

Chapter 10: Human Resource Management and Labor Relations

Chapter Overview

Human resource management involves a steady stream of activities. An HR manager's job revolves around a set of functions including HR planning, staffing, developing employees, appraisal, and compensation and benefits.

This chapter covers each of these functions, including how managers plan for their organization's HR needs and ways in which organizations select, develop, and appraise employee performance. The chapter also describes the main components of a compensation system and some of the legal issues involved in hiring, compensating, and managing workers. Finally, the chapter discusses workforce diversity, the management of knowledge workers, the use of a contingent workforce, and why workers organize into labor unions.

A career in HR management can be rewarding, but given the dynamic nature of the external environment, keeping abreast of changes and incorporating those necessary changes into these HR management functions is also challenging.

Learning Objectives

10-1. Define *human resource management*, discuss its strategic significance, and explain how managers plan for their organization's human resource needs.

10-2. Discuss the legal context of human resource management and identify contemporary legal issues.

10-3. Identify the steps in staffing a company and discuss ways in which organizations recruit and select new employees.

10-4. Describe the main components of a compensation and benefits system.

10-5. Describe how managers develop the workforce in their organization through training and performance appraisal.

10-6. Discuss workforce diversity, the management of knowledge workers, and the use of a contingent workforce as important changes in the contemporary workplace.

10-7. Explain why workers organize into labor unions and describe the collective bargaining process.

CHAPTER OUTLINE

Learning Objective 10-1:

Define *human resource management*, discuss its strategic significance, and explain how managers plan for their organization's human resource needs.

The Foundations of Human Resource Management

Human resource management (HRM) is the set of organizational activities directed at attracting, developing, and maintaining an effective workforce.

A. The Strategic Importance of HRM

Human resources are the people comprising an organization's workforce. They are critical for effective organizational functioning. The importance of HRM has grown dramatically in the last several years due in part to the recognition that human resources are a valuable means for improving productivity, and today's awareness of the costs associated with poor human resource management. Effectiveness of HR performance directly impacts the bottom-line performance of the firm. **Human capital** reflects the organization's investment in attracting, retaining, and motivating an effective workforce while **talent management** recognizes that people represent a portfolio of talents that can be managed and used in ways best targeted to organizational success.

B. HR Planning

Human resource planning is the starting point for attracting qualified new employees.

1. **Job analysis.** Job analysis is a systematic analysis of jobs within an organization. The job analysis results in: (a) the **job description**, which lists the duties and responsibilities of a job; its working conditions; and the tools, materials, equipment, and information used to perform it; and (b) the **job specification**, which lists the skills, abilities, and other credentials and qualifications needed to perform the job effectively. Job analysis is needed to develop appropriate selection methods, create relevant performance appraisal systems, and set equitable compensation rates.
2. **Forecasting HR Demand and Supply.** Forecasting the supply of labor involves forecasting the *internal supply*—the number and type of employees who will be in the firm at some future date—and the *external supply*—the number and type of people who will be available for hiring from the labor market at large.
 - a. **Replacement Charts.** Replacement charts list each important managerial position, who occupies it, how long that person will probably stay in it before moving on, and who is now qualified or soon will be qualified to move into it.
 - b. **Skills Inventories.** Employee information systems (skills inventories) contain information on each employee's education, skills, work experience, and career aspirations to aid in identifying qualified employees when a position becomes available.

- c. Forecasting the external supply of labor requires information from outside sources, such as state employment commissions, government reports, and figures supplied by colleges on the number of students in major fields.
3. **Matching HR Supply and Demand.** After comparing future demand and internal supply, managers can make plans to manage predicted shortfalls or overstaffing. Hiring new employees, retraining present employees, and investing in productivity-enhancing systems, can help meet shortfalls. Overstaffing can be handled by transferring employees, not replacing employees who quit, encouraging early retirement, and laying off workers. During the Great Recession, many firms found it necessary to reduce the size of their workforce through layoffs. Others did not reduce their workforce but reduced the number of hours each employee spent at work.

Learning Objective 10-3:

Identify the tasks in staffing a company and discuss ways in which organizations recruit and select new employees.

Staffing the Organization

When managers have determined that new employees are needed and understand the legal context in which they operate, they can then turn their attention to recruiting and hiring the right mix of people. This involves two processes: (1) acquiring new employees from outside the company and (2) promoting current employees from within. Both external and internal staffing, however, start with effective *recruiting*.

