Fundamentals of
HUMAN RESOURCE
MANAGEMENT

Seventh Edition

Noe
Hollenbeck
Gerhart
Wright

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fundamentals of
Human Resource Management

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About the Authors

Raymond A. Noe is the Robert and Anne Hoyt Designated Professor of Management at The Ohio State University. He has taught for more than twenty-five years at Big Ten Universities. Before joining the faculty at Ohio State, he was a professor in the Department of Management at Michigan State University and the Industrial Relations Center of the Carlson School of Management, University of Minnesota. He received his BS in psychology from The Ohio State University and his MA and PhD in psychology from Michigan State University. Professor Noe conducts research and teaches all levels of students—from undergraduates to executives—in human resource management, training and development, performance management, and talent management. He has published articles in the *Academy of Management Annals, Academy of Management Journal, Academy of Management Review, Journal of Applied Psychology, Journal of Vocational Behavior,* and *Personnel Psychology.* Professor Noe is currently on the editorial boards of several journals including *Personnel Psychology, Journal of Applied Psychology, Journal of Management,* and *Human Resources Management Review.* Professor Noe has received awards for his teaching and research excellence, including the Ernest J. McCormick Award for Distinguished Early Career Contribution from the Society for Industrial and Organizational Psychology. He is also a fellow of the Society of Industrial and Organizational Psychology.

John R. Hollenbeck holds the positions of University Distinguished Professor at Michigan State University and Eli Broad Professor of Management at the Eli Broad Graduate School of Business Administration. Dr. Hollenbeck received his PhD in Management from New York University in 1984. He served as the acting editor at *Organizational Behavior and Human Decision Processes* in 1995, the associate editor of *Decision Sciences* from 1999 to 2004, and the editor of *Personnel Psychology* from 1996 to 2002. He has published over 90 articles and book chapters on the topics of team decision making and work motivation. According to the Institute for Scientific Information, this body of work has been cited over 4,000 times by other researchers. Dr. Hollenbeck has been awarded fellowship status in both the Academy of Management and the American Psychological Association, and was recognized with the Career Achievement Award by the HR Division of the Academy of Management (2011), The Distinguished Service Contributions Award (2014), and the Early Career Award by the Society of Industrial and Organizational Psychology (1992). At Michigan State, Dr. Hollenbeck has won several teaching awards including the Michigan State Distinguished Faculty Award, the Michigan State Teacher-Scholar Award, and the Broad MBA Most Outstanding Faculty Member.

Barry Gerhart is Professor of Management and Human Resources and the Bruce R. Ellig Distinguished Chair in Pay and Organizational Effectiveness, School of Business, University of Wisconsin–Madison. He has also served as department chair or area coordinator at Cornell, Vanderbilt, and Wisconsin. His research interests include compensation, human resource strategy, international human resources, and employee retention. Professor Gerhart received his BS in psychology from Bowling Green State University and his PhD in industrial relations from the University of Wisconsin–Madison. His research has been published in a variety of outlets, including the *Academy of Management Annals, Academy of Management Journal, Annual Review of Psychology, International Journal of Human Resource Management, Journal of Applied Psychology, Management and Organization Review,* and *Personnel Psychology.* He has co-authored two books in the area of compensation. He serves on the editorial boards of journals such as the *Academy of Management Journal, Industrial and Labor Relations Review, International Journal of Human Resource Management, Journal of Applied Psychology, Journal of World Business, Management & Organization Review,* and *Personnel Psychology.* Professor Gerhart is a past recipient of the Heneman Career Achievement Award, the Scholarly Achievement Award, and (twice) the International Human Resource Management Scholarly Research Award, all from the Human Resources Division, Academy of Management. He is a Fellow of the Academy of Management, the American Psychological Association, and the Society for Industrial and Organizational Psychology.

Patrick M. Wright is the Thomas C. Vandiver Bicentennial Chair and the Director of the Center for Executive Succession in the Darla Moore School of Business at the University of South Carolina. Prior to joining USC, he served on the faculties at Cornell University, Texas A&M University, and the University of Notre Dame.

