AMERICA	119


CHAPTER 4**USING JOB ANALYSIS AND COMPETENCY MODELING**

The Strategic Importance of Job Analysis and Competency Modeling	126
Foundation for an Integrated HRM System	126
Changing Cultures and Implementing New Strategies	127
Adopting New Technology	128
Complying with Laws and Regulations	129
The HR Triad	130
 THE HR TRIAD: Roles and Responsibilities in Job Analysis and Competency Modeling	131
Specific Terminology	132
Positions, Jobs, and Occupations	132
Job Analysis	133
Competency Modeling	134
Job Descriptions and Job Specifications	134
Career Paths	134
Sources of Information Used in Job Analysis and Competency Modeling	136
Job Incumbents	137

Supervisors	137
Trained Job Analysts	137
Customers	138
Methods of Collecting Information	138
Individual and Group Interviews	138
Observations	139
Questionnaires	140
Standardized Approaches to Job Analysis	140
Time-and-Motion Studies	140
Ergonomic Analysis	141
Occupational Information Network (O*NET)	141
Position Analysis Questionnaire	143
Management Position Description Questionnaire	144
Customized Approach to Job Analysis	145
Developing a Customized Inventory	145
Analyzing and Interpreting the Data	147
Advantages and Disadvantages	148
Analyzing Needed Competencies	149
Standardized Approach	149
Customized Approach	150
Competency Inventories	152
Current Issues	155
The Decline of Job Analysis?	155
The Importance of Documenting Competency Modeling	156
CHAPTER SUMMARY WITH LEARNING GOALS	157
TERMS TO REMEMBER	158
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	158
PROJECTS TO EXTEND YOUR LEARNING	159
CASE STUDY: JOB DESCRIPTIONS AT HITEK	159

CHAPTER 5**MANAGING TALENT THROUGH WORKFORCE PLANNING, RECRUITMENT, AND RETENTION**

The Strategic Importance of Managing Talent Through Workforce Planning, Recruitment, and Retention	166
Improving Productivity	167
Reducing Labor Costs	168
Staying Competitive	169
Workforce Planning, Recruitment, and Retention Within an Integrated HRM System	169
Other HR Activities	169
The External and Internal Environments	171

The HR Triad	173
HR Professionals	173
Line Managers	173
 THE HR TRIAD: Roles and Responsibilities for Managing Talent	174
Other Employees	175
Workforce Planning	175
Workforce Forecasts	175
Succession Planning	177
Recruiting Sources and Methods	178
Recruiting from the Internal Labor Market	179
Recruiting from the External Labor Market	181
Attracting Unconventional Employees	186
Using Metrics and Analytics to Manage the Talent Supply Chain	189
Recruitment from the Applicant's Perspective	190
Company Reputation	191
The Recruitment Experience	192
Perceptions of Fit	193
Ethical Recruiting Practices	193
Talent Retention	195
Understanding the Reasons for Turnover	195
Reducing Unwanted Turnover	197
Current Issues	198
Avoiding Layoffs	198
Recruitment and Retention of Older Workers	200
CHAPTER SUMMARY WITH LEARNING GOALS	201
TERMS TO REMEMBER	203
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	203
PROJECTS TO EXTEND YOUR LEARNING	204
CASE STUDY: DOWNSIZING: ANATHEMA TO CORPORATE LOYALTY?	206

CHAPTER 6**SELECTING EMPLOYEES TO FIT THE JOB AND THE ORGANIZATION**

The Strategic Importance of Selecting Employees to Fit the Job and the Organization	210
Obtaining a Capable Workforce	210
Company Reputation	211
Maximizing the Economic Utility of Selection Practices	212

Selection Within an Integrated HRM System	215
Other HR Activities	215
The External and Internal Environments	217
The HR Triad	220

 **THE HR TRIAD: Roles and Responsibilities in Selecting Employees** 221

Line Managers	221
HR Professionals	222
Other Employees	222
Designing the Selection Process	222
Establish the Criteria of Interest	223
Choosing Predictors	223
Choosing Assessment Techniques	224
Deciding When to Measure Each Predictor	227
Synthesizing Information to Choose Appropriate Candidates	227
Techniques for Screening Job Applicants	229
Personal History Assessments	229
Background Verification and Reference Checks	231
Medical Tests	233
Job Interviews	234
Screening Job Interviews	234
Structured Job Interviews	235
Unstructured Job Interviews	237
Panel Interviews	237
Video Interviews	238
Interview Effectiveness	238
Other Techniques for Assessing Screened Job Applicants	238
Ability Tests	238
Job Knowledge Tests	239
Personality Tests	241
Work Simulations	243
Assessment Centers	243
Current Issues	244
Affirmative Action	245
Controversial Predictors	246
CHAPTER SUMMARY WITH LEARNING GOALS	248
TERMS TO REMEMBER	249
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	250
PROJECTS TO EXTEND YOUR LEARNING	250
CASE STUDY: SELECTING PATIENT ESCORTS	252

CHAPTER 7

TRAINING AND DEVELOPING A COMPETITIVE WORKFORCE

The Strategic Importance of Training and Developing a Competitive Workforce 258

Improving Competitiveness 258

Improving Productivity 260

Increasing Employee Attraction, Retention, and Motivation 260

Training and Development Practices Within an Integrated HRM System 261

Other HR Activities 261

The External and Internal Environments 263

The HR Triad 266

Line Managers 267



THE HR TRIAD: Roles and Responsibilities in Training and Development 267

Other Employees 268

HR Professionals 268

Determining Training and Development Needs 268

Organizational Needs Analysis 269

Job Needs Analysis 269

Person Needs Analysis 270

Demographic Needs Analysis 271

Determining Learning Objectives 272

Improving Cognitive Knowledge 272

Developing Skills 273

Influencing Affective Responses 274

Encouraging Ethical Behavior 274

Team Building 275

Determining Who Provides the Training 277

Supervisors and Other Managers 278

Coworkers 278

Internal or External Subject Matter Experts 278

The Trainee 279

Determining the Format for Training and Development Activities 279

E-Learning 279

On the Job 281

On Site but Not on the Job 283


Off the Job 284

Creating Conditions to Maximize Learning and Development 286

Set the Stage for Learning 286

Create Conditions to Increase Learning During Training and Development Activities	287
Maintaining Performance after Training	288
Evaluating Training Effectiveness	289
Trainee Reactions	289
Trainee Learning	290
Trainee Behaviors	290
Performance Outcomes	290
Return on Investment	290
Current Issues	290
Diversity Training	291
Using Gamification for Training	292
CHAPTER SUMMARY WITH LEARNING GOALS	294
TERMS TO REMEMBER	295
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	295
PROJECTS TO EXTEND YOUR LEARNING	296
CASE STUDY: SEEING THE FOREST AND THE TREES	298

CHAPTER 8**CONDUCTING PERFORMANCE MANAGEMENT**

The Strategic Importance of Conducting Performance Management	302
Enhance Motivation	302
Improve Individual and Organizational Performance	305
Support Strategic Objectives	306
Performance Management Within an Integrated HRM System	307
The Internal Environment	307
The External Environment	310
Other HR Activities	312
The HR Triad	313
Line Managers	313
 THE HR TRIAD: Roles and Responsibilities for Performance Management	314
Other Employees	315
HR Professionals	315
What to Measure	316
Personal Traits	316
Behaviors	317
Objective Results	318
Multiple Criteria	318
Timing of Performance Management	319
Focal-Point Approach	320

