competitors also forces top managers to analyze what their competitors are doing, and how to improve their firm's relative position.

Third, include *nonfinancial targets*. Nonfinancial targets (such as employee engagement, and customer satisfaction) are harder to "game" than financial targets (such as boosting earnings by cutting R&D). Furthermore, nonfinancial measures can and do affect a company's long-term performance.

ETHICS AND INCENTIVES Recently, a truck stop company arranged to pay some managers commissions and bonuses based on how many dollars of diesel fuel trucking firms purchased each month. Federal prosecutors allege that doing so encouraged the managers to withhold the volume rebates the trucking firms were supposed to get. In one year, for instance, one officer with a base salary of about $400,000 earned about $14 million in bonuses and pay.[95]

Anyone designing a long-term incentive plan should remember the management truism: "People put their efforts where they know they'll be rewarded." The point is that simplistic incentives that focus on just one factor (such as cost-cutting) may encourage managers to ignore other important factors (such as long-term investment). Similarly, in the absence of strong ethical standards, incentives may breed unethical behavior.[96] Examples are depressingly familiar. For example, to paraphrase *Forbes*, one firm's culture now incentivizes aggressiveness at the expense of doing what's best for the client. For stock option plan designers, the solution is to include a sufficient array of bonus-able criteria in the incentive plan, while fostering an ethical culture.

Some Other Executive Incentives

Companies offer other executive incentives. Some incentivize executives to stay with the firm. This is especially important when executives might flee because another company is stalking the firm with intentions to buy it. **Golden parachutes** are extraordinary payments (usually a combination of severance pay, accelerated vesting, and other benefits) made to executives in connection with a change in company ownership or control. Former Yahoo CEO Marissa Mayer reportedly received more than $54 million when Verizon bought Yahoo, and Oracle's co-presidents would each receive over $139 million, for instance.[97]

golden parachute
A payment companies make in connection with a change in ownership or control of a company.

Some firms use loans as incentives, for example by guaranteeing large loans to directors and officers to buy company stock.

MyLab Management Apply It!

How does a company actually go about creating an incentive plan? If your professor has assigned this activity, go to the Assignments section of **www.pearson.com/mylab/management** to complete the video exercise.

LEARNING OBJECTIVE 12-5
Name and describe the most popular organization-wide incentive plans.

Team and Organization-Wide Incentive Plans

We've focused so far on individual employee incentives (such as piecework, commissions, and executive bonuses). Let's look now at incentives for teams, and for employees company-wide.

How to Design Team Incentives

Firms increasingly rely on teams to manage their work. They therefore need incentive plans that focus teams on performance and encourage teamwork. **Team (or group) incentive plans** pay incentives to the team based on team performance.

team (or group) incentive plan
A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.

The main question here is how to reward the team's performance, and the wrong choice can be lethal. Levi Strauss switched from an individual to a team incentive plan, one that rewarded the team as a whole for its output. Unfortunately, they ignored the fact that some employees worked harder than others. The slower ones (economists sometimes call them "free riders" because they take a free ride on others' efforts) were paid the same as the faster ones. The faster ones, no longer individually incentivized, slowed down, production declined, and Levi's closed its U.S. factories.

Given the potential free rider problem, companies usually incentivize teams in one of three ways: they pay the same incentives to each team member based on some overall standard, or pay different rates to each member based on performance, or pay different rates to each in some proportion to each team member's base pay.[98]

Free riders notwithstanding, the usual approach is probably still to tie rewards to some overall standard of group performance, such as "10 labor hours per car." One company established such an overall standard for its work teams. If the firm reached 100% of its goal, the employees would share in about 5% of the improvement (in labor costs saved). The firm divided the resulting bonus pool by the number of employees to compute the value of a "share." If the firm achieved less than 100% of its goal, the bonus pool was less. The results of this plan in terms of focusing teams on the firm's strategic goals were reportedly "extraordinary."[99] Firms such as Toyota that use team plans rely on employee selection, training, and peer pressure to minimize free riding.

While most employers just use their experience to estimate what the team goal or standard should be ("10 total labor hours per car"), others carefully engineer their production standards. If so, the employer typically bases the team incentive on either the piece rate or standard hour plan. All team members then typically receive the same share of the team's incentive pay. Thus, the team might receive, say, $5 for each wheel installed above the industrially engineered "standard" of 10 wheels per hour.

Occasionally, the employer may want to pay team members according to some other formula. For instance, instead of paying each team member based on how well the team as a whole does, pay everyone based on how well the *best* team member does. This counterintuitive option may make sense when an employer has reason to believe the new team incentive plan might demotivate high-performing team members. That's what happened at Levi's.

Team incentives often make sense. They reinforce team problem solving, and can help ensure cooperation. Team incentives also facilitate training, since each member has an interest in getting new members up to speed fast. The main disadvantage is the demotivating effects of free rider workers who share in the team-based pay but who don't put their hearts into it.

Team incentives can foster a sense of cooperation and unanimity.

GaudiLab/Shutterstock

Evidence-Based HR: Inequities That Undercut Team Incentives

Although about 85% of large employers reportedly use some type of group- or team-based incentives, studies suggest that team incentives are often counterproductive. Why?

A researcher studied business students enrolled in a graduate online MBA program.[100] She devised a method for categorizing how they said they reacted to the team incentives they'd experienced in the past.

Inequity was the big problem.[101] Sometimes all team members' financial compensation was the same, although one or two people "did the lion's share of the work." In other cases, the employer chose one or two team members for promotion, leaving others to feel they'd worked hard to support someone else's career. The bottom line is that unless you take steps to minimize interpersonal inequities, it may be best to pay employees based on their individual contributions, rather than on collective team performance.

Many employers take the team incentive idea to the next level and institute incentive plans in which all or most employees participate. **Organization-wide incentive plans** are plans in which all or most employees can participate, and which generally tie the reward to some measure of company-wide performance. Also called *variable pay plans*, we'll look at them next.

organization-wide incentive plan
Incentive plan in which all or most employees can participate.

Profit-Sharing Plans

profit-sharing plan
A plan whereby employees share in the company's profits.

Profit-sharing plans are plans in which all or most employees receive a share of the firm's annual profits. While that sounds good in theory, free riders may again be a problem: Some may ask, "If everyone gets paid the same whether they work hard or not, why bother?"[102]

Research is sketchy. Older studies found evidence that profit-sharing plans boost productivity and morale, but that their effect on profits is insignificant, once you factor in the costs of the plans' payouts.[103] Another study, in Spain, concluded that profit-sharing plans improve employee commitment.[104] A more recent study found that employee earnings rose faster in firms with profit-sharing plans.[105]

There are several profit-sharing plans. With *current profit-sharing* or cash plans, employees share in a portion of the employer's profits quarterly or annually. Here the firm simply distributes a percentage of profits (usually 15% to 20%) as profit shares to employees at regular intervals. For example, Southwest Airlines offers a broad-based (almost everyone is eligible) profit-sharing plan for employees. Several years ago it distributed a $228 million profit-sharing payout to employees.[106]

With *deferred profit-sharing* plans, the employer puts cash awards into trust accounts for the employees' retirement.[107] Employees' income taxes on the distributions are deferred until the employee retires or withdraws funds from the plan (thus "deferred profit-sharing plans"). Such plans are essentially pension plans that give the employer the option of deciding each year how much to contribute to the plan.

Scanlon Plans

Few would argue with the idea that one of the best ways of ensuring that employees are engaged and motivated is to ensure that by pursuing his or her goals, the worker pursues the employer's goals as well. Experts have proposed many ways to achieve this. However, few have been as successful as the **Scanlon plan,** developed in 1937 by Joseph Scanlon, a United Steel Workers Union official.[108] It is still popular today.

Scanlon plan
An incentive plan developed in 1937 by Joseph Scanlon and designed to encourage cooperation, involvement, and sharing of benefits.

The Scanlon plan is remarkably progressive, considering that it is now more than 80 years old. Scanlon plans have five basic features.[109] The first is Scanlon's *philosophy of cooperation*. This philosophy assumes that managers and workers must rid themselves of the "us" and "them" attitudes that normally inhibit employees from developing a sense of ownership in the company.

A second feature is what its practitioners call *identity*. This means that in order to focus employee involvement, the company must articulate its mission or purpose, and employees must understand how the business operates in terms of customers, prices, and costs. *Competence* is a third basic feature. The program, say three experts, "explicitly recognizes that a Scanlon plan demands a high level of competence from employees at all levels."[110] This suggests careful selection and training.

The fourth feature of the plan is the *involvement system*. Employees present improvement suggestions to the appropriate departmental-level committees, which transmit the valuable ones to the executive-level committee. It then decides whether to implement the suggestion.

The fifth element of the plan is the *sharing of benefits formula*. If a suggestion is implemented and successful, all employees usually share in 75% of the savings. For example, assume that the normal monthly ratio of payroll costs to sales is 50%. (Thus, if sales are $600,000, payroll costs should be $300,000.) Assume the firm implements suggestions that result in payroll costs of $250,000 in a month when sales were $550,000 and payroll costs therefore should have been $275,000 (50% of sales). The savings attributable to these suggestions is $25,000 ($275,000 minus $250,000). Workers would typically split 75% of this ($18,750), while $6,250 would go to the firm. In practice, the firm sets aside about one-quarter of the $18,750, for months when payroll costs exceed the standard.

Other Gainsharing Plans

gainsharing plan
An incentive plan that engages employees in a common effort to achieve productivity objectives and share the gains.

The Scanlon plan is one early version of today's **gainsharing plans.** Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost-savings gains shared among employees and the company.[111] In addition to the Scanlon plan, other popular gainsharing plans include the Lincoln, Rucker, and Improshare plans.

The basic difference among these plans is how employers determine employee bonuses. The Scanlon formula divides payroll expenses by total sales (or, sometimes, by total sales plus increases in inventory). In one version of the *Lincoln incentive system*, first instituted at the Lincoln Electric Company of Ohio, employees work on a guaranteed piecework basis. The company then distributes total annual profits (less taxes, 6% dividends to stockholders, and a reserve) each year among employees based on their merit rating. Most firms customize their gainsharing plans.

Results support gainsharing's effectiveness in settings ranging from automotive parts manufacturers, to hospitals. For example, in one study cost savings achieved by hospital physicians translated into cash payments to the physicians.[112] The U.S. Department of Health and Human Services approved certain hospital gainsharing plans.

At-Risk Pay Plans

earnings-at-risk pay plan
Plan that puts some portion of employees' normal pay at risk if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.

Pay-for-performance plans can support an employer's cost control efforts. Base pay and benefits represent the lion's share of labor costs, and normally neither varies much even when sales plummet.[113] (Pay cuts adversely affect morale, and if sales fall one year, it's generally hard to cut labor costs without downsizing.) In an **earnings-at-risk pay plan,** employees agree to put some portion (say, 10%) of their normal pay at risk (forego it) if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals. For example, put part of the employees' pay "at risk" by replacing (1) 10% of each worker's wages with (2) a 10% bonus if the company meets its goals plus an additional 3% bonus if it exceeds these goals.

KNOWLEDGE BASE

Employee Stock Ownership Plans

employee stock ownership plan (ESOP)
A corporation contributes shares of its own stock to a trust in which additional contributions are made annually. The trust distributes the stock to employees on retirement or separation from service.

Employee stock ownership plans (ESOPs) are company-wide retirement/incentive plans, in which the employer contributes shares of its stock (or cash to be used to purchase such stock) to a trust set up to purchase shares of the firm's stock for employees. The firm generally makes these contributions to the trust annually, in proportion to total employee compensation, up to a limit of 15% of compensation. The trust holds the stock in individual employee accounts. It then distributes the stock to employees upon retirement (or other separation from service), assuming the person has worked long enough to earn ownership of the stock.

ESOPs are popular. The company receives a tax deduction equal to the fair market value of the shares it transfers to the trustee; it can also claim an income tax deduction for dividends paid on ESOP-owned stock.[114] Employees, as noted, aren't taxed until they receive a distribution from the trust, usually at retirement. The Employee

Retirement Income Security Act (ERISA) allows a firm to borrow against employee stock held in trust and then repay the loan in pretax rather than after-tax dollars, another tax incentive.[115]

ESOPs can also help shareholders of closely held corporations (for instance, a family owns all the shares of a small regional bank and wants to sell all or some of its shares). They place some of their shares of the bank's stock into the ESOP trust. The banking company compensates them (perhaps by borrowing the money) for the shares they put in the trust, and the family then uses those funds to buy other assets.[116]

Studies suggest that ESOPs correlate with performance, but that it's probably "the cooperative culture that can be fostered by employee ownership that drives better workplace performance in ESOP firms."[117] In any case, the company's board and management have legal and fiduciary responsibilities for the ESOP fund, and must manage the fund prudently.

BROAD-BASED STOCK OPTIONS Some companies offer "broad-based stock option plans" in which all or most employees can participate. (Definitions of what is "broad-based" range from at least 20% of a company's employees, to a majority of full-time employees, to a plan "which includes most non-management employees.")[118] Perhaps because such plans foster a sense of cooperation and ownership (as do ESOPs), at least one study concluded that firms with broad-based stock option plans had higher productivity and annual growth rates than peers.[119]

However, in the early 2000s, many companies cut back on these. For example, Time Warner, Microsoft, Aetna, and Charles Schwab discontinued distributing stock options to most employees. Some of them, including Microsoft, instead award stock. With current tax laws, companies must show the options as an expense when awarded, reducing their attractiveness as a "costless" reward. Microsoft and others apparently feel awarding stock instead of stock options is a more direct and immediate way to link pay to performance.[120]

Incentive Plans in Practice: Nucor

Nucor Corp. is the largest steel producer in the United States. It also has the highest productivity and lowest labor cost per ton, consistently ranks as a "Best Places to Work," and hasn't had layoffs in decades.[121] Employees can earn bonuses of 100% or more of base salary, and all participate in one of four performance-based incentive plans. With the *production incentive plan*, operating and maintenance employees and supervisors get weekly bonuses based on their work groups' productivity. The *department manager incentive plan* pays department managers annual incentive bonuses based mostly on the ratio of net income to dollars of assets employed for their division. With the *professional and clerical bonus plan*, employees not in one of the two previous plans get bonuses based on their divisions' net income return on assets.[122] Finally, under the *senior officer incentive plan*, Nucor senior managers (whose base salaries are lower than those comparable firms) get bonuses based on Nucor's annual overall percentage of net income to stockholders equity.[123] In one recent year Nucor's CEO earned a total of $10.6 million, including $2.9 million in stock awards, $4 million in stock options, and $2.4 million in incentive plan awards tied to return on equity and Nucor's position in its sales comparison group.[124]

Nucor also divides 10% of its operating profits yearly among all employees (except senior officers). Depending on company performance, this may be from 1% to over 20% of an employee's pay.