Professor Wright teaches, conducts research, and consults in the area of Strategic Human Resource Management (SHRM), particularly focusing on how firms use people as a source of competitive advantage and the changing nature of the Chief HR Officer role. He is the faculty leader for the Cornell ILR Executive Education/NAHR program, "The Chief HR Officer: Strategies for Success," aimed at developing potential successors to the CHRO role. He served as the lead editor on the recently released book, *The Chief HR Officer: Defining the New Role of Human Resource Leaders,* published by John Wiley and Sons.

He has published more than 60 research articles in journals as well as more than 20 chapters in books and edited volumes. He is the Editor at the *Journal of Management.* He has coedited a special issue of *Research in Personnel and Human Resources Management* titled "Strategic Human Resource Management in the 21st Century" and guest edited a special issue of *Human Resource Management Review* titled "Research in Strategic HRM for the 21st Century."

He currently serves as a member on the Board of Directors for the National Academy of Human Resources (NAHR). He is a former board member of HRPS, SHRM Foundation, and World at Work (formerly American Compensation Association). From 2011 to 2015 he was named by *HRM Magazine* as one of the 20 "Most Influential Thought Leaders in HR."

Preface

Managing human resources is a critical component of any company's overall mission to provide value to customers, shareholders, employees, and the community in which it does business. Value includes profits as well as employee growth and satisfaction, creation of new jobs, contributions to community programs, and protection of the environment.

Our Approach: Engage, Focus, and Apply

Following graduation, most students will find themselves working in businesses or not-for-profit organizations. Regardless of position or career aspirations, their role in directly managing other employees or understanding human resource management practices is critical for ensuring both company and personal success. Therefore, *Fundamentals of Human Resource Management,* Seventh Edition, focuses on human resource issues and how HR is used at work. *Fundamentals* is applicable to both HR majors and students from other majors or colleges who are taking an HR course as an elective or a requirement.

Our approach to teaching human resource management involves *engaging* students in learning through the use of real-world examples and best practices; *focusing* them on important HR issues and concepts; and *applying* what they have learned through chapter features and end-of-chapter exercises and cases. Students not only learn about best practices but are actively engaged through the use of cases and decision making. As a result, students will be able to take what they have learned in the course and apply it to solving HRM problems they will encounter on the job.

Each chapter includes several different pedagogical features. "Best Practices" provides examples of companies whose HR activities work well. "HR Oops!" highlights HRM issues that have been handled poorly. "Did You Know?" offers interesting statistics about chapter topics and how they play out in real-world companies. "HRM Social" demonstrates how social media and the Internet can be useful in managing HR activities in any organization. "Thinking Ethically" confronts students with issues that occur in managing human resources. Each feature includes questions to assist students with critical thinking and to spark classroom discussions.

Fundamentals also assists students with learning "How To" perform HR activities, such as writing effective HR policies, being strategic about equal employment opportunities, and making the most of HR analytics. These are all work situations students are likely to encounter as part of their professional careers. The end-of-chapter cases focus on corporate sustainability ("Taking Responsibility"), managing the workforce ("Managing Talent"), and HR activities in small organizations ("HR in Small Business").

Organization of the Seventh Edition

Part 1 (Chapters 1–4) discusses the environmental forces that companies face in trying to manage human resources effectively. These forces include economic, technological, and social trends; employment laws; and work design. Employers typically have more control

over work design than over trends and equal employment laws, but all of these factors influence how companies attract, retain, and motivate human resources. Chapter 1 discusses why HRM is a critical component to an organization's overall success. The chapter introduces HRM practices and the roles and responsibilities of HR professionals and other managers in managing human resources.

Some of the major trends discussed in Chapter 2 include how the continuing economic recovery has motivated employees to look for new jobs and career opportunities and has spawned a gig economy, which is project based rather than job based. The chapter also highlights the greater availability of new and less expensive technologies for HRM, including social media and the Internet; the growth of HRM on a global scale as more U.S. companies expand beyond national borders; the types of skills needed for today's jobs; and the importance of aligning HRM with a company's overall strategy to gain and maintain competitive advantage. Chapter 3 provides an overview of the major laws affecting employees and the ways organizations can develop HR practices that comply with the laws. Chapter 4 highlights how jobs and work systems determine the knowledge, skills, and abilities that employees need to perform their jobs and influence employees' motivation, satisfaction, and safety at work. The chapter also discusses the process of analyzing and designing jobs.

