



# HUMAN RESOURCE MANAGEMENT

Linking Strategy to Practice

Third Edition

GREG L. STEWART

|

KENNETH G. BROWN

WILEY



**THIRD EDITION**

# **Human Resource Management**

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*To Lisa, Brandon, Ryan, Jason, and Analisa—GLS*

*For my Mom—KGB*

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Management, Toyota Motor Credit Corporation, the University of Iowa, and numerous local non-profit organizations. From 2012 to 2014, Brown serves as the editor-in-chief of the *Academy of Management Learning and Education*, a premiere journal of research on helping students acquire management knowledge and skill. From 2014–2016, Brown also serves as a Director of the HR Certification Institute, the worldwide leader in certifying HR competency.

# Preface

The last decade has been an interesting period of change and survival for businesses. The worst economic recession in over 50 years forced many companies to rethink the way they did business. More recently, recovery from the recession has presented organizations with a number of different opportunities and threats. Only the best companies survive and thrive in such trying times. But what makes some companies more successful than others? What gives organizations an advantage over their competitors? One answer emphasizes the benefit of having the right people as members of the organization. It is often said that “the people make the place,” which tells us that employees are the most important asset of any organization. Practices that help obtain and motivate employees are the core focus of human resource management, which is the field of study presented in this textbook.

As you read this book, we hope you will agree that human resource management is an exciting field of study. In order to make ideas and concepts come to life, we include a number of examples from real companies that illustrate how effective human resource management is helping companies achieve success. Each chapter explains how an organization can increase its effectiveness by improving its processes for hiring and motivating top-performing employees. We also specifically link human resource practices to competitive strategies. This linkage is critical, as it shows how a company can use human resource management to gain a competitive advantage over other companies.

## WHY LINK HUMAN RESOURCE PRACTICE TO STRATEGY?

The field of human resource management has evolved a great deal during the past 20 years. Today, many practitioners and researchers argue that human resource management should extend beyond its traditional focus on legal compliance and adopt a more strategic perspective for managing employees. Perhaps more importantly, successful organizations are taking a more strategic approach to managing people. Many human resource textbooks have added material to reflect some of this change, but most books still lack a consistent strategic framework—even though this framework is rapidly becoming the norm within the field.

We have written *Human Resource Management: Linking Strategy to Practice, Third Edition*, in order to more fully develop and integrate the strategic perspective. Throughout the book, we emphasize the theme that organizations excel when they have consistent human resource practices that align with their

strategic direction. We begin by establishing a strategic framework that illustrates how different approaches to human resource management fit with basic competitive strategies. We then integrate this strategic perspective into our discussion of traditional human resource practices, such as work design, staffing, performance management, training, compensation, and labor relations. At the same time, we clearly illustrate how these specific human resource practices help increase organizational effectiveness.

## WHAT IS NEW IN THIS EDITION?

The practice of human resource management continues to evolve and improve. New research is being published at a rapid pace, and organizations are constantly innovating. This third edition of *Human Resource Management: Linking Strategy to Practice* reflects these changes. We have combed through research studies conducted since the first and second editions to identify and include new and updated ideas. This edition contains a number of “How Do We Know?” features that describe recently published research that informs our understanding of human resource management. We have also updated our case examples to reflect innovative ideas being carried out in contemporary organizations. These additions to the third edition ensure that students are exposed to the latest ideas and innovative thinking.

One particular area of change in the revision concerns updated material related to finding balance between work and family demands. Both academic studies and organizational practices provide new insights for organizations seeking to help organizations reduce conflict between these important, yet sometimes competing, aspects of life. In particular, Chapter 4 provides an array of concepts and illustrations explaining how companies benefit from making work more family friendly. New laws and government practices, such as the Affordable Care Act (Obamacare), also present new challenges and opportunities for businesses. Many of the critical issues that organizations will face as they implement these new policies are discussed in the section of Chapter 12 that describes how health insurance is becoming a legally required rather than discretionary benefit.

We continue to emphasize the impact of globalization. The importance of thinking globally is emphasized in each chapter with specific examples of ways that human resource practices are similar and different across national boundaries.

The revision also continues to emphasize the strategic approach. New research supporting the benefits of aligning human resource practice with organizational strategy is included. Company illustrations are also used to describe how many of the companies that have performed well during the economic downturn did so largely because of their human resource strengths. In this way, the third edition continues our unique approach to integrating strategy and practice.



## HOW CAN STUDENTS BENEFIT FROM A STRATEGIC PERSPECTIVE?

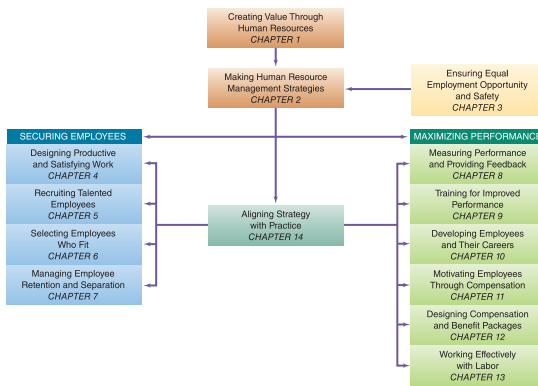
A book designed around a strategic framework, such as the guiding model presented in Chapters 1 and 2, helps students not only to develop a set of human resource tools but also to know when each tool is most appropriate. The overall objective of *Human Resource Management: Linking Strategy to Practice* is thus to provide students with both an understanding of traditional human resource concepts and a framework for making decisions about when specific practices can be most beneficial. This link between strategy and practice is necessary for students to be able to correctly apply human resource tools to improve organizations.

The strategic perspective is critical for students because most people enrolled in an introductory course will not spend their careers working as human resource professionals. A majority will, however, work someday as managers with the charge to lead and direct others. Understanding the strategic benefits of good human resource management can help future managers better secure and motivate talented employees. The strategic perspective also provides a valuable framework for the future study of those students who do choose to become human resource professionals. Information from additional courses that provide more in-depth coverage of topics such as staffing, training, and compensation will easily fit within the strategic orientation of this book and provide guidance for knowing when to use specific tools.

## HOW IS THIS BOOK ORGANIZED?

*Human Resource Management: Linking Strategy to Practice* is organized to provide coverage of both strategic topics and specific practices, as illustrated in the accompanying schematic. We open the book in Chapter 1 by examining the value of aligning human resource practices with organizational strategies. Chapter 2 describes the strategic perspective in more detail. It discusses various ways organizations try to be more effective than their competitors, and it illustrates how human resource management can help organizations carry out their strategies. Chapter 3 discusses legal and safety issues. Laws and regulations drive many human resource practices, and knowledge of these legal realities is necessary for understanding several issues related to securing and motivating employees. Chapters 2 and 3 thus provide information that establishes a strategic perspective and provides a context for much of the material in later chapters.

Chapters 4 through 7 focus on the process of securing employees. Chapter 4 describes work design, which creates job descriptions that clarify who does what. The work design process also identifies the characteristics of people most likely to carry out tasks successfully. The result is a type of shopping list that defines the types of people most likely to succeed in specific jobs and



**Figure 1.6** Framework and Chapter Outline Illustrating How Human Resource Management Practice Links to Strategy.

the specific activities the organization uses to secure and motivate employees. Activities aimed at securing employees include work design, recruiting, selection, and retention; these are discussed in Chapters 4 through 7. Activities that relate to motivating workers, which include performance management, career development, training, compensation, and labor relations, are discussed in Chapters 8 through 13. All these activities must be coordinated with each other as well as with the overall human resource strategy. The importance of coordination is discussed in Chapter 14.

Human resource management is an exciting field that provides critical benefits to organizations. Studying human resource management can help you develop knowledge and skills that will make you more effective throughout your career. Even if you don't become a human resource specialist, knowing why human resource specialists do what they do will enable you to work more cooperatively with them. Furthermore, knowing about methods for hir-

organizations. Chapters 5 and 6 build on this information by discussing how to locate and identify people who have these characteristics. Chapter 5 gives details about recruiting and illustrates methods for attracting people to apply for jobs with the organization. Faced with a pool of applicants, the organization must decide which of them to hire. Chapter 6 develops several selection methods useful in carrying out this task. Chapter 7 then explains ways of keeping good employees, as well as removing low performers. Taken together, Chapters 4 through 7 provide information that helps guide efforts to get the right people doing the right tasks. These chapters combine a strategic perspective of securing employees with a review of specific activities associated with recruiting, hiring, and retaining workers.

Once the right people have been placed in the right jobs, the next step is to maximize their performance. Chapters 8 through 13 focus on this process. Chapter 8 describes performance management, which provides methods for measuring what individuals contribute to the organization. Performance assessments are used to create feedback that teaches employees how to improve. Chapter

9 discusses the training process. Chapter 10 emphasizes career development and offers guidance for planning how employees can continue to contribute to the organization over the long term. Through training, people learn new things and become more valuable employees. Chapters 11 and 12 focus on compensation and illustrate how pay and benefits can increase motivation. Chapter 13 emphasizes the need for good labor relations and discusses methods for working with labor unions and treating employees fairly. In sum, this set of chapters provides information about developing skills and increasing motivation to ensure that employees are reaching peak performance. The overall emphasis is on ensuring that employees have the skills and motivation necessary to carry out the organization's strategy for competing with other firms.

The final chapter, Chapter 14, describes strategic alignment. The human resource practices of successful organizations align with organizational strategies for doing things better than competitors. Good human resource practices also work together. Staffing practices, for example, combine with compensation practices to help the organization hire and motivate people with certain characteristics. Performance management measures areas where people need to improve, and training teaches them how to improve. The final chapter thus presents the big picture by illustrating how different pieces of human resource management fit together to create successful organizations.