LEARNING OBJECTIVE 12-6

Explain how to use incentives to improve employee engagement.

Employee Engagement Guide for Managers

Incentives and Engagement

A survey provides some insights into the role of incentive pay in fostering employee engagement. Of approximately 6,300 compensation professionals the researchers solicited, 736 responded to the survey.[125] Here's what the researchers found.

First, although the compensation professionals believed that total rewards programs can influence employee engagement, many of these professionals did *not* specifically include employee engagement as one of the goals of their compensation plans. About 60% agreed or strongly agreed that "employee engagement and performance metrics are incorporated into variable pay programs in our organization." But only 37% agreed or strongly agreed that "in the organization, engagement levels fostered by line managers are important factor in evaluating performance."

Second, they concluded that the most direct ways to encourage employee engagement with incentives are (1) to measure the extent to which *supervisors are encouraging their subordinates to be engaged*, and (2) to *use incentives to reward supervisors for improving employee engagement*.

Third, even more important than the rewards themselves, getting employees involved in developing the rewards programs was the "gold standard" for building employee cooperation and commitment.

So, in brief: Make improving employee engagement a formal target of your compensation plan; appraise and incentivize your supervisors partly based on whether they take steps to improve their subordinates' engagement; and if possible get employee input in devising the incentive plan.

Chapter Review

Chapter Section Summaries

12-1. In designing an effective financial incentive plan, it's important to understand the relationship between **money and motivation.** Hertzberg said the best way to motivate someone is to organize the job so that it provides the feedback and challenge that help satisfy the person's higher-level needs. Deci found that extrinsic rewards may actually detract from a person's intrinsic motivation. Vroom's expectancy motivation theory says a person's motivation depends on expectancy, instrumentality, and valence. Skinner's behavior modification–based approach means changing behavior through rewards or punishments that are contingent on performance.

12-2. Piecework is an **individual employee incentives and recognition program** incentive plan in which a person is paid a sum for each item he or she makes. Merit pay is a salary increase awarded based on individual performance. Nonfinancial and recognition-based awards include awards in the form of employee recognition, gift certificates, and individual travel. Many employers use enterprise incentive management systems to automate the planning, analysis, and management of their incentive plans.

12-3. **Incentives for salespeople** are typically sales commissions. Although the percentage of pay in the form of sales commission may vary, a survey found that salespeople at high-performing companies receive about 38% of their total cash compensation in sales-related variable pay.

12-4. Managers take many things into consideration when formulating **incentives for managers and executives.** Most firms have annual bonus plans aimed at motivating managers' short-term performance. The actual award often depends on some combination of individual performance and organizational performance, so that, for instance, high-performing managers get a bonus even if the company itself underperforms. Long-term incentives include stock options, "golden parachutes," and stock appreciation rights.

12-5. With more employers organizing their efforts around teams, **team and organization-wide incentive plans are more important.** With team incentives, the main question is whether to reward members based on individual or team performance; both have pros and cons. Organization-wide incentive plans are plans in which all or most employees can participate. These include profit-sharing plans in which employees share in the company's profits; gainsharing plans, including the Scanlon plan, engage employees in a common effort to achieve productivity objectives and thereby share the gains. With employee stock ownership plans the employer contributes shares of its own stock to a trust established to purchase shares of the firm's stock for employees.

12-6. Consciously make **employee engagement** a goal of your compensation plan; appraise and incentivize supervisors partly based on their effectiveness in improving their subordinates' engagement; and if possible enable employees to participate in devising the compensation plan.

Discussion Questions

12-1. Compare and contrast six types of incentive plans.
12-2. Explain five reasons why incentive plans fail.
12-3. Describe the nature of some important management incentives.
12-4. You are applying for a job as a manager and are at the point of negotiating salary and incentives. What questions would you ask your prospective employer concerning incentives? Describe the incentives package you would try to negotiate for yourself.
12-5. In this chapter, we listed a number of guidelines for instituting a pay-for-performance plan. Do you think these points make sense in terms of motivation theory? Why or why not?
12-6. What is merit pay? Do you think it's a good idea to award employees merit raises? Why or why not?
12-7. Give four examples of when you would suggest using team or group incentive programs rather than individual incentive programs.

Individual and Group Activities

12-8. Working individually or in groups, create an incentive plan for the following positions: chemical engineer, plant manager, used-car salesperson. What factors did you have to consider in reaching your conclusions?
12-9. A state university system in the Southeast instituted a "Teacher Incentive Program" (TIP) for its faculty. Faculty committees within each of the university's colleges were told to award $5,000 raises (not bonuses) to about 40% of their faculty members based on how good a job they did teaching undergraduates, and how many courses they taught per year. What are the potential advantages and pitfalls of such an incentive program? How well do you think it was accepted by the faculty? Do you think it had the desired effect?
12-10. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
12-11. Several years ago, the pension plan of the Utility Workers Union of America proposed that shareholders change the corporate bylaws of Dominion Resources, Inc., so that in the future management had to get shareholder approval of executive pay exceeding $1 million, as well as detailed information about the firm's executive incentive plans. The union pointed out that, usually, under IRS regulations, corporations can't deduct more than $1 million in pay for any of a company's top five paid executives. Under the new rules the Utility Workers Union is pushing, boards of directors will no longer be able to approve executive pay above $1 million; instead, shareholders would have to vote on it. In terms of effectively running a company, what do you think are the pros and cons of the union's recommendations? Would you vote for or against the union's recommendation? Why?

Experiential Exercise

Motivating the Employees at Pearson Urgent Care

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice developing an incentive plan.

Required Understanding: Be thoroughly familiar with this chapter, and read the following:

Pearson Urgent Care is a chain of walk in medical urgent care centers in New York City. Each walk in center has about 12 full time employees; Pearson's total number of employees is therefore about 75, including the walk in center employees and central office accountants, clerks, and managers. Pearson is run by Taylor Pearson MD. Her main business problem now is that online Yelp-type walk in center reviews are abysmal. Common customer complaints include:

- Front desk clerks who greet patients and obtain their medical history forms seem unfriendly and unhelpful.
- Nurses who take the patients to the examining rooms and review their medical histories seem uncaring.
- Doctors seem rushed and unwilling to explain in detail what the patient's problem is or how to deal with it.
- X-ray technicians seem rushed.

Table 12-3 summarizes Pearson's walk in center compensation plan. As you can see, Pearson currently pays all its walk in center team members based on wages or salaries.

How to Set Up the Exercise/Instructions: Divide the class into groups of several students. One or more groups should analyze each of the four teams in Table 12-3's first column. Each student group should analyze the compensation package for its Pearson team, and answer these questions:

12-12. In what ways might the current compensation method contribute to the customer service problems?

12-13. What recommendations would you make to improve the compensation system in a way that would likely improve customer satisfaction?

TABLE 12-3 Pearson Urgent Care Teams and Pay

Pearson Urgent Care Team	Main Responsibility of Team	Main Current Compensation Method
1. Front desk	Greet patients, process health forms.	Hourly wage.
2. Nurses	Complete patients' medical history.	Annual salary.
3. Doctors	Diagnose patients, provide prescriptions.	Annual salary.
4. X-ray technicians	Take prescribed x-rays.	Hourly wage.

Application Case

The HubSpot.com Sales Incentive Plan

Written and copyrighted by Gary Dessler, PhD.

Two graduates of MIT's Sloan School of Management founded HubSpot.com about 12 years ago.[126] HubSpot provides special customer relationship management (and other) software and systems aimed at helping clients use online content to attract potential customers to their Web sites, something known as "inbound" marketing.[127]

When the founders started HubSpot, their sales challenge was straightforward. At that point, the company only had about 100 customers, so they had to acquire as many customers as they could, as quickly as possible. Therefore, they focused their first sales compensation plan on what that plan's architect refers to as "hunting" for new customers. That first plan gave HubSpot salespeople a base salary, plus $2 dollars up front for every $1 of monthly recurring revenue they brought in from clients. Knowing that some clients might well leave, the sales compensation plan included a four-month claw back clause. In other words, if a client left for any reason within the first four months, HubSpot took back that entire commission from the salesperson. It was a straightforward sales compensation plan, and in less than six months HubSpot zoomed from 100 to 1000 customers, and its revenues jumped from $300,000 to $3 million. So far so good.

However, a problem soon became apparent. HubSpot had a big client retention problem. Way too many clients were dropping the service (mostly after four months). HubSpot's usual procedure was to assign each new client to a postsale consultant. That consultant was responsible for setting up the new client's service, and training its staff in how to use HubSpot software and services. Management first assumed that some postsale consultants were doing something to turn their clients off, and that that accounted for the client churn. But after analyzing client retention rates, it was apparent that the postsale consultants were not the problem: client churn for all postsale consultants was about the same.

Management therefore turned to analyzing client churn among salespeople, and there they found the problem. Some salespeople had more than 10 times the client churn than others! For some reason, some salespeople's clients remained long-term customers, while others left in droves. Some salespeople were doing a better job than others, in terms of the types of customers they focused on and what they told their clients HubSpot could accomplish for them.

Management believed that modifying the sales compensation plan was the way to solve the problem. The question was, what exactly should the new sales compensation plan look like?

Questions

12-14. How exactly would you change the HubSpot sales compensation plan to solve this client retention problem? Please be specific about what your new plan would consist of.

12-15. Management defined the client churn problem as a sales problem, to be solved with a modified sales compensation plan. What else could have caused the client churn problem, and how would you have solved that?

Continuing Case

Carter Cleaning Company

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The Incentive Plan

The question of whether to pay Carter Cleaning Center employees an hourly wage or an incentive of some kind has always intrigued Jack Carter.

His basic policy has been to pay employees an hourly wage, except that his managers do receive an end-of-year bonus depending, as Jack puts it, "on whether their stores do well or not that year."

However, he is considering using an incentive plan in one store. Jack knows that a presser should press about 25 "tops" (jackets, dresses, blouses) per hour. Most of his pressers do not attain this ideal standard, though. In one instance, a presser named Walt was paid $8 per hour, and Jack noticed that regardless of the amount of work he had to do, Walt always ended up going home at about 3:00 P.M., so he earned about $300 at the end of the week. If it was a holiday week, for instance, and there were a lot of clothes to press, he might average 22 to 23 tops per hour (someone else did pants) and so he'd earn perhaps $300 and still finish each day in time to leave by 3:00 P.M. so he could pick up his children at school. But when things were very slow in the store, his productivity would drop to perhaps 12 to 15 pieces an hour, so that at the end of the week he'd end up earning perhaps $280, and in fact not go home much earlier than he did when it was busy.

Jack spoke with Walt several times, and while Walt always promised to try to do better, it gradually became apparent to Jack that Walt was simply going to earn his $300 per week no matter what. Though Walt never told him so directly, it dawned on Jack that Walt had a family to support and was not about to earn less than his "target" wage, regardless of how busy or slow the store was. The problem was that the longer Walt kept pressing each day, the longer the steam boilers and compressors had to be kept on to power his machines, and the fuel charges alone ran close to $6 per hour. Jack clearly needed some way short of firing Walt to solve the problem, because the fuel bills were eating up his profits.

His solution was to tell Walt that, instead of an hourly $8 wage, he would henceforth pay him $0.33 per item pressed. That way, said Jack to himself, if Walt presses 25 items per hour at $0.33 he will in effect get a small raise. He'll get more items pressed per hour and will therefore be able to shut the machines down earlier.

On the whole, the experiment worked well. Walt generally presses 25 to 35 pieces per hour now. He gets to leave earlier and, with the small increase in pay, he generally earns his target wage. Two problems have arisen, though. The quality of Walt's work has dipped a bit, plus his manager has to spend a minute or two each hour counting the number of pieces Walt pressed that hour. Otherwise, Jack is fairly pleased with the results of his incentive plan, and he's wondering whether to extend it to other employees and other stores.

Questions

12-16. Should this plan be extended to pressers in the other stores?

12-17. Should other employees (cleaner/spotters, counter people) be put on a similar plan? Why or why not? If so, how, exactly?

12-18. Is there another incentive plan you think would work better for the pressers? Describe it.

12-19. A store manager's job is to keep total wages to no more than 30% of sales and to maintain the fuel bill and the supply bill at about 9% of sales each. Managers can also directly affect sales by ensuring courteous customer service and by ensuring that the work is done properly. What suggestions would you make to Jennifer and her father for an incentive plan for store managers or front-desk clerks?

Translating Strategy into HR Policies and Practices Case*,§

The accompanying strategy map for this chapter is in MyLab Management; the overall map in the inside back cover of this text outlines the relationships involved.

Improving Performance at the Hotel Paris

The New Incentive Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

One of Lisa Cruz's biggest pay-related concerns is that the Hotel Paris compensation plan does not link pay to performance in any effective way. Because salaries were historically barely competitive, supervisors tended to award merit raises across the board. So, employees who performed well got only about the same raises as did those who performed poorly. Similarly, there was no bonus or incentive plan of any kind aimed at linking employee performance to strategically relevant employee capabilities and behaviors such as greeting guests in a friendly manner or providing expeditious check-ins and check-outs. The bottom line for Lisa and the CFO was that the company's financial rewards system—potentially, the single-biggest tool they had for channeling employee performance toward accomplishing the Hotel Paris's goals—was totally inadequate. She and her team thus turned to the job of deciding what sort of incentive-based reward systems to install.

Based on their analysis, Lisa Cruz and the CFO concluded that, by any metric, their company's incentive plan had to be changed. The percentage of the workforce whose merit increase or incentive pay was tied to performance was effectively zero, because managers awarded merit pay across the board. No more than 5% of the workforce (just the managers) was eligible for incentive pay. And, the percentage difference in incentive pay between a low-performing and a high-performing employee was less than 2%. Lisa knew from industry studies that in top firms, over 80% of the workforce had merit pay or incentive pay tied to performance. She also knew that in high-performing firms, there was at least a 5% or 6% difference in incentive pay between a low-performing and a high-performing employee. The CFO authorized Lisa to design a new strategy-oriented incentive plan for the Hotel Paris's employees. Their overall aim was to incentivize the pay plans of just about all the company's employees.

