CHAPTER 1

The Dynamic Environment of HRM

One week after Hurricane Maria devastated the island of Puerto Rico, a senior VP at Boston Scientific was losing sleep. About 300 of their 1,000 employees on the island were missing. With no power, no phones, and blocked or flooded roads, efforts to find them were slow. Management at Bacardi, Medtronic, TJ Maxx, Walmart, and many others were having the same problems.

The employers got creative. Medtronic hired 40 drivers to go to track down employees at their homes. Because phones were not working, Boston Scientific hand delivered requests to local radio stations to ask employees to contact employers by social media, mobile phone, or any way possible.

Why go to such lengths? Employees needed help, and the employers wanted to provide it. Shipments of water, generators, batteries, food, and medicine were ready to be distributed. Paychecks needed to be distributed too. Many employers, such as TJ Maxx, continued to pay employees until they were able to go back to work.¹

In an unpredictable world, people are increasingly leaning on employers to provide recovery and stability when the “worst-case” scenario becomes a reality. Welcome to the dynamic environment of Human Resource Management (HRM) in our changing world. Fasten your seat belt and grab some fresh batteries. You’re in for a wild ride.

Looking Ahead

How have environmental factors such as the economy, technology, or natural disasters affected your work experience? Does your employer or college have a disaster recovery plan? What should the plan include?

LEARNING OUTCOMES

After reading this chapter, you will be able to:

1. Discuss how globalization affects HRM practices.
2. Describe how human resource managers use technology.
3. Explain regulation and legislation issues relevant to HRM.
4. Identify trends in the composition of the workforce and how HRM must adapt.
5. Explain how HRM supports diversity and inclusion in the workplace.
6. Explain the contingent workforce and other methods used to control labor costs.
7. Explain how HRM supports continuous improvement programs.
8. Identify ways that HRM facilitates employee involvement.
9. Outline emerging challenges facing HRM.
Introduction

Disaster relief probably isn’t the first thing you thought you would learn about in a Human Resource Management (HRM) textbook. Fortunately, catastrophic disasters are rare, but almost anything that concerns the well-being of the people in an organization is the concern of Human Resource (HR) professionals.

Natural disasters such as hurricanes that devastated Puerto Rico and Houston, plus a host of man-made disasters such as terrorism, hacked databases, overthrown governments, and economic meltdowns, have a ripple effect that provide challenges not only for local employers but also multinational companies that have interests in the country affected. The role of the HR professional can vary widely depending on the magnitude of the disaster and the size of the company. In a large organization, HR may work with the risk management, security, communications, and Public Relations departments to coordinate a comprehensive response. This may include providing employees with protection, pay, transportation, communication, shelter, food, and possibly even evacuation.

The complicated variables involved in managing a worldwide workforce will only multiply as more businesses have global interests and business environments become more complex. That’s what we are going to discuss in this chapter.

HRM is a subset of the study of management that focuses on how to attract, hire, train, motivate, and maintain employees. Strong employees become a source of competitive advantage in a global environment facing rapid and complex change. HRM professionals must be prepared to deal with the effects of these changes. This means understanding the implications of an increasingly complex external environment that includes globalization, global economies, technology changes, workforce diversity, labor shortages, changing skill requirements, continuous improvement initiatives, the contingent workforce, decentralized work sites, company mergers, offshore sourcing of goods and services, and employee involvement. Let’s look at how these changes are affecting HRM goals and practices in organizations functioning in a global environment.

Globalization

The process of making transactions across international borders is called globalization. The number of organizations seeking to find a talented workforce, advanced technology, suppliers, trade information, transfer capital, and move products has increased dramatically over the last 20 years due to a variety of factors, including technology and the Internet. As globalization accelerates, national borders reduce in importance to business, and global economies become more interdependent.

Global Businesses

Multinational corporations (MNCs) are typically based in a home country but have significant operations in many other countries. This allows them to extend their production and distribution on a regional or global basis to take advantage of the resources and markets in other countries. These opportunities for growth have enabled many organizations to develop extensive international operations with subsidiaries in many countries, no longer identifying with a single “home” country, earning
the title of transnational corporation. General Electric is a good example of one of the largest transnational companies with more than 70 percent of its over $500 billion in assets held outside the United States and over half of their approximately 300,000 employees based abroad.

Other familiar multinational and transnational companies include Toyota, Walmart, Apple, and Exxon Mobil. These organizations can take advantage of the global pool of talent and resources as opportunities arise. This requires HRM professionals to adapt to cultures, legal systems, and business practices in many different countries and ensure that employees with the appropriate mix of knowledge, skills, and cultural adaptability are available and ready to handle global assignments. Throughout this book, we will examine many of the challenges involved in staffing, training, developing, motivating, and maintaining a global workforce. Despite these challenges, many U.S.-based organizations such as Microsoft, FedEx, and Marriott have been recognized by the Great Place to Work Institute as multinational companies with at least 40 percent of their workforce outside their home country and great working environments in their worldwide operations.

Cultural Environments

The increase in multinational and transnational corporations requires human resource managers to understand global and organizational cultures and to ensure that employees have the appropriate mix of knowledge, skills, and adaptability to operate within those cultures. Culture is defined as the patterns or thought and behavior that distinguish one group of people from another. When background, language, custom, or age differences increase, employee conflict is likely to become more of an issue. HRM must make every effort to educate groups on cultural differences and to find ways to build teams and reduce conflict.

The variety of values, ethics, religious practices, customs, economic environments, and political and legal systems in the world puts enormous pressure on HR professionals and managers to understand the circumstances of each country in its own context. The perception of societal issues, such as status, might affect operations in another country. For example, in France, status is often the result of factors important to the organization, such as seniority and education. This emphasis is called ascribed status. In the United States, status is more a function of what individuals have personally accomplished, also known as achieved status. This may be important when developing job descriptions or determining how to use promotions from within as a motivational tool. Organizations that view the global environment solely from a home country perspective will encounter problems. A more appropriate transnational corporation Organization with extensive international operations and subsidiaries in many countries, no longer identifying with a single “home” country.

culture

The patterns or thought and behavior that distinguish one group of people from another.
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approach is to recognize the cultural dimensions of a country’s environment (see Exhibit 1-1).

Research findings allow us to group countries according to such cultural variables as status differentiation, societal uncertainty, and assertiveness. These variables indicate a country’s means of dealing with its people and how the people see themselves. For example, in an individualistic society such as the United States, people are primarily concerned with themselves and their own family. In a collective society (the opposite of an individualistic one) such as that in many Asian cultures, people care for all individuals who are part of their group. A strongly individualistic U.S. employee may not work well if sent to a Pacific Rim country, where collectivism dominates without training in how to adapt to the culture. For example, managers may need to focus on accomplishments of the team rather than individual when appraising job performance in a society that is highly collectivist.

Technology

Think about the technology you’ve used today. For example, how many times have you used your smartphone, tablet, or laptop? Have you checked social media sites to see what’s up with friends or update your own status? How dependent are you on a good WiFi? Maybe you’re reading this text as an e-book or taking this class online. It’s hard to imagine daily life without technology and the Internet.

As mentioned earlier, technology and the Internet are responsible for accelerating the globalization of the world’s economy. The influence of the technology and the Internet on our lives, employers, the way we work, and the economy was on the mind of Thomas Friedman, a Pulitzer Prize-winning New York Times author, as he explored the foundations of globalization in his best-selling book, The World Is Flat. Friedman explained that countries, companies, and individuals are now able to compete on an almost level playing field, aided by cheap instantaneous communication via fiber optics and the Internet. Fast inexpensive transportation of people and goods has also accelerated the process of globalization. Individuals are now empowered to compete globally, regardless of their country of origin. Friedman projects that world economies will be dominated by empowered individuals, creating a business environment that is more diverse and less dominated by organizations in Western countries. This has created a shift in geographic labor supply and demand. Just as the industrial revolution changed national economies by shifting jobs from...
craftsmen to mass manufacturing, globalization has shifted demand for manufacturing and services such as customer service to low-cost providers in Mexico, India, and China.

Friedman points out that these forces can’t be turned back and will only grow in their impact, requiring HR professionals to be prepared for the challenge by welcoming diversity and adapting training.  

## Working with Technology

Technology has been a good news/bad news proposition for workers. While technology has reduced the demand for manufacturing jobs through automation and increased competition with other countries, it has also generated an increase in the demand for service producing and technology positions. Employment in information technology (IT) is expected to be among the fastest growing job sectors through 2024, along with online publishing and wireless telecommunications.

Peter Drucker, the late management scholar and consultant, held that the key to the productivity of knowledge workers depends on the ability to use technology to locate and use information for decision making. It’s increasingly difficult to find careers that do not use any type of technology, requiring HR professionals to be aware of not only technology necessary for HR but also the technology skills necessary for everyone in the organization, including professionals such as registered nurses, accountants, teachers, lawyers, and engineers.