# Key Features

We have developed a number of pedagogical features for *Human Resource Management: Linking Strategy to Practice, Third Edition*, to support the strategic framework and enhance student interest and learning.

## A MANAGER'S PERSPECTIVE AND A MANAGER'S PERSPECTIVE REVISITED

Each chapter opens with a real-life scenario describing a decision faced by an individual employee, manager, or human resource professional. These scenarios, labeled “A Manager’s Perspective,” highlight the importance of strategic decision making and help students see exactly how the chapter material is relevant to their future careers. Each scenario ends with five thought questions designed to get students thinking about core concepts from the upcoming chapter. A section labeled “A Manager’s Perspective Revisited” at the end of each chapter provides answers to the thought questions and once again emphasizes how the material covered in the chapter can help students build successful careers.

### A MANAGER'S PERSPECTIVE

ANGELA CLOSES HER CELL PHONE AND TAKES A DEEP BREATH. WAS IT REALLY A GOOD IDEA TO ACCEPT THE JOB AS RESTAURANT MANAGER? IT SOUNDED LIKE SUCH A GOOD IDEA WHEN MARK, THE REGIONAL MANAGER, OFFERED HER THE POSITION TWO MONTHS AGO. SHE WON'T GRADUATE WITH HER DEGREE IN ELEMENTARY EDUCATION FOR TWO MORE YEARS. BEING THE MANAGER PROVIDES HER WITH FLEXIBILITY TO TAKE CLASSES WHEN SHE WANTS, BUT TRYING TO SCHEDULE OTHER EMPLOYEES IS MUCH MORE STRESSFUL THAN SHE EXPECTED.

Just now Barbara—a new cook hired last month—called to tell Angela that she is quitting and will not work the hours scheduled during the upcoming week. This is the third time in two months that someone has quit with little or no advance notice. It will be difficult to schedule other employees to cover for Barbara during the upcoming week. Angela is considering hiring someone to hire as

same restaurant for long. Yet surely it should be possible to create a fun working atmosphere that would make employees less likely to leave. Might it help to pay higher wages? Would older workers and people with family responsibilities be more likely to stay than the college students she currently hires?

Angela's thoughts quickly shift to the other disagreeable task she faces today. The very thought of meeting with Simon is enough to make Angela want to quit, herself. Yesterday Simon was late for work the second time this week. Once he arrived, he spent much of his shift wasting time. Working with first graders will surely be easier than supervising Simon. Should she just fire him?

Thinking about firing someone scares Angela. Would Simon become emotional? When should she meet with him if she decides to deliver the bad news? What should she say? As questions about



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### A MANAGER'S PERSPECTIVE REVISITED

IN THE MANAGER'S PERSPECTIVE THAT OPENED THE CHAPTER, ANGELA FELT CONCERN ABOUT AN EMPLOYEE WHO HAD JUST QUIT. SHE WAS ALSO THINKING ABOUT CONFRONTING AN EMPLOYEE WHOSE PERFORMANCE WAS UNACCEPTABLE. FOLLOWING ARE THE ANSWERS TO THE “WHAT DO YOU THINK?” QUIZ THAT FOLLOWED THE MANAGER'S PERSPECTIVE. WERE YOU ABLE TO CORRECTLY IDENTIFY THE TRUE STATEMENTS? CAN YOU DO BETTER NOW?

1. Workers are less likely to quit when they feel the organization cares about their personal needs.  
**TRUE.** Individuals who feel they receive support from the organization are more likely to remain with the organization, even if they have experiences that cause them to think about leaving.
2. Decisions to quit often begin with a specific event that causes employees to evaluate their work situation.  
**TRUE.** In most cases, a specific event can be identified as the point where the employee begins to think about leaving the organization.
3. It doesn't really matter how you fire people, as long as you make it clear that their employment is being terminated.  
**FALSE.** It is important for the person doing the firing to make it clear that the person is being dismissed, but a number of other issues should be addressed to minimize

4. In order to defend against potential lawsuits, an organization should carefully document methods of disciplining problem employees.  
**TRUE.** Principles of due process and progressive discipline suggest that employees should receive clear written warnings as part of the disciplinary process.
5. Employees who see coworkers losing their jobs become more committed to staying with the organization.  
**FALSE.** In many cases, layoff survivors begin to look for jobs at other organizations.

Angela's frustration with employees who quit and employees who perform poorly is not uncommon. High employee turnover is costly. Angela is therefore wise to consider ways to increase the chances of good employees staying with the restaurant. She is also being an effective leader when she takes actions to help low performers such as Simon improve. The principles of due process and the steps of progressive discipline can guide Angela's efforts. These and other concepts in this chapter provide information about effective methods of retaining employees, as well as effective ways to discipline and dismiss employees



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## BUILDING STRENGTH THROUGH HR

The opening section of each chapter includes a discussion that illustrates how a specific company has used the concepts discussed in the chapter to increase effectiveness. Trader Joe’s, Southwest Airlines, Marriott, and General Electric are just a few of the firms included in these in-depth examinations of strategic HR. Each of the company descriptions ends with a “Building Strength Through HR” feature that clearly summarizes how the firm has used specific human resource practices to become more effective and competitive.

Additional “Building Strength Through HR” features appear throughout

each chapter. These brief cases illustrate how specific companies have benefited from implementing particular human resource practices—for example, how Leicester Royal Infirmary, a large teaching hospital in England, improved efficiency and patient satisfaction through work redesign and how LG Electronics created a global instructional program to connect company vision and values with leadership development practices. These discussions clearly illustrate how effective human resource practices have translated into success for a number of organizations. The inclusion of foreign-based firms points up the fact that the usefulness of strategic HR crosses international boundaries.



### Building Strength Through HR

#### LG ELECTRONICS

LG Electronics is a South Korea-based firm that designs and manufactures a wide variety of consumer electronics including smartphones, refrigerators, air conditioners, and televisions. To help fuel its growth, LG makes substantial investments in leadership development. In recent years they have sought to build a single standard Global Leadership Framework that connects to the company’s vision and values and guides leadership development practices. Working with a consulting firm, LG created a list of behaviors needed by leaders at each level in the company. Then they launched a leadership academy that began with a multi-source assessment of participants’ leadership behaviors. With data in hand, participants worked through custom-designed learning modules to enhance those skills. To further develop their skills, participants are given work assignments that help



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improve particular skills. Finally, the consulting firm offered coaching to help participants practice behaviors on the job.

*Source:* Information from Erin Wilson Burns, Laurence Smith, and Dave Ulrich, “Competency Models with Impact: Research findings from the Top Companies for Leaders,” *People & Strategy*, 35 (2012): 16-23.

## HOW DO WE KNOW?



### How Do We Know?

#### DOES HOW MUCH YOU MAKE DEPEND ON HOW MUCH YOU WEIGH?

Do people who are overweight make less money than their thinner peers? Is the effect of weight the same for men and women? Timothy Judge and Daniel Cable sought to answer these questions by examining data from two long-term studies. The first study obtained information from 11,340 German workers. The second study captured measures from 12,686 American workers. In both studies workers reported their weight and salaries over a number of years.

The results suggest that wages and salary decline as weight increases for women. The effect is such that additional weight is most harmful for women who were relatively thin. Specifically, a woman 25 pounds below average is expected to make \$15,572 more than a woman of average weight, whereas the woman of average weight is predicted to make \$13,847 more than a woman 25 pounds

above average. There is thus a wage premium for very thin women. The effect was opposite for men. Men who weighed more had higher salaries.

**The Bottom Line.** Weight has a negative relationship with earnings for women but a positive relationship for men. The negative effect of additional weight is most pronounced for women who are already below average, meaning that women appear to be rewarded most when they are very thin. Professors Judge and Cable conclude that this effect is consistent with media portrayals of the ideal woman as being unrealistically thin.

*Source:* Timothy A. Judge and Daniel M. Cable, “When It Comes to Pay, Do the Thin Win? The Effect of Weight on Pay for Men and Women,” *Journal of Applied Psychology* 96 (2011): 95-112.

Research is an important part of the field of human resources. Each chapter therefore includes a number of features describing specific research studies. These features—labeled “How Do We Know?”—use nontechnical language to summarize research studies that have been published in scholarly journals. Each concludes with a “Bottom Line” summary that shows how the findings of the study contribute to our understanding of effective human resource management. These research summaries help students understand how knowledge is generated and help them see the science behind many of the principles discussed throughout the textbook.

## TECHNOLOGY IN HR

Technological change has had a pervasive influence on every aspect of management, and human resource management is no exception. “Technology in HR” features describe how technological advances are affecting the field of human resource management. The information included in this feature illustrates how the Internet and other forms of electronic communication are affecting human resource practices in areas such as employee selection, training, and compensation. These discussions show students how advancements in technology are being incorporated to increase the effectiveness of human resource management.

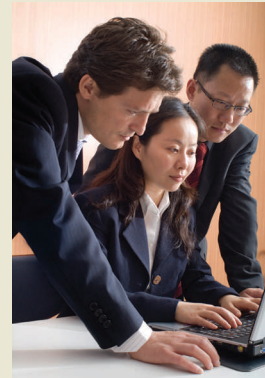


### Technology in HR

#### BENEFITS AND DRAWBACKS OF E-LEARNING

Widespread access to computers and the Internet provides a cheap, efficient, and customizable means of delivering training. Using the Internet or a corporate intranet, employees can, at least in theory, take training whenever and wherever they want. This benefit can reduce training costs because employees can learn at their workplaces without having to travel to a central training site. Training can also be individualized so that trainees see only the material they need rather than having to sit through a presentation on material they already know. Taken together, these benefits make training more efficient.