Lisa and the company's CFO laid out three measurable criteria that the new incentive plan had to meet. First, at least 90% (and preferably all) of the Hotel Paris's employees must be eligible for a merit increase or incentive pay that is tied to performance. Second, there must be at least a 10% difference in incentive pay between a low-performing and high-performing employee. Third, the new incentive plan had to include specific bonuses and evaluative mechanisms that linked employee behaviors in each job category with strategically relevant

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employee capabilities and behaviors. For example, front-desk clerks were to be rewarded in part based on the friendliness and speed of their check-ins and check-outs, and the housecleaning crew was to be evaluated and rewarded in part based on the percentage of room cleaning infractions.

With these criteria in mind, Lisa and her team turned to designing the new merit and incentive pay plan. They created a larger merit pay pool, and instructed supervisors that employees scoring in the lower 10% of performance were to receive no merit pay, while the difference in merit pay between the top category and medium category employees was to be 10%. They contracted with an online employee recognition firm and instituted a new "Hotel Paris instantaneous thank-you award program." Under this program, any guest or any supervisor could recommend any hotel employee for an instantaneous recognition award; if approved by the department manager, the employee could choose the recognition award by going to the company's Web site. The incentive structure for all the company's managers, including hotel managers, assistant managers, and departmental managers, now ties at least 10% of each manager's annual pay to the degree to which his or her hotel achieves its strategic aims. The plan measures this in terms of ratings on the guest satisfaction index, average length of guest stay, and frequency of guest returns. Ratings on all these metrics soon began to rise.

Questions

12-20. Discuss what you think of the measurable criteria that Lisa and the CFO set for their new incentive plan.

12-21. Given what you know about the Hotel Paris's strategic goals, list three or four specific behaviors you would incentivize for each of the following groups of employees: front-desk clerks, hotel managers, valets, housekeepers.

12-22. Based on what you learned in this chapter of Dessler *Human Resource Management*, lay out a complete incentive plan (including all long- and short-term incentives) for the Hotel Paris's hotel managers.

MyLab Management

Go to **www.pearson.com/mylab/management** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

12-23. When and why would you pay a salesperson based solely on commission? Based on a combined salary and commission?

12-24. Explain the role recognition and other nonmaterial incentives play in an effective incentive plan.

12-25. MyLab Management only—comprehensive writing assignment for this chapter.

PERSONAL INVENTORY ASSESSMENTS

Incentives play a big role in employee motivation. Go to **www.pearson.com/mylab/management** to complete the Personal Inventory Assessment related to this chapter.

Key Terms

financial incentives, 391
productivity, 391
fair day's work, 391
scientific management movement, 391
pay-for-performance, 391
variable pay, 391
intrinsic motivation, 392
expectancy, 392
instrumentality, 392
valence, 392
behavior modification, 392
piecework, 393
straight piecework, 394
standard hour plan, 394
merit pay (merit raise), 394
annual bonus, 402
stock option, 404
golden parachute, 406
team (or group) incentive plan, 406
organization-wide incentive plan, 408
profit-sharing plan, 408
Scanlon plan, 408
gainsharing plan, 409
earnings-at-risk pay plan, 409
employee stock ownership plan (ESOP), 409

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13 Benefits and Services

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

13-1 **Name and define** each of the main pay for time not worked benefits.

13-2 **Describe** each of the main insurance benefits.

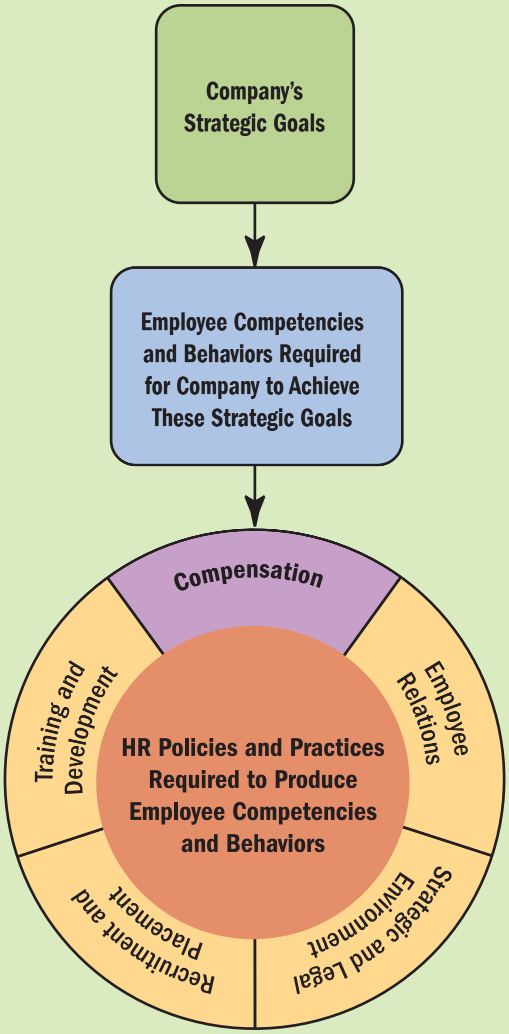
13-3 **Discuss** the main retirement benefits.

13-4 **Outline** the main employees' services benefits.

13-5 **Explain** the main flexible benefit programs.

13-6 **Explain** how to use benefits to improve engagement, productivity, and performance.

About 30 years ago, Gary Erickson was biking through California and got an idea that changed his life—to create tastier and healthier health bars than those then available.[1] That was the beginning of Clif Bar, a company Erickson started as a small bakery and then grew into one with hundreds of employees selling healthy foods and drinks. He wanted an employee benefits plan for his employees that highlighted Clif Bar's healthy/sustainable focus; we'll see what he did.



WHERE ARE WE NOW . . .

Chapters 11 and 12 addressed salaries (and wages) and incentives. The main purpose of this chapter is to explain the third major pay component: employee benefits. The main topics we discuss are **Pay for Time Not Worked Benefits**, **Insurance Benefits**, **Retirement Benefits**, **Employees' Services Benefits**, **Flexible Benefits**, and **Employee Engagement Guide for Managers**. This chapter completes our discussion of employee compensation.

The next chapter starts a new part of this book, and focuses on managing employee relations.

Introduction: The Benefits Picture Today

benefits
Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.

"What are your benefits?" is the first thing many applicants ask. **Benefits**—indirect financial and nonfinancial payments employees receive for their employment with the company and which employers use to attract, recognize, and retain workers—are an important part of just about everyone's compensation.[2] They include things like health and life insurance, pensions, paid time off, and child-care assistance. Employee benefits account for about 31% of total compensation. Figure 13-1 summarizes the breakdown of benefits as a percentage of compensation.

For most employees, *health benefits* are the 800-pound gorilla of the benefits package. In one recent survey, benefits that people said they coveted most were health, dental, and vision benefits (88%), more flexible hours (88%), more vacation time (80%), and more work from home options (80%).[3] Even human resource managers can underestimate benefits' attractiveness. One survey concluded that many human resource managers erroneously assume that things like job security and autonomy are more important than benefits.[4] They aren't.

Policy Issues

Employers therefore should design benefits packages carefully, and there are many policy decisions to make. These include what benefits to offer, who receives coverage, whether to include retirees in the plan, whether to deny benefits to employees during initial "probationary" periods, how to finance benefits, cost-containment procedures, and how to communicate benefits options to employees.[5]

Legal issues loom large. Federal and state laws *mandate* some benefits (such as Social Security), while other benefits are *voluntary* (at the employer's discretion); see Table 13-1 (page 422). However, we'll see that federal law still affects even voluntary/discretionary benefits such as vacation leave. And employers must adhere to the laws of the states in which they do business. For example, California requires most state contractors to provide domestic partner benefits for employees.

There are many benefits and ways to classify them. We will classify them as (1) pay for time not worked (such as vacations), (2) insurance benefits, (3) retirement benefits, (4) personal services benefits, and (5) flexible benefits. We will start our discussion with pay for time not worked.

HR in Action at the Hotel Paris As they reviewed the benefits figures, Lisa Cruz and the CFO became increasingly concerned. They computed several benefits-related metrics for their firm, including *benefits costs as a percentage of payroll* and *sick days per full-time equivalent employee per year*. The results were not what they should have been. They had to change their benefits plan. To see how they handled this, read the case on pages 447–448.

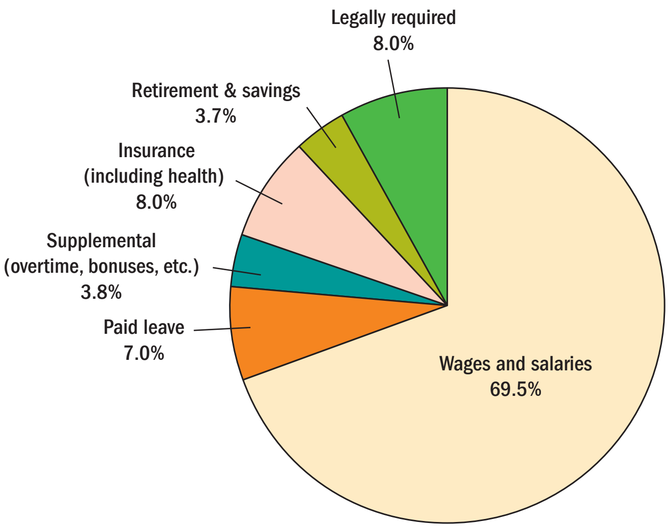


FIGURE 13-1 Relative Importance of Employer Costs for Employee Compensation (Private Industry), December 2017

Source: Based on Employer Costs for Employee Compensation—December 2017. http://www.bls.gov/news.release/pdf/ecec.pdf accessed March 30, 2018.

TABLE 13-1 Some Required and Discretionary Benefits

Benefits Required by Federal or Most State Laws	Benefits Discretionary on Part of Employer*
Social Security	Disability, health, and life insurance
Unemployment insurance	Pensions
Workers' compensation	Paid time off for vacations, holidays, sick leave, personal leave, jury duty, etc.
Leaves under Family and Medical Leave Act	Employee assistance and counseling programs; "family-friendly" benefits for child care, elder care, flexible work schedules, etc.; executive perquisites

Note: *Although not required under federal law, all these benefits are regulated in some way by federal law, as explained in this chapter.

KNOWLEDGE BASE

LEARNING OBJECTIVE 13-1

Name and define each of the main pay for time not worked benefits.

Pay for Time Not Worked

Pay for time not worked—also called **supplemental pay benefits**—is very costly, because of how much time off most employees receive. Common time-off-with-pay benefits include holidays, vacations, jury duty, funeral leave, military duty, personal days, sick leave, sabbatical leave, maternity leave, and unemployment insurance payments for laid-off or terminated employees.

supplemental pay benefits
Benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.

Unemployment Insurance

All states have their own **unemployment insurance (or compensation)** laws. These provide benefits to eligible workers who become unemployed through no fault of their own. The benefits derive from a tax on employers that can range from 0.1% to 5% of taxable payroll in most states. An employer's unemployment tax rate reflects its rate of employee terminations. Unemployment tax rates are rising in many states.

unemployment insurance (or compensation)
Provides benefits if a person is unable to work through some fault other than his or her own.

Yellow Dog Productions Inc./Photodisc/Getty Images

Unemployment insurance/compensation laws provide short-term benefits to people who lose their jobs through no fault of their own.

For example, prior to the 2007–2008 recession, Maryland's unemployment insurance tax rate was 0.3% or lower, but now ranges from 0.6% to 9.0% per employee.[6] All states follow federal unemployment insurance guidelines.

Not everyone dismissed by an employer is entitled to unemployment benefits—only those released through no fault of their own. Thus, strictly speaking, a worker fired for chronic lateness can't legitimately claim benefits. But many managers are lackadaisical in protecting their employers. Employers therefore spend thousands of dollars on unemployment taxes unnecessarily.

The main rule is to keep a list of written warnings to demonstrate that poor performance caused the dismissal. The checklist in Table 13-2 can help. (Those fired during their initial "90-day probation" *are* eligible for unemployment, so follow that checklist for them, too.)

Vacations and Holidays

Most firms offer vacation and holiday benefits. About 90% of full-time workers and 40% of part-timers get paid holidays, an average of eight paid holidays off.[7] Common U.S. paid holidays include New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas Day.[8] On average, American workers get about 9 days of vacation leave after 1 year's employment, 14 days after 5 years, and 17 after 10 years.[9]

Firms should address several holiday-and vacation-related policy issues, such as how many vacation days employees get, and which days (if any) are paid holidays. Other vacation policy decisions include: Are employees paid for accrued vacation time if they quit before taking their vacations? Will you pay employees for a holiday if they don't come to work the day before and the day after the holiday? And, should we pay some premium—such as time and a half—when employees must work on holidays?

In practice, vacation policies range from highly flexible, to traditional, to restrictive. Some employers have "unlimited vacation policies." One motive here is that with many workers answering e-mails 24/7, going home doesn't mean leaving work, so they deserve flexible vacations.[10] Such plans also aid recruiting. Of course, unlimited

TABLE 13-2 An Unemployment Insurance Cost-Control Checklist

Do You:

✓ Keep documented history of lateness, absence, and warning notices
✓ Warn chronically late employees before discharging them
✓ Have a rule that 3 days' absence without calling in is reason for automatic discharge
✓ Request doctor's note on return to work after absence
✓ Make written approval for personal leave mandatory
✓ Stipulate date for return to work from leave
✓ Obtain a signed resignation statement
✓ Mail job abandonment letter if employee fails to return on time
✓ Document all instances of poor performance
✓ Require supervisors to document the steps taken to remedy the situation
✓ Document employee's refusal of advice and direction
✓ Require all employees to sign a statement acknowledging acceptance of firm's policies and rules
✓ File the protest against a former employee's unemployment claim on time (usually within 10 days)
✓ Use proper terminology on claim form, and attach documented evidence regarding separation
✓ Attend hearings, and appeal unwarranted claims
✓ Check every claim against the individual's personnel file
✓ Routinely conduct exit interviews to produce information for protesting unemployment claims

Source: Copyright Gary Dessler, PhD.

vacation plans aren't really unlimited. While theoretically there's no limit on how many days off employees can take, in practice they must plan their schedules with their supervisors. When one company switched to such a plan, the average vacation days rose from 14 to 16.6, year-over-year. As a rule, very few employees actually take more time off.[11] Blackrock recently became the first big financial firm to introduce such a plan.[12]

Other employers take a traditional approach: employees are eligible for a certain number of annual vacation days (for instance all IBM employees get at least 3 weeks, and after 10 years get 4 weeks),[13] and place requests for vacations with their supervisors and perhaps their HR departments. Wage surveys provide typical vacation policies, which employers then usually describe in their employee manuals.