IT refers to the technological infrastructure of an organization. IT professionals select and install hardware and software that suit the organization’s information needs and do any customization that is necessary. Information systems (IS) is concerned with the way the organization uses IT. IS professionals help determine how IT can enhance decision making, improve organizational performance, and help create competitive advantage. They consider organizational processes such as distribution or finance and determine ways to use technology to operate more efficiently and respond to external circumstances quickly and effectively. IS professionals are likely to be trained in a business school rather than a computer science school.

## Technology and HR

Technology has changed the way human resource managers manage and communicate information. Many HR tasks have been automated, making it easier for employees to access HR information quickly and easily via company websites and intranets. These self-service systems allow employees to access frequently requested information such as payroll, benefits, available training, employee handbooks, and deductions conveniently. The Human Resource Information Systems (HRIS) that make this possible also gather, store, and analyze HR information allowing HRM professionals to better facilitate payroll, benefits administration, applicant tracking, training, performance management, and many other important HR functions.

HRIS systems can be tailored to the needs of any size business but are considered necessary for organizations with over 200 employees and can be delivered in a variety of ways. On-premise systems are HR software and hardware installed at the company’s place of business and maintained by the employer’s own IT staff. The systems used to gather, store, and analyze information regarding an organization’s human resources.
Hosted systems are purchased by the employer but housed at the vendor’s site and maintained by the vendor’s IT staff. The employer accesses the HR system remotely. **Software as a service (SaaS)** provides the HR services on a subscription basis and is accessed through a web browser, allowing access anywhere the Internet is available. Software as a service is also called a cloud-based service because it’s accessed through the Internet. Companies providing SaaS often provide extensive employee access to self-service of HR information through either computers or mobile apps.11

**Staffing** Chances are you’ve used an online source like to look for job opportunities. Did you check the “Careers” section of the company website? CareerBuilder, Monster, Indeed, or another online job board? LinkedIn, Facebook, Twitter, or other social media? Most employers recruit online because it’s the most effective way to find qualified applicants. Many of these sites also offer advanced search services to employers such as assistance with defining and promoting their “employment brand”; analyzing the success of recruiting efforts; hosting the “Careers” section of the company website; and developing recruiting strategies for positions that are difficult to fill such as engineers, skilled trades, IT, and sales.

Once applicants have been identified, HRM must carefully screen final candidates to ensure they fit well into the organization’s culture. HRIS tools help track the hiring process and make sure there is a good match between a candidate’s skills and the job description. Online assessments help to determine which candidates are team players, handle ambiguity and stress well, and will be a good fit with company culture. Companies such as Southwest Airlines and Four Seasons Resorts recruit employees who convey a positive attitude, which to them is a better indicator of job success and fit with company culture than experience.

**Training and Development** HRIS software helps HRM orient, train, and develop employees and help them manage their careers. Web or cloud-based services provide training and development to employees on demand, whenever the employee has the time to concentrate on the material. Online training and teleconferencing also allow HR departments to deliver cost-effective training that helps stretch the HR budget.

**Ethics and Employee Rights** Every organization needs a clear policy that thoroughly explains appropriate and inappropriate use of company Internet, e-mail, and social media. Employees need to understand that there is no guarantee of privacy when they use e-mail, blogs, and social media, and that personal comments and photos are often grounds for discipline if they can be interpreted as discriminatory, harassing, or defamatory. We will take an extensive look at the privacy rights of employees in Chapter 5, and we will study the ethics of HRM throughout this book.

Internet access at work can create distractions, reduce productivity, and cause security breaches; yet, it’s nearly indispensable. Electronic surveillance of employees by employers is an issue that pits an organization’s desire for control against an employee’s right to privacy. Monitoring software only adds to the ethical dilemma of how far an organization should go in monitoring the behavior of employees (see Ethical Issues in HRM, Invasion of Privacy?).

**Compensation** It’s becoming increasingly difficult for organizations to find and retain technical and professional employees. Many companies have implemented an extensive list of attractive incentives and benefits rarely seen by nonmanagerial employees in typical organizations, for instance, signing bonuses, stock options, cars, free health club memberships, full-time onsite concierges, and subsidies for
mobile phones. Technology is also making compensation more transparent. Online sources such as Glassdoor are making it easier for applicants to compare salaries at prospective employers and current employees to compare salaries within an organization. Pay plans and employee benefits will be addressed in depth in Chapters 11 and 12.

Communication Technology breaks down historical organizational communication pattern flows. It also redefines how meetings, negotiations, supervision, and employee relationships take place. Slack, Skype, GoToMeeting, LinkedIn, Twitter, and other work collaboration software allow employees to keep in close contact regardless of position or location. It’s just as simple for employees in Baltimore and Singapore to share company gossip as employees who work two cubicles apart.

Telecommuters Much of the challenge regarding decentralized work sites revolves around training managers to establish and ensure appropriate work quality and on-time completion. Decentralized work sites remove traditional “face time,” requiring managers develop new ways to motivate workers they may rarely, if ever, see. Managers must recognize that offsite employees (or telecommuters) will work at their own pace at irregular intervals requiring changes in the way they are supervised. Accountability may need to be measured by results, not how they are accomplished. Offsite workers may also require HRM to rethink compensation. Should workers be paid by the hour, on a salary basis, or by the job performed? Their status as employees or contractors may also need to be examined.

Competitiveness Technology tends to level the competitive playing field. It provides organizations, no matter their size or market power, with the ability to innovate, bring products to market rapidly, and respond to customer requests. Remember that technology allows individuals as well as large organizations to compete worldwide in purchasing or providing services. Many companies have found that services in technology, programming, radiology, and financial analysis can be provided by skilled employees in countries such as India as easily as an employee in the United States.

**ETHICAL ISSUES IN HRM**

**Invasion of Privacy?**

Technological advances have presented employers with sophisticated employee monitoring and some real ethical gray areas. Although most of this monitoring is designed to enhance worker productivity, it creates concern over worker privacy. What do managers have the right to know about employees and how far can they go to observe employee behavior on the job? Consider the following:

- Employers may use computer monitoring software to see what’s on employee computer screens, track web-surfing, e-mail, and even keystrokes.
- Employers may retrieve deleted employee messages, e-mails, and files.
- Employer-provided mobile phones and possibly even personal mobile phones used for work may contain apps that allow employers to not only monitor use but also to completely wipe the device if lost or if the employee leaves the company.

**Ethical Questions**

When does an employer’s need for information about employee performance cross over the line and interfere with a worker’s right to privacy? Is any type of monitoring acceptable if employees are notified ahead of time that they will be monitored?
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Legal Compliance

New laws and court decisions change HR in profound ways every day. Additionally, the Department of Labor (DOL), National Labor Relations Board (NLRB), and many other government agencies frequently revisit the way they interpret and enforce policies and laws involving employees and employers. It isn’t just on the national level. States and cities create and enforce laws and regulations that may add additional protection for employees. California has a significant number of laws that extend employee rights beyond those provided by the federal government. Some issues that have been addressed in the states include increasing minimum wage above the federal minimum, protecting employment rights of smokers or the obese, requiring employers to provide mandatory sick leave, restrictions on requiring employees to travel in bad weather, and either cracking down on or increasing the rights of illegal immigrants in the workplace. When local or state laws conflict with federal laws, the one that gives employees more protection usually prevails.

Because legal rights and requirements are so important, legal compliance has become a major responsibility for HRM. Records must be kept, posters must be posted, data must be reported, safety must be monitored, and a thousand other legal requirements need to be monitored to protect the rights of employees and protect the employer from legal liability. We will address many of these requirements as we study hiring, compensation, benefits, unions, safety, and many other topics. Professional organizations such as Society of Human Resource Management (SHRM) help HR professionals keep informed on the latest legal issues and provide lobbying efforts to inform legislators about the concerns of employers and HR professionals. Exhibit 1-2 lists a few of the major laws that have had a tremendous effect on HRM in organizations. We’ll explore the laws regarding employment discrimination in depth in Chapter 4 and the other major laws influencing compensation, employee rights, and labor unions in relevant chapters.

Workforce Composition Trends

The terms workforce and labor market are frequently used interchangeably and refer to the available workers in a specific area such as a city, state, country, or region of the world. The number and characteristics of the individuals available to work are a primary concern for HR managers. Many factors influence the composition of the global workforce, including global economics, birthrates, education, and the increasing mobility of the workforce. Several trends emerge that concern HR professionals involved in planning and staffing, especially in global organizations.

Workforce Age

Millennials (people born in the 1980s and 1990s) exceeded the Baby Boom generation (born in the late 1940s to the mid-1960s) in population in the United States in 2015 and is predicted to comprise 75 percent of the world workforce by 2025. By 2050, the number of people in the workforce over 65 is expected to increase by 75 percent in developing countries, but the number of workers between the ages of 25 and 54 will only grow by 2 percent.

Baby Boomers are taking their time leaving the workforce in the United States for a variety of reasons, including a need for greater income to sustain current living
### EXHIBIT 1-2 Relevant Laws Affecting HRM Practices

Many laws protect the rights of employees in the workplace. These laws protect employee rights to union representation, fair wages, family medical leave, and freedom from discrimination due to conditions that are not related to job performance.