Training professionals have some reasonable concerns about e-learning, however. First, the up-front cost can be substantial, particularly for high-quality training that can be accessed by all employees. Second, interaction among peers is constrained, which reduces the enjoyment and networking opportunities offered by traditional face-to-face training. Finally, non-interactive e-learning can bore trainees and can suggest that simply putting written material on a computer makes it training. The truth of the matter is that online material, when all it contains is reading, is no different from a book; it is a source of information rather than training structured to help employees learn. If you have ever taken an online course that consisted of little more than page after page of text, then you have suffered through what



Thomas E. Schaefer/Stockphoto

space away from the office. In the end, whether

## RECALL FEATURES

A number of features included in each chapter help students focus on and learn key concepts.

- *Learning Objectives.* A list of learning objectives opens each chapter and prepares readers for the key concepts to be discussed.
- *Key Terms and Definitions.* Key terms shown in boldface in the chapter text and linked to margin definitions highlight critical concepts and provide an opportunity for review.
- *End-of-Section Review Questions.* Each major section concludes with review questions that focus students' attention on major topics.
- *End-of-Chapter Summaries.* Each chapter ends with a summary of key concepts linked to the chapter's learning objectives and major sections.
- *Discussion Questions.* End-of-chapter discussion questions revisit major topics, providing readers with an opportunity not only for review but also for critical thinking and interpretation.

### SUMMARY

#### LEARNING OBJECTIVE 1

##### How is work design strategic?

Work design practices should align with overall HR strategy. Organizations that pursue either *Loyal Soldier* or *Bargain Laborer* HR strategies benefit from efficiency. Efficiency comes from designing work so that employees have relatively little autonomy, meaning that they have little freedom to alter the way tasks are carried out. Efficiency is also increased with sequential processing, which occurs when people use assembly lines to complete work tasks. Competitive strategy that focuses on cost reduction thus aligns with work design practices that limit autonomy and create sequential processing.

Organizations that pursue either *Committed Expert* or *Free Agent* HR strategies benefit from innovation and creativity. Innovation comes from designing work so that employees have substantial autonomy, meaning that they have freedom to make decisions and ongoing adjustments to the work process. Reciprocal processing, which occurs when employees work closely together and share

#### LEARNING OBJECTIVE 2

##### How are employee jobs determined?

There are seven steps in the job analysis process. (1) Get organized by determining who will do the analysis and by gaining the support of top management. (2) Choose jobs that are critical for success and have a sufficient number of employees. (3) Review what has already been written about the job. (4) Select job agents, such as incumbents, supervisors, or experts. (5) Collect job information through interviews, questionnaires, and observations. (6) Create a job description that specifies the actions that workers do when performing the job. (7) Create job specifications that list the knowledge, skills, abilities, and other characteristics that workers need in order to successfully perform the job.

In order to guide other human resource practices, job analysis information needs to be translated into a “shopping list” of the characteristics needed by people who perform the job. Some worker-oriented job analysis procedures, such as the Position Analysis Questionnaire, provide a list

## END-OF-CHAPTER APPLICATION EXERCISES

Knowledge is most useful when it can be applied to solve real problems. We end each chapter with cases and experiential exercises that help students begin the process of applying the concepts to solve actual problems associated with effective human resource management.

- *Example Cases.* An example case illustrates how a specific company implements the human resource practice discussed in the chapter.
- *Discussion Cases.* A discussion case provides background information about a fictional company that can serve as the launching point for a class discussion.

- *Experiential Exercises.* An experiential exercise describes an activity that a student can complete, often online, to actively learn more about the topic discussed in the chapter.

1. Why are effective human resource practices often a better competitive resource than equipment and buildings?
2. What are some external opportunities and threats that you think organizations will face in the next 10 years? What types of organizations will benefit most?
3. Why can groups be more effective than individuals for making decisions?
4. What are the primary differences between a cost leadership and a differentiation strategy?
5. What are the key elements of the commitment strategy from the universalistic approach? Why does this approach generally contribute to success for organizations?
6. What human resource practices might be associated with a cost reduction emphasis?
7. What are the strengths and weaknesses of internal and external labor orientations?
8. Choose a company where you or someone you know works. Which of the four human resource strategies do you think is most common in the company?
9. What are the key elements of the four human resource strategies: Loyal Soldier, Bargain Laborer, Committed Expert, and Free Agent?
10. The chapter text pointed out that a majority of organizations have a human resource strategy that fits their competitive strategy. What should an organization do if the strategies don't match?

### EXAMPLE CASE

### United Parcel Service

Of course, every company wants to attract the best people it can. Equally important at UPS is attracting people who fit the company culture, which encourages high energy, hard work, fairness, inclusiveness, teamwork, and sharing the wealth.

4. What has happened to the stock price of the company over the past 10 years?
4. Compare and contrast the strategies and practices of the companies that are direct competitors.

### INTERACTIVE EXPERIENTIAL EXERCISE

*HR Strategy in Action: Selling the HR Function at Mega Manufacturing*  
<http://www.wiley.com/college/sc/stewart>

Access the companion website to test your knowledge by completing a Mega Manufacturing interactive role-playing exercise.

In this exercise, you meet with senior management at Mega and try to convince other members of the management team that HR needs to have a "seat at the table" and function as a business partner within the company. The CFO, however, expresses the opinion that HR is just a "touchy feely" department that adds no legitimate business value. Your objective is to gain credibility and show that a strategic approach to HR can improve Mega Manufacturing. Based on previous discussions, you have learned that Mega believes that its products are better than those of its competitors. You also know that the company prefers to hire experienced people who won't require much training. How will you defend the HR function to the CFO and others in the meeting who may share the same opinion of HR? •

### ENDNOTES

1. Jeffrey Pfeffer, "Competitive Advantage Through People," *California Management Review* 34, no. 2 (1992): 9–28; Jon Birger, "The 30 Best Stocks from 1972 to 2002," *Money* 31, no. 11 (2002): 88.
2. Birger, "The 30 Best Stocks," 88.
3. Daniel Fisher, "Is There Such a Thing as Nonstop Growth?" *Forbes* 170, no. 1 (2002): 82.
4. Wendy Zeller and Michael Arndt, "Holding Steady as Rivals Sputter, Can Southwest Stay on Top?" *BusinessWeek*, Issue 3818 (February 2003): 66.
5. Pfeffer, "Competitive Advantage Through People," 9–28.

- *Interactive Experiential Exercises.* An interactive experiential exercise provides a link to the companion website where students can go to participate in a role-play that tests their knowledge of the basic concepts discussed in the chapter.

# Supplements

Several supplements have been designed to make both teaching and learning easier and more interesting for users of *Human Resource Management: Linking Strategy to Practice, Third Edition*. We are especially grateful to the following people for helping us to provide such a comprehensive teaching and learning package: Dyanne J. Ferk, University of Illinois–Springfield; Marcia Marriott, Monroe Community College and Rochester Institute of Technology.

## Companion Website

The companion website for *Human Resource Management: Linking Strategy to Practice, Third Edition*, contains a myriad of tools and links to aid both teaching and learning, including nearly all of the resources described in this section. To access the site, go to [www.wiley.com/college/stewart](http://www.wiley.com/college/stewart).

## Instructor's Resource Manual

The *Instructor's Resource Manual* includes an introduction with sample syllabi, chapter outlines, chapter objectives, teaching notes on how to integrate and assign special features, and suggested answers for all quiz and test questions found in the text. The *Instructor's Resource Manual* also includes additional discussion questions and assignments that relate specifically to the cases, as well as case notes, self-assessments, and team exercises.

## Test Bank

The robust test bank consists of over 100 true/false, multiple-choice, and short-answer questions per chapter. Furthermore, it is specifically designed so that questions vary in degree of difficulty, from straightforward recall to challenging, to offer instructors the most flexibility when designing their exams. Adding still more flexibility is the *computerized test bank*, which requires a PC running Windows. The computerized test bank, which contains all the questions from the manual version, includes a test-generating program that allows instructors to customize their exams.

## PowerPoint Presentations

This resource provides another visual enhancement and learning aid for students, as well as additional talking points for instructors. This set of interactive PowerPoint slides includes lecture notes to accompany each slide.

## Personal Response System

Personal Response System questions (PRS or “clicker” content) were designed for each chapter in order to spark additional discussion and debate in the classroom. For more information on PRS, please contact your local Wiley sales representative.

### Web Quizzes

Online quizzes, available on the student portion of the *Human Resource Management: Linking Strategy to Practice, Third Edition*, companion website, include questions varying in level of difficulty, designed to help students evaluate their individual progress through a chapter. Each chapter's quiz includes 10 questions, including true/false and multiple-choice questions. These review questions, developed in conjunction with the test bank, were created to provide the most effective and efficient testing system. Within this system, students have the opportunity to “practice” the type of knowledge they’ll be expected to demonstrate on the exam.

### Pre- and Post-Lecture Quizzes

The pre- and post-lecture quizzes, found on the student companion website, consist of 10 to 15 questions (multiple-choice and true/false) per chapter, varying in level of detail and difficulty, but all focusing on that chapter's key terms and concepts. This resource allows instructors to quickly and easily evaluate their students' progress by monitoring their comprehension of the material from before the lecture to after it.

### Videos

A set of short video clips from CBS News provides an excellent starting point for lectures or for general classroom discussion. Teaching notes, including clip introductions and assessment questions, are included for class discussion or assignment.