Some employers, concerned with excessive absence, emphasize restrictive, centralized absence oversight (called "integrated absence management"). This starts with collecting data. For instance, how many people are on leave; how many days of work is the employer losing; how much is the employer spending to replace absent workers; and what units have the attendance problems?[14] These employers then closely monitor all aspects of their employees' leaves and absences.

KNOW YOUR EMPLOYMENT LAW

Some Legal Aspects of Vacations and Holidays

Although federal law doesn't require vacation benefits, the employer must still formulate its vacation policy with care. As an example, with many employers' vacation policies, vacation pay accrues, say, on a biweekly basis. This means that these employers obligate themselves to pay new employees pro rata vacation pay if they leave the firm during their first year. But if the employer's vacation policy requires that a new employee pass his or her first employment anniversary *before becoming entitled* to a vacation, the employee gets no vacation pay if he or she leaves during that first year.

Another question is whether the employer can cancel an employee's scheduled vacation, for instance, due to a rush of orders. Here it's important that it formulate its vacation policy so it's clear that the employer reserves the right to require vacation cancellation and rescheduling if production so demands. ■

Sick Leave

sick leave
Provides pay to an employee when he or she is out of work because of illness.

Sick leave provides pay to employees when they're out of work due to illness. Most policies grant full pay for a specified number of sick days—perhaps 12 per year, usually accumulating at the rate of, say, 1 day per month of service. Six states and several cities now have mandatory paid leave sick laws.[15]

The problem with sick days is that many employees use them whether they're sick or not. In one survey, personal illnesses accounted for about 45% of unscheduled sick leave absences. Family issues (27%), personal needs (13%), and "entitlement" (9%) were other reasons cited.[16] Absenteeism costs U.S. employers about 20% of their total payrolls.[17]

COST-REDUCTION TACTICS Employers use several tactics to reduce excessive sick leave absence. About 87% use *pooled paid leave plans* (or *"banks"*). These lump together sick leave, vacation, and personal days into a single leave pool. In one SHRM survey, the average days awarded depended on the employee's time with the employer, and ranged from 13 to 26.[18] (Special absences like serious short-term illnesses and bereavement leave are usually handled separately.) Most firms don't include federal holidays in their paid time off "banks."[19]

Another tactic is to repurchase unused sick leave at the end of the year by paying their employees for each unused sick day. The problem is that legitimately sick employees may come to work. Others hold monthly lotteries in which only employees with perfect monthly attendance are eligible for a cash prize. At Marriott, employees can trade the value of some sick days for other benefits. Others aggressively investigate all absences, calling absent employees at home.[20] The accompanying Profit Center feature shows how one employer cut costs.

IMPROVING PERFORMANCE: *HR AS A PROFIT CENTER*

Controlling Sick Leave

Sick leave often gets out of control because employers don't measure it. In one survey, only 57% of employers formally tracked sick days for their exempt employees.[21] Three-fourths of the employers couldn't provide an estimate of what sick pay was costing them. Therefore, the employer should first have a system for monitoring sick leaves and for measuring their financial impact.[22]

As an example, when she became director of the United Kingdom's Driver and Vehicle Licensing Agency, the new director knew steps were needed to address its absence rate.[23] The rate had peaked at 14 days out per employee in 2005, at a cost of about $20 million per year (then £10.3 million).

The new director organized a human resource absence initiative.[24] The agency set a goal of reducing absences by 30% by 2010. Agency directors received absence-reduction goals, and their progress was tracked. The agency introduced new policies on special leave, rehabilitation support, and monitoring absentees. They made it easier for employees to swap work shifts, and introduced a guaranteed leave day policy.

By 2010, the sickness absence rate was down to 7.5 days per employee and productivity was up, for multiyear savings of about $48 million dollars (£24.4 million). ■

> **MyLab Management Talk About It 1**
>
> If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete this discussion question. A note on this agency in Wikipedia refers to "amazingly high" levels of sick leave among staff at the DVLA [around 2007], with employees having an average of three weeks a year sick leave."[25] What sorts of inaction on the part of previous managers could help explain such poor attendance?

KNOW YOUR EMPLOYMENT LAW

Leaves and the Family and Medical Leave Act and Other Laws

Parental leave is an important benefit. About half of workers are women; about 80% of them will become pregnant during their work lives. Furthermore, many workers are single parents. Several laws apply here. Under the Pregnancy Discrimination Act, employers must treat women applying for pregnancy leave as they would any other employee requesting a leave under the employer's sick leave policies. The Family and Medical Leave Act of 1993 (FMLA)[26] stipulates that:[27]

1. Private employers of 50 or more employees must provide eligible employees (women or men) up to 12 weeks of unpaid leave for their own serious illness, the birth or adoption of a child, or the care of a seriously ill child, spouse, or parent.
2. Employers may require employees to take their paid sick leave or annual leave as part of the 12-week leave provided in the law.
3. Employees taking leave are entitled to receive health benefits while they are on unpaid leave, under the same terms and conditions as when they were on the job.
4. Employers must guarantee most employees the right to return to their previous or equivalent position with no loss of benefits at the end of the leave.

Under the Americans with Disabilities Act (ADA), a qualified employee with a disability may be eligible for a leave if it's necessary to accommodate the employee.[28]

FMLA Guidelines

Managers who want to avoid granting nonrequired FMLA leaves must understand the law. For example, to be eligible for leave under the FMLA, the employee must have worked for the employer for at least a total of 12 months and have worked for 1,250 or more hours in the past 12 consecutive months.[29] If these conditions don't apply, no leave is required.

Employers should have procedures for all leaves of absence (including those under the FMLA). In particular:

- Give no employee a leave until the reason for the leave is clear.
- Confirm the legitimacy of any FMLA request. Employers can request sufficient medical facts and symptoms to confirm the eligible condition, prescriptions, appointments, and the treatment regimen.[30]
- Use a standard form to record both the employee's expected return date and the fact that, without an authorized extension, the firm may terminate his or her employment (see Figure 13-2). ■

Many employers enrich their parental leave plans to make them more attractive for mothers to return from maternity leave. For example, keep in touch during maternity leave, offer flexible jobs with reduced travel and hours, and offer longer leaves.[31]

FIGURE 13-2 Online Request for Leave Form

Source: From Request for Leave or Approved Absence, http://www.opm.gov/FORMS/PDF_FILL/opm71.pdf.

Request for Leave or Approved Absence

1. **Name** *(Last, first, middle)*

2. **Employee or Social Security Number (Enter only the last 4 digits of the Social Security Number (SSN))**

3. **Organization**

4. **Type of Leave/Absence** *(Check appropriate box(es) below)*	Date From	Date To	Time From	Time To	Total Hours
☐ **Accrued Annual Leave**					
☐ **Restored Annual Leave**					
☐ **Advanced Annual Leave**					
☐ **Accrued Sick Leave**					
☐ **Advanced Sick Leave**					

Purpose:
☐ Illness/injury/incapacitation of requesting employee
☐ Medical/dental/optical examination of requesting employee
☐ Care of family member, including medical/dental/optical examination of family member, or bereavement
☐ Care of family member with a serious health condition
☐ Other

	Date From	Date To	Time From	Time To	Total Hours
☐ **Compensatory Time Off**					
☐ **Other Paid Absence** *(Specify in Remarks)*					
☐ **Leave Without Pay**					

5. **Family and Medical Leave**

If annual leave, sick leave, or leave without pay will be used under the Family and Medical Leave Act of 1993, please provide the following information:

☐ **I hereby invoke my entitlement to Family and Medical Leave for:**

☐ Birth/Adoption/Foster Care
☐ Serious health condition of spouse, son, daughter, or parent
☐ Serious health condition of self

Contact your supervisor and/or your personnel office to obtain additional information about your entitlements and responsibilities under the Family and Medical Leave Act. Medical certification of a serious health condition may be required by your agency.

6. **Remarks:**

7. **Certification:** I hereby request leave/approved absence from duty as indicated above and certify that such leave/absence is requested for the purpose(s) indicated. I understand that I must comply with my employing agency's procedures for requesting leave/approved absence (and provide additional documentation, including medical certification, if required) and that falsification on this form may be grounds for disciplinary action, including removal.

7a. **Employee Signature** 7b. **Date**

8a. **Official Action on Request:** ☐ **Approved** ☐ **Disapproved** *(If disapproved, give reason. If annual leave, initiate action to reschedule.)*

8b. **Reason for Disapproval:**

8c. **Supervisor Signature** 8d. **Date**

PRIVACY ACT STATEMENT
Section 6311 of Title 5, United States Code, authorizes collection of this information. The primary use of this information is by management and your payroll office to approve and record your use of leave. Additional disclosures of the information may be: to the Department of Labor when processing a claim for compensation regarding a job connected injury or illness; to a State unemployment compensation office regarding a claim; to Federal Life Insurance or Health Benefits carriers regarding a claim; to a Federal, State, or local law enforcement agency when your agency becomes aware of a violation or possible violation of civil or criminal law; to a Federal agency when conducting an investigation for employment or security reasons; to the Office of Personnel Management or the General Accounting Office when the information is required for evaluation of leave administration; or the General Services Administration in connection with its responsibilities for records management.

Public Law 104-134 (April 26, 1996) requires that any person doing business with the Federal Government furnish a social security number or tax identification number. This is an amendment to Title 31, Section 7701. Furnishing the social security number, as well as other data, is voluntary, but failure to do so may delay or prevent action on the application. If your agency uses the information furnished on this form for purposes other than those indicated above, it may provide you with an additional statement reflecting those purposes.

Office of Personnel Management
5 CFR 630

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OPM Form 71
Rev. September 2009
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The FMLA mandates only unpaid leave. Therefore, several states implemented paid family leave laws.[32] Recently, there's been discussion of the need for federal parental paid leave legislation.[33]

Severance Pay

severance pay
A one-time payment some employers provide when terminating an employee.

Many employers provide **severance pay,** a one-time separation payment when terminating an employee. Most managers expect employees to give them 1 or 2 weeks' notice if they plan to quit, so severance pay seems appropriate when dismissing an employee. Reducing litigation from disgruntled former employees is another reason.[34] Severance pay also helps reassure employees that they'll receive some financial help if let go, too. If the employer obligates itself (for instance, in its employee handbook) to pay severance, then its "voluntary" plan must comply with additional ERISA rules.[35]

The reason for the dismissal usually affects the severance pay. About 95% of employees dismissed due to downsizings get severance pay, but only about a third of employers offer severance when dismissing for poor performance. It is uncommon to pay when employees quit.

The maximum weeks of severance pay tends to vary by position. In one survey about 45% of officers and senior executives got 52 weeks or more, 42% of professionals got 14–26 weeks, and 39% of administrative staff got 14–26 weeks. Few lower-level employees got no severance, but 13%–19% of officers and senior executives got no severance.[36]

GUIDELINES In any event, keep several things in mind when designing severance plans:

- List the situations for which the firm will pay severance, such as layoffs resulting from reorganizations.
- Require signing of a knowing and voluntary waiver/general release prior to remittance of any severance pay, absolving the employer from employment-related liability.
- Reserve the right to terminate or alter the severance policy.
- Make it clear that any continuing severance payments continue until only the stated deadline or until the employee gets a new job, whichever occurs first.
- Remember that, as with all personnel actions, employers must make severance payments, if any, equitably.[37]

IMPROVING PERFORMANCE: *HR PRACTICES AROUND THE GLOBE*

Severance Pay in France

Although President Emmanuel Macron is working to change it, French labor law is still complex and restrictive, and aimed mostly at protecting employees' rights.[38]

For example, when one employer refused two employees' requests to be fired, they stopped coming to work. He dismissed them, after which a labor tribunal held they'd been wrongfully terminated. The two former employees ended up getting about $60,000 each. Proceedings in these tribunals can go on for years.

Understandably, many employers take the easy way out and don't hire employees. Instead, they outsource work or use temps. President Macron wants to put a ceiling on the labor tribunal awards. He hopes that lifting that threat will make employers more willing to hire again. But unions are resisting capping awards, and striking. In any case, managers from other countries should understand French labor law before opening new facilities there.

Supplemental Unemployment Benefits

supplemental unemployment benefits
Provide for a "guaranteed annual income" in certain industries where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.

In some industries such as automaking, shutdowns to reduce inventories or change machines are common. **Supplemental unemployment benefits** are cash payments that supplement the employee's unemployment compensation, to help the person maintain his or her standard of living while out of work.

Insurance Benefits

Most employers also provide various required or voluntary insurance benefits, such as workers' compensation and health insurance.

LEARNING OBJECTIVE 13-2

Describe each of the main insurance benefits.

Workers' Compensation

workers' compensation
Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.

Workers' compensation laws aim to provide sure, prompt income and medical benefits to work-related accident victims or their dependents, regardless of fault. Every state has its own workers' compensation law and commission, and some run their own insurance programs. However, most require employers to carry workers' compensation insurance with private, state-approved insurance companies. Neither the state nor the federal government contributes any funds for workers' compensation.

HOW BENEFITS ARE DETERMINED Workers' compensation can be monetary or medical. In the event of a worker's death or disablement, the person's dependents receive a cash benefit based on prior earnings—usually one-half to two-thirds the worker's average weekly wage, per week of employment. Most states have a time limit—such as 500 weeks—for which benefits can be paid. If the injury causes a specific loss (such as an arm), the employee may receive additional benefits based on a statutory list of losses, even though he or she may return to work. In addition to these cash benefits, employers must furnish medical, surgical, and hospital services as required for the employee.

For workers' compensation to cover an injury or work-related illness, one must only prove that it arose while the worker was on the job. It doesn't matter that he or she may have been at fault.[39] Suppose you instruct employees to wear safety goggles at their machines. One worker doesn't and has an eye injury on the job. The company must still provide workers' compensation benefits.