<table>
<thead>
<tr>
<th>Year Enacted</th>
<th>Legislation</th>
<th>Focus of Legislation</th>
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<tbody>
<tr>
<td>1935</td>
<td>National Labor Relations Act (Wagner Act)</td>
<td>Prohibited unfair labor practices by management and protects unions</td>
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<tr>
<td>1938</td>
<td>Fair Labor Standards Act</td>
<td>Provides minimum wage and overtime pay. Defines employee status</td>
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<tr>
<td>1947</td>
<td>Taft–Hartley Act</td>
<td>Protects management rights and prohibits unfair labor practices by unions</td>
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<tr>
<td>1959</td>
<td>Landrum–Griffin Act</td>
<td>Requires financial disclosure for unions</td>
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<tr>
<td>1963</td>
<td>Equal Pay Act</td>
<td>Prohibits wage discrimination</td>
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<tr>
<td>1964</td>
<td>Civil Rights Act Title VII</td>
<td>Prohibits discrimination in all employment decisions on basis of race, religion, ethnicity, sex, and national origin</td>
</tr>
<tr>
<td>1967</td>
<td>Age Discrimination in Employment Act</td>
<td>Protects employees over 40 from discrimination</td>
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<tr>
<td>1970</td>
<td>Occupational Safety and Health Act</td>
<td>Protects workers from workplace hazards</td>
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<tr>
<td>1970</td>
<td>Fair Credit Reporting Act</td>
<td>Limits use of credit reports in employment decisions</td>
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<tr>
<td>1974</td>
<td>Privacy Act</td>
<td>Permits employees to review personnel files</td>
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<tr>
<td>1974</td>
<td>Employee Retirement Income and Security Act</td>
<td>Protects employee retirement funds</td>
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<tr>
<td>1978</td>
<td>Mandatory Retirement Act</td>
<td>Raises mandatory retirement age from 65 to 70; uncapped in 1986</td>
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<tr>
<td>1978</td>
<td>Pregnancy Discrimination Act</td>
<td>Protects from discrimination due to pregnancy</td>
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<tr>
<td>1978</td>
<td>Uniform Guidelines of Employee Selection Procedures</td>
<td>Prohibits hiring policies that have an adverse impact on a race, sex, or ethnic group</td>
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<tr>
<td>1986</td>
<td>Immigration Reform and Control Act</td>
<td>Requires verification of citizenship or legal status in the United States</td>
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<tr>
<td>1986</td>
<td>Consolidated Omnibus Budget Reconciliation Act</td>
<td>Provides for benefit continuation when laid off</td>
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<tr>
<td>1988</td>
<td>Drug Free Workplace Act</td>
<td>Requires some federal contractors to follow certain requirements to maintain a drug-free workplace</td>
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<tr>
<td>1988</td>
<td>Employment Polygraph Protection Act</td>
<td>Prohibits use of polygraphs in most HRM practices</td>
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<tr>
<td>1989</td>
<td>Worker Adjustment &amp; Retraining Notification Act (WARN)</td>
<td>Requires employers to give advance notice of plant closing or layoffs</td>
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<tr>
<td>1990</td>
<td>Americans with Disabilities Act</td>
<td>Prohibits discrimination against those with disabilities</td>
</tr>
<tr>
<td>1991</td>
<td>Civil Rights Act</td>
<td>Overturns several Supreme Court cases concerning discrimination</td>
</tr>
<tr>
<td>1993</td>
<td>Family and Medical Leave Act</td>
<td>Permits employees to take unpaid leave for family matters</td>
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</tbody>
</table>
standards or a desire to remain active. Eighty percent of the Baby Boom generation indicates that they expect to work past age 65. Other countries including the Japan, United Kingdom, Italy, and Denmark are facing a rapidly aging and shrinking workforce. This workforce shortage will create challenges for economic growth and due to lower productivity, rising wages, and stress on social welfare programs. In response, some have raised the age that workers are eligible to receive pensions, prompting most older workers to remain in the workforce. HR professionals may see more intergenerational conflict in the workplace as up to four generations have different needs, work ethics, ambitions, learning styles, and expectations.

More Demographic Shifts

Although the increase in the number of women and working mothers entering the workforce in the United States has slowed in recent years, it’s growing in other areas. In Latin America, Asia, the Pacific Rim, the Middle East, eastern and central Europe, and Africa, a significant number of women are expected to enter the workforce in the next 10–20 years. They are most likely looking for skilled and professional jobs since the number of women going to some type of postsecondary education is higher than the number of men.

Hispanics and Asians have been the fastest-growing ethnic groups in the population and in the workforce over the last three decades, and the U.S. DOL predicts the trend to continue for the next decade. Some estimates predict the trend to continue much longer, estimating that by 2050, the majority of the U.S. workforce will be Hispanic. Of course, the problem of illegal immigration complicates the issue of worker diversity. HR professionals need to be diligent in understanding and enforcing immigration laws and worker documentation. We will discuss this further in Chapter 7.
Is There a Shortage of Skilled Labor?

If you’re less than handy with tools around the house and have tried to find a skilled home-repair person, you may have experienced something that many businesses are also experiencing. Skilled trades are tough positions to fill and the shortage is worldwide. Worldwide job-staffing company Manpower reported that their Talent Shortage Survey found that employers in six of the world’s ten largest economies ranked skilled trades as their toughest hiring challenge. This includes electricians, carpenters, cabinetmakers, and welders. Some businesses have been unable to expand because they can’t fill openings for skilled trades.

A complicated economic environment and changing skill requirements have reduced demand for some jobs while increasing demand for others, leaving HR professionals with a surplus of workers in some areas and a shortage of workers in others. Many manufacturing jobs have moved abroad in the last decade; many other jobs have been automated, and the demand for unskilled production workers is not expected to rebound. At the same time, productivity per worker is on the increase, reducing the number of workers required to produce the same amount of output, further reducing the demand.

It seems that the retirement of the Baby Boom generation would create job opportunities, but it’s complicated. Many of these older workers hold positions in the skilled trade areas where looming shortages exist. They will eventually retire, leaving a smaller workforce available for existing jobs in those skilled trade areas. Immigration is expected to fill in some of the gap, resulting in an even more diverse workforce.

New jobs being created increasingly demand highly skilled workers with math and science skills. Unfortunately, young workers worldwide are not choosing to prepare for skilled trades, creating a shortage in many areas. In fact, a survey by Manpower states that fewer than 10 percent of American teenagers, 12 percent of

DIVERSITY TOPICS

Valuing a Diverse Workplace

The workforce is changing, and in response, many organizations share the attitude expressed by Nike that diversity and inclusion are necessary to maintain a competitive advantage in a global marketplace. To fully maximize the contributions of minorities, management must commit to creating a culture that fosters mutual respect and understanding. This can be done by valuing our differences, which enrich our workplace, not only because it’s the law, or because it’s morally and ethically the right thing to do, or because it makes good business sense, but also because when we open our minds and hearts, we feel better about ourselves. And decency is hard to put a price tag on.
Italian, and 8 percent of Japanese choose to prepare for the skilled blue-collar work needed to meet demand and grow the economy.\(^22\) The Manpower report found that their choice may be the result of an image problem or lack of available training. Healthcare and construction will likely see the biggest shortages of skilled applicants by 2022 according to the Bureau of Labor Statistics.\(^23\)

In times of labor shortage, good wages and benefits aren’t always enough to hire and retain skilled employees. Human resource managers need sophisticated recruitment and retention strategies and need to understand human behavior. Many organizations have chosen to become more appealing to applicants by developing cultures that are positive as well as productive.

### Diversity and Inclusion

Many employers are choosing to define workforce diversity in a much broader way that recognizes individuality rather than groups and labels. This includes going beyond Equal Employment Opportunity laws that protect recognized groups from discriminatory practices, recognizing that we are all unique individuals who want to be recognized for our uniqueness rather than our similarity to others.\(^24\) Employees who are able to be open about all aspects of their spirituality, politics, sexual orientation, disabilities, socioeconomic status, family, cultural influences, and many other beliefs and characteristics, in addition to traditionally recognized and legally protected personal attributes, are happier, more engaged, and more productive.

Multiculturalism is another diversity issue shaping the labor pool. A largest number of immigrants in the last decade have come from Latin American, South American, India, and China,\(^25\) bringing their cultures with them. Countries such as Great Britain, Germany, and Canada are experiencing similar changes. Canada, for example, also has large populations of recent immigrants from Asia, Africa, the Caribbean, Central, and South America. These newcomers are making Canada’s population more diverse and its workforce more heterogeneous.\(^26\) The challenge of HRM is to establish inclusive workplaces that welcome, appreciate, and support our uniqueness.\(^27\)

As organizations become more diverse, employers have been adapting their human resource practices to reflect those changes, creating a culture of inclusion.\(^28\) An inclusive culture allows everyone, regardless of personal characteristics, to feel that they are valued, respected, and have equal access to all organizational opportunities. Most organizations have workforce diversity programs established to hire, promote, and retain minorities; encourage vendor diversity; and provide diversity training for employees. Many, such as Coca-Cola, Nike, and FedEx, conduct cultural audits to ensure that diversity is pervasive in the organization (see Exhibit 1-3). A recent survey of global executives found overwhelming agreement that a diverse workforce improves the ability to connect with a diverse client base; a strategic initiative to increase workforce diversity gives access to a richer talent pool and creates a competitive advantage.\(^29\)

**EXHIBIT 1-3 Coca-Cola Diversity Mission Statement.**

Coca-Cola has created a mission statement that specifically addresses a commitment to diversity in the way the organization treats employees, customers, and suppliers.