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# Brief Contents

<b>PART 1</b>	Seeing People as a Strategic Resource	1
<i>Chapter 1</i>	Creating Value Through Human Resources	2
<i>Chapter 2</i>	Making Human Resource Management Strategic	38
<i>Chapter 3</i>	Ensuring Equal Employment Opportunity and Safety	76
<b>PART 2</b>	Securing Effective Employees	119
<i>Chapter 4</i>	Designing Productive and Satisfying Work	120
<i>Chapter 5</i>	Recruiting Talented Employees	160
<i>Chapter 6</i>	Selecting Employees Who Fit	202
<i>Chapter 7</i>	Managing Employee Retention and Separation	250
<b>PART 3</b>	Improving Employee Performance	291
<i>Chapter 8</i>	Measuring Performance and Providing Feedback	292
<i>Chapter 9</i>	Training for Improved Performance	334
<i>Chapter 10</i>	Developing Employees and Their Careers	378
<b>PART 4</b>	Motivating and Managing Employees	413
<i>Chapter 11</i>	Motivating Employees Through Compensation	414
<i>Chapter 12</i>	Designing Compensation and Benefit Packages	456
<i>Chapter 13</i>	Working Effectively with Labor	496
<i>Chapter 14</i>	Aligning Strategy with Practice	536
<b>APPENDICES</b>	(available online at <a href="http://www.wiley.com/college/stewart">www.wiley.com/college/stewart</a> )	
<i>Appendix A</i>	Occupational Outlook for HR Managers and Specialists	
<i>Appendix B</i>	HR Certification Institute Body of Knowledge	
<i>Appendix C</i>	HR People & Strategy Pillars of Knowledge	
<i>Appendix D</i>	Organizations of Interest to HR Students and Professionals	
<i>Appendix E</i>	Journals Useful to HR Students and Professionals	
	Glossary	569
	Name and Company Index	579
	Subject Index	595
	Appendix Summary	611

# Contents

## PART 1 Seeing People as a Strategic Resource

### Chapter 1

## Creating Value Through Human Resources

- A Manager's Perspective 2
- How Can Human Resource Management Make an Organization Effective? 4
- How Is Organizational Success Determined? 6
  - Success in Life-Cycle Stages 6
  - Success from Stakeholder Perspectives 9
  - The Chain of Success 12
- What Does Human Resource Management Provide to an Organization? 13
  - Core Human Resource Functions 13
  - Spreading Knowledge about Human Resource Practices 16
- What Do Human Resource Specialists Do? 17
  - Human Resource Roles 18
  - Human Resource Competencies 22
- How Will Current Trends Affect Human Resource Management? 24
  - Population Trends 25
  - Labor Force Trends 25
  - Employment Trends 26
  - Trends in Education and Training 27
  - Globalizations Trends 27
- How Do Strategic and Functional Perspectives Combine to Direct Human Resource Practices? 28
- A Manager's Perspective Revisited 30
- Summary/Key Terms/Discussion Questions 30
- WHAT DO YOU THINK?** 3
- BUILDING STRENGTH THROUGH HR: Trader Joe's** 5
- HOW DO WE KNOW?** Does Effective Human Resource Management Increase Organizational Success? 8
- HOW DO WE KNOW?** Why Are Some Organizations More Effective than Others? 11
- TECHNOLOGY IN HR:** Using Web-Based Information to Manage People 15
- BUILDING STRENGTH THROUGH HR: Edwards Lifesciences** 21
- BUILDING STRENGTH THROUGH HR: McDonald's** 23

Cases 33

Exercises 36

**EXAMPLE CASE:** Zappos 33

**DISCUSSION CASE:** Curt's Cowboy Corner 35

**EXPERIENTIAL EXERCISE:** Visit the SHRM Website 36

**INTERACTIVE EXPERIENTIAL EXERCISE:** Building an HR Department at Mega Manufacturing 36

## *Chapter 2*

# Making Human Resource Management Strategic

A Manager's Perspective 38

How Can a Strategic Approach to Human Resources Improve an Organization? 40

How Is Strategy Formulated? 42

Gathering Information 43

Analyzing Information and Making Decisions 46

What Are Common Competitive Business Strategies? 48

Cost Leadership Strategy 49

Differentiation Strategy 50

Combination Strategy 51

What Are Basic Approaches to Human Resource Strategy? 52

The Universalistic Approach 53

The Contingency Approach 56

What Are Common Human Resource Strategies? 60

Internal/Cost HR Strategy: The Loyal Soldier 60

External/Cost HR Strategy:

The Bargain Laborer 61

Internal/Differentiation HR Strategy:

The Committed Expert 62

External/Differentiation HR Strategy:

The Free Agent 62

**WHAT DO YOU THINK?** 39

**BUILDING STRENGTH THROUGH HR:** Southwest Airlines 42

**TECHNOLOGY IN HR:** Twitter as an Opportunity for Business 45

**HOW DO WE KNOW?**

What Differentiates Fast-Food Restaurants? 51

**HOW DO WE KNOW?** Do Good Human Resource Practices Improve Performance? 55

**BUILDING STRENGTH THROUGH HR:** Fenmarc Produce Ltd 58

How Do Human Resource Strategies Align with Competitive Business Strategies?	63
Research Supporting the Contingency Perspective	64
Putting it all Together	66
A Manager's Perspective Revisited	66
Summary/Key Terms/Discussion Questions	67
Cases	69

Exercises	72
-----------	----

<b>HOW DO WE KNOW?</b> Do Human Resource Practices Influence Customer Service?	65
--	----

<b>EXAMPLE CASE:</b> United Parcel Service	69
--	----

<b>DISCUSSION CASE:</b> Mountain Bank	70
---------------------------------------	----

<b>EXPERIENTIAL EXERCISE:</b> Explore Company Websites	72
--	----

<b>INTERACTIVE EXPERIENTIAL EXERCISE:</b> HR Strategy in Action: Selling the HR Function at Mega Manufacturing	72
--	----

### *Chapter 3*

## Ensuring Equal Employment Opportunity and Safety

A Manager's Perspective	76
Why Is It Important to Understand Legal and Safety Issues?	78
What Is the Main Law Relating to Discrimination and Employment?	79.
Title VII of the Civil Rights Act of 1964	81
The Civil Rights Act of 1991	88
Application of U.S. Laws to International Employers	90
What Are Other Important Employment Laws?	92
The Age Discrimination in Employment Act	92
The Americans with Disabilities Act	94
The Equal Pay Act	96
The Family and Medical Leave Act	97

<b>WHAT DO YOU THINK?</b>	77
---------------------------	----

<b>BUILDING STRENGTH THROUGH HR:</b> Responding to Discrimination Claims	79
--	----

<b>HOW DO WE KNOW?</b> Do Courts Give Companies Credit for Good HR Practices?	85
---	----

<b>HOW DO WE KNOW?</b> Who Is Most Likely to Unfairly Discriminate?	87
---	----

<b>TECHNOLOGY IN HR:</b> Legal Issues with Internet and Email Use	89
---	----

xx Contents

How Can Organizations Increase Diversity? 98  
Executive Order 11246 100  
Restrictions on Affirmative Action Plans 101  
Affirmative Action Plans Today 101

What Are the Major Laws Relating to Occupational Safety? 102  
Occupational Safety and Health Act 103  
Workers' Compensation 105

What Specific Practices Increase Fairness and Safety? 107  
Employees 107  
Leadership 108

A Manager's Perspective Revisited 110  
Summary/Key Terms/Discussion Questions 111  
Cases 113

Exercises 115

**BUILDING STRENGTH THROUGH HR:**  
PepsiCo 99

**BUILDING STRENGTH THROUGH HR:**  
Union Pacific Corporation 106

**HOW DO WE KNOW?** What Can Organizations Do to Promote Safety? 109

**EXAMPLE CASE:** Xerox 113

**DISCUSSION CASE:** Jones Feed and Seed 114

**EXPERIENTIAL EXERCISE:**  
Locating Government Resources on the Web 115

**INTERACTIVE EXPERIENTIAL EXERCISE:** The Legal Side of HR: Handling Equal Employment Issues at Mega Manufacturing 115

**PART 2 Securing Effective Employees**

*Chapter 4*

**Designing Productive and Satisfying Work**

A Manager's Perspective 120  
How Can Strategic Design of Work Tasks Improve an Organization? 122  
How Is Work Design Strategic? 124  
Developing Autonomy 124  
Developing Interdependence 126  
Linking Autonomy and Interdependence to HR Strategy 127

**WHAT DO YOU THINK?** 121

**BUILDING STRENGTH THROUGH HR:** W. L. Gore & Associates 123

**HOW DO WE KNOW?** Do Empowered Teams Have Higher Performance? 125

How Are Employee Jobs Determined? 128  
     The Job Analysis Process 128  
     Specific Methods of Collecting Job Analysis Information 133  
     How Is Job Description Information Made Useful? 136  
     Job Analysis and Legal Issues 137  
     Competency Modeling 138

How Do We Determine the Tasks Associated with Each Job? 140  
     Mechanistic Approach 141  
     Motivational Approach 142  
     Perceptual Approach 144  
     Biological Approach 144  
     Combining Work Design Approaches 145

How Can Work Be Designed to Improve Family Life? 145  
     Flexible Work Scheduling 147  
     Alternative Work Locations 148

A Manager’s Perspective Revisited 150  
 Summary/Key Terms/Discussion Questions 151  
 Cases 153