Americans with Disabilities Act provisions generally prohibit employers from inquiring about an applicant's workers' compensation history. Furthermore, failing to let an employee who was on injury-related workers' compensation return to work, or not accommodating him or her, could trigger ADA lawsuits.

CONTROLLING WORKERS' COMPENSATION COSTS It is important to control workers' compensation claims (and therefore costs). The employer's insurance company usually pays the claim, but the employer's premiums may rise with more claims.

There are ways to reduce workers' compensation claims. First, new employees are most at risk: inexperienced (less than one year) workers have two to four times the loss costs, for instance.[40] Competent selection—background checks, testing, and drug testing—plus training are therefore crucial.[41] Also reduce accident-causing conditions, such as slippery floors or sloppy work habits. Check and comply with safety standards laws. Furthermore, some workers' compensation claims are not legitimate. Red flags include vague accident details, minor accidents resulting in major injuries, lack of witnesses, injuries occurring late Friday, and late reporting.[42]

Case management is popular for cost control. It is "the treatment of injured workers on a case-by-case basis by an assigned manager, usually a [specially trained] registered nurse, who coordinates with the physician and health plan to determine which care settings are the most effective for quality care and cost."[43]

Moving aggressively to support the injured employee and to get him or her back to work is important too. The involvement of an attorney and the duration of the claim both influence the worker's claim cost.[44] Many firms have programs such as physical therapy assistance to help reintegrate claim recipients.

Hospitalization, Health, and Disability Insurance

Health insurance looms large in many people's choice of employer, because it's so expensive.[45] Hospitalization, health, and disability insurance helps protect employees against hospitalization costs and from the income loss arising from off-the-job accidents or illness. Many employers purchase insurance from life insurance companies, casualty insurance companies, or Blue Cross (for hospital expenses) and Blue Shield

TABLE 13-3 Percentage of Employers Offering Some Popular Health Benefits

2015 Health Care and Welfare Benefits	
Dental insurance	96%
Prescription drug coverage	96%
Mental health coverage	91%
Mail-order prescription program	87%
Vision insurance	87%
Accidental death and dismemberment insurance (AD&D)	85%
Preferred provider organization (PPO)	85%
Contraceptive coverage	83%
Chiropractic coverage	81%
Long-term disability insurance	80%
Employee assistance program (EAP)	79%
Short-term disability insurance	74%
Medical flexible spending accounts	69%

Source: 2015 Employee Benefits, SHRM, https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/2015-Employee-Benefits.pdf, accessed April 23, 2017.

(for physician expenses) organizations. Others contract with health maintenance organizations or preferred provider organizations. The employer and employee usually both contribute to the plan. Experts forecasted the total cost of medical and pharmacy benefits to rise by 5% in 2018, to about $14,000 per employee.[46] And of course employers are dealing with implementing the Patient Protection and Affordable Care ("Obamacare") Act, as we will see.[47]

Table 13-3 illustrates the prevalence of health-related benefits.

COVERAGE Most employer health plans provide at least basic hospitalization and surgical and medical insurance for all eligible employees at group rates. Insurance is generally available to all employees—including new nonprobationary ones—regardless of health or physical condition. Most basic plans pay for hospital room and board, surgery charges, and medical expenses (such as doctors' visits to the hospital). Some also provide "major medical" coverage to meet the medical expenses resulting from serious illnesses.

Most employers' health plans also cover health-related expenses like doctors' visits, eye care, and dental services. Other plans pay for general and diagnostic visits to the doctor's office, vision care, hearing aids, and prescription drugs. *Disability insurance* provides income protection for salary loss due to illness or accident, and may continue until age 65 or beyond. Disability benefits usually range from 50% to 75% of the employee's base pay if he or she is disabled.

Under the Patient Protection and Affordable Care Act, employers with at least 50 full-time-equivalent employees are to offer minimum levels of affordable health-care coverage or pay a penalty.

health maintenance organization (HMO)
A prepaid health-care system that generally provides routine round-the-clock medical services as well as preventive medicine in a clinic-type arrangement for employees, who pay a nominal fee in addition to the fixed annual fee the employer pays.

HMOS Many employers offer membership in a **health maintenance organization (HMO),** a medical organization consisting of specialists (surgeons, psychiatrists, and so on), often operating out of a health-care center. HMOs provide routine medical services to employees who pay a nominal fee. Employees often have "gatekeeper" doctors who must approve appointments with specialist doctors. The HMO receives a fixed annual fee per employee from the employer (or employer and employee), regardless of whether it provides that person service.

PPOS Preferred provider organizations (PPOs) are a cross between HMOs and the traditional doctor–patient arrangement: They are "groups of health-care providers that contract with employers, insurance companies, or third-party payers to provide medical care services at a reduced fee."[48] Unlike HMOs, PPOs let employees select providers (such as doctors) from a relatively wide list, and see them in their offices, often without gatekeeper doctor approval. Providers agree to discounts and to certain controls, for example, on testing.[49]

MENTAL HEALTH BENEFITS The World Health Organization estimated that more than 34 million people in the United States between the ages of 18 and 64 suffer from mental illness.[50] Mental illnesses represent about 24% of all reported disabilities, more than disabling injuries, cardiovascular diseases, and cancer combined. For some reason Millennials are more likely to report being depressed.[51]

Mental health costs are rising. Reasons include widespread drug and alcohol problems, more states requiring employers to offer minimum mental health benefits, and the fact that mental health claims tend to trigger other health-care claims. The Mental Health Parity Act of 1996 (amended in 2008) sets minimum mental health-care benefits; it also prohibits employer group health plans from adopting mental health benefits limitations without comparable limitations on medical and surgical benefits.[52]

KNOW YOUR EMPLOYMENT LAW

Patient Protection and Affordable Care Act of 2010 and Other Laws

Under the Patient Protection and Affordable Care Act, employers with at least 50 full-time-equivalent employees are to offer minimum levels of affordable health-care coverage or pay a penalty of $167 per employee per month. To be eligible, an employee must work at least 30 hours per week or a total of 130 hours in a calendar month.[53] The bill was signed into law by President Obama in 2010, and employers faced a number of deadlines under the act.[54] By 2018, employers with health-care plans that cost more than the threshold the law sets (for instance, $27,500 for family coverage) had to pay a 40% tax on the amount of coverage over $27,500. Individual and group health plans that already provide dependent coverage must expand eligibility up to age 26.[55]

Under the law, each state (or, when necessary, the federal government) may run health insurance exchanges—in effect, marketplaces for buying and selling insurance. In part to discourage employers from dropping their health-care plans and sending employees to the health exchanges, the law imposes those fines of $2,000 ($167 per month) per worker on any employer with more than 50 workers who doesn't offer a health insurance plan. "Obamacare" health-care exchanges cover less than 10% of the health insurance market; employers' programs cover almost half the U.S. population.[56]

Because employers had to pay a 40% surcharge beginning in 2018 on health insurance plans exceeding $27,500 for a family (or $10,200 for an individual), many employers are moving to reduce their health-care benefits, for instance by increasing employee co-pays and deductibles.[57] To avoid penalties that could reach $2,000 per employee, some employers are directing employees who qualify for Medicaid to sign up for it, instead of employer-supplied insurance.[58] Some employers are eliminating their health plans, or turning more full-time workers into part-timers working less than 30 hours per week.[59] About 43% of employers surveyed say their workers will have to pay more for their health-care plans.[60] Others are reducing their coverage.[61] Other employers calculate that it may be cheaper to pay the penalty than supply the insurance.[62]

The Evolving Law

The Affordable Care Act did not please everyone, and many legislators in particular objected to it. For example, some say it entangles the federal government excessively in citizen's personal health matters, and that it provides excessive monetary subsidies to support the act's provisions. (Indeed, without a change, Obamacare premiums were projected to rise quickly).[63]

An early proposal would have changed or eliminated many of the Affordable Care Act's core provisions, by allowing individual states to waive compliance with them.[64] Congress's initial attempts to replace Obamacare failed to obtain sufficient support.

With uncertainty surrounding the Affordable Care Act, many insurers were uncertain they could continue providing coverage.[65] At least for 2018, employers were proceeding with most of the Obamacare rules in place.[66]

COBRA

COBRA—the Consolidated Omnibus Budget Reconciliation Act—requires most private employers to continue to make health benefits available to separated employees and their families for a time, generally 18 months after separation.[67] The former employee must pay for the coverage.

Employers ignore COBRA's rules at their peril. The employer does not want separated employees to leave and be injured, and then claim they were never told they could have continued their insurance coverage. Therefore, when a new employee first becomes eligible for the company's insurance plan, the person *must* receive (and acknowledge receiving) an explanation of his or her COBRA rights. And all employees separated from the company should sign a form acknowledging that they received and understand those rights. (See Figure 13-3 for a checklist.)

Other Laws

Other federal laws are pertinent. For example, the *Employee Retirement Income Security Act of 1974* (ERISA) sets minimum standards for most voluntarily established pension and health plans in private industry.[68] *The Newborn Mother's Protection Act of 1996* prohibits employers' health plans from using incentives to encourage employees to leave the hospital after childbirth after less than the legislatively determined

FIGURE 13-3 Illustrative COBRA Compliance Checklist

Source: Adapted from: www.cobraplus.com/wp-content/themes/cobra-plus/images/constant/COBRAetup.pdf; COBRA Checklist, www.shrm.org/resourcesandtools/; COBRA record keeping checklist, BLRBusiness and Legal Resources; and COBRA compliance checklist, http://brscobra.com/cobra-checklist, all accessed August 1, 2017. Copyright Gary Dessler, PhD.

Cobra to do list would include, for example:	✓ If Done
Complete COBRA services agreement with vendor.	☐
Complete COBRA census: who is covered, with their ages.	☐
Maintain records of those covered by group health plan.	☐
Notify all employees of their rights under COBRA.	☐
Document notification to qualified individuals if they are not eligible to continue coverage.	☐
Monitor COBRA election periods.	☐
Document all notifications (7 years).	☐
Receive signed COBRA election form.	☐
Maintain log of all inquiries received re COBRA.	☐
Track eligible individuals' COBRA payments.	☐
Notify insurers of cancellation of coverage.	☐
Notify qualified beneficiaries if they are not eligible for continued COBRA coverage.	☐
Mail COBRA qualifying event notice and election form to former employee.	☐
Maintain current addresses of those on COBRA.	☐
Maintain records of qualified COBRA beneficiaries.	☐
Terminate COBRA coverage.	☐

minimum stay. Employers who provide health-care services must follow the privacy rules of the *Health Insurance Portability and Accountability Act of 1996* (HIPAA).[69] Employers must provide the same health-care benefits to employees over the age of 65 that they do to younger workers, even though the older ones are eligible for federal Medicare health insurance. Under the *Americans with Disabilities Act*, the health plan generally shouldn't make distinctions based on disability. Under the *Genetic Information Nondiscrimination Act of 2008* (GINA), even innocent actions can be problems. For example, if a health plan administrator writes down that a member's mother passed away from breast cancer, making the note could conceivably violate the act.[70] States such as California have their own FMLAs.[71] ■

KNOWLEDGE BASE

Trends in Employer Health-Care Cost Control

It can cost a business with 50 employees $1 million or more for insurance coverage. Health-care cost control is therefore one big way the HR department can improve profits.[72]

Cost control should start by measuring and auditing health-care costs.[73] One survey several years ago found that while the *standard* for claims errors was 3%, the *actual* percentage of claims with errors was about 6.3%. The standard for claims dollars paid in error was 1%; the *actual* percentage of claims dollars paid in error was 3.4%. Consultants who audit employers' health-care payments estimate up to *8%* overpayments. The bottom line is that auditing claims is essential.[74]

Beyond that, for many employers, deductibles and co-pays are the low-hanging fruit in health-care cost control. For example, at least 20% of employees were enrolled in high-deductible plans in one survey.[75]

OTHER COST-CONTROL TOOLS Employers take other cost-control steps. For example, employees use tax-sheltered health savings accounts (HSAs) to pay for "low dollar" (not catastrophic) medical expenses.[76] About 19% of employers surveyed had some form of health-care plan *spousal exclusion policies*, such as excluding a spouse when similar coverage was available from the spouse's employer.[77] Some employers offer *defined contribution health insurance plans*. Like 401(k) plans, defined contribution health insurance plans tie each employee's health-care benefits to what he or she and the employer contributes, rather than providing health-care benefits that are defined in advance.[78]

Many employers move Medicare-eligible retirees from their company health insurance plans into private individual exchanges. That reduces their own administrative obligations while offering retirees more choices for less money.[79] The exchanges are run by companies that include Mercer, and Aon Hewitt.

Other employers hire "patient advocates," such as nurses who review employees' medications and (with the consultation of independent physicians) recommend reduced medication regimens.[80] The U.S. Labor Department recently proposed rules making it easier for small businesses to band together to offer *minimal health benefits plans* (although some worry that such plans don't cover big health issues like childbirth).[81] Some employers have *on-site medical centers*; here patient confidentiality rules, and state laws regarding medical waste disposal are just two issues to consider.[82] Employers require that insurers use *accountable care organizations* (ACO), special vendors who help insurers, health-care providers, and others improve costs and outcomes.[83] Amazon recently was considering establishing its own health clinics for Amazon employees.

Also, *make sure employees know the costs* of their medical benefits.[84] For example, periodically send a statement to each employee listing the employer's costs for each health benefit. *Online selection* lets employees choose the best of the employer's health-care offerings, based on input from other employees concerning matters like doctor visits and specialists.

WELLNESS PROGRAMS The top two health-care employer priorities in one survey were, "Offer incentives or disincentives to motivate sustained health-care behavior change"; and "Promote a culture of health in the workplace [such as healthy cafeteria foods]"[85] Because various illnesses are preventable, many employers offer wellness/preventive programs. For example, in one 15-year period, the percentage of Johnson & Johnson employees who smoke dropped by two-thirds, in part assumedly due to its various wellness programs. J&J managers estimate the company earns about $2.75 for every $1.00 it spends on wellness.[86]

Employers offer various wellness/preventive services and incentives.[87] *Clinical prevention* programs include things like mammograms and checkups. Walgreens provides *on-site health-care services* such as mammograms.[88] Insurer USAA offers options like these: employees pay $300 a year to use company fitness centers, but those who go three or more times a week get 75% off; they have running and walking trails at many campuses, and mileage markers in company hallways; healthy foods are at eye level in the cafeterias, and pricing encourages workers to buy them; and employees have weight loss and other health incentives, and employees who meet the goals can earn up to $550. Other wellness programs include obesity management, stress management, and smoking cessation.