A. Recruiting Employees

Recruiting is the process of attracting qualified persons to apply for the jobs that are open. Recruiting decisions go both ways: an organization is recruiting an employee, while the prospective employee is selecting a job.

1. **Internal Recruiting.** Internal recruiting means considering present employees as candidates for openings.
2. **External Recruiting.** External recruiting involves attracting people outside of the organization to apply for jobs.

Since hiring the wrong employee can be a costly error, companies look to strive for a good person-job fit. One tool used is the **realistic job preview** that provides the applicant with a real picture of what performing the available job would be like.

B. Selecting Employees

The intent of the selection process is to gather from applicants the information that will predict their job success and then to hire the candidates likely to be most successful.

1. **Application Forms.** An application form is a method of gathering information about the applicant's work history, educational background, and other job-related data.

2. **Tests.** Tests of ability, skill, aptitude, or knowledge relevant to a particular job are usually the best predictors of job success, although tests of general intelligence or personality are occasionally useful as well.
3. **Interviews.** In a *structured interview*, questions are written in advance, and all interviewers follow the same question list with each candidate; in an *unstructured interview*, questions vary with the candidates' backgrounds.
4. **Other Techniques.** Organizations often require applicants to take physical exams and drug tests. Some organizations also run background checks on prospective employees.

Learning Objective 10-4:

Describe the main components of a compensation and benefits system.

A. Compensation and Benefits

A major factor in retaining skilled workers is a company's **compensation system**—the total package of rewards that it offers employees in return for their contributions to the organization's mission.

1. Wages and Salaries

Wages are paid for time worked. A **salary** is an amount paid per month or year for performing a job. Companies may set wages and salaries by looking at competitors' rates. In addition, firms must decide how their wage and salary levels will compare for different jobs.

2. Incentive Programs

Incentive programs are special pay programs designed to motivate high performance.

- a. **Individual Incentives.** A **bonus** may be awarded to employees upon their reaching a sales quota or performance goal. **Merit salary systems** link raises to performance levels in non-sales jobs. **Pay-for-performance** (or **variable pay**) goes to middle managers for especially productive output with earnings that significantly exceed the cost of bonuses.
- b. **Companywide Incentives.** These programs apply to all employees in a firm. In **profit-sharing plans**, a firm's profits earned above a certain level are distributed to employees. **Gainsharing plans** distribute bonuses to employees when a firm's costs are reduced through greater work efficiency. **Pay-for-knowledge plans** distribute pay to workers who learn new skills and become proficient at different jobs.

3. **Benefits Programs**

Benefits are compensation other than wages and salaries, including health, disability, and life insurance, and paid vacations and holidays. Most companies are required by law to provide Social Security retirement benefits and **workers' compensation insurance** (insurance for compensating workers injured on the job). Many public companies allow employees to use payroll deductions to buy stock at discounted prices. Counseling services, on-site child-care centers, and reduced fees at gyms are other types of benefits increasingly being offered.

- a. **Retirement Plans.** Retirement plans are set up to pay pensions to workers when they retire. Contributions are made either totally by the company or by both the company and the employee. In recent years more companies have run into problems because they have not set aside enough money to cover the retirement funds for their workers. Some major companies have stopped contributing toward retirement accounts while others have transitioned employees to riskier 401(k) plans.
- b. **Containing the Costs of Benefits.** To contain the costs of benefits, employees can select from a variety of benefit alternatives in what is known as a **cafeteria benefits plan**. A certain dollar amount of benefits per employee is set aside so that each employee can choose from a variety of alternatives.

Learning Objective 10-5:

Describe how managers develop the workforce in their organization through training and performance appraisal.

Developing the Workforce

A. Training

Training usually refers to teaching operational or technical employees how to do the job for which they were hired. Development refers to teaching managers and professionals the skills needed for present and future jobs.