Exercises 156

**BUILDING STRENGTH THROUGH HR:**  
 Purolator 129

**BUILDING STRENGTH THROUGH HR:**  
 Leicester Royal Infirmary 141

**HOW DO WE KNOW?** Do Employees Work Harder When They Think Their Tasks Matter? 143

**BUILDING STRENGTH THROUGH HR:**  
 International Business Machines Corporation 147

**TECHNOLOGY IN HR:** Potential Problems With Working From Home 149

**EXAMPLE CASE:** Coney Island Hospital 153

**DISCUSSION CASE:** Josh’s Toy Manufacturing 155

**EXPERIENTIAL EXERCISE:**  
 Assessing the Accuracy of Job Descriptions 156

**INTERACTIVE EXPERIENTIAL EXERCISE:** Job Design: Creating New Positions at Graphics Design, Inc. 156

*Chapter 5*  
**Recruiting Talented Employees**

A Manager’s Perspective 160  
 How Can Strategic Recruiting Make an Organization Effective? 162

**WHAT DO YOU THINK?** 161

**BUILDING STRENGTH THROUGH HR:**  
 Google 163

How Is Employee Recruiting Strategic?	164
Broad Versus Targeted Skill Scope	164
Internal Versus External Sourcing	166
Realistic Versus Idealistic Messaging	168
How Does Human Resource Planning Facilitate Recruiting?	170
The Planning Process	170
Batch and Flow Approaches	174
Centralization of Processes	174
Who Searches for Jobs?	175
New Workforce Entrants	176
Unemployed Workers	177
Workers Currently Employed	178
What Characteristics Make an Organization Attractive?	179
Generally Attractive Characteristics	180
Fit Between People and Organizations	182
What Are Common Recruiting Sources?	183
Job Posting	183
Employee Referrals	183
Print Advertising	185
Electronic Advertising	185
Employment Agencies	186
Campus Recruiting	189
How Is Recruiting Effectiveness Determined?	190
Common Measures	190
Differences among Recruiting Sources	191
A Manager's Perspective Revisited	192
Summary/Key Terms/Discussion Questions	193
Cases	195
Exercises	198

**HOW DO WE KNOW?** Why Do Realistic Job Previews Reduce Employee Turnover? 169

**BUILDING STRENGTH THROUGH HR: WellPoint Health Networks** 172

**HOW DO WE KNOW?** Who Succeeds in a Job Search? 177

**HOW DO WE KNOW?** Are Early Job Offers Better? 181

**TECHNOLOGY IN HR:** Staying in Touch with Recruits 187

**EXAMPLE CASE:** MITRE 195

**DISCUSSION CASE:** Friendly Financial Works 197

**EXPERIENTIAL EXERCISE:** Learning about Your Career Center 198

**INTERACTIVE EXPERIENTIAL EXERCISE:** Strategic Recruitment: Finding the Right People for Graphics Design, Inc. 198



## Chapter 6 Selecting Employees Who Fit

- A Manager's Perspective 202
- How Can Strategic Employee Selection Improve an Organization? 204
- How Is Employee Selection Strategic? 205
  - Aligning Talent and HR Strategy 205
  - Making Strategic Selection Decisions 208
- What Makes a Selection Method Good? 211
  - Reliability 211
  - Validity 213
  - Utility 215
  - Legality and Fairness 217
  - Acceptability 218
- What Selection Methods Are Commonly Used? 219
  - Testing 219
  - Information Gathering 228
  - Interviewing 232
- How Are Final Selection Decisions Made? 235
  - Predictor Weighting Approach 236
  - Minimum Cutoffs Approach 236
  - Multiple Hurdles Approach 237
  - Banding Approach 237
- A Manager's Perspective Revisited 238
- Summary/Key Terms/Discussion Questions 238
- Cases 240
- WHAT DO YOU THINK?** 203
- BUILDING STRENGTH THROUGH HR: United States Marine Corps** 205
- HOW DO WE KNOW?** Which Type of Fit Is Most Important? 209
- HOW DO WE KNOW?** Is It Better to Be Smart or Beautiful? 221
- TECHNOLOGY IN HR:** Administering Tests on the Internet 225
- BUILDING STRENGTH THROUGH HR: Target** 229
- HOW DO WE KNOW?** Does It Matter How You Shake Hands in an Interview? 233
- EXAMPLE CASE:** Outback Steakhouse 240
- DISCUSSION CASE:** Stringtown Iron Works 241

Exercises 242

**EXPERIENTIAL EXERCISE:** Learning through Interviewing 242

**INTERACTIVE EXPERIENTIAL EXERCISE:** Employee Selection: Choosing the Best of the Best for Graphics Design, Inc. 243

*Chapter 7*

**Managing Employee Retention and Separation**

A Manager's Perspective 250

How Can Strategic Employee Retention and Separation Make an Organization Effective? 252

How Are Employee Retention and Separation Strategic? 254

Strategic Emphasis on Employee Retention 254

Strategic Emphasis on Employee Separation 255

How Can Undesirable Employee Turnover Be Reduced? 256

Recognizing Paths to Voluntary Turnover 257

Understanding Decisions to Quit 259

Organizational Practices that Reduce Turnover 262

How Do Layoffs Affect Individuals and Organizations? 269

The Effect of Layoffs on Organizations 269

The Effects of Layoffs on Individuals 270

Reducing the Negative Impact of Layoffs 272

What Are Common Steps in Disciplining Employees? 274

Principles of Due Process 275

The Process of Progressive Discipline 275

**WHAT DO YOU THINK?** 251

**BUILDING STRENGTH THROUGH HR:** SAS Institute, Inc. 254

**BUILDING STRENGTH THROUGH HR:** Convergys Corporation 259

**TECHNOLOGY IN HR:** Computerized Orientation Programs 265

**BUILDING STRENGTH THROUGH HR:** FreshDirect 266

**HOW DO WE KNOW?** Are Coworkers Contagious? 267

**HOW DO WE KNOW?** Do Managers Think Discipline Is Fair? 277

How Should Employee Dismissals Be Carried Out? 277  
 Outplacement Services 278  
 The Dismissal Meeting 278  
 A Manager’s Perspective Revisited 279  
 Summary/Key Terms/Discussion Questions 280  
 Cases 282

Exercises 284

**EXAMPLE CASE:** Apparel Inc. 282

**DISCUSSION CASE:** County General Hospital 283

**EXPERIENTIAL EXERCISE:** Learning about Discipline Procedures 284

**INTERACTIVE EXPERIENTIAL EXERCISE:** Turnover: Dealing with the Good, the Bad, and the Ugly at Global Telecommunications 285

**PART 3** Improving Employee Performance

*Chapter 8*

Measuring Performance and Providing Feedback

A Manager’s Perspective 292  
 How Can Performance Management Make an Organization Effective? 294  
 How Is Performance Management Strategic? 296  
 Emphasizing Either Merit or Parity 296  
 Linking Merit and Parity Systems to HR Strategy 297  
 What Is Performance? 299  
 Task Performance 299  
 Citizenship Performance 300  
 Counterproductive Performance 301  
 How Is Performance Measured? 302  
 Contamination and Deficiency as Sources of Inaccuracy 304  
 General Types of Performance Measures 304  
 Common Problems with Performance Measures 306  
 Rating Formats 311

**WHAT DO YOU THINK?** 293

**BUILDING STRENGTH THROUGH HR:** General Electric 296

**TECHNOLOGY IN HR:** Monitoring Electronic Activity 303

**HOW DO WE KNOW?** Who Is Most Likely to Provide Error-Free Ratings? 307

Who Should Measure Performance? 313  
    Multisource Performance Ratings 313  
    Rating Source Differences 314

How Should Feedback Be Provided? 316  
    Providing Positive and Negative Feedback 318  
    Effectively Communicating Methods  
    for Improvement 319  
    Reducing Negative Emotional Responses 321  
    Building High Expectations 322

A Manager's Perspective Revisited 322

Summary/Key Terms/Discussion Questions 323

Cases 326

Exercises 328

**HOW DO WE KNOW?** Is Performance Management the Same Around the World? 315

**TECHNOLOGY IN HR:** Feedback Through Twitter and Facebook 317

**BUILDING STRENGTH THROUGH HR:** Whirlpool Corporation 318

**EXAMPLE CASE:** Medical Center 326

**DISCUSSION CASE:** Reliable Underwriters 327

**EXPERIENTIAL EXERCISE:** Assessing Performance in Sports 328

**INTERACTIVE EXPERIENTIAL EXERCISE:** Performance Appraisal: Delivering Positive and Negative Feedback at Global Telecommunications 328

## Chapter 9

# Training for Improved Performance

A Manager's Perspective 334

How Can Strategic Employee Training Improve an Organization? 336

How Is Employee Training Strategic? 339  
    Differentiation versus Cost Leadership Strategy 339  
    Internal Versus External Labor Orientation 341

What Are Key Principles for Getting Benefits from Training? 342  
    Partnership 343  
    Systematic Process 344

**WHAT DO YOU THINK?** 335

**BUILDING STRENGTH THROUGH HR:** Rockwell Collins 338

**BUILDING STRENGTH THROUGH HR:** Apple 340

How Are Training Needs Determined? 345  
 Proactive Needs Assessment 345  
 Reactive Needs Assessment 349  
 Prioritizing and Creating Objectives 351

How Is Effective Training Designed and Delivered? 353  
 Content 354  
 Training Methods 355  
 Training Media 359  
 Transfer-Enhancement Techniques 362  
 Putting It All Together 364

How Do Organizations Determine Whether Training Is Effective? 365  
 Purpose 365  
 Outcomes 367  
 Design 369  
 Results 369

A Manager’s Perspective Revisited 370  
 Summary/Key Terms/Discussion Questions 371  
 Cases 372