Part 2 (Chapters 5–8) deals with acquiring, training, and developing human resources. Chapter 5 discusses how to develop a human resources plan. It emphasizes the strengths and weaknesses of different options for dealing with shortages and excesses of human resources, including outsourcing, use of contract workers, and downsizing. Strategies for recruiting talented employees are highlighted, including use of electronic recruiting sources such as social media and online job sites.

Chapter 6 emphasizes that employee selection is a process that starts with screening applications and resumes and concludes with a job offer. The chapter takes a look at the most widely used methods for minimizing mistakes in choosing employees, including employment tests and candidate interviews. Selection method standards, such as reliability and validity, are discussed in understandable terms. Chapter 7 covers the features of effective training systems. Effective training includes not only creating a good learning environment but also hiring managers who encourage employees to use training content in their jobs and hiring employees who are motivated and ready to learn. Concluding Part 2, Chapter 8 demonstrates how assessment, job experiences, formal courses, and mentoring relationships can be used to develop employees for future success.

Part 3 (Chapters 9–11) focuses on assessing and improving performance. Chapter 9 sets the tone for this section of the book by discussing the important role of HRM in creating and maintaining an organization that achieves a high level of performance for employees, managers, customers, shareholders, and the community. The chapter describes high-performance work systems and the conditions that contribute to high performance. Chapter 10 examines the strengths and weaknesses of different performance management systems. Chapter 11 discusses how to maximize employee engagement and productivity and retain valuable employees as well as how to fairly and humanely separate employees when the need arises because of poor performance or economic conditions.

Part 4 (Chapters 12–14) covers rewarding and compensating human resources, including how to design pay structures, recognize good performers, and provide benefits. Chapter 12 discusses how managers weigh the importance and costs of pay to develop a compensation structure and levels of pay for each job given the worth of the jobs, legal requirements, and employee judgments about the fairness of pay levels. Chapter 13 covers the advantages and disadvantages of different types of incentive pay, including merit pay, gainsharing, and stock ownership. Chapter 14 highlights the contents of employee benefits packages,

the ways organizations administer benefits, and what companies can do to help employees understand the value of benefits and control benefits costs.

Part 5 (Chapters 15–16) covers other HR topics including collective bargaining and labor relations and managing human resources on a global basis. Chapter 15 explores HR activities as they pertain to employees who belong to unions or who are seeking to join unions. Traditional issues in labor–management relations such as union membership and contract negotiations are discussed. The chapter also highlights new approaches to labor relations, the growing role of employee empowerment, and the shrinking size of union membership.

Concluding Part 5, Chapter 16 focuses on HR activities in international settings, including planning, selecting, training, and compensating employees who work overseas. The chapter also explores how cultural differences among countries and workers affect decisions about human resources.

Content Changes in the New Edition

In addition to new or revised chapter pedagogy, the Seventh Edition of *Fundamentals* contains the following content changes to help students and instructors keep current on important HR trends and topics:

- Chapter 1 includes an expanded discussion of skills required for HRM professionals as defined by the Society for Human Resource Management (SHRM)—a set of knowledge and skills grouped into four clusters of competencies, as illustrated by revised Figure 1.3. Table 1.2 has been updated to list the top qualities employers look for in potential employees. Figure 1.6 has been revised to reflect current median salaries for HRM positions.

- Chapter 2 provides updated workforce statistics, including projections for number of workers over the next several years, as well as a discussion on various age and ethnic groups within the workforce. Chapter figures have been revised to reflect current labor force data. Other trends discussed include which occupations are expected to gain the most jobs in the coming decade; the significant slowdown in job cuts since the great recession; and the shift to outsourcing HR tasks that automate processes and support decision making, such as recruitment and benefits administration. New discussions on reshoring and the gig economy have also been added to the chapter.

- Chapter 3 has been updated to include discussions on the continuing efforts to hire unemployed military veterans back into the workforce and recent EEOC lawsuits brought against companies for harassment based on sexual orientation. Chapter figures have been updated to reflect current statistics on age discrimination, disability complaints filed under ADA, types of charges filed with the EEOC, and rates of occupational injuries and illnesses. A discussion has been included about the use of wearable technology that gathers and communicates data related to employee safety.