1. **Assessing Training Needs.** The first step in developing a training plan is to determine what needs exist. Not all performance issues are due to lack of training; motivation, poor equipment or poor supervision may be at fault. As training programs are being developed, the manager should set specific and measurable goals specifying what participants are to learn. Managers should also plan to evaluate the training program after employees complete it.
2. **Common Training Methods.** After a company hires new employees, it must acquaint them with the firm and their new jobs. Lectures, readings, role-playing, practice using tools and materials, and web-based activities are among the methods of training. The purpose of the training and the content being provided will determine the preferred training method(s). When employees must learn a physical

skill, methods allowing practice or the actual use of tools and materials are needed, as in **on-the-job training**. **Vestibule training** focuses on safety, learning, and feedback, rather than on productivity.

3. **Evaluation of Training.** Typical evaluation approaches include measuring one or more relevant criteria (such as attitudes or performance) before and after the training, and determining whether the criteria changed as a result of the training and development. Trainees may say that they enjoyed the training and learned a lot, but the true test is whether their job performance improves after their training.

B. Performance Appraisal

Performance appraisals are designed to show workers precisely how well they are doing their jobs. Employees' performances should be evaluated regularly for many reasons. One reason is that a performance appraisal may be necessary for validating selection devices or assessing the impact of training programs. A second, administrative reason is to aid in making decisions about pay raises, promotions, and training. Still another reason is to provide feedback to employees to help them improve their current performance and plan their future careers.

Because performance evaluations often help determine wages and promotions, they must be fair and nondiscriminatory. In the case of appraisals, managers use content validation to show that the appraisal system accurately measures performance on important job elements and does not measure traits or behavior that are irrelevant to job performance.

1. **Common Appraisal Methods.** Two basic categories of appraisal methods commonly used in organizations are **objective methods** and **judgmental methods**. Objective measures of performance include actual output (number of units produced), scrap rate, dollar volume of sales, and number of claims processed. **Judgmental methods**, including ranking and rating techniques, are the most common way to measure performance, though they have flaws.

2. **Errors in Performance Appraisal.** Errors or biases can occur in any kind of rating or ranking system. One common problem is *recency error*, the tendency to base judgments on the subordinate's most recent performance because it is most easily recalled. But an appraisal is meant to evaluate performance over an entire time period. *Halo error* is allowing the assessment of an employee on one dimension to "spread" to ratings of that employee on other unrelated dimensions.

One interesting innovation in performance appraisal used in some organizations today is called **360-degree feedback**, in which managers are evaluated by everyone around them—their boss, their peers, and their subordinates.

3. **Performance Feedback.** The last step in most performance appraisal systems is giving feedback to subordinates about their performance. This is usually done in a private meeting between the person being evaluated and his or her boss. It should be

focused on the facts: the assessed level of performance, how and why that assessment was made, and how it can be improved in the future.

Learning Objective 10-6:

Discuss workforce diversity, the management of knowledge workers, and the use of a contingent workforce as important changes in the contemporary workplace.

New Challenges in the Changing Workplace

New challenges arise as the economic and social environments of business change.

A. Managing Workforce Diversity

Workforce diversity is the range of workers' attitudes, values, beliefs, and behaviors that differ by gender, race, age, ethnicity, physical ability, and other relevant characteristics; many U.S. organizations are now creating more diverse workforces, embracing more women, ethnic minorities, and foreign-born employees than ever before. As diversity can be a competitive advantage, knowing how to manage it in the workforce is vital.

B. Managing Knowledge Workers

Traditionally, employees added value to organizations because of what they did or because of their experience; today, however, many employees add value because of what they know. Knowledge workers, which include computer scientists, engineers, physical scientists, and game developers require extensive training. Ongoing training is a continuing need, as updating skills is necessary to maintain the competitive advantage as technical skills change.

Companies must provide this training or risk losing employees to firms that will support this need; additionally, firms must ensure they are compensating these employees at market rates.

C. Contingent and Temporary Workers

1. **Trends in Contingent and Temporary Employment.** A **contingent worker** is a person who works for an organization on something other than a permanent or full-time basis. Independent contractors, on-call workers, temporary employees (usually hired through outside agencies), and contract or leased employees are categories of contingent workers. A separate category is part-time workers. In 2008, 10 percent of employed U.S. workers fit into one of these categories. In 2017, the percentage has risen to around 20 percent.
2. **Managing Contingent and Temporary Workers.** The keys to understanding how to use such workers involve careful planning and understanding their advantages and disadvantages within the organization. In addition, managers must assess the real cost of using contingent workers. Managers must make decisions about how to integrate contingent workers into the organization.

