Pearson New International Edition

Applied Psychology in Human Resource Management

Wayne F. Cascio Herman Aguinis

Seventh Edition

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Pearson Education Limited
Edinburgh Gate
Harlow
Essex CM20 2JE
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ISBN 10: 1-292-02347-3
ISBN 13: 978-1-292-02347-2

British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library

Printed in the United States of America

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Organizations, Work, and Applied Psychology

At a Glance

Organizations are all around us—businesses, hospitals, political parties, government and nongovernment organizations, social clubs, churches, Boy and Girl Scouts, and Little Leagues, just to name a few. Each organization has its own particular set of objectives, and, in order to function effectively, each organization must subdivide its overall objectives into various jobs. Jobs differ in their requirements. Likewise, people differ in aptitudes, abilities, and interests, and along many other dimensions. Faced with such variability in people and jobs, programs for the efficient use of human resources are essential.

As we move further into the Information Age, *job security* (the belief that one will retain employment with the same organization until retirement) has become less important to workers than *employment security* (having the kinds of skills that employers in the labor market are willing to pay for). Hence, workplace training and development activities will be top priorities for organizations and their people. Demographic changes in society will make recruitment and staffing key considerations for many organizations. Diversity at work will be a major theme as the composition of the workforce changes.

Guided by the fundamental assumption that in a free society every individual has a basic and inalienable right to compete for any job for which he or she is qualified, we turn to a consideration of how applied psychology can contribute to a wiser, more humane use of our human resources. If present technological, social, and economic indicators predict future concerns, applied psychology will play an increasingly significant role in the world of work in the twenty-first century.

THE PERVASIVENESS OF ORGANIZATIONS

Throughout the course of our lives, each of us is deeply touched by organizations of one form or another. In the normal course of events, a child will be exposed to a school organization, a church or a religious organization, and perhaps a Little League or a Boy or Girl Scout organization, as well as the social organization of the local community. After leaving the school organization, the young person may choose to join a military, business, or government organization, and as his or her career unfolds, the person probably will move across several different organizations. The point is simply that our everyday lives are inseparably intertwined with organizational memberships of one form or another.

What common characteristics unite these various activities under the collective label "organization"? The question is not an easy one to answer. Many different definitions of organization have

From Chapter 1 of *Applied Psychology in Human Resource Management*, 7/e. Wayne F. Cascio. Herman Aguinis.
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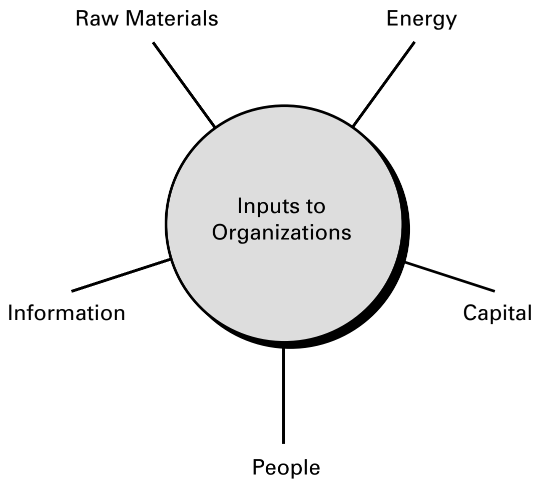

FIGURE 1 Inputs to organizations.

been suggested, and each definition reflects the background and theoretical point of view of its author with respect to what is relevant and/or important. Yet certain fundamental elements recur in these definitions.

In general, an organization is a collection of people working together in a division of labor to achieve a common purpose (Hitt, Miller, & Collela, 2009). Another useful concept views an organization as a system of inputs, throughputs, and outputs. Inputs (raw materials) are imported from the outside environment, transformed or modified (e.g., every day tons of steel are molded into automobile bodies), and finally exported or sold back into the environment as outputs (finished products). Although there are many inputs to organizations (energy, raw materials, information, etc.), people are the basic ingredients of *all* organizations, and social relationships are the cohesive bonds that tie them together (see Figure 1).

Our focus is on people as members and resources of organizations and on what applied psychology can contribute toward helping organizations make the wisest, most humane use of human resources. *Personnel psychology, a subfield of applied psychology, is concerned with individual differences in behavior and job performance and with methods for measuring and predicting such differences*. In the following sections, we will consider some of the sources of these differences.