Exercises 375

**HOW DO WE KNOW?** Is There One Best Way to Train for Computer Skills? 359

**TECHNOLOGY IN HR:** Benefits and Drawbacks of e-Learning 360

**HOW DO WE KNOW?** How Can Transfer Be Enhanced? 365

**EXAMPLE CASE:** Northwestern Memorial Hospital 372

**DISCUSSION CASE:** Hypothetical Telecommunications 374

**EXPERIENTIAL EXERCISE:** Finding an Off-the-Shelf Training Product 375

**INTERACTIVE EXPERIENTIAL EXERCISE:** The Art of Training: Finding the Right Program for Global Telecommunications 375

*Chapter 10*

**Developing Employees and Their Careers**

A Manager’s Perspective 378  
 How Can Strategic Employee Development Make an Organization Effective? 380  
 How Is Employee Development Strategic? 382  
 External Versus Internal Labor Orientation 382  
 Differentiation Versus Cost Strategy 383

**WHAT DO YOU THINK?** 379

**BUILDING STRENGTH THROUGH HR:** Aflac 381

What Are Careers Like Today? 384

How Can Organizations Help Employees Develop? 386

- Formal Education 386
- Assessments and Feedback 387
- Work Experiences 391
- Developmental Relationships 393

How Do Organizations Integrate Development Efforts? 395

- Competency Model 395
- Career Development Process 396
- Technology 398

What Are Some Important Career Development Challenges? 399

- Orienting New Employees 399
- Reducing Burnout 400
- Helping Employees Balance Work with Personal Lives 401
- Developing a Diverse Workforce 402
- Managing International Assignments 402

A Manager's Perspective Revisited 404

Summary/Key Terms/Discussion Questions Cases 405

Exercises 409

**HOW DO WE KNOW?** Can a Feedback Program Really Improve Performance? 391

**HOW DO WE KNOW?** How Do We Maximize the Return on Mentoring? 395

**BUILDING STRENGTH THROUGH HR:** LG Electronics 397

**TECHNOLOGY IN HR:** National Aeronautics and Space Administration (NASA) 398

**EXAMPLE CASE:** Expanding into Switzerland 407

**DISCUSSION CASE:** First Day on the Job 409

**EXPERIENTIAL EXERCISE:** Creating a Personal Development Plan 409

**INTERACTIVE EXPERIENTIAL EXERCISE:** Career Development: Building a Workforce for Long-Term Success at Global Telecommunications 410

## PART 4 Motivating and Managing Employees

### Chapter 11

## Motivating Employees Through Compensation

A Manager's Perspective 414

How Can Strategic Employee Compensation Make an Organization Effective? 416

**WHAT DO YOU THINK?** 415

**BUILDING STRENGTH THROUGH HR:** Marriott International, Inc. 418

How Is Employee Compensation Strategic?	418
External Versus Internal Labor	419
Differentiation Versus Cost Strategy	419
Aligning Compensation with HR Strategy	420
How Does Compensation Motivate People?	422
Theories of Motivation	423
Linking Motivation with Strategy	429
How Is Compensation Level Determined?	432
Pay Surveys	432
Pay-Level Strategies	436
Linking Compensation Level and Strategy	437
How Is Compensation Structure Determined?	438
Job-Based Pay	438
Skill-Based Pay	441
Linking Compensation Structure to Strategy	442
How Do Government Regulations Influence Compensation?	443
Fair Labor Standards Act	443
State and Local Regulations	447
A Manager's Perspective Revisited	447
Summary/Key Terms/Discussion Questions	448
Cases	451
Exercises	453

**HOW DO WE KNOW?** Do Contingent Rewards Really Improve Performance? 424

**TECHNOLOGY IN HR:** Be Careful When Obtaining Information 434

**BUILDING STRENGTH THROUGH HR:** The Container Store 437

**HOW DO WE KNOW?** Do People Lose Sleep Over Pay? 445

**EXAMPLE CASE:** Delphi Corporation 451

**DISCUSSION CASE:** Joe's Hamburger Grill 451

**EXPERIENTIAL EXERCISE:** Conduct a Pay Survey Using BLS Data 453

**INTERACTIVE EXPERIENTIAL EXERCISE:** How Much to Pay: Finding the Right Balance at SuperFoods 453

## Chapter 12

# Designing Compensation and Benefit Packages

A Manager's Perspective	456
How Can a Strategic Compensation Package Make an Organization Effective?	458

**WHAT DO YOU THINK?** 457

**BUILDING STRENGTH THROUGH HR:** IKEA 459

How Do Compensation Packages Align with Strategy? 460

At-Risk Compensation 460

Line of Sight 461

Common Elements of Compensation Packages 463

What Are Common Approaches to Base Pay? 464

What Are Common Employee Benefit Plans? 466

Legally Required Benefits 467

Discretionary Benefits 471

Flexible Benefit Programs 474

What Are Common Individual Incentives? 476

Piece-Rate Incentives 476

Commissions 477

Merit Pay Increases 479

Merit Bonuses 480

What Are Common Group and Organizational Incentives? 481

Team Bonuses and Incentives 481

Gainsharing 483

Profit Sharing 484

Stock Plans 485

How Do Strategic Decisions Influence a Compensation Package? 486

A Manager's Perspective Revisited 488

Summary/Key Terms/Discussion Questions 489

Cases 491

Exercises 493

**BUILDING STRENGTH THROUGH HR:** Strategically Managing Compensation During a Recession 462

**BUILDING STRENGTH THROUGH HR:** Netflix 465

**BUILDING STRENGTH THROUGH HR:** Burton Snowboards 475

**TECHNOLOGY IN HR:** Enterprise Incentive Management 478

**HOW DO WE KNOW?** Does How Much You Make Depend on How Much You Weigh? 479

**BUILDING STRENGTH THROUGH HR:** Deere & Company 482

**EXAMPLE CASE:** Best Buy 491

**DISCUSSION CASE:** Collegiate Promotions 492

**EXPERIENTIAL EXERCISE:** Learning Through Interviewing 493

**INTERACTIVE EXPERIENTIAL EXERCISE:** Is It All about Base Salary? Explaining Compensation Issues at SuperFoods 494



*Chapter 13***Working Effectively with Labor**

- A Manager's Perspective 496
- How Can Good Labor Relations Make an Organization Effective? 498
- How Are Labor Relations Strategic? 500
- How Has Organized Labor Evolved over Time? 504
- The Influence of Government Regulations 504
  - Current Trends in Organized Labor 508
  - International Differences in Organized Labor 510
  - The Effect of Labor Unions on Nonunion Workers 513
- How Do Workers Become Part of a Union? 514
- Union Organizing Campaigns 514
  - Decertification Campaigns 516
  - Factors Influencing Union Campaigns 517
- What Happens During Labor Negotiations and Collective Bargaining? 518
- Bargaining Topics 518
  - Work Stoppages 519
  - The Bargaining Atmosphere 520
  - Interest-Based Negotiation 523
- What Is the Grievance Process? 525
- Grievance Procedures 525
  - Determinants of Grievance Filing 526
  - Grievance Mediation 526
- A Manager's Perspective Revisited 527
- Summary/Key Terms/Discussion Questions 527
- Cases 529
- WHAT DO YOU THINK?** 497
- BUILDING STRENGTH THROUGH HR:**  
Kaiser Permanente 500
- BUILDING STRENGTH THROUGH HR:**  
MidState Medical Center 503
- HOW DO WE KNOW?** Can Unions Make Life Better for Childcare Workers? 511
- TECHNOLOGY IN HR:** Replacing Laborers with Computers 519
- HOW DO WE KNOW?** Does Cooperating with Unions Help Organizations Succeed? 522
- EXAMPLE CASE:** Energy Co. 529
- DISCUSSION CASE:** Teaching Assistants at State University 531

Exercises 532

**EXPERIENTIAL EXERCISE:**

Investigating the Labor–Management Partnership 532

**INTERACTIVE EXPERIENTIAL**

**EXERCISE:** Unions: Negotiating a New Labor Contract for Mega Manufacturing 533

*Chapter 14*

**Aligning Strategy with Practice**

A Manager’s Perspective 536

How Can Alignment of HR Practices Make an Organization Effective? 538

What Are Two Basic Forms of Strategic Alignment? 541

How Do HR Practices Align with One Another? 543

External/Cost: Alignment for Bargain Laborers 544

Internal/Cost: Alignment for Loyal Soldiers 546

Internal/Differentiation: Alignment for Committed Experts 549

External/Differentiation: Alignment for Free Agents 552

What Are Some Other HR Issues? 554

Variations of Basic Strategies 555

HR as an Input to Competitive Strategy 556

The Role of HR in Small Businesses 557

What Might the Future of HR Look Like? 558

Volatile Economic Conditions 559

Increased Emphasis on Sustainability 560

Growth of Social Networking 560

Balancing of Work and Family 560

Adaptation of Healthcare Legislation 560

A Manager’s Perspective Revisited 561

Summary/Key Terms/Discussion Questions 562

**WHAT DO YOU THINK?** 537

**BUILDING STRENGTH THROUGH HR:**

Walt Disney World 540

**HOW DO WE KNOW?** What Happens When Organizations Send Mixed Signals about the Value of Employees? 543

**BUILDING STRENGTH THROUGH HR:**

U.S. Navy 547

**HOW DO WE KNOW?** Does Working in a Foreign Country Require More Skill? 556

**BUILDING STRENGTH THROUGH HR:**

Ford Motor Company 559

Cases 564

**EXAMPLE CASE:** Portman Ritz-Carlton  
in Shanghai, China 564

**DISCUSSION CASE:** Technology  
Consultants 565

Exercises 566

**EXPERIENTIAL EXERCISE:** Learning  
about Company Cultures 566

**INTERACTIVE EXPERIENTIAL  
EXERCISE:** A Final Journey:  
Communicating the Strategic  
Importance of HR 566

**APPENDICES** (available online at [www.wiley.com/college/stewart](http://www.wiley.com/college/stewart))

*Appendix A*

Occupational Outlook for HR Managers and Specialists

*Appendix B*

HR Certification Institute Bodies of Knowledge

*Appendix C*

HR People & Strategy Pillars of Knowledge

*Appendix D*

Organizations of Interest to HR Students and Professionals

*Appendix E*

Journals Useful to HR Students and Professionals

Glossary 569

Name and Company Index 579

Subject Index 595

Appendix Summary 611



# Part 1

## Seeing People as a Strategic Resource



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- Chapter 1* • Creating Value Through Human Resources
- Chapter 2* • Making Human Resource Management Strategic
- Chapter 3* • Ensuring Equal Employment Opportunity and Safety