The Coca-Cola Company’s global diversity mission is to mirror the rich diversity of the marketplace we serve and be recognized for our leadership in Diversity, Inclusion and Fairness in all aspects of our business, including Workplace, Marketplace, Supplier, and Community, enhancing the Company’s social license to operate.
Even small organizations can encourage diversity. Here are a few suggestions:

- Establish diversity goals and communicate them to all levels in the organization.
- Identify goals, barriers, obstacles, and solutions and develop a plan to overcome them and achieve goals.
- Develop awareness through training, books, videos, and articles. Use outside speakers and consultants, as well as internal resources, to determine how to motivate and maximize the skills of a diverse workforce.
- Establish internally sanctioned employee support systems, networks, or groups.
- Challenge each employee to question his or her beliefs, assumptions, and traditions, and assess how they impact their relationships and decisions.
- Modify existing policies or create diversity policies and communicate them to all current and future hires.
- Hold managers accountable and reward them for developing, mentoring, or providing awareness training.
- Build in accountability through surveys and audits to measure progress as diligently as you would increase production quotas or maintain zero loss-time accidents. Then communicate the results and repeat the process. Continuous improvement applies to diversity as well as to production.

Diversity and Work–Life Balance

Supporting and retaining a diverse global workforce may require employers to create flexibility in the workplace that allows employees to balance career, family, and other responsibilities. For example, research shows that over half of working mothers prefer part-time work as a way to fulfill their family responsibilities as well as career goals. Many Gen Xers (born 1965–1980) and Gen Yers, also called Millennials (born 1982–early 2000s), while passionate about their careers, won’t sacrifice family and leisure for their career. This becomes a difficult balance for employers to maintain as the lines between employee work and personal lives blur in the face of a demanding competitive environment.

As Millennials eventually become a majority of the workforce, employers will need to accommodate their preference for a flexible working environment in new ways. For example, although 74 percent want flexible work schedules, 88 percent also want work–life integration, recognizing that work and life are almost seamlessly integrated due to technology. They just want a reasonable way to balance the demands.30

The generational cohort that follows the millennials is just beginning to enter the workforce full time. Their characteristics are still being formed and several different names are being applied. Of course, their workplace preferences and behavior will be studied thoroughly. If you’re in this group, how would you describe yourself? Tech-savvy? Independent? Entrepreneurial? Open minded? What do you want in a career and workplace? Stay tuned.

Complicating the issue of work–life balance is the expansion of global organizations. At any time and on any day, global corporations such as Citigroup and Samsung have approximately 250,000 employees working somewhere around the globe. The need to consult with colleagues or customers 8 or 10 time zones away means that many employees of global firms are “on-call” 24 hours a day. Communication technology is a good news, bad news proposition, allowing people to work any time and from any place, yet never allowing them to be completely off the clock and out of touch. Organizational demands for increased productivity are another issue. It’s not unusual for employees to work more than 45 hours a week, and some work
much more than 50. Finally, organizations realize that today’s married employee is typically part of a dual-career couple. This makes it increasingly difficult for married employees to find the time to fulfill commitments to home, spouse, children, parents, and friends. It’s exhausting to think about, isn’t it?

## Labor Costs

Labor costs are a significant expense for many organizations. Economic factors occasionally force them to reduce the size of their workforce significantly using a variety of methods such as reduced hours, pay reduction, downsizing, outsourcing, offshoring, and using contingent labor. When economic factors improve, many organizations are reluctant to regain their previous employment levels and continue using contingent labor to manage labor costs. Throughout this book, we’ll examine additional ways to control labor costs by reducing costs of employee benefits, managing worker’s compensation and disability claims, and many others. For now, we’ll focus on the challenges of downsizing, contingent workers, and offshoring.

### Downsizing

The purpose of downsizing is to cut costs in the face of financial pressures or a downturn in the economy. It may also be a strategic move when restructuring requires an organization to close a division or facility. Sometimes, organizations attempt to increase their flexibility to better respond to change. Quality-emphasis programs may create a flatter structure and redesign work to increase efficiency, resulting in the need for fewer employees. Companies such as GE have managed to create agility by dividing their organization into smaller, more flexible units. When downsizing is used as a way of balancing staff to meet changing needs, it may involve cutting staff in some areas as they increase staff in other areas. This change in staffing is often called rightsizing. Rightsizing promotes greater use of outside firms for providing necessary products and services—called outsourcing—in an effort to remain flexible and responsive to the ever-changing work environment.

### DIVERSITY TOPICS

#### Glass Ceiling Still a Barrier for Women Globally

As women and minority groups struggle to break through the glass ceiling into the executive ranks of U.S. businesses, it’s interesting to compare how women in other countries are progressing. A recent survey found that women in Russia are world leaders, holding 47 percent of senior management positions. How are U.S. women doing? Check the chart below:

<table>
<thead>
<tr>
<th>Country</th>
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<tbody>
<tr>
<td>Russia</td>
<td>47%</td>
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<tr>
<td>Indonesia</td>
<td>46%</td>
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<td>Philippines</td>
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<td>France</td>
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<td>Canada</td>
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<tr>
<td>Germany</td>
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<td>India</td>
<td>17%</td>
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<tr>
<td>Japan</td>
<td>7%</td>
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<tr>
<td>Global Average</td>
<td>25%</td>
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Contingent Workforce

Many organizations have learned that they can save money and increase their flexibility by converting many jobs into temporary or part-time positions, giving rise to what is commonly referred to as the contingent workforce. Temporary workers can be found in nearly every job category including administrative, nursing, accounting, manufacturing, legal, dentistry, IT, engineering, marketing, education, publishing, and even senior management positions. The contingent workforce includes the following:

**Part-time employees** Part-time employees are those who work fewer than 40 hours a week. Part-timers allow organizations flexibility to supplement their staff during peak times and usually receive few benefits. Many retailers maintain a few full-time employees and increase staff for the busier evening and weekend hours with part-time employees. Part-time employees may also split one full-time job with another part-time employee, often called job sharing.

**Temporary employees** Temporary employees may be employed during peak production periods to meet increased demand for production or services. Temporary workers also act as fill-ins when some employees are off work for an extended time. For example, an administrative assistant position may be filled using a “temp” while the employee is off work during his 12-week unpaid leave of absence for the birth of his daughter.

**Contract workers** Contract workers, freelancers, subcontractors, and consultants are contracted by organizations to work on specific projects. These workers are often highly skilled. Their fee is set in the contract and is usually paid when the organization receives the completed project. Contract workers are used because their labor cost is fixed, and they incur few of the costs associated with a full-time employee population.

Why do so many organizations depend so heavily on contingent employees? The rapidly changing environment we’ve been discussing often creates a need to quickly adjust workforce size. Having too many permanent, full-time employees limits management’s ability to react. For example, an organization that faces significantly decreased revenues from seasonal fluctuations in sales, or the loss of a large client, may need to cut staff. Deciding whom to layoff and how layoffs will affect productivity and the organization is extremely complex in organizations with a large permanent workforce. On the other hand, organizations that rely heavily on contingent workers have greater flexibility because workers can be easily added or taken off projects as needed. In addition, staffing shortages, opportunities to capitalize on new markets, or obtaining someone who possesses a unique skill for a specialized project all point to a need for flexible staffing.

Issues Contingent Workers Create for HRM

Temporary workers and the flexibility they create present special challenges for human resource managers. Because they often do not receive many of the amenities—such as training, health, and paid-leave benefits—that full-time core employees do, contingent workers may tend to view their work as not critically important. Accordingly, they may be less loyal, less committed to the organization, and therefore, less willing to support the organization’s goals and mission. This may lead to lower performance levels and increased turnover rates. In addition, contingent workers may be less likely to participate in the organization’s social events and activities, which can lead to a sense of isolation and disconnection from the organization. This can further contribute to lower morale and productivity. HR managers must develop strategies to engage and motivate contingent workers to ensure they are an integral part of the organization’s culture and success.
or less motivated on the job than permanent workers. This tendency may be especially relevant to individuals forced into the temporary workforce from full-time employment. Human resource managers must recognize their responsibility to motivate their entire workforce—full-time and temporary employees—and to build their commitment to doing good work!

Where Do They Fit? A management decision to use contingent workers is a strategic one that requires planning and consultation with HRM. The decisions about scheduling, compensation, benefits, whether full-time positions may be offered, and many other issues must be made with consideration for the entire organizational workforce. Organizational culture must be considered, and as mentioned earlier, compliance with legal issues must be addressed.