- Chapter 4 includes a new discussion on hiring based on competencies associated with job success and strategies for job enlargement in the hospital industry, which continues to face greater accountability for patient satisfaction and quality care.

- Chapter 5's coverage of downsizing, reducing hours, and outsourcing includes new company examples that help students understand how real-world companies deal with the ups and downs of everyday business and decisions relating to human resources. A new discussion has been added about the importance of HR professionals developing competency in applying data and analytic techniques as part of labor forecasting activities.

- Chapter 6 includes an expanded discussion about the competitive advantage of using a well-designed applicant tracking system in the employee selection process.

- The training chapter (Chapter 7) provides an expanded discussion about orientation and onboarding, which underscores the importance of preparing new employees for full participation in the organization. New Figure 7.4 provides an overview of a comprehensive onboarding process.

- Chapter 8 focuses on development and includes an updated section on the use of assessment tools, as well as new examples about how some companies are trying to eliminate the glass ceiling for women and minorities in their organizations.

- Chapter 9 provides an updated discussion of how HRM practices can contribute to high performance of any organization, including job design, recruitment and selection, training, performance management, compensation, and data analytics.

- Chapter 10 includes new examples of how some companies are changing their approach to annual performance reviews in an effort to give both employees and supervisors ongoing feedback in a less formal, more timely manner.

- Chapter 11 provides new examples about companies turning to data analytics to determine which employees are likely to stay and which ones are likely to seek jobs elsewhere.

- Chapter 12's discussion about earnings data for women, men, and minorities has been updated, as well as the discussion about HRM salaries in various parts of the country. The chapter also contains current statistics about CEO pay and compensation.

- Chapter 13 focuses on recognizing employee contributions with pay, including new real-world examples about how businesses are rethinking their approach to bonuses, tying them to company performance, and the increased use of retention bonuses for executives and other key employees as part of company mergers and acquisitions.

- Chapter 14 includes updated data on employee benefits as a percentage of total compensation, Social Security information, and taxes paid by employers and employees. New examples describe how some companies are providing employees with assistance in paying off student loans as part of their benefits strategy.

- Chapter 15 has been updated with current trends and statistics in union membership. Content on work stoppages and lockouts has been revised. New sections focus on increased cooperation between unions and management and highlight several nonunion representation systems currently being used by companies across the country.

- Concluding the Seventh Edition, Chapter 16 highlights trends in managing human resources globally, including the issue of labor relations in various countries, which may impact a company's ability to be successful on foreign soil. A new discussion has been added about the possible impact of "Brexit" on Britain's HR practices, now that the country is leaving the European Union.

The author team believes that the focused, engaging, and applied approach of *Fundamentals* distinguishes it from other books that have similar coverage of HR topics. The book has timely coverage of important HR issues, is easy to read, has many features that grab the students' attention, and gets students actively involved in learning.

We would like to thank those of you who have adopted previous editions of *Fundamentals,* and we hope that you will continue to use upcoming editions. For those of you considering *Fundamentals* for adoption, we believe that our approach makes *Fundamentals* your text of choice for human resource management.

Acknowledgments

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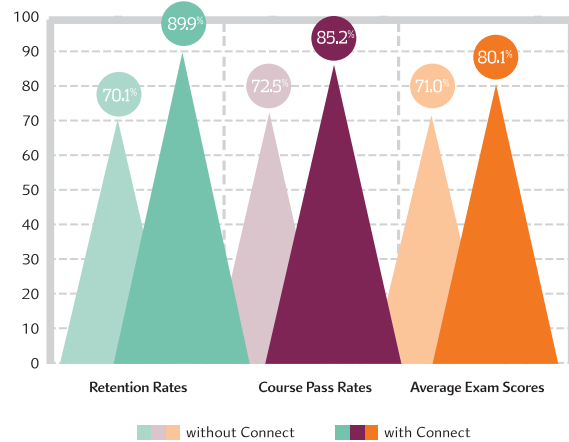
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27.4%	B	34.3%
22.9%	C	18.7%
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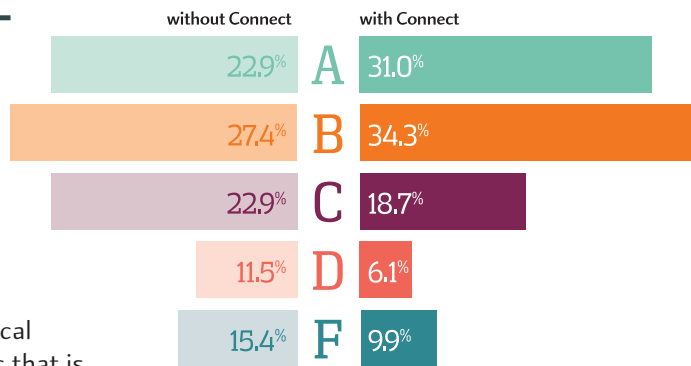
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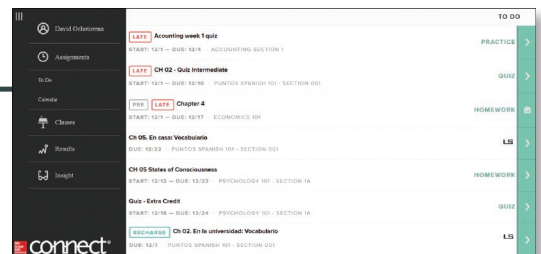
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Brief Contents