Incentives can boost wellness program participation, but may backfire.[89] (Whirlpool gave nonsmoker discounts worth about $500 on health-care premiums. It suspended 39 workers caught smoking outside the plant after claiming on their enrollment forms that they were nonsmokers.) Some employers offer standing desks. The desks may boost wellness; however, a recent study concluded that six hours a day of standing burned only about 54 calories—about the same as in a piece of fruit.[90]

Wellness program research is mixed. J&J, as noted, has had positive results but in another study, wellness programs (including with incentives) did not change employees' behavior much.[91] The key seems to be to motivate the employee to take steps to stay well. Two experts say this entails:

Leadership commitment and support For example, at Lincoln Industries, promoting health is embedded in the company's mission statement.[92]

Build a culture of health Good health emerges from a culture evidenced by elements such as health-promoting policies, healthy food offerings, staircases rather than elevators, and treadmills.

Employee involvement Wellness requires employee engagement—they have to want it. Employees should "own" the wellness program, and should have a big role in its creation and operation.

Spread the word For example, USAA continually communicates in multiple ways to employees that the wellness program is there to serve them.

The accompanying Profit Center feature shows how one employer cut costs.

IMPROVING PERFORMANCE: *HR AS A PROFIT CENTER*

The Doctor Is on the Phone

With more than 12,000 employees in its health plan, Rent-A-Center was looking for a better way to get its employees the medical advice they required, while also reducing health plan costs. The company signed an agreement with Teladoc, Inc. Teladoc's doctors provide medical consultations over the phone. In the first 16 months the new telemedicine program was in effect, Rent-A-Center saved more than $770,000 in doctor and hospital visits and in employee productivity that would have been lost.

The program seems to be win–win. The Teladoc consultation is free to employees, compared to a $20 office co-payment, and the doctors are available 24 hours per day, usually within 30 minutes. If necessary, they call in antibiotics prescriptions. And for Rent-A-Center, there's that extra $770,000 in their bottom line.[93] ■

MyLab Management Talk About It 2

If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete these discussion questions. Would you recommend this program to your employer? Why or why not?

Long-Term Care

Long-term care insurance—for things like nursing assistance for former employees in their old age—is a key employee benefit. The Health Insurance Portability and Accountability Act of 1996 lets employers and employees deduct long-term care insurance premiums from their income taxes, making this benefit more attractive.[94] Employers can also provide insurance benefits for related matters such as adult day care, assisted living, and custodial care.

Life Insurance

group life insurance
Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.

In addition to hospitalization and medical benefits, most employers provide **group life insurance** plans. Such plans generally offer lower rates than individual plans, and usually accept all employees regardless of health or physical condition.

In general, there are three key personnel policies to address: the benefits-paid schedule (the amount of life insurance is usually tied to the employee's annual earnings), supplemental benefits (continued life insurance coverage after retirement, for instance), and financing (the amount and percent the employee contributes).

Accidental death and dismemberment coverage provides a lump-sum benefit in addition to life insurance benefits when death is accidental. It also provides benefits in case of accidental loss of limbs or sight.

Benefits for Part-Time and Contingent Workers

About 19 million people work part-time (less than 35 hours a week).[95] More gig work, more phased retirements, and a desire to better balance work and family life help explain this phenomenon. In any case, many firms provide holiday, sick leave, and vacation benefits to part-timers, and more than 70% offer some form of health-care benefits to them.[96]

HR AND THE GIG ECONOMY: *GIG WORKER BENEFITS*

Employers that want to offer gig workers benefits are often reluctant to do so. The problem is providing gig workers with benefits, while maintaining their status as independent contractors not also entitled to things like payroll tax contributions.[97]

The head of one company, Handy (whose independent contractors go to people's homes to clean or make repairs), is trying to do something about it.[98] He's working with New York legislators to create legislation that would make it easier for employers to fund things like sick leave and portable benefits for their independent contractors, while keeping them as independent contractors.[99] Uber partners with Stride Health, a health-care insurance marketplace that helps Uber drivers arrange for insurance they (not Uber) pay for themselves.[100]

KNOWLEDGE BASE

Retirement Benefits

LEARNING OBJECTIVE 13-3
Discuss the main retirement benefits.

Retirement benefits such as Social Security and pension plans are big HR issues, in no small part because the huge contingent of baby boomers (born 1946–1964) turns 65 between roughly now and 2029.

Social Security

Most people assume that **Social Security** provides income only when they are older than 62, but it actually provides three types of benefits. *Retirement benefits* provide an income if you retire at age 62 or thereafter and are insured under the Social Security Act. Second are *survivor's* or *death benefits*. These provide monthly payments to your dependents regardless of your age at death (assuming you're insured under Social Security). Finally, *disability payments* provide monthly payments to employees who become disabled totally (and to their dependents) if they meet certain requirements. The Social Security system also administers the Medicare program, which provides health services to people age 65 or older.

Social Security
Federal program that provides three types of benefits: retirement income at the age of 62 and thereafter, survivor's or death benefits payable to the employee's dependents regardless of age at time of death, and disability benefits payable to disabled employees and their dependents. These benefits are payable only if the employee is insured under the Social Security Act.

A tax on the employee's wages funds Social Security (technically, "Federal Old Age and Survivor's Insurance"). Recently, the maximum amount of earnings subject to Social Security tax was $128,400; the employer pays 7.65% and the employee 7.65%.[101] "Full retirement age" for nondiscounted Social Security benefits traditionally was 65—the usual age for retirement. It is now 67 for those born in 1960 or later.[102]

Pension Plans

pension plans
Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.

Pension plans provide income to individuals in their retirement, and just over half of full-time workers participate in some type of pension plan at work. Pension planners classify pension plans as *contributory versus noncontributory* plans, and as *defined contribution versus defined benefit* plans.[103] The employee contributes to contributory pension plans, while the employer makes all contributions to noncontributory plans. Defined benefits plans "define" how much the pension will be, while with defined contribution plans the benefits (if any) will depend on the contributions to the plan and on how the assets performed. Note that some plans are also "qualified" (or not), insofar as they receive favorable treatment under the tax code.

defined benefit pension plan
A plan that contains a formula for determining retirement benefits.

Again, with **defined benefit pension plans,** the employee's pension is specified ("defined"), in that the person knows in advance his or her pension benefits. A formula usually ties the pension to a percentage of the person's preretirement pay (for example, to an average of his or her last 5 years of employment), multiplied by the years he or she worked for the company). Due to tax law changes and other reasons, defined benefit plans now are a minority of pension benefit plans. However, even younger employees express a strong preference for defined benefit plans.[104] Some companies, such as Union Pacific, offer them as employee retention tools.[105]

defined contribution pension plan
A plan in which the employer's contribution to employees' retirement savings funds is specified.

Defined contribution pension plans specify ("define") what *contribution* the employee and employer will make to the employee's retirement or savings fund. Here the contribution is defined, not the pension. With a *defined benefit* plan, the employee can compute what his or her retirement *benefits* will be upon retirement. With a *defined contribution* plan, the actual pension will depend on the amounts contributed to the fund *and* on the success of the fund's investment earnings. Defined contribution plans are popular among employers due to their relative ease of administration, favorable tax treatment, and other factors. **Portability**—the ability of employees who leave the firm prior to retirement to take their accumulated pension funds with them—is easier with defined contribution plans.

portability
Instituting policies that enable employees to easily take their accumulated pension funds when they leave an employer.

In any case, CEO retirement packages tend to dwarf the average employee's.[106] For example, when Target's CEO stepped down after a huge credit card breach, he walked away with retirement plans worth more than $47 million, plus a $7.2 million severance payment and $4.1 million from vested stock awards.

KNOWLEDGE BASE

401(k) plan
A defined contribution plan based on section 401(k) of the Internal Revenue Code.

401(K) PLANS The most popular defined contribution plans are based on section 401(k) of the Internal Revenue Code, and are called **401(k) plans.** The employee authorizes the employer to deduct a sum from his or her paycheck before taxes, and to invest it in the bundle of investments in his or her 401(k) account. The deduction is pretax, so the employee pays no tax on those dollars until after he or she retires (or removes the money from the 401(k) plan). The person can deduct annually an amount up to the IRS maximum (about $15,000). Employers often match employees' 401(k) contributions dollar for dollar up to a set percentage. The employer arranges, usually with an investment company such as Fidelity Investments, to administer the 401(k) plan and to make investment options (typically mutual stock funds and bond funds) available to the plan.

Employers must choose 401(k) providers with care. The employer has a fiduciary responsibility to its employees and must monitor the fund and its administration.[107] In addition to trustworthiness, the 401(k) plan provider should make it easy to enroll and participate in the plan.[108] Firms such as Vanguard, Fidelity, and others establish Web-based 401(k) plans with online tools—such as an "asset allocation planner"—even for small firms. Employers must also monitor 401(k) housekeeping issues such as late deposits and incorrect employer matching contributions.[109]

DNY59/Getty Images

Firms such as Vanguard, Fidelity, and others can establish online, fully Web-based 401(k) plans even for small firms with 10 to 50 employees.

Under the Pension Protection Act of 2006, employers who sponsor plans that facilitate both *automatic enrollment* and allocation to *default investments* (such as age-appropriate "lifestyle funds") reduce their compliance burdens.[110] Google's 401(k) plan automatically enrolls employees to contribute 10% of their eligible compensation. (The employee can decline).[111] After the president signed the 2017 tax law, many large and midsize companies, including Honeywell and AFLAC, increased their 401(k) contributions (to get the higher tax deduction that year).[112]

savings and thrift plan
Plan in which employees contribute a portion of their earnings to a fund; the employer usually matches this contribution in whole or in part.

deferred profit-sharing plan
A plan in which a certain amount of profits is credited to each employee's account, payable at retirement, termination, or death.

employee stock ownership plan (ESOP)
A qualified, tax-deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees.

OTHER PLANS The 401(k) plan is one example of a **savings and thrift plan.**[113] In any such plan, employees contribute a portion of their earnings to a fund, and the employer usually matches this contribution completely or in part.

As discussed in Chapter 12 (Incentives), employers use a **deferred profit-sharing plan** to contribute a portion of their profits in cash to a pension fund, regardless of the level of employee contribution. An **employee stock ownership plan (ESOP)** is a qualified, tax-deductible defined contribution plan in which employers contribute stock to a trust for eventual use by employees who retire.

cash balance plans
Plans under which the employer contributes a percentage of employees' current pay to employees' pension plans every year, and employees earn interest on this amount.

CASH BALANCE PENSION PLANS With *defined benefits* plans, to get your maximum pension, you generally must stay with your employer until you retire—the formula takes the number of years you work into consideration. With *defined contribution* plans, your pension is more portable—you can leave with it at any time. **Cash balance plans** are a hybrid; they have defined benefit plans' more predictable benefits, but the portability of defined contribution plans. The employer contributes a percentage of employees' current pay (usually 5%) to the employees' pension plans every year, and employees earn interest on this amount.[114]

KNOW YOUR EMPLOYMENT LAW

Pension Planning and the Law

Various federal laws regulate pension planning and administration. As a rule, pension planning requires expert help.[115]

Employee Retirement Income Security Act of 1975 (ERISA)
Signed into law by President Ford to require that pension rights be vested and protected by a government agency, the PBGC.

The **Employee Retirement Income Security Act of 1975 (ERISA)** requires that employers have written pension plan documents and adhere to certain guidelines, such as regarding eligibility.[116] ERISA protects the employer's pension or health plans' assets by requiring that those who control the plans act responsibly. The *fiduciary's* responsibility is to run the plan solely in the interest of participants and beneficiaries.

Employers (and employees) also want their pension contributions to be "qualified," or tax deductible, so must adhere to the *income tax codes*. Under *labor relations laws*, the employer must let its unions participate in pension plan administration. The *Job Creation and Worker Assistance Act* provides guidelines regarding what rates of return employers should use in computing their pension plan values. ■

Pension Benefits Guarantee Corporation (PBGC)
Established under ERISA to ensure that pensions meet vesting obligations; also insures pensions should a plan terminate without sufficient funds to meet its vested obligations.

ERISA established the **Pension Benefits Guarantee Corporation (PBGC)** to oversee and insure a pension if a plan terminates without sufficient funds. Thousands of benefits plans, both private and public, are worryingly underfunded.[117] However, the PBGC guarantees only defined benefit plans, not defined contribution plans. And it will only pay a pension of up to about $5,420 per month for someone 65 years of age with a plan terminating as of 2018.[118] So, high-income workers still face reduced pensions if their employers go bankrupt.

MEMBERSHIP REQUIREMENTS When does the employee become eligible for a pension? Under the Tax Reform Act of 1986, an employer can require that an employee complete a period of no more than 2 years' service to the company before becoming eligible to participate in the plan. However, if it requires more than 1 year of service before eligibility, the plan must grant employees full and immediate vesting rights at the end of that period.

VESTING *Vested funds* are the money employer and employee have placed in the latter's pension fund that cannot be forfeited for any reason. The employees' contributions are always theirs. However, until ERISA, the *employers'* contribution in many pension plans didn't vest until the employee retired. Someone could have worked for a company for 30 years and been left with no pension if the company went bust a year before the person retired.

Employers can choose one of two minimum vesting schedules (employers can allow funds to vest faster if they wish). With *cliff vesting*, the period for acquiring a nonforfeitable right to employer matching contributions (if any) is 3 years. So, the employee must have nonforfeitable rights to these funds by the end of 3 years. With the second *(graded vesting)* option, pension plan participants must receive nonforfeitable rights to the matching contributions as follows: 20% after 2 years, and then 20% for each succeeding year, with a 100% nonforfeitable right by the end of 6 years.

Pensions and Early Retirement

early retirement window
A type of offering by which employees are encouraged to retire early, the incentive being liberal pension benefits plus perhaps a cash payment.

To trim their workforces or for other reasons, some employers encourage employees to retire early. Many such programs take the form of **early retirement window** arrangements for specific employees (often age 50+). The "window" means that for a limited time, the employees can retire early, generally with a combination of improved or liberalized pension benefits plus a cash payment.