Pay and Benefits Conflicts HRM must be prepared to deal with potential conflicts between core and contingent workers. The core employees may question the fairness in pay rates and flexibility in scheduling that the contingent workers receive. The core employees’ salaries include benefits, but they may forget to factor in benefits when comparing their pay to that of contingent workers. For example, paying a training consultant $4,000 for presenting a 2-day skills-training program might cause some conflict with core HRM trainers, although the HRM trainer may not have the time or resources to develop such a program. If the consultant offers 20 of these 2-day programs over the year, earning $80,000 in consulting fees, a $50,000-a-year company trainer might take offense. These potential conflicts will need to be explained by HRM before they become detrimental to the organization—or, worse, provide an incentive for core employees to leave.

Correctly Classifying Employees The definition of who is and who is not an employee is an important consideration in hiring contingent workers. This is important because contractors are not eligible for family and medical leave, overtime, minimum wage, worker’s compensation, unemployment compensation, and many other benefits. Additionally, since employers of contractors generally are not required to pay into social security, Medicare, income tax withholding, state unemployment insurance, and worker’s compensation funds, the state and federal governments miss out on those revenues.

The Fair Labor Standards Act (FSLA) outlines the employment relationship. The DOL and Internal Revenue Service enforce the law and provide guidelines for employers to determine which workers are employees and which are not. The DOL has placed a high priority on enforcing compliance with the law. Their goal is to protect not only employees but also employers who are obeying the law and are at a disadvantage with others who have lower labor costs because of the lower costs associated with contractors. IRS guidelines below generally focus on three major categories—behavioral control, financial control, and the relationships of the parties. Businesses must weigh these factors when determining whether a worker is an employee or an independent contractor:

Behavioral: Does the company control or have the right to control what the worker does and how the worker does his or her job?

Financial: Are the business aspects of the worker’s job controlled by the payer? These include things such as how the worker is paid, whether expenses are reimbursed, who provides tools, supplies, or other materials.

Type of relationship: Are there written contracts or employee-type benefits such as a pension plan, insurance, or vacation pay? Will the relationship continue, and is the work performed a key aspect of the business?
IRS guidelines admit that there is no specific determinant that makes a worker an employee or independent contractor. The entire relationship must be examined. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent contractor. In addition, factors that are relevant in one situation may not be relevant in another. It may seem confusing, but in general, the individual is an employee if the employer controls what will be done, where it will be done, and how it will be done. The individual is probably an independent contractor if the employer only controls the results of the work, not the means or methods used to complete it.

Offshoring

Offshoring, the process of moving jobs to another country for economic reasons, has been blamed for the decrease in employment in many industries, particularly in manufacturing. It’s partly true, but economists estimate that offshoring may explain no more than 13 percent of manufacturing job losses. Most manufacturing jobs are lost to automated work processes. Offshoring isn’t always a permanent solution to controlling costs. General Electric has brought production of some appliances back to the United States and a few manufacturers of large, expensive products such as jet engines and power plant turbines also brought production back to the United States. This process is called reshoring, or bringing jobs back to the home country. Reasons cited include better educated and skilled workers and more dependable infrastructure such as water, power, and roads. Most economists and business leaders agree that although some companies have started the process of reshoring, the trend of moving jobs to places where the work can be performed by lower paid workers will continue.

Manufacturing jobs are not the only ones to be sent overseas. Many employers see offshoring as a necessity to compete in a global economy and find necessary skills, lower labor costs, and reduced costs of distribution. Jobs frequently sent offshore include services that can be delivered electronically, such as an overseas radiologist reading X-rays e-mailed in the middle of the night or an accountant in India doing work to help a busy CPA firm in the United States during tax season. Other types of jobs that are seeing offshore growth include computer programmers, software developers, systems analysts, and . . . get ready . . . human resources.

Continuous Improvement Programs

The ability to compete in a global economy requires an emphasis on quality production and services. The generic terms that describe this revolution are quality management and continuous improvement (Exhibit 1-5). Hiring, training, and maintaining workers able to support an emphasis on quality management and continuous improvement is a strategic HRM responsibility in many organizations. An early advocate of quality production was W. Edwards Deming, an American statistician who taught statistical methods to control quality in manufacturing. Deming went to Japan in 1950 and began advising many top Japanese managers on ways to improve their production effectiveness. A well-managed organization, according to Deming, was one in which statistical control reduced variability and resulted in uniform quality and predictable quantity of output. Deming’s original program has been expanded into a philosophy of management driven by customer needs and expectations. Quality management expands the term customer to include everyone involved with the organization including employees and suppliers as well as external customers.
The Japanese term for an organization’s commitment to continuous improvement.

kaizen
The Japanese term for an organization’s commitment to continuous improvement.

1. Intense focus on the customer. The customer includes not only outsiders who buy the organization’s products or services, but also internal customers (such as shipping or accounts payable personnel) who interact with and serve others in the organization.

2. Concern for continuous improvement. Continuous improvement is a commitment to never being satisfied. “Very good” is not good enough. Quality can always be improved.

3. Improvement in the quality of everything the organization does. Continuous improvement uses a broad definition of quality. It relates not only to the final product but also to how the organization handles deliveries, how rapidly it responds to complaints, how politely the phones are answered, and so on.

4. Accurate measurement. Continuous improvement uses statistical techniques to measure every critical variable in the organization’s operations. These are compared against standards, or benchmarks, to identify problems, trace them to their roots, and eliminate their causes.

5. Empowerment of employees. Continuous improvement involves the people on the line in the improvement process. Teams are widely used in continuous improvement programs as empowerment vehicles for finding and solving problems.

as consumers of the organization’s products or services. The objective is to create an organization committed to continuous improvement or, as the Japanese call it, kaizen—one that leads to achieving an effective and lean workplace.
Work Process Engineering

After many years of outsourcing manufacturing of household appliances to places such as China, Vietnam, and the Philippines to take advantage of extremely low wages, General Electric took another look at the practice a few years ago. Overseas wages and transportation costs were climbing. Advances in technology made it cost-efficient to bring production of a high-tech, energy-efficient water heater back to the United States. The appliance was completely redesigned. An existing factory in Louisville, Kentucky, was gutted and redesigned to take advantage of the latest manufacturing technology. The lessons learned from W. Edwards Deming and Frederick Taylor were used to increase efficiencies in materials and labor. A new lower wage structure was implemented for workers and production began. Soon after, a similar process was followed to bring manufacturing of high efficiency lighting and batteries back to the United States.39

General Electric saw that developments in technology and economics made it possible to make dramatic changes in the processes used to make appliances. As we have mentioned several times, many organizations operate in an environment of rapid and dynamic change. If the incremental changes resulting from Continuous Improvement are not adequate to sustain a competitive advantage, it may be time to totally rethink established processes.

Work process engineering goes beyond incremental change and requires an organization to face the possibility that what the organization may really need is radical change. Work process engineering is more radical than continuous improvement and may be a response to game-changing developments in technology, competition, or the economy. It usually entails rethinking or redesigning processes used to accomplish organizational goals with the objective of dramatic improvements in efficiency and competitiveness. These actions will ultimately require many changes that will involve human resource professionals.

How HRM Can Support Improvement Programs

Whenever an organization embarks on any improvement effort, it introduces change into the organization. Familiar routines are gone, replaced by new technology, processes, coworkers, and supervisors. Is it any wonder that employees react with fear and resistance, possibly even creating barriers to change? HRM must be ready to help affected employees overcome their resistance. Responsibility falls on HRM to prepare the organization and the affected individuals for the coming changes with clear and extensive communication of why the changes will occur, what is expected, and the effects on employees.

When changes in work processes are necessary, HRM must be prepared to train employees in these new processes and help them attain new skill levels that may be associated with improved operations. These skills may include new processes, upgraded technology, teamwork skills, or additional decision-making authority. Although employees may be involved in planning and implementing the necessary changes, uncertainty about what changes mean personally is stressful. As change is implemented, some may lose jobs, survivors may need retraining, and stress levels may be magnified. HRM must be ready to give employees appropriate answers and direction for what to expect, as well as assistance in dealing with conflicts that may
result within the organization. Additionally, as many components of the organization are redefined, HRM activities that affect employees may need to change. For example, if redesigned performance standards change employee compensation packages (e.g., bonus/incentive pay), HRM needs to thoroughly explain the performance standards and how they will be evaluated.

Employee Involvement

Employee involvement increases employee participation and input regarding work and work processes. The goal is to improve employee engagement and productivity. A few common employee involvement strategies include delegation, participative management, work teams, goal setting, and empowering of employees.

How Organizations Involve Employees

On a very basic level, employee involvement requires management to empower employees to make decisions that directly affect their work. To effectively participate in decisions involving the workplace, employees need all the information relevant to the decision and a thorough understanding of the job. Managers also need to delegate the authority to make the decisions and hold employees accountable for the results.