Anniversary Approach	320
Natural Time Span of the Job Approach	321
Continuous Approach	321
Who Participates	322
Supervisors	322
Self-Appraisal	322
Peers	323
Subordinates	323
Customers	324
360-Degree Appraisals	324
Crowdsourced Feedback	325
How to Measure Performance	326
Comparative Formats	326
Absolute Standards Formats	327
Results-Based Formats	331
Ratingless Appraisals	332
The Performance Rating Process	332
Rating Errors	332
Improving Rater Accuracy	333
Providing Feedback	335
Understanding Attributions	335
Timing	335
Preparation	336
Content of the Discussion	336
Follow-Up	336
When Nothing Else Works	338
Current Issues	339
Monitoring Through Technology	339
Focusing on Development	340
CHAPTER SUMMARY WITH LEARNING GOALS	340
TERMS TO REMEMBER	342
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	342
PROJECTS TO EXTEND YOUR LEARNING	343
CASE STUDY: CROWDSOURCING FEEDBACK	345

CHAPTER 9**DEVELOPING AN APPROACH TO TOTAL COMPENSATION**

The Strategic Importance of Total Compensation	350
Attract, Motivate, and Retain Talent	350

Implement the Business Strategy	354
Improve Productivity	355
Contain Costs	355
Total Compensation Within an Integrated HRM System	356
Other HR Activities	357
The External Environment	358
The Internal Environment	362
The HR Triad	365
HR Professionals	365

 **THE HR TRIAD: Roles and Responsibilities for Total Compensation** 365

Line Managers	366
Other Employees	367
Establish the Internal Value of Jobs	367
Objectives of Job Evaluation	367
Job Ranking Method of Job Evaluation	368
Job Classification Method of Job Evaluation	368
Point-Factor Rating Method of Job Evaluation	369
Competency-Based Methods of Job Evaluation	372
Skill-Based Pay	373
Use External Market Rates to Set Pay Levels	374
Step 1: Determine External Market Pay Rates	374
Step 2: Establish the Market Pay Policy	376
Step 3: Set the Organization Pay Policy	376
Design the Internal Pay Structure	377
Job-Based Pay Grades and Ranges	378
Competency-Based Pay Structure	379
Skill-Based Pay Structure	379
Make Adjustments	379
Balancing Internal and External Equity	379
Changes Over Time	380
Achieving Individual Equity	380
Current Issues	381
Raising the Minimum Wage	381
Executive Compensation	382
CHAPTER SUMMARY WITH LEARNING GOALS	383
TERMS TO REMEMBER	383
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	384
PROJECTS TO EXTEND YOUR LEARNING	384

CHAPTER 10 USING PERFORMANCE-BASED PAY TO ACHIEVE STRATEGIC OBJECTIVES

The Strategic Importance of Using Performance-Based Pay 388

Support Strategic Objectives 388

Manage Labor Costs 390

Attract, Retain, and Motivate Talent 390


Performance-Based Pay Within an Integrated HRM System 391

Other HR Activities 392

The Internal Environment 393

The External Environment 395

The HR Triad 396

 **THE HR TRIAD:** Roles and Responsibilities for Using Performance-Based Pay to Achieve Strategic Objectives 397

Line Managers and HR Professionals 397

Other Employees 397

Design Choices for Performance-Based Pay 398

Types of Performance-Based Pay 398

Rewards 399

Performance Measures 402

Linking Performance to Rewards 405

Implementation Issues 405

Evaluating Effectiveness 406

Gaining Employee Acceptance 407

Recognition Awards 408

Spot Awards 410

Peer-to-Peer Awards 411

Awards for Suggestions 411

Merit Pay 411

Performance Measures 412

Merit Awards 412

Linking Performance to Merit Awards 413

Incentive Pay 414

Individual Incentives 414

Team Incentives 416

Companywide Incentives 418


Pay That Puts Earnings at Risk 419

Commissions 420

Stock Ownership 421


Current Issues	424
New Uses of Analytics	424
Ethical Considerations	425
CHAPTER SUMMARY WITH LEARNING GOALS	426
TERMS TO REMEMBER	427
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	427
PROJECTS TO EXTEND YOUR LEARNING	428

CHAPTER 11 PROVIDING EMPLOYEE BENEFITS

The Strategic Importance of Providing Employee Benefits	432
Increase Productivity	433
Contain Costs	433
Improve Attraction and Retention	433
Support Business Strategies	434
Employee Benefits Within an Integrated HRM System	434
Other HR Activities	435
The External Environment	436
The Internal Environment	439
The HR Triad	441
Mandatory Benefits	441
 THE HR TRIAD: Roles and Responsibilities for Providing Employee Benefits	442
Social Security Insurance	442
Unemployment Compensation	443
Workers' Compensation and Disability Insurance	443
Family and Medical Leave	444
Voluntary Benefits: Retirement Savings Plans and Pensions	444
Defined Benefit Plans	445
Defined Contribution Plans	446
Cash Balance Plans	448
Legal Considerations	449
Voluntary Benefits: Health Care	450
Medical Care	450
Wellness Programs	452
Employee Assistance Programs	453
Voluntary Benefits: Paid Leave	454
Off-the-Job Paid Leave	454
On-the-Job Paid Leave	456
Voluntary Benefits: Work/Life and Other Benefits	457

Work/Life Benefits	457
Other Voluntary Benefits	459
Administrative Issues in Management Employee Benefits	460
What to Include in the Benefits Package	460
Determining the Level of Flexibility	461
Communicating the Benefits Offered to Employees	461
Current Issues	462
Containing the Escalating Cost of Health Care	462
The Patient Protection and Affordable Care Act of 2010	464
CHAPTER SUMMARY WITH LEARNING GOALS	465
TERMS TO REMEMBER	466
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	466
PROJECTS TO EXTEND YOUR LEARNING	467
CASE STUDY: WHO'S BENEFITING?	470

CHAPTER 12 **PROMOTING AND IMPROVING EMPLOYEE SAFETY, HEALTH, AND WELL-BEING**


The Strategic Importance of Workplace Safety, Health, and Well-Being	474
Enhance Productivity	474
Contain Costs	475
Attract and Retain Talent	476
Support Business Strategy	476
Promoting and Improving Safety, Health, and Well-Being Within an Integrated HRM System	476
Other HR Activities	477
The Internal Environment	479
The External Environment	481
The HR Triad	485
 THE HR TRIAD: Roles and Responsibilities in Promoting and Improving Workplace Safety, Health, and Well-Being	486
Workplace Safety Hazards	486
Occupational Accidents	487
Occupational Injuries	488
Workplace Violence	490
Workplace Hazards to Health and Well-Being	490
Occupational Illnesses	490
Hazards to Mental Health	491
Workplace Stressors	492
Job Burnout	494