Differences in Jobs

In examining the world of work, one is immediately awed by the vast array of goods and services that have been and are being produced as a result of organized effort. This great variety ranges from the manufacture of tangible products—such as food, automobiles, plastics, paper, textiles, and glassware—to the provision of less tangible services—such as legal counsel, health care, police and fire protection, and education. Thousands of jobs are part of our work-a-day world, and the variety of task and human requirements necessary to carry out this work is staggering. Faced with such variability in jobs and their requirements on the one hand, and with people and their individual patterns of values, aspirations, interests, and abilities on the other, programs for the efficient use of human resources are essential.

Differences in Performance

People represent substantial investments by firms—as is immediately evident when one stops to consider the costs of recruiting, selecting, placing, and training as many people as there are organizational roles to fill. But psychology's first law is that people are different. People differ in size, weight, and other physical dimensions, as well as in aptitudes, abilities, personality, interests, and a myriad of other psychological dimensions. People also differ greatly in the extent to which they are willing and able to commit their energies and resources to the attainment of organizational objectives.

If we observe a group of individuals doing the same kind of work, it will soon be evident that some are more effective workers than others. For example, if we observe a group of carpenters building cabinets, we will notice that some work faster than others, make fewer mistakes than others, and seem to enjoy their work more than others. These observations pose a question of psychological interest: Why? That is, what "people differences" cause these "work differences"? Perhaps these variations in effectiveness are due to differences in abilities. Some of the carpenters may be stronger, have keener eyesight, and have more finely developed motor coordination than others. Perhaps another reason for the observed differences in behavior is motivation. At any given point in time, the strength of forces impelling an individual to put forth effort on a given task, or to reach a certain goal, may vary drastically. In other words, differences in individual performance on any task, or on any job, could be due to differences in ability, or to differences in motivation, or to both. This has clear implications for the optimal use of individual talents in our society.

A Utopian Ideal

In an idealized existence, our goal would be to assess each individual's aptitudes, abilities, personality, and interests; to profile these characteristics; and then to place all individuals in jobs perfectly suited to them and to society. Each individual would make the best and wisest possible use of his or her talents, while in the aggregate, society would be making maximal use of its most precious resource.

Alas, this ideal falls far short in practice. The many, and often gross, mismatches between individual capabilities and organizational roles are glaringly obvious even to the most casual observer—history PhDs are driving taxicabs for lack of professional work, and young people full of enthusiasm, drive, and intelligence are placed in monotonous, routine, dead-end jobs.

Point of View

In any presentation of issues, it is useful to make explicit underlying assumptions.

1. In a free society, every individual, regardless of race, age, gender, disability, religion, national origin, or other characteristics, has a fundamental and inalienable right to compete for any job for which he or she is qualified.
2. Society can and should do a better job of making the wisest and most humane use of its human resources.
3. Individuals working in the field of human resources and managers responsible for making employment decisions must be as technically competent and well informed as possible, since their decisions will materially affect the course of individual livelihoods and lives. Personnel psychology holds considerable potential for improving the caliber of human resource management (HRM) in organizations. Several recent developments have combined to stimulate this growing awareness. After first describing what personnel psychology is, we will consider the nature of some of these developments.

PERSONNEL PSYCHOLOGY IN PERSPECTIVE

People have always been subjects of inquiry by psychologists, and the behavior of people at work has been the particular subject matter of industrial and organizational (I/O) psychology. Yet sciences and subdisciplines within sciences are distinguished not so much by the subject matter they study as by the questions they ask. Thus, both the social psychologist and the engineering psychologist are concerned with studying people. The engineering psychologist is concerned with the human aspects of the design of tools, machines, work spaces, information systems, and aspects of the work environment. The social psychologist studies power and influence, attitude change, communication in groups, and individual and group social behavior.

Personnel psychology is a subfield within I/O psychology. It is an applied discipline that focuses on individual differences in behavior and job performance and on methods of measuring and predicting such differences. Some of the major areas of interest to personnel psychologists include job analysis and job evaluation; recruitment, screening, and selection; training and development; and performance management.

Personnel psychology also represents the overlap between psychology and HRM. HRM is concerned with the management of staffing, retention, development, adjustment, and change in order to achieve both individual and organizational objectives (Cascio, 2010). As a subfield of HRM, personnel psychology excludes, for example, such topics as labor and compensation law, organization theory, industrial medicine, collective bargaining, and employee benefits. Psychologists have already made substantial contributions to the field of HRM; in fact, most of the empirical knowledge available in such areas as motivation, leadership, and staffing is due to their work. Over the past decade, dramatic changes in markets, technology, organizational designs, and the respective roles of managers and workers have inspired renewed emphasis on and interest in personnel psychology (Cascio, 2003a; 2008). The following sections consider each of these in more detail. Figure 2 illustrates them graphically.