Work teams are an effective way to increase employee involvement. Workers from the same area or different specializations in an organization are brought together to complete complex projects. Often, diverse employee groups find that a team effort capitalizes on the various skills and backgrounds that each member brings to the team. Consider, for example, what kind of group it takes to put together a symphony. One musician could not possibly play all the various instruments at one time.

To blend the music of the orchestra, symphonies have string sections, brass instruments, percussion, and so on. At times, however, a musician may cross over these boundaries, such as the trombonist who also plays the piano. With greater flexibility and involvement, employees are in a better position to achieve the desired ends and feel personal satisfaction with the result.

Employee Involvement Implications for HRM

Useful employee involvement requires supportive management and a culture of empowerment. This may require HR to train managers and employees in the skills necessary to create a culture of empowerment such as goal setting, delegation, teamwork and team decision making. They may need training in interpersonal skills to make participative management and work teams function properly. In the future, we can anticipate much more involvement from HRM in all parts of the organization.

Other HRM Challenges

The challenges to HRM are in the headlines every day. Issues such as legislation, the economy, offshoring, mergers, bankruptcies, layoffs, workplace violence, and unemployment lead the news, and enter our daily conversation. As you study HRM,
make a point of following current events as they affect employment. These issues will continue to evolve, and HRM will need to find ways to manage the changes as they affect employees. We will examine a few here, and more in other chapters, but you will find many more if you stay informed of current events.

**Economy**

The global economy is ever changing with cycles of growth and contraction. No period of prosperity or recession lasts forever. The recovery following the “Great Recession” was slow and uneven, leaving some regions and industries behind. Areas that have recovered more quickly have found that the workplace and the skills required for success in the workplace have changed. Managers and employees often find that as business picks up, employers are slow to replace laid-off employees, requiring everyone to do more with fewer resources. HR must do additional training for retained and retraining workers who have assumed increased responsibilities.

**Mergers**

Banking, telecommunications, and airlines have all seen increases in mergers and acquisitions, and many of us have had to get used to our banks, wireless carriers, and favorite airlines changing names in recent years. If you or someone you know has been affected by a merger or acquisition, you’ve probably experienced firsthand the uncertainty, change, loss of jobs, and differences in culture that are almost inevitable when companies combine. Approximately 25 percent of U.S. workers will be affected by a merger or acquisition over a 10-year period. The number of mergers in recent years has steadily increased worldwide and presents new challenges to HR professionals.

Mergers are a common way for businesses to enter new or global markets, acquire new technology, or gain a financial advantage by achieving economies of scale. Many mergers, possibly as many as three out of four, fail to achieve their objectives for financial or strategic gain. Many of the reasons for those failures can be traced to the lack of attention to the human resource function in the merger process. For example, years after the merger of Continental and United Airlines problems persist for a variety of reasons, including a poor merger of company cultures, failure to reach union agreements, and inadequate training. As a result, customer complaints are among the highest in the industry, due to poor interactions with passengers publicized on social media, high number of late arrivals and misplaced bags, problems that can be traced to morale and productivity.

HR professionals can assist employees in the merger process by providing a well-planned communication strategy. Employees want honest, current information that includes the goals of the merger, anticipated benefits, and a preliminary timeline for the planned changes. Multiple methods of communication are necessary, including face to face meetings and online updates.

**Labor Unions**

A few years ago, dozens of workers who worked making Xbox 360 video game consoles assembled on the roof of a factory in China and threatened to jump to their deaths unless their employer, Foxconn, made good on a promise of severance pay.
Strikes are rare in China, unions are ineffective, and the workers felt they had no other way to force their employer to pay the money promised to employees who quit voluntarily rather than taking a transfer to another factory. Fortunately for workers in most of the rest of the world, labor unions exist to assist workers in dealing with the management of an organization. As the certified third-party representative, the union acts on behalf of its members to secure wages, hours, and other terms and conditions of employment. For most unionized businesses, union interaction is the responsibility of HRM.

In the United States, unions and their role in representing employees are changing. Membership growth is in the public and service sectors, not in manufacturing. At the same time, some states have taken steps to limit the power of public employee unions in an effort to reduce the cost of labor for city, county, and state governments. Because of the complexities involved in operating with unionization and the special laws that pertain to it, we will defer that discussion until Chapter 14, when we will explore the unique world of labor relations and collective bargaining.

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**ETHICAL ISSUES IN HRM**

**Guidelines for Acting Ethically**

Ethical choices aren’t always obvious and HR, like many other areas of management, is often forced to select a course of action that has unpleasant consequences like dismissing an employee or facilitating a layoff of many employees. What can you do to enhance your abilities in acting ethically? Here are a few guidelines.

1. Know your organization’s policy on ethics. Company policies on ethics describe what the organization perceives as ethical behavior and what it expects you to do. HR is often responsible for communicating policies and ethical training. If such a policy doesn’t exist, ask top management to work on one.

2. Understand the ethics policy. Just having the policy in your hand does not guarantee that it will achieve what it is intended to. Ethics policies should provide guidelines and possibly examples for uniform decision making throughout the organization.

3. Think before you act. Ask yourself, “Why am I going to do what I’m about to do? What led up to the problem? What is my true intention in taking this action? Is my reason valid, or are ulterior motives behind it, such as demonstrating organizational loyalty? Will my action injure someone? Is that injury unavoidable?”

4. Ask yourself “what-if” questions when you consider alternative actions to take. The following questions may help you shape your actions: “What if I make the wrong decision? What will happen to others? What about me and my job? What if my actions are recorded on video and posted on social media? Would it bother or embarrass me or those around me? What if I get caught doing something unethical? Am I prepared to deal with the consequences?”

5. Seek opinions from others. Ask for advice from other managers or the organization’s legal counsel. They may see consequences you have not considered.

6. Do what you truly believe is right. You have a conscience, and you are responsible for your behavior. Be true to your own internal ethical standards. Ask yourself, “Can I live with what I’ve done?”

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**Ethics**

Ethics commonly refers to a set of rules or principles that define right and wrong conduct. Most of us recognize that something illegal is also unethical, but many actions may be unethical but may not violate any existing laws. Examples include Wells Fargo’s admission of their practice of creating fake accounts, United Airlines...
dragging unwillingly bumped passengers off a plane, or Mylan’s decision to raise the price of the lifesaving EpiPen by 400 percent indicate that organizations often do a bad job teaching employees how to act ethically. Corporate scandals have created a lack of trust in management, causing customers and investors to ask questions such as how such unethical actions could have gone unnoticed if proper controls were in place in the organization and whether unethical cultures are pervasive in business.44

In the wake of ethical scandals that created an extremely negative economic impact on employees and investors alike, the Sarbanes–Oxley Act (SOX) was signed into law in July 2002. Sarbanes–Oxley established procedures for public companies regarding how they handle and report their financial picture. The legislation also established penalties for noncompliance. For example, SOX requires the following:45

- Top management (the chief executive officer [CEO] and chief financial officer [CFO]) must personally certify the organization’s financial reports.
- The organization must have procedures and guidelines for audit committees in place.
- CEOs and CFOs must reimburse the organization for bonuses and stock options when required by restatement of corporate profits.
- Personal loans or lines of credit for executives are now prohibited.

The noncompliance penalty of SOX is catching executives’ attention. Failure to comply with the stipulated requirements—such as falsely stating corporate financials—can result in the executive being fined up to $1 million and imprisoned for up to 10 years.46 Moreover, if the executive’s action is determined to be willful, both the fine and the jail time can be doubled. What does any of this have to do with HRM?

Although Sarbanes–Oxley does not specifically identify HRM activities in the law, it does address items generally under HRM responsibility. For example, the act provides protection for employees who report executive wrongdoing (whistle-blowing). Bank of America was found by the U.S. DOL to be in violation of the whistle-blower provisions of SOX because they retaliated against an employee who worked for Countrywide Financial Corp. before they merged with Bank of America. The employee was fired after presenting evidence of fraud involving Countrywide employees. The employee’s whistle-blowing activity was protected, and Bank of America was ordered to reinstate the employee and pay over $900,000 in back wages, interest, compensatory damages, and attorney fees.47

HRM must create an environment where employees feel free to come forward with their allegations without fear of reprisal from the employer. This critical employee relations concept is not limited solely to whistle-blowing under SOX, but the act does require that companies have mechanisms in place where the complaint can be received and investigated.

Clearly defined codes of ethics are a tool for reducing or eliminating ambiguity about what acts are considered ethical within the culture of the organization and what is not.48 A code of ethics is a formal document that states an organization’s primary values and the ethical rules it expects managers and employees to follow. Ideally, these codes should be specific enough to guide organizational personnel in what they are supposed to do, yet loose enough to allow for freedom of judgment. Ethics training for all employees is an important way HRM can make sure the culture reinforces ethical behavior. Companies that have strong ethical cultures with ethical education programs see a 75 percent decrease in all unethical behavior.49
In isolation, ethics codes are unlikely to be much more than window dressing. For example, Wells Fargo had a code of ethics before employees were pressured to meet challenging quotas, leading them to fraudulently open accounts without customer’s knowledge. The effectiveness of ethics codes depends heavily on whether management supports them and ingrains them into the corporate culture, and on how individuals who break the codes are treated. If all managers, including those in HRM, consider ethics codes to be important, regularly reaffirm their content, follow the rules themselves, and publicly reprimand rule breakers, then such codes can supply a strong foundation for an effective corporate ethics program.