Interventions to Promote and Improve Workplace Safety	495
Measuring and Monitoring Safety	495
Accident Prevention	496
Injury Prevention	498
Violence Prevention	500
Interventions to Promote and Improve Employee Health and Well-Being	501
Measuring and Monitoring Health and Well-Being	502
Illness Prevention	502
Wellness Programs	503
Employee Assistance Programs	507
Stress Management	508
Assessing Intervention Effectiveness	509
Current Issues	510
Privacy	510
Dealing With the Use of Marijuana	511
CHAPTER SUMMARY WITH LEARNING GOALS	512
TERMS TO REMEMBER	513
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	513
PROJECTS TO EXTEND YOUR LEARNING	513
CASE STUDY: WHO'S THERE ON THE LINE?	516

CHAPTER 13**UNDERSTANDING UNIONIZATION AND COLLECTIVE BARGAINING**

The Strategic Importance of Unionization and Collective Bargaining	520
Flexibility	520
Costs	521
Attracting, Retaining, and Motivating Employees	521
Productivity	522
Profitability	522
Unionization and Collective Bargaining Within the Integrated HRM System	522
Other HR Activities	523
The Internal Environment	524
The External Environment	525
Unions	525
The Legal and Political Landscape	528
The Economic Landscape	531
The Demographic Landscape	531


The Socio-Cultural Landscape	533
The Extended HR Triad	533
Unions	533

 **THE EXTENDED HR TRIAD: Roles and Responsibilities in Unionization and Collective Bargaining** 534

Line Managers, HR Professionals, and Other Employees	534
Attraction to Unionization	535
Dissatisfaction	536
Lack of Power	536
Management Efforts to Satisfy Employees and Prevent Unionization	536
Union Efforts to Increase Perceived Union Instrumentality	537
Union Certification Process	538
Soliciting Employee Support	539
Determining the Bargaining Unit	541
Pre-Election Campaign	541
Election, Certification, and Decertification	541
The Collective Bargaining Process	542
Types of Bargaining	543
Negotiating the Agreement	546
Issues for Negotiation	549
Conflicts and Their Resolution	551
Contract Administration and Evaluation	554
Contract Administration	554
Evaluating Effectiveness	558
Current Issues	558
Worker Centers	558
The Power of Public Sector Unions	559
CHAPTER SUMMARY WITH LEARNING GOALS	560
TERMS TO REMEMBER	561
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	561
PROJECTS TO EXTEND YOUR LEARNING	562
CASE STUDY: THE UNION'S STRATEGIC CHOICE	563

CHAPTER 14 **MANAGING HUMAN RESOURCES GLOBALLY**

The Strategic Importance of Managing Human Resources Globally	568
Growth	568
Reducing Costs	570
Improving Competitiveness	571
Attracting, Retaining, and Motivating Employees	572
The HR Triad	572
HR Professionals	572

 THE HR TRIAD: Roles and Responsibilities for Managing Human Resources Globally	573
Line Managers	573
Other Employees	574
Navigating the Global Landscape Within the Integrated HRM System	574
Regional Trade Zones	574
International Organizations	577
The Global Landscape and Other Aspects of the External Environment	578
The Socio-Cultural Landscape	579
The Political Landscape	581
The Legal Landscape	582
The Economic Landscape	586
The Demographic Landscape	588
The Global Landscape and the Internal Environment	590
Business Strategy	590
Technology	591
Company Culture	592
Other Resources	593
Managing Human Resources Globally by Adapting to National Differences	595
National Differences in Selection	595
National Differences in Training and Development	596
National Differences in Performance Management	596
National Differences in Compensation and Benefits	597
National Differences in Unionization and Collective Bargaining	598
Managing Human Resources Globally by Integrating Across Nations	600
Integrating Talent Management Across Nations	601
Integrating Selection Across Nations	602
Integrating Training and Development Across Nations	604
Integrating Performance Management Across Nations	606
Integrating Compensation and Benefits Across Nations	607
Integrating Unionization and Collective Bargaining Across Nations	608
Managing Human Resources Globally by Balancing Standardization and Localization	609
Balancing Standardization and Localization in Recruitment and Selection	609
Balancing Standardization and Localization in Compensation and Benefits	610

Current Issues	611
The End of Globalization?	611
Safety and Security for Employees Abroad	613
CHAPTER SUMMARY WITH LEARNING GOALS	614
TERMS TO REMEMBER	615
QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING	616
PROJECTS TO EXTEND YOUR LEARNING	616
Endnotes	618
Name Index	672
Organizations Index	687
Subject Index	690

PREFACE

Managing Human Resources offers a detailed picture of how successful companies manage human resources in order to compete effectively in a dynamic, global environment. Because organizations differ from each other in so many ways—including their locations, competitive strategies, products and services, and corporate cultures—we use many different companies to illustrate how businesses are addressing the challenge of managing human resources effectively. Examples of companies in many different industries include Amazon, Cirque du Soleil, Cisco, Deere & Company, Disney, FedEx, GE, Google, Haier, IBM, Johnson & Johnson, Kroger, Levi Strauss, Lincoln Electric, Mayo Clinic, McDonald's, Novartis, PepsiCo, Starbucks, the Ritz-Carlton, Southwest Airlines, Toyota, UPS, Walmart, Weyerhaeuser, Yahoo, Zappos, and many, many others. By combining a respect for established principles of human resource management with a willingness to experiment and try new approaches, these companies succeed year after year.

AN INTEGRATIVE FRAMEWORK FOR MANAGING HUMAN RESOURCES

Most chapters in this book focus on specific human resource (HR) activities such as recruitment, training, performance management, compensation, and so on. Together these activities form a human resource management (HRM) system. An important learning objective for students of HRM is to develop an understanding of how the many specific HR activities in the system can work together to improve various aspects of organizational effectiveness. To instill this important concept, we use the Integrative Framework for Managing Human Resources through this textbook.

We introduce the Integrative Framework for Managing Human Resources in Chapter 1. Then we dive deeper into the specific elements of the framework in each subsequent chapter. We also explore the connections between the various elements of our Integrative Framework. Understanding these connections is essential to establishing an integrative HRM system. Our Integrative Framework provides insight regarding the complexities involved in managing people effectively. After studying this book, you will have a deeper appreciation for how challenging it can be to develop and maintain alignment among all the elements in an integrated HRM system.

ALIGNING HR PRACTICES WITH THE ORGANIZATION'S EXTERNAL AND INTERNAL ENVIRONMENTS

If you have worked in more than one organization, you know from experience that there are many different approaches to managing human resources. Some employers are highly selective in whom they hire, while others seem to hire anyone who walks in the door. Some provide extensive training to employees, while others let new hires sink or swim. Some pay well and offer large bonuses; others don't. Many of these differences in how organizations manage people are due to differences in the environments of organizations.

Rapid changes in the economic landscape, the political and legal landscape, and in social conditions, mean that few organizations can effectively compete today by just using the old tried-and-true approaches of yesterday. Nor can they simply copy other organizations. As the best organizations realize, continuous change requires continuous learning.