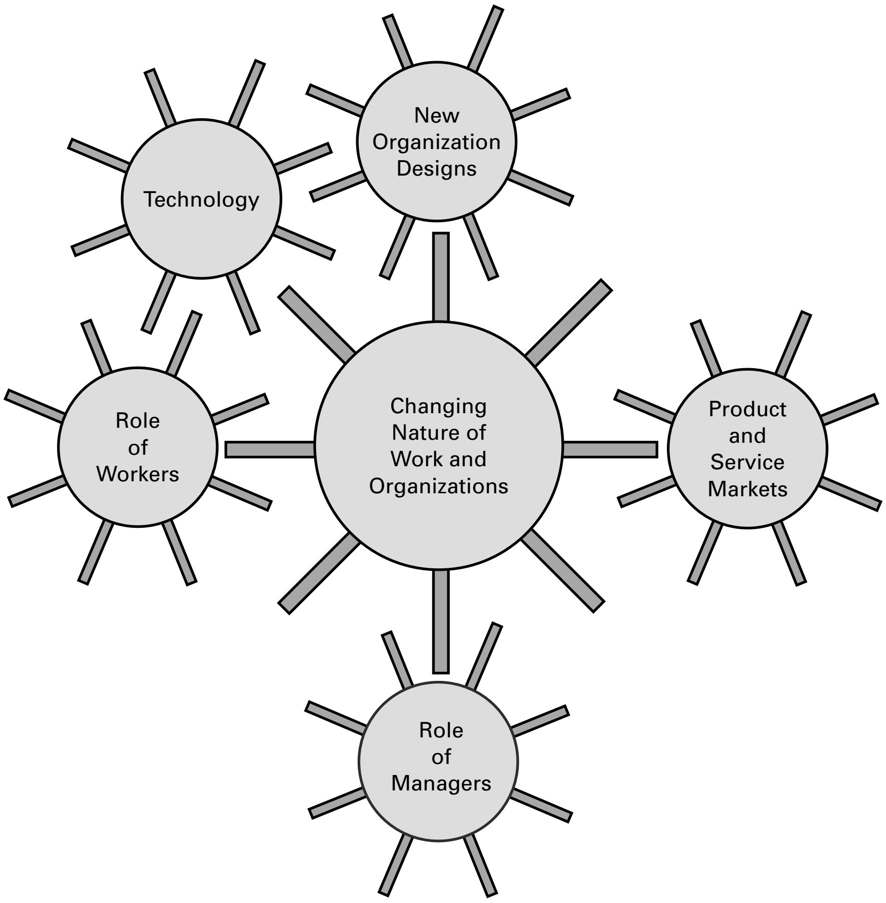
New Organization Designs
Technology
Role of Workers
Changing Nature of Work and Organizations
Product and Service Markets
Role of Managers

FIGURE 2 The changing nature of work and organizations.

The Changing Nature of Product and Service Markets

Globalization, a defining characteristic of economic life in the twenty-first century, refers to commerce without borders, along with the interdependence of business operations in different locations. Indeed, in a world where the transfer of capital, goods, and, increasingly, labor, occurs almost seamlessly, globalization is bringing tremendous changes, both positive and negative, for billions of people around the world. From just-in-time inventories to nanotechnologies, the pace of change is accelerating as a 24/7 culture pervades society. Product and service markets have truly become globalized.

To facilitate globalization, some films consider outsourcing. Genpact, Accenture, IBM Services, and similar big outsourcing specialists dispatch teams that meticulously dissect the workflow of an entire department—HR, finance, or information technology department. The team then helps build a new IT platform, redesigns all processes, and administers programs, acting as a virtual subsidiary. The contractor then disperses work among global networks of staff ranging from the United States, to Asia, to Eastern Europe (Engardio, 2006). Such structural changes have far-reaching consequences that are beneficial for the global economy but promise more frequent career changes for U.S. workers.