**Sustainability**

Finding ways of living, doing business, and employing individuals in a responsible and ethical way is at the core of sustainability. It requires ethical behavior and includes recognizing the impact of business decisions on the community, economy, and natural environment. Research shows that organizations that pursue sustainability as a strategic goal benefit from improved employee loyalty and morale, more efficient business processes, improved public image, and improved brand recognition.

HRM has responsibility for many activities involved in putting a sustainability agenda to work. That agenda may include developing volunteer opportunities and recognizing participation, educating employees and executives about sustainable practices such as energy conservation, recycling efforts, community outreach and education, using sustainable production resources, and maintaining ethical business practices.

**ETHICAL ISSUES IN HRM**

**Everyday Ethics**

Most unethical acts in the workplace don’t make headlines. Many are like these situations that arise when managers don’t understand or ignore ethical HR policies:

- My boss refuses to create job descriptions so she can hire her friends and relatives that aren’t qualified for the job.
- Our HR director always checks the Social Media accounts of people who apply online, so he won’t interview any old or unattractive salespeople.
- The Sales Manager at my dealership is a big gossip and shares information about coworkers’ sales statistics and commissions behind their backs.
- The Art Director told his intern to paint his new condo instead of coming to work on Friday. The intern needs the money but is afraid to ask if he can put the hours on his time sheet.
- My district manager fired my manager in a text that said if she wasn’t out of the store in 30 minutes he was calling the police. An assistant manager got this text: “come to work to get the manager’s keys and close the store.”
- The owner never disciplines anyone. One employee received 19 warnings in 1 year and was never fired. Everyone is turning into slackers and I want to quit.
- Instead of firing people who screw up, my manager just schedules them for 4 hours a week and hopes they quit.
- I was disciplined in front of customers and other employees. It happens all the time and humiliated employees often shout, swear, and quit on the spot.

**Ethical Questions**

What examples of unethical behavior have you experienced in the workplace? Is it possible to eliminate unethical behavior by management? What steps can HRM take to eliminate or reduce unethical behavior similar to these situations?
Within the HRM department, sustainability practices include providing a safe workplace, employment, and compensation practices that are free of discrimination, respect for diversity in all forms, providing employee development, and encouraging employees to reach their potential in the organization and the community.

Throughout this text, we will highlight sustainability practices by many organizations such as Patagonia and Walmart, but sustainability ultimately starts with individual decisions and actions. Each chapter includes service learning activities in the HRM Workshop in the back of the book. These activities are designed to help you develop and demonstrate HRM skills and participate in community sustainability activities while increasing your employability by adding to your resume.

Summary

(This summary relates to the Learning Outcomes identified on page 1.) After having read this chapter, you should be able to:

1. **Discuss how globalization affects HRM practices.** Globalization creates situations where multinational and transnational corporations seek markets and resources regardless of national borders. HRM professionals must seek employees with knowledge, skills, and cultural adaptability.

2. **Describe how human resource managers use technology.** Human resource managers use technology for staffing, training and development, monitoring employees, providing equitable compensation policies, and improved communication among other uses. Technological changes also require HRM to examine issues such as telecommuting and employee privacy.

3. **Explain regulation and legislation issues relevant to HRM.** Compliance with state and federal employment laws is an HRM responsibility. Equal employment, employee rights, compensation, benefits, unions, and employee safety are concerns.

4. **Identify trends in the composition of the workforce and how HRM must adapt.** The workplace is becoming more diverse as the number of women, minority, and immigrant groups grow in the United States and globally. It’s also getting older because people are staying in the workforce beyond traditional retirement ages. HR must avoid many forms of discrimination and recognize different employee such as ways to create work–life balance. Many companies establish workforce diversity programs to hire, promote, and retain minority groups.

5. **Explain how HRM supports diversity and inclusion in the workplace.** Laws and culture have also expanded the definition and protection of diversity. Many organizations choose to create a culture of inclusion that allows everyone, regardless of personal characteristics, to feel that they are valued, respected, and have equal access to all organizational opportunities. Supporting work–life balance programs helps diverse employee groups to balance career and personal responsibilities.

6. **Explain the contingent workforce and other methods used to control labor costs.** Contingent workers include part-time, temporary, and contract workers used by organizations to fill peak staffing needs or perform work not done by core employees. Legal issues arise when employers misclassify employees as contractors to avoid paying state and federal taxes, paying overtime, and providing required benefits. Other methods include downsizing, outsourcing, and offshoring.
7. **Explain how HRM supports continuous improvement programs.** Quality improvements have become strategic initiatives in the organization to maintain competitive advantage. HRM assists by preparing employees to deal with the change and training them in new techniques.

8. **Identify ways that HRM facilitates employee involvement.** Employee involvement can be best defined as giving each worker more control over his or her job. To do this requires delegation, participative management, developing work teams, goal setting, and employee training. If handled properly, involving employees should lead to developing more productive employees who are more loyal and committed to the organization.

9. **Outline emerging challenges facing HRM.** Local and global economies, sustainability, mergers, labor unions, ethical concerns, and sustainability are among the emerging challenges facing HRM.

### Key Terms

- acquisition
- code of ethics
- contingent workforce
- continuous improvement
- core employees
- culture
- downsizing
- ethics
- globalization
- human resource information systems (HRIS)
- inclusion
- information systems (IS)
- information technology (IT)
- kaizen
- knowledge workers
- labor union
- legal compliance
- merger
- multinational corporations (MNCs)
- offshoring
- outsourcing
- quality management
- resourcing
- rightsizing
- Sarbanes–Oxley Act
- software as a service (SaaS)
- sustainability
- transnational corporation
- workforce diversity
- work process engineering

### HRM Workshop

#### Reviewing Important Concepts

1. How have globalization and changes in workforce composition contributed to the need to understand diversity and inclusion in our organizations? (LO 1, 4, 5)
2. Describe ways HRM uses HRIS to provide information and services more efficiently. (LO 2)
3. Explain the legal issues relevant to the workplace and HRM. (LO 3)
4. Explain the roles HRM plays in dealing with current employment challenges such as mergers, offshoring, the economy, and ethical issues. (LO 9)
5. What is the purpose of a continuous improvement program? What role does HRM play in assisting continuing improvements? (LO 7)
6. What are the necessary ingredients for a successful empowerment program? (LO 8)
7. Explain what ethics are and how organizations and HRM can promote ethical behavior. (LO 9)
Evaluating Alternatives

8. “Diversity and inclusion is nothing new. Thousands of immigrants came to the United States in the early 1900s and they integrated into the workplace just fine. Pay them a fair wage and treat them equally. That’s all workers want.” Evaluate this philosophy of managing workplace diversity and explain your opinion on the best way to manage workforce diversity and inclusion. (LO 1, 4, 5, 9)

9. Juliet is the owner of a design firm that survived the loss of a major client, but just barely. Her firm has grown 25 percent each of the last 2 years, but she is wary of hiring any full-time employees. “Firing half of my staff was the most stressful thing I’ve ever done” she explained. “I’ll just keep hiring contract designers. There’s a lot of good talent out there with fresh ideas and they don’t have any expectation of a permanent job.” Evaluate Juliet’s point of view and explain the advantages and disadvantages of using contingent workers instead of full-time core employees. (LO 6)

Research and Communication Skills

10. Visit the HRM department of a local organization or visit their website. Research the organization in terms of its human resource activities. For example: What do they do to recruit new workers? What initiatives do they take to train, develop, and motivate current workers? Do they utilize contingent workers? Explore how their human resource department uses technology, including their website. Give a 5- to 10-minute presentation of your findings to your class using three to five presentation slides. (LO 2, 6)

11. Research the effect of technology on the human resource aspects of a technology-based business (e.g., Uber, Amazon, Verizon, Facebook, Apple, or Netflix). Determine how they utilize technology to achieve HR goals and the benefits they have experienced or expect to see in the future. Present your findings in either a three- to five-page paper, or a three- to five-slide presentation to your class. (LO 2)

12. Search the Internet for short videos on workplace diversity from two different employers. Present them to your class along with an explanation of the main points and any differences you notice in their policies and beliefs. (LO 5)

Making a Difference

SERVICE LEARNING PROJECTS

Can a HR class assignment help you get a better job when you graduate? Certainly! Combine a community service project with an HR-related activity. It’s called Service Learning.

Service learning projects put concepts from your textbook to use in your community. As you complete your service learning projects, you add community service and leadership activities to your resume, giving you an advantage over other applicants for that first job. Service learning activities also allow you to build your professional network with important contacts to help you in your job search.