Increasingly, the great companies—the “Most Admired” and the “Best Companies to Work For”—manage their human resources based upon an understanding of their company’s strengths and weaknesses and the opportunities and threats of its environment. In order to recruit the right people with the right competencies and keep these people motivated to do their best work, managers and HR professionals alike need to understand the demands and nature of the business. A computer company that competes by continually offering innovative new products and services is likely to manage people differently than a retailer that competes by offering low-cost goods or a manufacturer that competes by offering the best quality possible. Furthermore, each of these companies may adopt a different approach during good economic times than when the economy is not performing well. Managing human resources with this understanding of the nature of the organizational and external environments is central to managing human resources strategically.

SATISFYING MULTIPLE STAKEHOLDERS

Ultimately, an organization is effective only if it satisfies its major stakeholders. Effective organizations recognize that there’s more to “success” than just a good bottom line (profits). The best companies balance their concerns over short-term, bottom-line results with the recognition that long-term success requires satisfying a variety of stakeholders. In addition to satisfying the demands of shareholders, the best organizations also address the concerns of employees and their families, customers, members of the local communities, government regulators, unions, public interest groups, and other organizations that they do business with—suppliers, distributors, alliance partners, and so on. These various stakeholders care deeply about how businesses conduct themselves, and in particular, how they treat their employees.

Although it’s not always possible to satisfy all stakeholders equally well, effective organizations make a habit of analyzing the available alternatives from multiple perspectives and seeking solutions that meet as many concerns as possible. The approach of developing human resource management policies and practices that are responsive to the concerns of an organization’s key stakeholders is central to the strategic perspective adopted throughout this book. Throughout this text, we consider how different approaches to managing human resources can influence the way stakeholders view an organization—for better or for worse.



THE HR TRIAD: MANAGERS, HR PROFESSIONALS, AND OTHER EMPLOYEES

The challenge of managing people effectively requires the involvement of everyone in the organization. Of particular importance for our discussions are managers, HR professionals, and all the other employees in non-managerial positions who make up the core workforce of the organization. We refer to these three groups of key players as the HR Triad. Together, the HR Triad designs, implements, monitors, evaluates, and can benefit from the various HR activities described in this book.

Given the importance of addressing the concerns of many stakeholders, it is not surprising that another quality shared by successful companies is their recognition that managing human resources is everyone’s responsibility. Naturally, HR professionals carry much of the

responsibility for ensuring that the organization is applying the best knowledge available and conforming to legal requirements. But day in and day out, line managers and the employees themselves carry most of the responsibility for managing human resources. Managers translate the formal policies of the organization into daily practice. Employees, in turn, may be asked to participate in many HR activities such as interviewing potential new hires, assisting with training, providing feedback on the performance of colleagues, suggesting improvements, and so on.

This view—that managing human resources is a shared responsibility—is highlighted throughout this book in a feature called The HR Triad. Within each chapter, it details the roles and responsibilities of HR professionals, managers, and employees.

FIVE SPECIAL THEMES

As organizations strive to manage employees effectively, they face many challenges. And as times and conditions change, these challenges also change. We group and discuss the current challenges under five special themes:

- Managing with teams.
- Managing with diversity and inclusion.
- Managing with ethics and corporate social responsibility (CSR).
- Managing with new technologies.
- Managing with metrics and analytics.

Managing with teams

Many managers now believe that improving the teamwork processes in their organization is essential for ensuring their organizations' success. Using team-based organizational structures, employers hope to achieve outcomes that could not be achieved by individuals working in isolation. But the payoff from teams isn't automatic. To create and orchestrate teams, people need to be selected, appraised, compensated, and trained in ways that reflect the unique relationships that develop between employees who work together. Examples of how organizations use human resource practices to maximize team effectiveness are highlighted in the Managing with Teams feature.

Managing with diversity and inclusion

Just as organizations have come to realize the benefits of teamwork, they have also discovered that the people who were being put into teams are more diverse than ever before. Today, organizations are finding that management practices must be sensitive to issues of gender, ethnicity, personality, nationality, religion, sexual orientation, marital and family status, age, and various other unifying life experiences. The Managing with Diversity and Inclusion feature in this book describes how effective organizations use HR practices to leverage employee diversity and create competitive advantage.

Managing with ethics and corporate social responsibility

Organizations have also discovered the importance of ethics and corporate social responsibility. Corporate financial scandals, employee misconduct, and public lawsuits have hurt the reputation of numerous organizations over the last few years. Managers have come to realize that serious ethical breaches can not only sully the good name of their company but also put the very survival of the organization in jeopardy. Many organizations want to instill a culture of ethical and responsible behavior in their workforce, and human resource practices can play

an important role in this. HR professionals can support the successful implementation of a culture of ethics by developing HR practices that encourage employees to do things in an ethical and socially responsible way. The Managing with Ethics and Corporate Social Responsibility feature in this book describes how effective organizations use HR practices to motivate the ethical behavior of employees for the benefit of the organization as well as society.

Managing with new technologies

Although technology has been used in HR for many decades, two recent technologies that are just starting to impact human resources are the use of social media and the use of mobile technologies. Relatedly, technological developments such as social media and mobile technologies have led to the introduction of the concept of gamification in several different HR practices. Because social media, mobile technologies, and gamification have important implications for all aspects of managing human resources, the Managing with New Technologies feature shows how some companies are using them to increase the effectiveness of their HR activities.

Managing with metrics and analytics

There have always been measures of organization and employee performance, and statistics were frequently used to predict who will be a good performer and compare pay across companies. However, the numerous ways metrics and analytics can benefit organizations is just being realized. Today, HR professionals are using a wide variety of metrics and analytics to systematically measure and predict the contributions of employees, teams, and departments, as well as the contributions of the HR function. Metrics and analytics are now a critical part of most HR activities including performance management, compensation, and training. Examples of how HR practices incorporate metrics and analytics to help the organization achieve its goals are highlighted in the Managing with Metrics and Analytics feature.

ORGANIZATION OF THIS BOOK

The many topics discussed in this book are organized according to our Integrative Framework for Managing Human Resources as shown in Exhibit 1.2. We begin by discussing the “big picture,” then we discuss each of the HR activities listed at the center of the exhibit, and finally we wrap up with a discussion of the HR profession.

THE BIG PICTURE

Chapter 1 describes each component of our Integrated Framework for Managing Human Resources shown in Exhibit 1.2. This important chapter provides an orientation for thinking about why it is so important—and difficult—for organizations to develop effective HR policies and practices. Then Chapters 2 and 3 describe in more detail the external and internal environments, which include the economic landscape, the demographic landscape, the socio-cultural landscape, and the political and legal landscape. In these chapters we also describe competitive strategies, technology, company culture, and other organizational resources in order to show how the internal and external environments help shape the formulation and implementation of a company’s human resource management strategy. As these chapters make clear, managing human resources effectively starts at the top of the organization with leaders who understand the importance of people and are committed to addressing the needs of their employees.

SPECIFIC HR ACTIVITIES

Having described the environment that shapes a company's strategy of how to manage their human resources, we then turn to descriptions of the specific HR policies and practices that organizations use to manage their workforces. Chapter 4 describes how job analysis and competency modeling can be used to develop an understanding of the work and the competencies employees need in order to maximize their performance in current jobs as well as their longer-term success.