# Chapter 1

## Creating Value Through Human Resources

### A MANAGER'S PERSPECTIVE

**MIGUEL DISCONNECTS HIS PHONE AND BREATHES A SIGH OF RELIEF. THE JOB OFFER IS EVERYTHING HE HOPED IT WOULD BE. HE IS PRETTY CERTAIN HE WILL ACCEPT THE AUDITOR POSITION IN A COUPLE OF DAYS, BUT HE WANTS TO DO A LITTLE MORE RESEARCH FIRST. TWO YEARS AGO MIGUEL TOOK HIS FIRST ACCOUNTING CLASS AND INSTANTLY KNEW WHAT HE WANTED TO DO FOR A CAREER. HE LOVES THE STRUCTURE AND LOGIC OF ACCOUNTING. PUTTING ALL THE NUMBERS IN THE RIGHT PLACE AND MAKING SURE THEY ADD UP GIVES HIM A SENSE OF ACCOMPLISHMENT. NOW HE JUST NEEDS TO BE SURE THAT HE IS JOINING THE RIGHT FIRM.**

As Miguel reflects back on his day of interviews with the firm, he recalls a number of insightful conversations. One thing that impresses him is the firm's strong reputation for excellence. In the last few years, he has seen many of his friends lose their jobs. Seeing their pain has steered Miguel toward business organizations that he feels are unlikely to have financial difficulties. He knows that profitability is one key to success. But why is the firm that is offering him a position so

profitable? Of course, much of it has to do with the firm's excellent operating procedures.

From everything he has learned, the firm is simply superior at meeting customer needs. According to some of the managers who interviewed him, being profitable helps the firm invest more money to improve working conditions. The firm also has a strong reputation for helping people in the community, which is very important to Miguel.

Something that really attracts Miguel to the company is how they treated him during the job interviews. Sarah, a human resource staff member, told Miguel that he has already progressed farther than 90 percent of job applicants. Sarah also described how the company focuses on finding and keeping only the best employees. This makes Miguel feel good and leads him to believe he will have competent coworkers. The firm seems to have good human resource practices. It offers numerous training opportunities and pays above-market wages. Insurance benefits are much better than most



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**THE BIG PICTURE** *Human Resource Management Practices Help Successful Organizations Meet the Needs of Employees, Customers, Owners, and Society.*

competitors'. According to Sarah, the firm also emphasizes internal promotions, making it likely that Miguel will have an opportunity to become a manager.

The firm also seems to have a strategic plan for dealing with important changes that are likely to occur both in the marketplace and among future employees. Cutting-edge technology allows the firm to keep up with constantly changing accounting rules and procedures. Now that he has received an offer, Miguel plans to discuss things with his parents and a friend who works for the firm. Unless something changes his mind, he plans to take the offer and is convinced that he has the potential for a great career with the firm.



**WHAT DO YOU THINK?**

Suppose you are listening to a conversation between Miguel and his parents. His parents make the following statements as they and Miguel discuss his decision about the job offer. Which of the statements do you think are true?

- T OR F** Companies with good human resource practices have more satisfied workers.
- T OR F** Companies with happy employees are more profitable.
- T OR F** Companies lose money when they try to be good social and environmental citizens.
- T OR F** Having a successful career in the future workplace will require young employees to work effectively with older people.
- T OR F** Human resource specialists can provide critical information and support that helps make life better for employees.

## LEARNING OBJECTIVES

*After reading this chapter you should be able to:*

- LEARNING OBJECTIVE 1** Explain how human resource management, from the organizational life-cycle and stakeholder perspectives, can facilitate organizational success.
- LEARNING OBJECTIVE 2** List the core functions of human resource management.
- LEARNING OBJECTIVE 3** Explain what human resource professionals do to help create successful organizations.
- LEARNING OBJECTIVE 4** Identify important labor trends that are affecting organizations and their human resource practices.
- LEARNING OBJECTIVE 5** Explain how effective human resource management requires a combination of strategic and functional perspectives.

## How Can Human Resource Management Make an Organization Effective?

**Human resource management**  
The field of study and practice that focuses on people in organizations.

**Human resource management** focuses on people in organizations. Of course, people are a major component of any organization, so it follows that organizations with more productive employees tend to be more successful. Employee productivity increases when organizations hire and motivate employees effectively. In addition, good human resource practices create more satisfied employees, who in turn work harder to satisfy customers.<sup>1</sup>

One prosperous organization that traces much of its success to effective management of people is Trader Joe's. The chain now includes over 365 stores in more than 30 different states, but it began in the 1960s as three convenience stores seeking to survive the introduction of 7-Eleven. Seeing the difficulty of competing head-to-head with 7-Eleven, the founder—Joe Coulombe—decided to change Trader Joe's to a specialty store selling unique products. Trader Joe's has since become well known for providing foods and beverages that cannot be found in other stores. Products, which usually carry the store's own label, include gourmet and specialty foods such as soy ice-cream cookies, black rice, and stuffed salmon.<sup>2</sup>

Keeping prices low is one key to success for Trader Joe's. However, customers describe their shopping experience as something more than a simple hunt for bargains. Trader Joe's works hard to attract educated customers who develop a loyal relationship with the company. Many of these customers say they have fun shopping at Trader Joe's. They look forward to searching store aisles and finding interesting products. They also enjoy their interactions with helpful store employees dressed in casual Hawaiian shirts. The real key to success for Trader Joe's, then, seems to be finding and keeping great employees.<sup>3</sup>

What does Trader Joe's do to develop and maintain a productive workforce? Flexible job design certainly plays a role. Employees have a great deal of autonomy in determining how the store can best serve customers. Every employee is encouraged to sample products and make recommendations. Employees are free to tell customers when they don't like something. Workers at Trader Joe's are not limited to performing certain tasks but help out wherever they are needed. Managers, for example, often sweep floors and stock shelves.<sup>4</sup>



Of course, not everyone would fit equally well into the job environment at Trader Joe's. Employee selection focuses on hiring people with personalities that fit the productive and creative culture. Trader Joe's looks for employees who are upbeat, outgoing, and motivated by challenge. Employees also need a good sense of humor and a strong customer orientation.

Convincing people to take jobs with Trader Joe's does not seem to be difficult. The store has a reputation as a desirable place to work, and a large number of people apply whenever job openings are advertised.<sup>5</sup> One reason people like to work at Trader Joe's is the company's compensation practices. Employees are paid substantially more than they could make doing similar jobs in other companies. Full-time crew members begin at salaries around \$50,000. They receive health insurance and participate in an excellent retirement savings program, including a plan that contributes over 15 percent of gross income to a tax-deferred retirement account. Excellent pay not only helps get people interested in working at Trader Joe's but also helps ensure that employees will stay with the company. Managers are almost always promoted from within the company, and few employees leave to work elsewhere.<sup>6</sup>

Both employees and customers see Trader Joe's as a successful company. It is a profitable company, with annual sales exceeding \$8 billion. More important, Trader Joe's generates twice as many dollars in sales per square foot of store space as competitors such as Whole Foods. This profitability has helped the company expand the number of stores without taking on debt. Profits grew tenfold over a 10-year period.<sup>7</sup>

The success of Trader Joe's clearly illustrates how a company can thrive in difficult and changing times. Rather than giving up to a formidable competitor, Joe Coulombe identified an unmet need and created an organization to fill that need. Human resource practices at Trader Joe's help attract and motivate employees who provide great customer service. Doing things differently from the competition, and doing them better, has created a culture where people like to go to work. Happy employees make shoppers happy.



## Building Strength Through HR

### TRADER JOE'S

Trader Joe's is a privately owned chain of about 365 specialty grocery and wine stores. Human resource management at Trader Joe's builds competitive strength by

- Designing work to give people autonomy to complete tasks in creative ways.
- Identifying and hiring people who have fun, outgoing personalities.
- Providing high pay and excellent benefits to attract the best workers.
- Matching human resource practices with a competitive strategy of providing unique products.



AFP/Getty Images

## LEARNING OBJECTIVE 1

## How Is Organizational Success Determined?

As you begin studying human resource management, it is important to think about what you want to gain from your efforts. How can understanding human resource management better prepare you for success in your upcoming career? The most basic answer is that human resource skills will help you hire, manage, and motivate employees more effectively. Clearly, human resource skills are useful not only to human resource professionals but also to everyone who has responsibility for leading and managing others. Furthermore, even if you don't plan to work either as a human resource specialist or as a manager, learning the concepts of human resource management will help you to understand why the places where you work do much of what they do.

The goal of human resource management is, of course, to make organizations more effective. Thus, a starting point for learning about the field of human resource management is to explore the concept of organizational success. We know that some organizations are more successful than others. Can differences in human resource management explain why?