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The Human Resource Environment

PART ONE

1

Managing Human Resources

Introduction

As a student, Aaron Olson didn't set his sights on a career in business. The son and grandson of educators, he earned a master's degree in education. After discovering that teaching also has a role in the business world, he took a job as an instructional designer, developing training for employees of Hewitt Associates, a firm providing consulting services related to human resources.

From that starting point, Olson built a career by applying his drive to learn and ability to solve problems. He focused on understanding and supporting the business needs of the people in his organization. For example, when attending a meeting of executives, Olson realized that they were struggling to resolve a business issue because the decision process lacked any structure. So he grabbed a marker, posted himself by a flip chart, and began directing the conversation.

Managers at Hewitt and later at Aon, which acquired Hewitt, noticed how he supported their needs, and they moved him into roles with more responsibility: human resources business adviser, head of talent development, and chief talent officer. Today Olson leads a team of 85 human resource employees and 35 other employees to develop Aon's present and future leaders. His job requires understanding Aon's strategy and culture, building support of the company's top management, and running all the programs that foster learning and skills development.[1]

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Aaron Olson plays a leading role in one key area of **human resource management (HRM),** the policies, practices, and systems that influence employees' behavior, attitudes, and performance. Many companies refer to HRM as involving "people practices." Figure 1.1 emphasizes that there are several important HRM practices that should support the organization's business strategy: analyzing work and designing jobs, determining how many employees with specific knowledge and skills are needed (human resource planning), attracting potential employees (recruiting), choosing employees (selection), teaching employees how to perform their jobs and preparing them for the future (training and development), evaluating their performance (performance management), rewarding employees (compensation), and creating a positive work environment (employee relations). An organization performs best when all of these practices are managed well. At companies with effective HRM, employees and customers tend to be more satisfied, and the companies tend to be more innovative, have greater productivity, and develop a more favorable reputation in the community.[2]

In this chapter, we introduce the scope of human resource management. We begin by discussing why human resource management is an essential element of an organization's success. We then turn to the elements of managing human resources: the roles and skills needed for effective human resource management. Next, the chapter describes how all managers, not just human resource professionals, participate in the activities related to human resource management. The following section of the chapter addresses some of the ethical issues that arise with regard to human resource management. We then provide an overview of careers in human resource management. The chapter concludes by highlighting the HRM practices covered in the remainder of this book.

Human Resource Management (HRM)
The policies, practices, and systems that influence employees' behavior, attitudes, and performance.

Human Resources and Company Performance

Managers and economists traditionally have seen human resource management as a necessary expense, rather than as a source of value to their organizations. Economic value is usually associated with *capital*—cash, equipment, technology, and facilities. However, research has demonstrated that HRM practices can be valuable.[3] Decisions such as whom to hire, what to pay, what training to offer, and how to evaluate employee performance

LO 1-1 Define human resource management, and explain how HRM contributes to an organization's performance.

Figure 1.1
Human Resource Management Practices

Strategic HRM

Analysis and design of work → HR planning → Recruiting → Selection → Training and development → Performance management → Compensation → Employee relations → **Company Performance**