To get work done, organizations must engage in workforce planning to understand their demand and supply of talent, attract people to apply for jobs, and retain those who do their jobs well. Chapter 5 describes how companies conduct workplace planning, recruit applicants to apply for job openings, and reduce unwanted turnover. After applicants have applied for a position, but before they are made a job offer, the process of selection occurs. As described in Chapter 6, employers want to select employees who will be able and willing to learn new tasks and continually adapt to changing conditions. They also want employees who fit well with the organizational culture.

With rapid changes in job requirements, existing employees must be both willing and able to develop new competencies, become proficient in new jobs, and even change their occupations. Chapter 7 describes training and development practices that enable employees to develop themselves and remain employable despite rapid changes in the world of work. Chapter 8 describes principles for performance management, measurement and feedback, and thus sets the stage for a discussion of using rewards to further motivate employees.

Employees work in exchange for compensation, whether monetary or otherwise. A total compensation package typically includes base wages or salary, some form of incentive pay, and various types of benefits. Chapter 9 describes how organizations design the total compensation package. To ensure that employees perform satisfactorily and receive appropriate compensation, performance must be measured and employees must receive usable feedback and the support needed to identify and correct performance deficiencies. When appropriate performance standards, measures, and feedback are provided, capable employees become a high-performance workforce. Then Chapter 10 describes the use of incentives, bonuses, and other forms of rewards that employers offer to motivate employees to perform at their peak.

The best companies often become targets for recruitment by competitors. Offering innovative benefits packages and employee services that address a wide array of employees' concerns is one tactic for warding off such poaching, as described in Chapter 11. In addition to the benefits that employers offer voluntarily, Chapter 11 describes benefits required by law.

Chapter 12 focuses on what employers can do to ensure that the workplace is safe and that employees are healthy. Exposure to toxic chemicals and dangerous equipment remains a concern in some work environments, but more often air quality and ergonomic concerns top the agenda. Increasing concern about violence in the workplace is another unfortunate development described in Chapter 12.

Chapter 13 addresses the current state of unionization and collective bargaining. Because unions have maintained their strength in many other countries, they play a vital role in companies that strive to be globally competitive and profitable.

The book concludes with a return to the big picture, exploring how the global landscape affects the organization's internal and external environment, as well as all the specific HR activities described earlier. Chapter 14 shows how the global landscape, and the relatively new world of globalization, changes how companies manage human resources when doing business in different countries around the globe.

FEATURES OF THIS EDITION

We have already referred to a few features that appear throughout this book, but others have yet to be mentioned. Following are descriptions of all the special features that we use to reinforce key ideas and bring the topic of managing human resources to life.

COMPANY EXAMPLES

As an introduction to each chapter, we provide a brief company example that illustrates the strategic importance of the HR activity to be discussed in the chapter. This opening example and many other company examples are used throughout the chapter to illustrate basic principles and to show how companies use HR activities to gain a competitive advantage. Also in each chapter you will see many examples that illustrate how some of the best and most admired companies manage human resources to deal with the challenges in the special themes of today—Managing with Teams, Managing with Diversity and Inclusion, Managing Ethics and Corporate Social Responsibility, Managing with New Technologies, and Managing with Metrics and Analytics. By the end of each chapter, you will come to know many companies and how they manage their human resources in some detail.

The company examples reinforce two important lessons. First, successful companies follow well-established principles for managing human resources, and second, they also are willing to experiment with new ideas in order to improve upon what is known. Through these examples, we hope to convince readers that managing human resources effectively requires mastering what is known and then having the confidence to venture into the unknown.

THE HR TRIAD

The HR Triad feature summarizes the key points and highlights the role that each member of the triad plays in designing and implementing effective HR policies and practices. It provides a quick overview of the key topics discussed in the chapter; it also serves to reinforce the need for HR professionals, managers, and all other employees to work together in order to ensure the effectiveness of an organization's HRM system.

MARGIN NOTES

Throughout the chapters, margin notes reinforce and extend key ideas. The *fast facts* offer tidbits of information that may be particularly interesting and useful. The *quotations* illustrate the perspectives of real managers and HR professionals. We selected some quotations because the people who spoke them are well-known executives or public figures. Other quotations come from typical employees. These employees may not be well-known, but they know what organizational life is like and are willing to tell it like it is. Although you may not recognize all the names, we think you'll agree that their insights are worth remembering.

CURRENT ISSUES

Because the organizational environment is constantly changing, human resource management is constantly changing in response. Thus, important new issues frequently emerge to influence human resource management. In a section at the end of each chapter titled, Current Issues, we briefly comment on new topics that are currently being discussed extensively by HR professionals, managers and academics. Through these sections you will

become familiar with up-to-date issues and challenges that human resource professionals, managers, and employees are currently confronting.

CHAPTER SUMMARY WITH LEARNING GOALS

Each chapter begins with several Learning Goals. These are provided to help guide your focus and thinking as you read through the chapter materials. We then summarize each chapter with these same Learning Goals. Of course, our summary is brief: your summary of each of these Learning Goals will probably be much longer and more detailed.

TERMS TO REMEMBER

Throughout the chapters, key terms are shown in bold and defined in italic. A complete list of all the key terms described in the chapter is provided at the end of the chapter. The list of key terms makes it easy for you to check whether you recall and understand the key vocabulary associated with the content of the chapter. If you see a term you aren't sure about, you may want to go back and review that section of the chapter again, or ask the instructor to help clarify the meaning for you.

QUESTIONS FOR DISCUSSION AND REFLECTIVE THINKING

The discussion questions at the end of each chapter seek to determine your understanding of the material found in the chapter. Questions for discussion and reflective thinking challenge you to think critically about the material and consider its implications for managing human resources. By the time you finish reading and studying all the chapters, you should know a great deal about basic principles for managing human resources, about what particular companies are doing today, and about what companies should be preparing to do as they face the future.

PROJECTS TO EXTEND YOUR LEARNING

To further enrich your understanding, each chapter includes supplemental projects:

- Integration and Application
- Using the Internet
- Experiential Activity

Integration and application

The Integration and Application project focuses your attention on the human resource management activities used by the two companies portrayed in integrative cases—Lincoln Electric and Southwest Airlines. By comparing and contrasting how these two companies manage their human resources, you will gain a deeper understanding of how the characteristics of an organization and the organization's external environment influence its approach to managing human resources.

Using the Internet

The project called Using the Internet directs you to explore several useful Internet resources that can be used to investigate companies, become familiar with relevant professional associations and the services they offer, find out about the products and services

offered by HR consultants and vendors, explore government information to understand greater depth of relevant laws and agencies, and in many other ways enrich your understanding of managing human resources effectively.

Experiential activity

Another feature is the Experiential Activity at the end of each chapter, which asks you to extend your learning about the topics covered in the chapter. Some experiential activities require you to complete a short questionnaire that can be used to gauge your own knowledge and improve your understanding of your own attitudes about current issues. Some activities provide interview questions that you can use to learn more about the perspective of managers and employees in various types of work settings. Some activities provide suggestions for discussions to hold with classmates as a means for learning from them. And some activities require you to develop a personal action plan. In all cases, the goal is to challenge you to grapple with the practical implications of the material covered in the chapter.