Against this backdrop, growing ethnic and regional tensions, coupled with the ever-present threat of terrorism, increase the chances of further geopolitical conflict. Nevertheless, economic interdependence among the world's countries will continue. Global corporations will continue to be created through mergers and acquisitions of unparalleled scope. These megacorporations will achieve immense economies of scale and compete for goods, capital, and labor on a global basis. As a result, prices will drop, and consumers will have more options than ever (Bhagwati, 2007).

The results of accelerated global competition have been almost beyond comprehension—free political debate throughout the former Soviet empire, democratic reforms in Central and South America, the integration of the European community, the North American Free Trade Agreement, and an explosion of free market entrepreneurship in southern China. In short, the free markets and free labor markets that the United States has enjoyed throughout its history have now become a global passion.

However, it takes more than trade agreements, technology, capital investment, and infrastructure to deliver world-class products and services. It also takes the skills, ingenuity, and creativity of a competent, well-trained workforce. Workers with the most advanced skills create higher-value products and services and reap the biggest rewards. Attracting, developing, and retaining talent in a culture that supports and nurtures ongoing learning is a continuing challenge for all organizations. Human resource professionals are at the epicenter of that effort.

IMPACT ON JOBS AND THE PSYCHOLOGICAL CONTRACT The job churning that characterized the labor market in the 1990s and early twenty-first century has not let up. If anything, its pace has accelerated (Schwartz, 2009). Both white- and blue-collar jobs aren't being lost *temporarily* because of a recession; rather, they are being wiped out *permanently* as a result of new technology, improved machinery, and new ways of organizing work (Cascio, 2003b; Friedman, 2005, 2008). These changes have had, and will continue to have, dramatic effects on organizations and their people.

Corporate downsizing has become entrenched in American culture since the 1980s, but it was not always so. It was not until the final 20 years of the twentieth century that such downsizing and the loss of the perceived "psychological contract" of lifelong employment with a single employer in the public and private sectors of the economy came to characterize many corporate cultures and the American workforce (Cascio, 1993b, 2002). The psychological contract refers to an unwritten agreement in which the employee and employer develop expectations about their mutual relationship (Payne, Culbertson, & Boswell, 2008; Rousseau, 1995). For example, absent just cause, the employee expects not to be terminated involuntarily, and the employer expects the employee to perform to the best of his or her ability.

Stability and predictability characterized the old psychological contract. In the 1970s, for example, workers held an average of three to four jobs during their working lives. Change and uncertainty, however, are hallmarks of the new psychological contract. Soon workers will hold 7–10 jobs during their working lives. Job-hopping no longer holds the same stigma as it once did. Indeed, the massive downsizing of employees has made job mobility the norm, rather than the exception. This has led workers operating under the new psychological contract to expect more temporary employment relationships. Paternalism on the part of companies has given way to self-reliance on the part of employees, and also to a decrease in satisfaction, commitment, intentions to stay, and perceptions of an organization's trustworthiness, honesty, and concern for its employees (Lester, Kickul, Bergmann, & De Meuse, 2003; Osterman, 2009). Indeed, our views of hard work, loyalty, and managing as a career will probably never be the same.

Effects of Technology on Organizations and People

Millions of workers use networked computers every day, along with other products of the digital age, such as cellular phones, personal digital assistants, and e-mail. Anything digital is borderless, and, therefore, distance means nothing if you have a digital infrastructure (Grove, 2003). The digital revolution is breaking down departmental barriers, enhancing the sharing of vast amounts of information, creating "virtual offices" for workers on the go, collapsing product-development cycles, and changing the ways that organizations service customers and relate to their suppliers and to their employees (King, 2008). To succeed and prosper in a world where nothing is constant except the increasingly rapid pace of change, companies need motivated, technically literate workers who are willing to train continually.

There is also a dark side to new technology, as workers may be bombarded with mass junk e-mail (spam), company computer networks may be attacked by hackers who can wreak havoc on the ability of an organization to function, and employees' privacy may be compromised. One study estimated that an avalanche of spam may be costing companies as much as $874 a year per worker (Baker, 2003). Like other new developments, there are negatives as well as positives associated with new technology, and they need to be acknowledged.

A caveat is in order here, however. It relates to the common assumption that since production and service processes have become more sophisticated, high technology can substitute for skill in managing a workforce. Beware of such a "logic trap." On the contrary, as Lawler and O'Toole (2006) noted, "it takes extremely competent people . . . to create and deliver the complex services and products that are keys to success in the global economy . . . (organizations) need to develop systems and practices that attract, retain, and develop skilled, educated, and talented managers . . . (for) we are at the dawn of the Age of Human Capital" (p. 35). Ideally, therefore, technology will help workers make decisions in organizations that encourage them to do so (Ansberry, 2003b). However, organizations of the future will look very different from organizations of the past, as the next section illustrates.