Early retirement programs can backfire, however. In the early 2000s Verizon offered enhanced pensions to encourage 12,000 employees to retire. When over 21,000 took the plan, the company had to replace 16,000 managers.[119] Furthermore, unless structured properly, older employees can challenge early retirement programs for forcing them to retire involuntarily. Although it is generally legal to use incentives to encourage individuals to choose early retirement, the employee's decision must be voluntary. Under the Older Workers' Benefit Protection Act (OWBPA), the employee's waiver must be knowing and voluntary, and the employee must have ample time to consider the agreement and seek legal advice.

IMPROVING PERFORMANCE: *THROUGH HRIS*

Online Benefits Management Systems

It can be enormously time-consuming answering benefits questions such as, "If I retire in 5 years, what will be my monthly retirement income?" Most employers therefore opt for online self-service applications.

For example, when the organization that assists Pennsylvania school districts with their insurance needs decided to help the school boards automate their benefits administration, they chose a company called Benelogic.[120] The solution, called the "Employee Benefit Electronic Service Tool," lets users manage all aspects of benefits administration, including enrollment, plan descriptions, eligibility, and premium reconciliation, via their browsers.[121]

Benelogic hosts and maintains the Web application on its servers, and creates customized, Web-based applications for each school district. The system facilitates online employee benefit enrollment, and provides centralized call center support for benefit-related questions. It even handles benefits-related payroll and similar functions by collaborating with companies like ADP (for payroll). Each school board employee accesses the Benelogic site via a link on his or her own board's Web site. ■

TRENDS SHAPING HR: *DIGITAL AND SOCIAL MEDIA*

Communicating with employees about their benefits once required time-consuming HR assistance, but with digital and social media that's no longer the case.[122] Some use their Facebook and LinkedIn pages to publicize their benefits to a wider audience. Siemens created an internal social media Web site for its 13,000 UK employees. Siemens UK uses it to keep its employees up-to-date about its latest employee benefits offerings, to run real-time employee feedback polls about Siemens benefits, and to remind employees about the availability of various benefits. (For example, that each employee has points to use as part of the Siemens employee recognition program.)

To facilitate employee benefits self-management, other employers provide workers with mobile apps.[123] For example, clients of Discovery Benefits Inc., a benefits administrator, reportedly logged in through its app about 25,000 times in one year, saving Discovery the time it would have spent dealing with call-ins.[124]

Social media sites can also get workers in trouble. In one case, an employee took a sick day, saying that chronic pain prevented her from coming to work. Unfortunately, she posted pictures of herself drinking at a festival the day she was supposed to be home sick. One of her Facebook "friends" got the photo and showed it to a company supervisor. The company fired her for absence, and an appeals court upheld the employer's decision.[125] ■

KNOWLEDGE BASE

Personal Services and Family-Friendly Benefits

LEARNING OBJECTIVE 13-4

Outline the main employees' services benefits.

Although time off, insurance, and retirement account for the lion's share of benefits costs, most employers also provide various services benefits. These include personal services (such as legal and personal counseling), "family-friendly" services (such as child-care facilities), educational subsidies, and executive perquisites (such as company cars for executives).

Personal Services

Personal services benefits include credit unions, legal services, counseling, and social and recreational opportunities. All are voluntary benefits, rather than required or mandatory under the law.

employee assistance program (EAP)
A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.

Perhaps most notably, **employee assistance programs (EAPs)** provide counseling and advisory services, such as personal legal services, adoption assistance, or mental health counseling, for personal problems that may adversely affect the employee's work life. As the EAP site for one such plan at Sutter Health says, "Life's journey isn't always a smooth one. Sutter Health recognizes this and wants to help you overcome obstacles through the Employee Assistance Program."[126] Its EAP offers consulting on: child-care and parenting issues, elder care and disabled adult issues, pet care needs, adoptions, school, high school and college selection, and financial planning.[127]

Few but the largest employers establish their own EAPs. Most contract with vendors such as Ceridian Life Works, Comps Sync, and Integrated Behavioral Health.[128]

In either case, everyone involved, including supervisors and EAP staff, must respect *confidentiality*. Also keep files locked, limit access, and minimize identifying information. *Be aware of legal issues*. For example, in most states counselors must disclose suspicions of child abuse to state agencies. *Define* the program's purpose, employee eligibility, the roles and responsibilities of EAP and employer personnel, and procedures for using the plan. Ensure your EAP vendors fulfill *professional and state licensing requirements.*

Family-Friendly Benefits

family-friendly (or work–life) benefits
Benefits such as child care that make it easier for employees to balance their work and family responsibilities.

Family-related distractions—a sick child or parent, for instance—can make it difficult for employees to work effectively. Therefore, creating a family-friendly workplace through **family-friendly (or "work–life") benefits** is important. Such benefits include, for instance, child care, elder care, flexible work schedules, paid family leave, and concierge services (for help with tasks like grocery shopping).[129]

SUBSIDIZED CHILD CARE A recent study by the Brookings Institution listed some consequences of inadequate child care, including deleterious effects on children, lost productivity for employers due to parents missing work, and lost wages for parents.[130] Employers who want to reduce the distractions associated with finding reliable child care can help. Some simply investigate the day care facilities in their communities and recommend certain ones to employees. Others set up company-sponsored and subsidized day care facilities. For example, Goldman Sachs established its Children's Centre


bearmoney/Shutterstock

Software giant SAS Institute, Inc., is one company that offers generous employee benefits. The North Carolina firm keeps turnover at 4% in an industry where 20% is typical, partly by offering family-friendly and other benefits like paid maternity leave, day care on site, lunchtime piano concerts, massages, and yoga classes like this one.

at its London facility to offer backup child-care services for Goldman staff; the Centre takes children between three months and 12 years old.[131]

For many Millennials, benefits like child care reportedly often trump higher pay. Netflix recently told employees they can take a year off for child care.[132] Polices like those of Goldman and Netflix not only benefit employees. Employers may gain in improved recruiting results, lower absenteeism, improved morale, and lower turnover. As usual, start by surveying employees to assess their needs and perhaps what they'd be willing to pay.

SICK CHILD BENEFITS Sick child benefits are important. Sending a sick child with flulike symptoms to school because the parents must work risks worsening the child's condition and exposing classmates and teacher to illness. Yet only about half of U.S. workers are eligible for paid sick days that they can use for family members, so they risk pay loss and job loss by staying home.[133] By one estimate, sick children, sick nannies, and snow days cause about 2.8 million days of absences per year for U.S. employers.[134] The FMLA provides only unpaid leave, and not all employees are even eligible for that. Several states and cities including California, New Jersey, and New York City do provide for family-related paid sick leave.[135]

Employers can do several things. To use paid sick days, some employees claim they themselves are ill, but the better alternative is a policy allowing use for sick children too. Paid time off banks facilitate this. Flexible schedules and telecommuting policies can help. Some employers offer last-minute backup care, either with on-site centers (like Goldman Sachs'), or by making available last-minute in-home nannies.[136]

ELDER CARE By one estimate, 80% of elderly care is done by family members.[137] As with child care, female employees tend to bear the brunt of providing care for elderly parents. Helpful benefits for them (as well as male workers) include 10 to 15 days of backup elder care,[138] scheduling flexibility, and sabbaticals (for those needing extended time off).[139] About 43% of employers in one survey provide information on available elder care services.[140] When Pfizer discovered from a survey how many employees needed elder care services, it improved flexible schedule options, trained managers in how to handle such requests, and offered geriatric assessments.[141] Companies including Facebook and Vanguard instituted paid time off benefits to care for sick relatives.[142]

Finally, don't ignore employees who do *not* have family members to care for. For example, treat requests for schedule flexibility or time off seriously, regardless of the employee's family or marital status.[143]

EDUCATIONAL SUBSIDIES Employers use educational subsidies (usually tuition assistance) to help employees pursue educational course work, usually at the undergraduate or graduate college level, but also for basic learning, such as high school equivalency degrees.[144] By one estimate, almost 90% of U.S. employers provide such subsidies. About 5.6% of undergraduate students received such employer support a few years ago, and about 14.5% of graduate students did. (Almost 22% of MBA students receive such support). However, the benefit seems to be somewhat less popular than it used to be.

It may at first seem counterintuitive to subsidize an employee to get a degree that might then prompt him or her to move to a better job somewhere else, and educational benefits can have such unintended effects. But in general, educational subsidies seem to more than pay for themselves, in terms of improved employee recruiting and retention, and by improving productivity by raising employees' skills.

Introducing such a program requires policy decisions. For example, some employers only reimburse the employee after the course is completed, or if a particular grade is obtained. Some pay part of the tuition up front and then the remainder after completion. Some require repayment if the employee leaves the firm within a specific time period.

Other Personal Services Benefits

Employers provide other personal services benefits.[145] Google, perennially one of the "100 best companies to work for," is famous for its personal services benefits. Google arranges with local vendors to provide on-Google-site programs such as ATMs, mobile libraries, bike repair, car wash and oil change, dry cleaning, haircuts and salons, and organic grocery delivery.[146] Free though they are to Google, why does Google even bother? Largely because their on-site availability boosts employees' efficiency by reducing the need for them to seek services off-site. (It also offers the Google Child Care Center, and free shuttle service from San Francisco, for instance.)[147] CVS Caremark, seeking to retain older employees, offers various elder-friendly benefits. Its "snowbird" program lets pharmacists winter in Florida and work in the Northeast when it's warmer, for instance.[148] Nestlé Purina Pet Care's St. Louis headquarters lets employees bring their dogs to work.[149] PriceWaterhouseCoopers helps employees pay off student loans.[150] Most *Fortune* 500 companies offer donation-matching programs.[151]

Diversity Counts: Domestic Partner Benefits

When employers provide *domestic partner benefits* the employees' same-sex or opposite-sex domestic partners are eligible to receive the same benefits (health care, life insurance, and so forth) as do the husband, wife, or legal dependent of one of the firm's employees. In 2013, the U.S. Supreme Court struck down part of the Defense of Marriage Act. Under its ruling, gay couples married in states where it is legal must receive the same federal health, tax, Social Security, and other benefits heterosexual couples receive.[152] Then, in 2015, the U.S. Supreme Court held that same-sex couples can marry nationwide.[153]

After the 2015 decision, the percentage of employers providing same-sex domestic partner benefits dropped, from 59% to 48%.[154] Some employers such as IBM and Verizon said they would phase out domestic partner benefits, but gave employees who were receiving such benefits time to consider getting married. With same sex marriage legal in all 50 states, the trend, says one expert, is to "not differentiate between types of spouses" in offering benefits.[155] ■

The Strategic Context feature illustrates how one employer uses benefits to support its strategic goals.

IMPROVING PERFORMANCE: *THE STRATEGIC CONTEXT*

Gary Erickson started Clif Bar as a small bakery and grew it into a company that's been growing 20% per year. Central to his "healthy foods" strategy is the idea that his hundreds of employees should live the values of sustainability, healthiness, and eco-friendliness.[156] Therefore, he put together a benefits package that encouraged just such values. For example, the company encourages eco-friendliness by reimbursing employees up to $6,500 if they buy hybrid or electric vehicles. Those who bike or walk to work receive $1,500 per year. Clif Bar's subsidized cafeteria serves meals cooked with local organic ingredients. Employees become eligible for 6-week paid sabbaticals after 7 years working for the company. He put in place an employee stock option plan (ESOP). With employee turnover only 3% per year, Clif Bar received over 7,500 applications for 114 open jobs one year, so his benefits plan also seems to be helping keep workforce costs under control.

MyLab Management Talk About It 3

If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete this discussion question. How do you think offering benefits like these affects Clif Bar's recruiting and selection process and helps the company to keep costs down?

Executive Perquisites

When you reach the pinnacle of the organizational pyramid—or close to the top—you will find, waiting for you, the "executive perk." Perquisites (perks for short) are special benefits for top executives. They range from company planes to private bathrooms.

Most fall between these extremes. Perks include *management loans* (typically to exercise executives' stock options); *financial counseling*; and *relocation benefits*, often including subsidized mortgages, purchase of the executive's current house, and payment for the move. Publicly traded companies must itemize all executives' perks (if they total more than $100,000). Many popular perks (such as entertainment expenses) lost their tax breaks under the 2017 tax law, and many employers are reducing or phasing them out.[157]

LEARNING OBJECTIVE 13-5
Explain the main flexible benefit programs.

Flexible Benefits Programs

In a report titled "Employee Benefits: What Each Generation Wants," Glassdoor says employees increasingly seek flexibility.[158] They say baby boomers value salary level, health insurance, and retirement plans. Gen Xers (born roughly from the 1960s to the early 1980s) value salary level, a 401K plan with matching benefits, job security, advancement, and work–life balance. Millennials (born roughly from the early 1980s to early 2000s) value benefits choices, paid time off, ability to work remotely, control over their schedules, and flexibility. Offering flexibility thus makes sense. However, first survey employees' preferences, perhaps with a form as in Figure 13-4.[159]

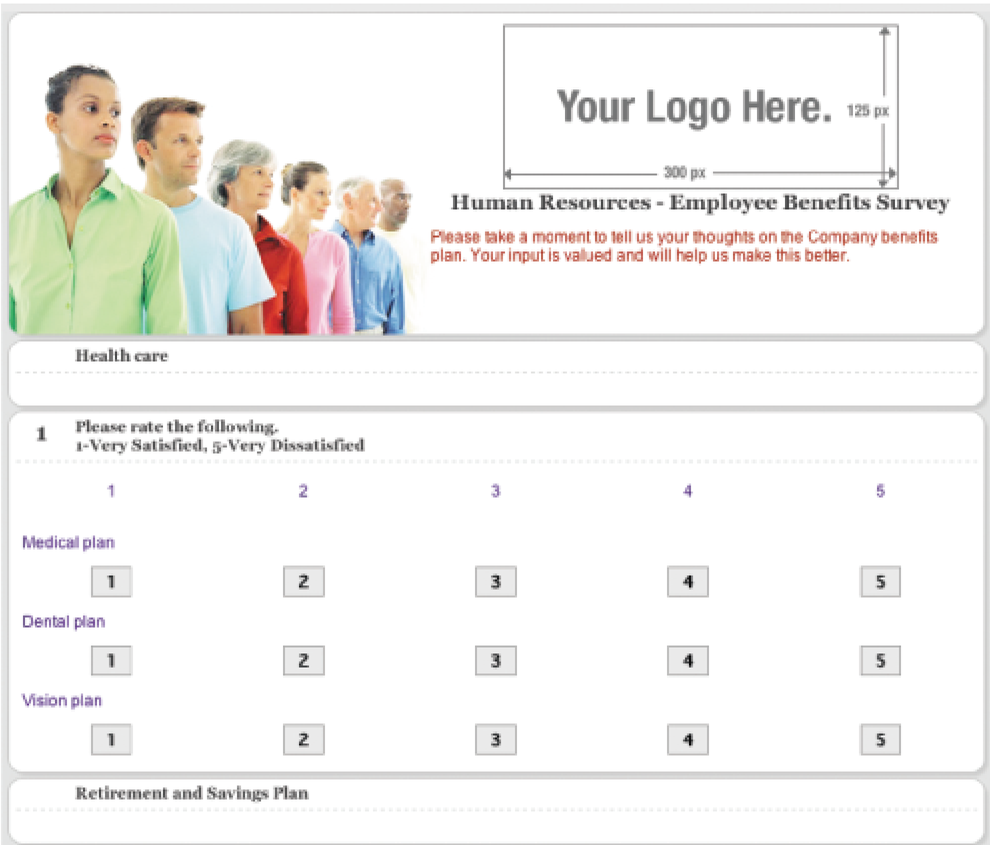
The Cafeteria Approach

cafeteria benefits plan
Individualized tax-qualified plans allowed by employers to accommodate employee preferences for benefits.