END-OF-CHAPTER CASES

A case at the end of most chapters offers challenge and variety. It is up to you to analyze what is going on and suggest improvements. In some instances, discussion questions are presented to guide your thinking; in other instances, you are on your own to determine the issues most relevant to the material in the chapter. Many of the companies in these cases are disguised, but their problems and challenges are real and they are likely to be familiar to many experienced managers.

ENDNOTE CITATIONS

At the end of the text, you will find an extensive list of endnotes, which provide full citations to the materials used in preparing the chapters. For anyone wishing to dig deeper into the content of each chapter, the endnotes are an excellent starting point. Included are citations to the latest academic research as well as citations for coverage that has appeared in the public press and relevant Internet addresses.

SUPPORT MATERIALS

We designed a comprehensive set of support materials to guide instructors and students through the many issues involved in managing human resources effectively. Supplementary materials for *Managing Human Resources* are available at the textbook website, <http://www.oup.com/us/jackson>. When you adopt *Managing Human Resources*, you and your students will have access to a rich array of teaching and learning resources that you won't find anywhere else. This outstanding site includes PowerPoint slides, an instructor's manual, and computerized test banks for instructors. For students, there are chapter overviews and learning objectives, video clips with related quizzes, self-quizzes, key terms and concepts, and flashcards.

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*Susan E. Jackson and Randall S. Schuler, Rutgers University and University of Lucerne,
and
Steve Werner, University of Houston*

CHAPTER 1

MANAGING HUMAN RESOURCES

LEARNING GOALS

After reading this chapter, you should be able to:

1. Describe the importance of managing human resources.
 2. Explain how to gain and sustain a competitive advantage through human resources.
 3. Use an integrative framework for managing human resources effectively.
 4. Describe the HR Triad.
 5. Describe five special themes in managing human resources.
 6. Discuss two current issues in managing human resources.
-

“If you treat your employees right, they’re happy and proud and participative with respect to what they’re doing. They manifest that attitude to your customers and your customers come back. And that’s what business is all about—having your customers come back, which makes the shareholders happy.”

**Herb Kelleher, Legendary Chairman, Co-founder and Former CEO
Southwest Airlines**

“It’s all about people. Everybody can buy coffee beans and open stores. So when it comes to being successful, it’s all about how you manage your people.”

**Howard Schultz, Chair and Chief Global Strategist
Starbucks**

“The underlying notion is, ‘How can we make this a great place to work, so that people are excited about contributing here, and are able to be efficient both here and in their personal lives? Are people delighted? How do they work and play together? And how can we make that better?’”

**Laszlo Bock, Senior Vice President of People Operations
Google**

MANAGING HUMAN RESOURCES AT GOOGLE

Founded in 1998 by Larry Page and Sergey Brin, Google has grown from a two-person company with no revenue to a company with more than 50,000 employees that is valued at more than \$300 billion. Google created and continues to transform the world of online search and computer services. It is one of the biggest brand names in the world, a brand that is built upon a culture that is high on trust, low on politics, dedicated to sharing resources and sharing the wealth, and full of meaning and significance.

Google is also one of the best companies to work for in America. More than one million people apply to work at Google every year. The voluntary turnover rate of Google employees is less than 5% per year.

From the very beginning of the company, Google’s founders focused on getting the best employees possible and giving them everything they needed to create and innovate. Creativity and innovation drive Google’s business strategy and vision.

As a company, Google strives to maintain its commitment to doing good. Almost all of its employees say that management is honest and ethical in its business practices. Google has initiated programs to reduce greenhouse gas emissions and improve energy efficiency. They also encourage employees to volunteer their time in the community. They are transparent about their HR practices and encourage other employers to treat their employees well (see the website rework.withgoogle.com).

The Google philosophy is to treat employees the same way you want them to treat their customers. Implementing this philosophy begins with a well thought-out human resource management strategy and extensive workforce planning. It involves thoughtful recruitment and selection. It requires investing in training and development. It means holding managers accountable for effective performance management. And, it helps to provide employees with generous and fair compensation and benefits! Google provides 20% of the work week to employees for their creative pursuits. That HR policy has reaped rich rewards and highlights the tight relationship between Google’s business strategy and its approach to managing its human resources.¹

LEARNING GOAL | 1

THE STRATEGIC IMPORTANCE OF MANAGING HUMAN RESOURCES

Leaders such as Lazlo Bock of Google, Howard Schultz of Starbucks, and Herb Kelleher of Southwest Airlines see human resources as assets that need to be managed conscientiously and in tune with their organizations' needs. Today's most competitive organizations are working to ensure that—now and a decade from now—they have employees who are eager and able to address competitive challenges. Increasingly this means attracting and retaining superior talent and stimulating employees to perform at peak levels. When brainpower drives the business, as it does at Google, attracting and keeping great intellectual talent are essential. When customer service is important to the business, as it is with Starbucks, attracting and keeping employees who deliver excellent service day in and day out even to the most difficult customers is essential. While many factors influence the success of a company, it is very difficult to succeed without managing human resources effectively.

How firms manage their human resources matters. Numerous studies have shown that the approaches companies take to managing human resources can increase financial performance, including profitability, profit growth, annual sales per employee (productivity), market value, and earnings-per-share growth.² Years ago, the prevailing view was that a firm's only goal was to return profits to the shareholders. However, today, the success of an organization, as well as its reputation, is determined by the happiness of an array of stakeholders with many interests other than financial performance.³

SATISFYING MULTIPLE STAKEHOLDERS

An organization's approach to managing human resources is central to its ability to satisfy its many stakeholders. **Stakeholders** are *individuals or groups with interests, rights, or ownership in an organization and its activities*. Stakeholders benefit from the organization's successes and can be harmed by its failures and mistakes. Conversely, the organization has an interest in maintaining the general well-being and effectiveness of key stakeholders. If some of the stakeholder groups break off their relationships with the organization, the organization may suffer.

Owners and investors, customers, employees, society, and other organizations such as suppliers, unions, and joint-venture partners are examples of stakeholders. Different stakeholders have different concerns as illustrated in Exhibit 1.1. Because the varying goals of stakeholders can work against each other, trying to keep all these stakeholders happy can be tricky.⁴ Effective managers determine the interests of their multiple stakeholders and work with them to find solutions that address everyone's concerns.

In the chapters that follow, we argue that approaches to managing human resources can provide organizations with effective solutions to the challenge of how best to satisfy the objectives of its multiple stakeholders, even when the objectives of different stakeholders seem to conflict. In more cases than not, appropriate HR practices make it possible to create win-win situations.