Changes in the Structure and Design of Organizations

Many factors are driving change, but none is more important than the rise of Internet technologies. Like the steam engine or the assembly line, the Web has already become an advance with revolutionary consequences, most of which we have only begun to feel. The Web gives everyone in the organization, from the lowliest clerk to the chairman of the board, the ability to access a mind-boggling array of information—instantaneously from anywhere. Instead of seeping out over months or years, ideas can be zapped around the globe in the blink of an eye. That means that twenty-first-century organizations must adapt to management via the Web. They must be predicated on constant change, not stability; organized around networks, not rigid hierarchies; built on shifting partnerships and alliances, not self-sufficiency; and constructed on technological advantages, not bricks and mortar (Cascio, 2010). Twenty-first-century organizations are global in orientation, and all about speed. They are characterized by terms such as "virtual," "boundaryless," and "flexible," with no guarantees to workers or managers.

This approach to organizing is no short-term fad. The fact is that organizations are becoming leaner and leaner, with better and better trained "multispecialists"—those who have in-depth knowledge about a number of different aspects of the business. Eschewing narrow specialists or broad generalists, organizations of the future will come to rely on cross-trained multispecialists in order to get things done. One such group whose role is changing dramatically is that of managers.

The Changing Role of the Manager

In the traditional hierarchy that once made up most bureaucratic organizations, rules were simple. Managers ruled by *command* from the top (essentially one-way communication), used rigid *controls* to ensure that fragmented tasks (grouped into clearly defined jobs) could be coordinated effectively, and partitioned information into neat *compartments*—departments, units, and functions. Information was (and is) power, and, at least in some cases, managers clung to power by hoarding information. This approach to organizing—that is, 3-C logic—was geared to achieve three objectives: stability, predictability, and efficiency.

In today's reengineered, hypercompetitive work environment, the autocratic, top-down command-and-control approach is out of step with the competitive realities that many organizations face. To survive, organizations have to be able to respond quickly to shifting market conditions. In this kind of an environment, a key task for all managers, especially top managers, is to articulate a vision of what their organizations stand for, what they are trying to accomplish, and how they compete for business in the marketplace. Managers need to be able to explain and communicate how their organizations create value. The next step is to translate that value-creation story into everything that is done, including the implications for employee knowledge and behavior, and to use it as a benchmark to assess progress over time.

A large and growing number of organizations now recognize that they need to emphasize workplace democracy in order to achieve the vision. This involves breaking down barriers, sharing information, using a collaborative approach to problem solving, and orienting employees toward continuous learning and improvement. For many managers, these kinds of skills simply weren't needed in organizations designed and structured under 3-C logic.

Does this imply that we are moving toward a universal model of organizational and leadership effectiveness? Hardly. Contingency theories of leadership such as path-goal theory (House & Mitchell, 1974), normative decision theory (Vroom & Yetton, 1973), and LPC contingency theory (Fiedler, 1967) suggest that an autocratic style is appropriate in some situations. In recent years, many organizations (e.g., DuPont, Royal Dutch Shell) have instituted formal information-sharing and workplace-education programs that reduce or eliminate a key condition that makes autocratic leadership appropriate—workers who lack the information or knowledge needed to make meaningful suggestions or decisions. More often, today's networked, interdependent, culturally diverse organizations require transformational leadership (Avolio et al., 2003; Bass & Riggio, 2006). Leaders who are to transform followers to bring out their creativity, imagination, and best efforts require well-developed interpersonal skills, founded on an understanding of human behavior in organizations. Such strategic leadership is particularly effective under unstable or uncertain conditions (Colbert, Kristof-Brown, Bradley, & Barrick, 2008; Waldman et al., 2001). I/O psychologists are well positioned to help managers develop those kinds of skills.

In addition, although by no means universal, much of the work that results in a product, service, or decision is now done in teams—*intact, identifiable social systems (even if small or temporary) whose members have the authority to manage their own task and interpersonal processes as they carry out their work*. Such teams go by a variety of names—autonomous work groups, process teams, self-managing work teams, and so on (see Figure 3). All of this implies a radical reorientation from the traditional view of a manager's work.

FIGURE 3 Teams are now, and will continue to be, a key feature of organizations.