Consider the way HR professionals view community service activities on an applicant’s resume. When accepting and screening resumes they look for motivated and enthusiastic applicants with proven organizational and leadership skills. One way to show that you possess these important traits is to add a strong service component to your resume. All other things being equal, students with a strong background in service and volunteerism will have an advantage over other applicants because they indicate that the applicant is a team player, shows an interest in others, and is developing leadership skills. Many organizations with community involvement as a core value are looking to add new employees who share the same values. After you get that first job, leadership in community programs and projects is often a prerequisite to getting a promotion to further your career.

The HRM Workshop in each chapter of this text includes suggested service activities that apply HR functions or concepts directly or indirectly. Some are designed to build your teamwork, leadership, and organizational skills. Others are designed to provide a deeper understanding of how an HR concept applies in practice, give an appreciation of an unfamiliar circumstance, or a fresh perspective.
Like most college students, your time is precious. You may be tempted to undertake easy activities that require a minimal time commitment with organizations with which you’re already familiar. You’re going to get as much out of those activities as you put into them. They probably won’t look as good on your resume as those that allow you to stretch yourself by meeting new people and demonstrating new skills. Maybe you were involved in service projects in the past, but during your college years, you’ve been busy and haven’t been as active. Remember that recent and continued experience looks better on a professional resume than one-time projects that were completed back in your high school years.

Who benefits from service learning activities? You, of course. You can build an impressive resume with skills that your dream employer is looking for. Broaden your professional network with contacts that can help you in your job search and provide great references. Learn how HR concepts apply in the real world. Make a difference by helping your community and the world and see how rewarding volunteering can be.

Are you convinced yet? Good. Here are some suggested activities for Chapter 1

Most colleges work with the same dynamic environmental challenges that affect businesses, including laws, regulations, economy, downsizing, diversity, and technology. There are opportunities right on your campus to help the college and students to deal with important issues.

- Contact your college office for students with disabilities, international students, veterans, or other groups that may need assistance with their transition to college. Inquire about ways you may be able to volunteer. They may need help with communicating their services, assisting students with buying books and supplies, or getting around campus. You probably have a few ideas of your own.
- If you’re good with technology, consider asking the college Information Technology department if you can assist them in helping students and faculty with technology issues.
- Look at other activities in other chapters that may need time to plan and organize.

As you put your service learning experience together, keep a journal of your activities, the time you spend, contact information for people you work with, and your thoughts about the process. When you’re finished, make a presentation to your class about the experience, highlighting what you learned. What concepts from Chapter 1 were you able to apply?

Case Application 1-A

GROWER’S CHOICE

Four weeks into his internship at Grower’s Choice, a growing regional food store chain, Chase was encouraged when the HR director told him that he would be needed to make some changes in the process for requesting and recording time off. He e-mailed his professor that maybe his boring internship was finally going to get interesting. It was, but not in ways he would have predicted.

Grower’s Choice started 40 years ago as a produce market and has grown into a chain of 20 small supermarkets. Throughout their growth, they maintained an emphasis on high-quality fresh produce and a family atmosphere. Their management, headquarters, distribution center, and full-time store employees were mostly long-term employees with an average of 20 years with the company. A large number of young part-time employees have been hired to keep the stores running. When Chase arrived to begin his internship, he was surprised to learn that the HR department processed payroll, hired, and trained employees and little else. In his first month, he had learned to check references, add new employees into the computer for payroll processing, and check time sheets against the schedules for accuracy. Although computers were used for payroll, much of the data had to be entered manually from paper time sheets. There were paper forms for applications and time-off requests. E-mail was limited to employees at headquarters and four or five full-time staff in each store. The company had grown in number of employees, stores, and sales, but HR seemed to be stuck in the 1980s.

The next day, Chase asked Alonzo, the HR Director, if the changes in the time-off requests included using online scheduling software. He laughed and explained, “It isn’t anything that complicated. Since you’re pretty good with computers, we would like you to rewrite the form so it has room for a whole month instead of 2 weeks.” Chase went on to explain that there were several software vendors that could streamline the process. Alonzo replied, “Maybe someday, but we have a lot of older managers who don’t handle change well” before returning to his office.

A few hours later, Chase heard Alonzo shouting “No Way! No Way!” into his phone before running out of his office toward the office of the CFO. When he returned, he
appeared shocked and shaken. He explained that he had just learned that a store director who had been with the organization for over 25 years had just been fired for falsifying time sheets for 5 years. “Apparently, his part-time bookkeeper was in a serious accident 6 years ago. She wasn’t able to drive after the accident and asked to work from home. We don’t allow payroll information out of the store until it is sent to us, so we told her no. We were told that she found a way to get to work and that was the end of it. Turns out, the store manager took the documents to her home for her to complete the payroll just like she was going to work every day. He picked up computer disks from her when she was done and sent them to us like she was in the store the whole time. We’ve been paying her for 5 years and she hasn’t shown up for work once. Incredible!” When Chase asked what happens next, Alonzo shook his head and said “I don’t know. The CFO wants to have them both arrested for fraud. How could this happen?”

Chase echoed Alonzo. “Yup. It’s incredible,” but silently congratulated the store manager for getting around HR’s inability to change with the times.

Case Application 1-B

A WAR FOR TALENT

You may be surprised to learn that the U.S. Navy has nearly the same HR functions and challenges that employers in the private sector face, although many of them are magnified greatly due to the size and responsibilities of the Navy. For starters, consider a recruiting goal that would challenge any HR department—the Navy’s recruiting goal averages 37,000 new people annually with a total workforce of approximately 325,000 active duty and 200,000 civilian employees. Next, train those employees/sailors for hundreds of specialized positions, help them achieve education goals, and manage their careers for the next 4–6 years. Finally, encourage them to serve beyond their initial commitment or to transition to reserve status or a civilian position within the Navy. Other traditional HR functions must be maintained including performance appraisal, compensation, discipline, dismissal, and retirement.

In recent years, the Navy has experienced uneven retention rates resulting in a shortage of qualified sailors in several areas, including cyber security, maintenance, information systems, machinist, fire control, and nuclear engineering. At the same time, there is a surplus of personnel in many other positions, mostly involving lower skill levels. Many are offered the opportunity to retrain for another position, but many more may face “involuntary separation,” which amounts to being fired.

Employee recruiting and retention present some unique problems as well. Realizing that they are in competition for talent with private industry as well as other branches of the military, the Navy must be seen as competitive on the issues that millennials want such as flexibility and work–life balance. The Navy has made improvements to maternity benefits, parental leave, and flexible work options with the goal of increasing retention and recruitment. A recent task force report to the Pentagon found that better access to quality childcare is a major concern in the decision whether to remain in the Navy. Former Senator Jim Talent explained that the report found:

“If the military is going to recruit and retain a volunteer force with the necessary skills, it needs to do two things. It needs to recruit, assign and promote in a way that develops and retains value across a wide range of skills including the highly technical skills, and it needs to better accommodate the evolution of American society and the American family. And it needs to do those things without sacrificing the aspects of the system that are working well.”

Internal Navy policies also present challenges to retention. Military policy requiring service members to accept promotions or leave the military makes it difficult to retain

Questions

1. In what ways could HRIS software make the HR department more efficient at Grower’s Choice? How could HRIS have made a difference in the situation with the disabled bookkeeper and the time sheets? (LO 2)

2. Employee suggestions do not seem to be welcomed at Grower’s Choice. Identify opportunities and benefits of specific employee involvement concepts and how Grower’s Choice may benefit. (LO 8)

3. Explain the legal and ethical issues involved in the case. (LO 3, 9)

4. How can Grower’s Choice improve their views of diversity and work–life balance? (LO 5)

5. Research: Examine the Careers section of two to three supermarket chains in your area. What evidence do you find of HR use of technology? (LO 2)
information technology or cyber technology specialists who have no desire to join the ranks of management.

The Navy generally gets good marks for diversity awareness with a strong diversity mission statement called “The Mission of the Navy Diversity Directorate,” and the establishment of “Affinity Groups” that allow minority and special interest groups to share concerns. The Navy’s diversity mission also maintains a presence on Facebook and Twitter, outlining diversity initiatives and opportunities. The Rand National Defense Institute found a reduction in the percentage of young black people enlisting in the Navy and an increase in the percentage of Hispanic recruits, further changing the diversity of the navy workforce. Possibly the largest challenge in recent years has been the repeal of Don’t Ask, Don’t Tell, a policy that allowed homosexual members of the military to continue to serve as long as they were not openly homosexual. This change in policy has been approached with caution by the Navy and other branches of the military.

Questions
1. Contrast the differences and similarities of the challenges of managing the human resources in the Navy from private sector employers. (LO 4, 5, 6, 9)
2. How do the economic, technological, and cultural environments affect HRM in the Navy and other branches of the armed forces? (LO 1, 2)
3. What role does work-life balance play in recruiting and retention? (LO 9)
4. Research: How well have the Navy’s recruiting and diversity initiatives worked? Explore the Navy’s recruiting and diversity websites as well as news and current events for evidence of successes and failures in their efforts to manage diversity and hire and retain people with critical skills. (LO 5)