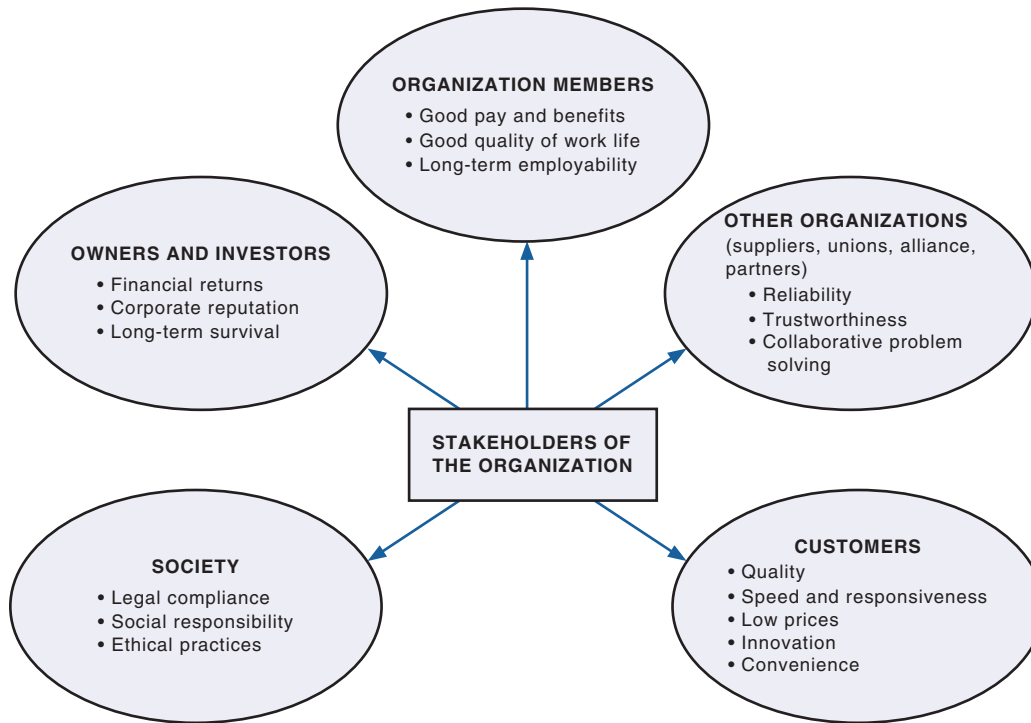
Organizations that manage their human resources effectively have policies and practices that support the goals of providing good products and services to customers, creating financial returns on the investments of owners and shareholders, contributing to society, and meeting the needs of employees. Addressing the concerns of all stakeholders is central to the concept of **sustainability**, *which is the commitment by organizations to balance*

“The way to gain good reputation is to endeavor to be what you desire to appear.”

Socrates

FAST FACT

When surveyed, 83% of MBA students said they would take a 15% salary cut “for a job that makes a social or environmental difference in the world.”

EXHIBIT 1.1 Stakeholders and Examples of Their Concerns

financial performance with contributions to the quality of life of their employees, society at large, and the environment. A recent survey of HR professionals found:

- 50% of organizations have a formal policy regarding sustainability.
- 90% of respondents believed that sustainability was important or very important to create a positive employer brand that attracts top talent.
- 86% of respondents believed that sustainability was important or very important to improve employee retention.
- 1% of respondents believed that the return on investment for sustainability efforts was negative.⁵

One measure of sustainability is the **triple bottom line**, which looks at organizational performance as a combination of financial, environmental, and social performance. To address sustainability and develop a stakeholder-friendly approach to managing human resources, managers must understand the concerns of each stakeholder group.

OWNERS AND INVESTORS

Most owners and investors invest their money in companies for financial reasons. At a minimum, owners want to preserve their capital for later use. Ideally, they want to see growth in their capital. To achieve these goals, they should invest their capital primarily in profitable companies.

The job of institutional investors, which is to make money by choosing companies to invest in, has become increasingly complex as difficult-to-measure assets have become more

FAST FACT

Seventy-two percent of businesses engage in sustainable business practices, and of those 58% make sustainability part of the organization's goals.

important. To determine a firm's value in the economy, some investors focus on measuring tangible assets. **Tangible assets** are relatively easy to measure and include such assets as inventory, equipment, real estate, and financial assets. Investors also recognize that many intangible assets can be just as valuable as tangible assets. **Intangible human assets** are comparatively social in nature and include such organizational characteristics as an employer-of-choice reputation, the depth of employee talent and loyalty, and the ability to innovate and change.

Intangible assets influence a company's profitability through complex chains of causes and effects. Suppose a chemical manufacturing firm treats its employees well and so develops a talented and loyal workforce. As a result, absenteeism and turnover are low, and so overall labor costs are low, which means greater productivity. Through this complex chain of causes and effects, the firm's talented and loyal workforce contributes to the firm's bottom-line financial performance.⁶

Some organizations, such as consulting firms and advertising agencies, have nothing except intangible human assets to offer. Investing in such companies often means hoping that the best employees will continue working at and for the company.⁷ As one study of initial public offerings showed, companies that attend to human resource management issues are rewarded with more favorable initial investor reactions as well as longer-term survival.⁸ Accountants may have difficulty attaching monetary values to a firm's human resources, but this doesn't stop investors from paying attention.

Because intangible human assets—such as how employees feel and behave—can influence financial performance, business analysts pay attention to how people are managed. For over 20 years, the staff at *Fortune* magazine has conducted extensive interviews with employees to create their annual lists of “100 Best Companies to Work For.”⁹ Google is frequently #1 on that list. To determine just how important it is to have happy employees, *Fortune's* research staff conducted research to see if happy employees resulted in happy investors. They compared shareholder returns for the “100 Best Companies to Work for in America” to those of the Russell 3000, an index that includes comparable companies. The bottom line: If you had invested \$1,000 in the Russell 3000, you would have had \$3,976 after ten years. If you had invested \$1,000 in the “100 Best Companies to Work for in America,” you would have had \$8,188 after ten years. You could earn more than twice as much by investing in the “100 Best Companies to Work for in America.”¹⁰ Such research shows that organizations can manage employees in ways that satisfy investors as well as employees.¹¹

SOCIETY

For organizations such as public schools, nonprofit foundations, and government agencies, the concerns of owners—that is, taxpayers and contributors—are essentially those of society at large. But for privately owned and publicly traded companies, the concerns of owners and investors may be quite different from those of society in general.

Under free market capitalism, the primary managerial obligation is to maximize shareholders' profits and their long-term interests. Nobel Prize-winning economist Milton Friedman is probably the best-known advocate of this approach.¹² Friedman argued that using resources in ways that do not clearly maximize investor interests amounts to spending the owners' money without their consent—the equivalent to stealing. According to Friedman, a manager can judge whether a decision is right or wrong by considering its consequences for the company's economic needs and financial well-being. If it improves

“There is no doubt about it; the more effectively you manage your people, the more profitable your company will be.”

Mark Huselid
Professor
Northeastern University

“Our CEO believes that doing well and doing good are inextricably linked.”

John Pazzani
Vice President
Timberland

the bottom line, it's right; if it detracts from the bottom line, it's wrong. According to this logic, a company might be justified in hiring economically disadvantaged youth if an analysis showed that hiring them paid off financially in terms of government tax incentives and wage subsidies. But the firm could not justify such hiring simply on the basis that it's the right thing to do for society.

Unlike Friedman, the average American believes that making money is not the only role of business or the only responsibility of managers. To meet the concerns of employees and of society in general, the best employers go beyond what is minimally required and seek to have a positive impact on society. Increasingly, the best companies are striving to serve society and shareholders at the same time.¹³ Two ways to do this are through scrupulous legal compliance and strong community relationships.