Most observers agree that Trader Joe's is a successful organization. This is supported by top rankings from publications such as *Consumer Reports*. But what exactly does it mean to say an organization is successful? Does it mean the organization makes a lot of money? Does it mean the organization makes the world a better place? Perhaps success is meeting the demands of different stakeholders, such as Trader Joe's recent agreement with a farmworker organization concerning employee fair treatment as part of tomato-growing practices.<sup>8</sup> Maybe success simply means the organization has been around for a long time. Because organizational success has many faces, each of these perspectives is partly true. Different viewpoints capture different meanings of success. Here, we briefly examine the meaning of organizational success from two perspectives—the life-cycle model and the stakeholder perspective—and consider how human resource management plays a role in making organizations effective from each viewpoint.

### SUCCESS IN LIFE-CYCLE STAGES

Think about success for you as an individual. Being successful now doesn't guarantee you will be successful in 10 years. Having just enough money to buy pizza and books may equal success when you are 20, for example, but probably isn't enough when you are 40. Similarly, the life-cycle approach to organizational success suggests that measures of effectiveness change as an organization grows. Twenty-five years ago, Trader Joe's was successful simply because it didn't close when 7-Eleven entered the market. Success today depends on expansion into a national chain.

At the heart of this model of success is the **organizational life cycle**, a series of stages through which an organization moves during its lifetime. Stages of growth begin when the organization is founded and end when it ceases to exist. Since goals and objectives change as the organization moves from stage to stage, the nature and meaning of success also change. Here, we examine four common stages in the organizational life cycle: the entrepreneurial stage, the communal stage, the formalization stage, and the elaboration stage.<sup>9</sup> As

#### Organizational life cycle

Stages through which an organization moves after its founding.

**Table 1.1** *Human Resources Across the Organizational Life Cycle*

Stage	Goal	Human Resource Contribution
Entrepreneurial	Survival and growth	Need to hire and maintain employees; emphasis on creating plans for measuring performance and deciding pay
Communal	Develop identity and overcome conflict	Need to develop clear communication channels; emphasis on building strong loyalty among employees
Formalization	Efficient production	Need to create formalized practices for hiring, training, and compensating; emphasis on continual improvement of employee skills and motivation
Elaboration	Adaptation and renewal	Need to alter practices to meet changing demands; emphasis on new ways of organizing work tasks

you will see, human resource management plays an important role in every stage. Table 1.1 summarizes key differences across the stages.

### Entrepreneurial Stage

An organization enters the **entrepreneurial stage** when it is first created. This stage is a lot like infancy for human beings. The main goal is survival and growth. Organizations in the entrepreneurial stage need to develop an identity and obtain resources. Success during this stage is often measured simply in terms of staying alive. Organizations that survive are successful. The early history of the Internet company Yahoo! is a good example. Yahoo! wasn't profitable in the beginning, but it showed innovation and growth when many competitors were going out of business.

Effective human resource management is very important for the survival and growth of newly formed organizations. Organizations must find and hire a sufficient number of high-quality employees. They must also develop basic plans for measuring performance and paying people.

A typical organization employs one human resource specialist for every 100 employees.<sup>10</sup> This means that organizations in the entrepreneurial stage of development are typically too small to have a full-time, dedicated human resource staff. As a result, it is likely that owners and managers of firms with relatively few employees perform many human resource duties themselves or hire outside consultants to do this work.

Given the importance of human resources for entrepreneurial organizations, it is not surprising that firms with better-developed plans and methods of obtaining and paying employees are more likely to survive. For instance, one study found that new organizations lacking clear human resource and pay plans have just a 34 percent chance of surviving the first five years. Firms with good human resource plans, in contrast, have a 92 percent chance of survival.<sup>11</sup> Organizations with better plans for hiring and motivating workers are thus more likely to survive—and survival is a key indicator of success during the entrepreneurial stage.

### Communal Stage

Organizations that survive the entrepreneurial stage enter the **communal stage**, which is marked by expansion, innovation, and cooperation. This stage is much like the teenage years for human beings. The main objective is to gain a unique identity and overcome internal conflict. Learning who you are and improving your skills are the essence of life during these years. Similarly, organizations in the communal stage focus on developing and improving processes

#### Entrepreneurial stage

First stage in the organizational life cycle; focuses on survival.

#### Communal stage

Second stage in the organizational life cycle; focuses on expansion and innovation.

for effectively producing goods and services. Members of the organization begin to feel a sense of commitment. Survival is still important, but organizational success is measured increasingly by the extent to which employees feel a sense of cohesion or belonging. It is important for employees to build strong feelings of attachment to coworkers and to the mission of the organization. Such attachment is an important part of success at Trader Joe's, where employees feel connected. The company's managers listen to employees, which encourages employees to communicate effectively with customers.<sup>12</sup>

Organizations with effective human resource management practices in the communal stage continue to hire good employees and provide training. They also communicate well with employees. Employees, aware of these activities, develop a feeling that the organization is committed to taking care of them. Such feelings increase job satisfaction and feelings of empowerment, so that organizations with better human resource practices have happier employees who are more committed to making the organization successful and helping others.<sup>13</sup> Employees are also less likely to leave organizations with good human resource practices. The accompanying "How Do We Know?" feature describes a study that demonstrates how effective human resource practices in call centers increase the likelihood of retaining workers, which in turn increases profitability.



## How Do We Know?

### DOES EFFECTIVE HUMAN RESOURCE MANAGEMENT INCREASE ORGANIZATIONAL SUCCESS?

Have you phoned a company's call center in the past to ask a question or complain about a product or service? Perhaps a call center representative has phoned you to try to sell you something. Many companies have call centers, and some centers employ thousands of people. As you can probably imagine, working in a call center is not always fun, and employees frequently quit shortly after being hired.

An important question therefore is whether good human resource practices can improve work in call centers. Rosemary Batt conducted a study to learn about the effect of human resource practices on organizational performance in call centers. She asked call center managers about the skill level of employees, the amount of freedom employees had to choose how to do their work, and human resource incentives. She also measured employee quit rates and sales growth.

The study found higher sales growth in call centers with better human resource practices. Higher-performing centers had ongoing training, more employees working full-time rather than part-time, and more elaborate performance management

systems. Better centers allowed employees to exercise greater control in determining things like work pace, scheduling, and technology design. Much of the effect of the human resource practices on performance came through employee retention. Fewer employees left call centers that had better practices, which in turn helped these centers to experience increased sales growth.

**The Bottom Line.** Organizations are more successful when they have good human resource practices. Success comes from having a stable workforce, which develops when fewer people leave the organization. People are less likely to leave when they have freedom to make choices about how to do their work. They also stay longer when they have full-time jobs that pay them well. Professor Batt thus concluded that good human resource practices lead to lower quit rates, which in turn increase growth in customer sales.

*Source:* Rosemary Batt, "Managing Customer Services: Human Resource Practices, Quit Rates, and Sales Growth," *Academy of Management Journal* 45, no. 3 (2002): 587–597.

## Formalization Stage

The **formalization stage** occurs as organizations become stable and develop clear practices and procedures for doing work. In humans, the formalization stage often begins just after graduation from college, when people tend to settle into stable jobs. Organizations in the formalization stage focus on improving efficiency and finding better ways to accomplish tasks. They develop clear goals for guiding their efforts. Making goods and services as efficiently as possible becomes a key goal. Making a good profit is also important.

Effective management of people is beneficial for increasing efficiency and goal accomplishment in this stage. Organizations with formalized human resource practices that develop employee skills and motivate workers generate more sales per employee.<sup>14</sup> IBM represents a company in this stage. IBM has been in existence 100 years and currently employs over 430,000 people. Keeping in touch with so many employees is difficult. However, IBM has a database that contains a profile for every employee. The profile lists each employee's skills. Maintaining such a database takes a great deal of effort, but cost savings from improved matching of employees and jobs has saved IBM \$1.4 billion. Effective formalization of human resource practices has thus improved the efficiency and profitability of IBM.<sup>15</sup>

## Elaboration Stage

The **elaboration stage** occurs when organizations need to adapt and renew. This stage is similar to middle age for human beings. Success often depends on redefining objectives and identifying new opportunities. People in this stage sometimes go through midlife crises, perhaps changing occupations and developing new hobbies. Organizations in the elaboration stage, like middle-aged people, have existed for some time, but shifting trends and preferences require them to change. For example, years ago Hallmark became successful as a producer of greeting cards, but changes in technology have forced the company to innovate and adapt to produce electronic greetings and family-based media.

Good human resource management is critical for successful adaptation. In fact, one survey found change management to be the most important skill that human resource professionals can contribute to an organization.<sup>16</sup> An example of an organization in this stage is Crouse Hospital in Syracuse, New York. At one point the company had a net loss of \$15 million. About half of the hospital's employees were quitting each year. Hospital leaders took note and began to involve employees in an effort to change the culture of the organization. Numerous employee groups met and made suggestions. Employee efforts to turn around hospital performance took time but were successful. Financial problems were reversed to a net profit, and the employee quit rate dropped to 18 percent. Overall job satisfaction has increased to 96 percent.<sup>17</sup> Improved human resource management thus helped move Crouse Hospital from the elaboration stage back to the formalization stage.

## SUCCESS FROM STAKEHOLDER PERSPECTIVES

A second approach for assessing organizational effectiveness is the stakeholder perspective. According to this view, organizations are successful to the extent that they meet the needs of their stakeholders. **Stakeholders** are defined as individuals or groups of people who can affect or who are affected

### Formalization stage

Third stage in the organizational life cycle; focuses on establishing clear practices and procedures for carrying out work.

### Elaboration stage

Final stage in the organizational life cycle; focuses on reinvention and adaptation to change.

### Stakeholders

Individuals or groups who are affected by or who affect an organization.