In this kind of an environment, workers are acting more like managers, and managers more like workers. The managerial roles of "controllers," "planners," and "inspectors" are being replaced by "coaches," "facilitators," and "mentors" (Srivastava, Bartol, & Locke, 2006; Wellins, Byham, & Wilson, 1991). This doesn't just happen—it requires good interpersonal skills, continuous learning, and an organizational culture that supports and encourages both.

Flattened hierarchies also mean that there are fewer managers in the first place. The empowered worker will be a defining feature of such organizations.

The Empowered Worker—No Passing Fad

It should be clear by now that we are in the midst of a revolution—a revolution at work. Change isn't coming only from large, high-profile companies doing high-technology work. It has also permeated unglamorous, low-tech work. As an example, consider Cincinnati-based Cintas Corporation (Box 1), which outfits the employees of some of North America's leading corporations (Cintas Corporation, 2009; Henkoff, 1994; Siehl & Hessell, 1999).

Twenty-first-century organizations, both large and small, differ dramatically in structure, design, and demographics from those of even a decade ago. Demographically, they are far more diverse. They comprise more women at all levels; more multiethnic, multicultural workers; older workers; more workers with disabilities; robots; and contingent workers. Paternalism is out; self-reliance is in. There is constant pressure to do more with less and a steady emphasis on

BOX 1

HRM in Action—Cintas Corporation

Cintas doesn't just hire people to drive trucks, deliver clean uniforms, and pick up dirty ones. Rather, its concept of "customer service representatives" (CSRs) extends much further. They are mini-entrepreneurs who design their own routes, manage their own accounts, and, to a large extent, determine the size of their paychecks.

Cintas ties compensation almost entirely to measures of customer satisfaction. Lose a customer on your watch and your salary sinks. CSR pay is nearly twice the industry average. In practice, Cintas rarely loses a customer; its annual defection rate is less than 1 percent. Employees don't leave either; turnover is a low 7 percent. To a large extent, this is because Cintas spends considerable time and effort on selecting employees—those who take pride in their work and are exceedingly neat and outgoing. In all, 46 different ethnic groups are represented at Cintas, and its company culture is built on a foundation of high ethical standards, trust, and cooperation.

Cintas is the world's largest supplier of corporate-identity uniforms, with more than 800,000 clients. In addition, it provides a broad range of business solutions, including facility, document-management, and fire-protection services. As of 2009, *Fortune* magazine named Cintas as one of "World's Most Admired Companies." Said CEO Scott Farmer, "Our achievement as a company is testament to the achievement of our Cintas employee-partners who represent our company in the plant and in the field. All are focused on our principal objective: 'We will exceed our customers' expectations to maximize the long-term value of Cintas for its shareholders and working partners.'"

How has Cintas done? Sales and profits have increased for 39 consecutive years. In a gesture that reflects its strong culture, Cintas has shared more than $176 million with its employee-partners over the past decade.

empowerment, cross-training, personal flexibility, self-managed work teams, and continuous learning. Workers today have to be able to adapt to changing circumstances and to be prepared for multiple careers. I/O psychologists are helping to educate prospective, current, and former workers to these new realities. In the future, they will be expected to do much more, as we shall see, but first let's consider some organizational responses to these new realities.

Implications for Organizations and Their People

What do these trends imply for the ways that organizations will compete for business? In a world where virtually every factor that affects the production of goods or the delivery of services—capital, equipment, technology, and information—is available to every player in the global economy, the one factor that doesn't routinely move across national borders is a nation's workforce. Today the quality of a nation's workforce is a crucial determinant of its ability to compete and win in world markets.

Human resources can be sources of sustained competitive advantage as long as they meet three basic requirements: (1) They add positive economic benefits to the process of producing goods or delivering services; (2) the skills of the workforce are distinguishable from those of competitors (e.g., through education and workplace learning); and (3) such skills are not easily duplicated (Barney, 1991). A human resource system (the set of interrelated processes designed to attract, develop, and maintain human resources) can either enhance or destroy this potential competitive advantage (Lado & Wilson, 1994).

Perhaps a quote attributed to Albert Einstein, the famous physicist, captures it best. After the first atomic reaction in 1942, Einstein remarked: "Everything has changed, except our way of thinking" (*Workplace*, 1993, p. 2). As I/O psychology in general, and personnel psychology in particular, moves forward into the twenty-first century, our greatest challenge will be to change the way we think about organizations and their people.