Legal compliance

Codes of conduct for some aspects of business behavior take the form of formal laws, and many such laws have implications for managing human resources. Businesses are subject to regulation through several federal agencies, as well as through various state and city equal employment commissions and civil rights commissions.

By complying with laws and regulations, firms establish their legitimacy and gain acceptance and support from the community. Ultimately, they increase their chances for long-term survival.¹⁴ Because they affect virtually all human resource management activities, many different laws, regulations, and court decisions are described throughout this book, beginning with the overview presented in Chapter 3.

Community relations

Formal laws and regulations establish relatively clear guidelines for how society expects a company to behave, but effective companies respond to more than these formal statements. They understand that the enactment of formal laws and regulations often lags behind public opinion by several years.

Long before legislation is agreed to, citizens communicate their expectations and attempt to hold organizations accountable for violations of those expectations. Proactive organizations stay attuned to public opinion and use it as a source of information that shapes their own management practices. With heightened public interest in corporate social responsibility, many companies are discovering that they can't avoid having people evaluate how well they perform in this respect.¹⁵

Community involvement can include sponsoring charitable fundraising events, providing time off for employees to volunteer, grants, scholarships, and donations of money, services, or products. For example, Timberland, the sportswear company, has 5,000 employees worldwide. Each year, about half of them work on community projects focused on the environment and community improvements.¹⁶ At Perfetti Van Melle, a candy and gum manufacturer, the employees themselves are empowered to organize community efforts with the encouragement of HR and upper management.

Tory Burch is a fashion company that sells products such as handbags, eye wear, fragrances, and various types of women's accessories. Founder Tory Burch runs a successful company that includes 150 freestanding stores, and the branded products can also be found in more than 3,000 department and specialty stores. She has been named by *Forbes* magazine as one of the most powerful women in the world. Her company is about more than being highly profitable, however. Social responsibility is also important to Burch, which

“Community involvement helps create value for the company and an opportunity for the employee to make a difference.”

Brenda Gumbs
Vice President of Human Resources
Perfetti Van Melle, USA

“What we realized is because of the foundation, it's affecting the bottom line, it's really amazing for our business. It's attracting incredible talent who want to work for our company and our consumer is loving the fact that we have this.”

Tory Burch
Designer and Founder
Tory Burch LLC

is why she launched the Tory Burch Foundation. The focus of the Tory Burch Foundation is supporting the economic empowerment of American women-owned small businesses. By providing loans, mentorship, and entrepreneurial education, the foundation is investing in the success and sustainability of female entrepreneurs and their families. Such commitments to community development can have major implications for managing human resources including staffing, performance management, and compensation and benefits.

Some organizations use recognition programs to encourage employee voluntarism, while others provide paid time off. Employees, customers, suppliers, and other stakeholders are usually part of the local community, so community involvement will be seen as a positive by other stakeholders. The return on investment from community involvement includes opportunities for employee development, greater employee engagement and retention, an improved company image, better brand recognition, stronger ties to community leaders, and increased customer loyalty.¹⁷

CUSTOMERS

For Google, Amazon, and many other firms, improving customer satisfaction is a primary means through which HR activities contribute to company success. Creating new products, reducing costs, improving product quality, and improving service quality are all ways to improve customer satisfaction.¹⁸ Whatever approach is used to satisfy customers, success depends on how employees are managed. Human resource executives understand this, and so do chief financial officers (CFOs). In fact, a survey of 200 CFOs revealed that 92% believed managing employees effectively can improve customer satisfaction.¹⁹

To meet customers' demands for high quality, successful companies like Google and Amazon encourage the full participation of employees and support their personal and career growth. When the climate of the organization is positive, with employees generally getting along well and not leaving the company at a rapid pace, customers report they're more satisfied.²⁰

Improving customer satisfaction often requires finding ways to improve the company's ability to understand the customer's perspective. For example, through its hiring practices, a company can make sure that its employees are demographically similar to customers. The assumption is that communication improves when employees and customers share similar experiences. Such reasoning led American Express to recruit gay and lesbian financial advisers to improve service for gay and lesbian customers. They also sought to improve customer satisfaction among this group by educating financial advisers about the special financial needs of the gay and lesbian market.²¹

OTHER ORGANIZATIONS

Companies of all types are becoming increasingly interdependent with other organizations. Other entities that can be considered major stakeholders include suppliers, unions, and alliance partners.

Suppliers

Suppliers provide the resources a company needs to conduct its business. In addition to the capital of owners and investors, the resources needed by most companies include material and equipment, information, and people. Other companies usually supply material and equipment. Suppliers of people might include schools, the professional associations

“We see our customers as invited guests to a party, and we are the hosts. It’s our job every day to make every important aspect of the customer experience a little bit better.”

Jeffrey Bezos
President, Chief Executive
Officer, and Chair
Amazon.com, Inc.

that serve specific occupational groups, state employment agencies, and companies that offer electronic recruiting services.

Unions

Unions may also serve as suppliers of people. When employees are represented by a union, the employer involves the union in joint discussions on issues such as improving productivity, outsourcing policies, improving safety, compensation, benefits, and various other conditions of work. In recent years, union leaders and union members have moved away from their traditional adversarial relationship with management to a more collaborative, problem-solving relationship. Despite this general trend, work slowdowns and strikes remain threats to companies in which unions represent the employees. Such work disruptions often reach far beyond the firm itself. When strikes involve transportation or communications workers, the entire country feels their effects. Increasingly, companies are asking their unions to moderate their wage demands and even take reductions in pay. Unions will be discussed in great detail in Chapter 13.

Alliance partners

Through cooperative alliances with other firms, a company seeks to achieve goals that are common to all members of the alliance. Some alliances are formed to influence government actions. Research and development needs are another common reason for alliance formations. International Sematech, for example, is a multilateral alliance that supports learning through collaborative research. Through joint participation, semiconductor manufacturers from several countries share knowledge and expertise in ways that ultimately influence the entire industry.

Joint ventures between two or more companies represent yet another basis for forming alliances. Joint ventures often involve companies in different countries, so managing employees from different cultures becomes important. For example, General Mills, the cereal company based in Michigan, has two international joint ventures that account for 16% of the company's sales: Cereal Partners Worldwide is a 50-50 partnership between General Mills and Nestlé that began in 1991 and now sells cereal products in 130 countries. Häagen-Dazs Japan is another international joint venture of General Mills, which was formed to sell premium ice cream through shops in Japan.

ORGANIZATIONAL MEMBERS (THE EMPLOYEES)

Organizational members make up another key stakeholder group. Unlike the other stakeholders discussed previously, organizational members reside within the organization. Included in this group are *all* of the employees who hold positions within the organization, including the CEO and top-level executives, other managers and supervisors, professionals and administrative specialists, line employees, part-time employees, and so on. Because they are such a diverse stakeholder group, they have a great variety of concerns. Nevertheless, most members of this stakeholder group share concerns about pay and benefits, quality of work life, and employability.

Pay and benefits

Most organizational members want to be paid well and they want to be paid fairly. Many employees feel that their employers don't live up to this expectation. Also important are

“We’re not giving these benefits to our employees because we’re a successful company. We’re successful because we’re giving to our people.”

Dave Pace
Executive Vice President
Starbucks