One way to provide choice is with an aptly named *cafeteria benefits plan*. To paraphrase the U.S. Internal Revenue Service, a **cafeteria plan** provides participants an opportunity to receive a choice of certain benefits on a pretax basis. Qualified benefits include, for instance, accident and health benefits, adoption assistance, dependent care assistance, and group-term life insurance coverage.[160]

Cafeteria plans come in several varieties.[161] For example, *flexible spending accounts* are a form of cafeteria plan that reimburses employees for expenses they incur for buying certain qualified benefits;[162] the employees pay for the benefits with pretax dollars. With a *core plus option plan*, the employer specifies a core set of benefits (such as medical insurance), which are required; beyond those the employee can choose (up to a limit) which other benefits he or she wants.

FIGURE 13-4 One Page from Online Survey of Employees' Benefits Preferences
Source: Reprinted with permission from GrapeVine solutions.



The accompanying HR Tools feature explains how many smaller employers manage the costs of their various benefits.

IMPROVING PERFORMANCE: *HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES*

Benefits and Employee Leasing

Many businesses—particularly smaller ones—don't have the resources or employee base to support the cost of many of the benefits we've discussed in this chapter. That's one big reason they turn to "employee leasing."

In brief, employee leasing firms (also called *professional employer organizations* or *staff leasing firms*) assume all or most of the employer's human resources chores. In doing so, they also become the employer of record for the employer's employees, by transferring them all to the employee leasing firm's payroll. The leasing firm thus becomes the employees' legal employer, and usually handles employee-related activities such as recruiting, hiring (with client firms' supervisors' approvals), and paying taxes (Social Security payments, unemployment insurance, and so on).

But insurance and benefits are usually the big attraction. Even group rates for life or health insurance can be quite high when only 20 or 30 employees are involved. That's where leasing comes in. Remember that the leasing firm is now the legal employer. The employees are thus part of a larger insurable group, along with other employers' former employees. The small business owner may get insurance it couldn't otherwise afford.

As in dealing with all vendors, the employer should have a detailed negotiated agreement with the employee leasing firm. Define what the services will be; include priorities, responsibilities, and warranties.[163] Understand that if the leasing firm merges into another firm, the new parent may require you to change your systems once the contract period expires.[164] ■

> **MyLab Management Talk About It 4**
>
> If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete this discussion. Explain how you believe you'd react to having your employer switch you to a leasing firm, and why.

Flexible Work Schedules

Flexible work schedules are popular.[165] In one survey about 70% of surveyed employees called flexible work hours "very important."[166]

flextime
A work schedule in which employees' workdays are built around a core of midday hours, and employees determine, within limits, what other hours they will work.

Flextime is a plan whereby employees' workdays are built around a core of midday hours, such as 11:00 A.M. to 2:00 P.M. Thus, workers may opt to work from 8:00 A.M. to 4:00 P.M. or from 11:00 A.M. to 7:00 P.M. In one survey of employers about 57% offered flextime.[167]

Some writers suggest that inflexible schedules help explain both the gender pay gap and the fact that women hold few top management jobs. A new job search site (www.saywerk.com) negotiates ahead of time with employers to provide flexible schedules for any jobs listed on its site.[168]

Telecommuting—using technology to work away from the office—is popular. Almost two-thirds (62%) of employers offer at least some telecommuting.[169] Some jobs have much higher rates than others. Historically, for example, almost 45% of medical transcription is reportedly work from home.[170] Just over 13 million Americans work from home at least one day per week, with Fridays and Mondays the favorite days to stay home.[171]

Employers that offer telecommuting must calculate the program's benefits and costs. Thus, Delta Airlines spends an initial $2,500 for each home-based reservation agent for computer and software licenses, but pays each such agent $1.50 per hour less than call-center counterparts. Less obvious expenses include having IT answer telecommuters' technical questions.[172] Telecommuting's effects on the environment, of course, are positive, given the reduced commuting.

Studies of telecommuting's effects on productivity are mixed. A program at Capital One Bank apparently led to about a 41% increase in workplace satisfaction, and a 53% increase in those who say their workplace enhances group productivity.[173] Another study concluded that telecommuting had positive effects for creative jobs but negative effects for dull jobs.[174] Detractors contend that telecommuting reduces camaraderie and opportunities for collaboration and synergies at work.[175] Yahoo! famously said a few years ago that it needed its employees "working side by side" and brought them back to the office.[176]

COMPRESSED WORKWEEKS Many employees, like airline pilots, don't work conventional 5-day, 40-hour workweeks.[177]

compressed workweek
Schedule in which employee works fewer but longer days each week.

Workers like these typically have **compressed workweek** schedules—they work fewer days each week, but each day they work longer hours. Some firms have four 10-hour day workweeks. Some workers—in hospitals, for instance—work three 12-hour shifts, and then take off for 4 days.[178] About 29% of employers in one survey reported using compressed workweeks.[179] Some experts argue that 12-hour shifts increase fatigue and accidents. To reduce potential side effects, some employers install treadmills, exercise bikes, and special lights that mimic daylight.

job sharing
Allows two or more people to share a single full-time job.

work sharing
Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.

OTHER FLEXIBLE WORK ARRANGEMENTS **Job sharing** allows two or more people to share a single full-time job. For example, two people may share a 40-hour-per-week job, with one working mornings and the other working afternoons. For example, two retired friends arranged to share a job (working alternate days) at a library.[180] About 11% of the firms questioned recently indicated that they allow job sharing, down from 22% several years ago.[181] **Work sharing** refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs. Thus, 400 employees may all agree to work (and be paid for) only 35 hours per week, to avoid a layoff of 30 workers.[182]

LEARNING OBJECTIVE 13-6
Explain how to use benefits to improve engagement, productivity, and performance.

Employee Engagement Guide for Managers

Costco's Compensation Plan

Costco's HR strategy is to deflect Walmart's famously low costs and wages by paying employees more, and thereby producing improved employee engagement, productivity, and customer service.[183]

For example, Costco pays its employees on average about $21 per hour (not including overtime,) almost triple the federal minimum wage.[184] That compares with Walmart's average wage for full-time employees in the United States of $12.67 an hour.[185]

Costco's employee benefits are also highly competitive, particularly compared with the typically sparse offerings in the retail industry.[186] For example, Costco pays about 90% of the health insurance costs of its over 90,000 domestic employees.[187] Its other benefits include (as examples) dental care, a pharmacy/prescriptions program, a vision program, a 401(k) plan, a dependent care assistance plan, an external network of professional counselors, voluntary short-term disability, long-term disability, and life insurance.[188] Costco also extends these benefits to employees' spouses, children, and domestic partners.

Costco doesn't directly measure employee engagement; it says it tracks engagement by "by-products," such as turnover and productivity.[189] By those criteria, Costco's engagement efforts seem to be working. Its sales per employee are about $500,000 a year versus $340,000 at Walmart's Sam's Club.[190] Costco's turnover is far below the retail industry average, and employee retention is higher.[191] Costco, by the way, is not alone. Other large chains with traditionally excellent customer service, like Nordstrom and the Container Store, also do well financially, in part by treating employees well and keeping engagement up.[192]

Chapter Review

Chapter Section Summaries

13-1. Employers provide numerous **pay for time not worked benefits.** These include unemployment insurance, vacation and other leave days, and sick pay. Minimizing sick leave pay is important, and here cost reduction tactics include paid leave plans that lump sick leave, vacation, and holidays into one leave pool. The Family and Medical Leave Act requires larger employers to provide up to 12 weeks of unpaid leave for family-related issues.

13-2. Most employers also provide required or voluntary **insurance benefits.** Workers' compensation laws aim to provide sure, prompt medical benefits to work-related accident victims or their dependents, regardless of fault. Most employer health plans provide at least basic hospitalization and surgical and medical insurance for eligible employees. When an employee is terminated or terminates his or her employment, it is essential that the employer make the person aware of his or her COBRA rights. Employers generally work hard to keep the rising cost of health-care insurance under control.

13-3. **Retirement benefits** are important to employees today. Social Security is a federal program that provides retirement income at the age of 62 and thereafter, as well as other benefits. Many employers make available pension plans; these provide an income when employees reach retirement age or when they can no longer work due to disability. Defined benefit plans contain a formula for determining retirement benefits, while defined contribution plans are plans in which the contribution to employees' retirement savings plans is specified. The most well-known of the latter are 401(k) plans. The Employee Retirement Income Security Act of 1975 requires that employers have written pension plan documents, and established the Pension Benefits Guarantee Corporation to oversee employers' pension plans. Key pension policy issues include membership requirements and testing.

13-4. Most employers also provide various **personal services and family-friendly benefits.** These include credit unions, employee assistance programs, and subsidized child care and elder care.

13-5. Employees prefer choice in their benefits plans, so **flexible benefits programs** are important. Flexible benefits or cafeteria benefits plans are individual plans that accommodate employee preferences for benefits. Some employers turn to employee leasing companies to capitalize on the advantage of the leasing firm's large employee base to get better employee benefits for their employees. Employers also are implementing various types of flexible work schedules, including flextime, compressed workweeks, and other flexible work arrangements such as job sharing.

13-6. Costco's HR strategy is to deflect Walmart's low wages by paying employees more, thereby producing more **employee engagement,** higher productivity, and better customer service. As one example, Costco pays about 90% of the health insurance costs of its over 90,000 domestic employees.

Discussion Questions

13-1. What is unemployment insurance? Is an organization required to pay unemployment benefits to all dismissed employees? Explain how you would go about minimizing your organization's unemployment insurance tax.

13-2. Explain how ERISA protects employees' pension rights.

13-3. Describe the main retirement benefits.

13-4. What are the main provisions of the FMLA?

Individual and Group Activities

13-5. Working individually or in groups, research the unemployment insurance rate and laws of your state. Write a summary detailing your state's unemployment laws. Assuming Company X has a 30% rate of annual personnel terminations, calculate Company X's approximate unemployment tax rate in your state.

13-6. Assume you run a small business. Working individually or in groups, visit the Web site www.dol.gov/elaws. See the Small Business

Retirement Savings Advisor. Write a two-page summary explaining: (1) the various retirement savings programs available to small business employers, and (2) which retirement savings program you would choose for your small business, and why.

13-7. You are the HR consultant to a small business with about 40 employees. Now the firm offers only 5 days of vacation, 5 paid holidays, and legally mandated benefits such as unemployment insurance payments. Develop a list of other benefits you believe it should offer, along with your reasons for suggesting them.

13-8. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

Revising the Benefits Package

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to provide practice in developing a benefits package for a small business.

Required Understanding: Be very familiar with the material presented in this chapter. In addition, review Chapter 11 to reacquaint yourself with sources of compensation survey information, and come to class prepared to share with your group the benefits package for the small business in which you work or in which someone with whom you're familiar works.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Your assignment is as follows: Maria Cortes runs a small personnel recruiting office in Miami and has decided to start offering an expanded benefits package to her 25 employees. At the current time, the only benefits are 7 paid holidays per year and 5 sick days per year. In her company, there are 2 other managers, as well as 17 full-time recruiters and 5 secretarial staff members. Your assignment is as follows:

- In the time allotted, your group should create a benefits package in keeping with the size and requirements of this firm.

Application Case

Striking for Benefits[193]

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When the Southern California grocery workers went on strike against the state's major supermarket chains, the main issue was employee benefits, and specifically how much of their health-care costs the employees should pay themselves. Based on their existing contract, the workers had unusually good health benefits. For example, they paid nothing toward their health insurance premiums, and paid only $10 co-payments for doctor visits. However, supporting these excellent health benefits cost the big Southern California grocery chains over $4 per hour per worker.

The big grocery chains were not proposing cutting health-care insurance benefits for their existing employees. Instead, they proposed putting any new employees hired after the new contract went into effect into a separate insurance pool, and contributing $1.35 per hour for their health insurance coverage. That meant new employees' health insurance would cost each new employee perhaps $10 per week. And, if that $10 per week wasn't enough to cover the cost of health care, then the employees would have to pay more, or do without some of their benefits.

It was a difficult situation for all involved. For the grocery chain employers, skyrocketing health-care costs were undermining their competitiveness; the current employees feared any step down the slippery slope that might eventually mean cutting their own health benefits. The unions didn't welcome a situation in which they'd end up representing two classes of employees, one (the existing employees) who had excellent health insurance benefits, and another (newly hired employees) whose benefits were relatively meager, and who might therefore be unhappy from the moment they took their jobs and joined the union.

Questions

13-9. Assume you are mediating this dispute. Discuss five creative solutions you would suggest for how the grocers could reduce the health insurance benefits and the cost of their total benefits package without making any employees pay more.

13-10. From the grocery chains' point of view, what is the downside of having two classes of employees, one of which has superior health insurance benefits? How would you suggest they handle the problem?

13-11. Similarly, from the point of view of the union, what are the downsides of having to represent two classes of employees, and how would you suggest handling the situation?

Continuing Case

Carter Cleaning Company

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The New Benefit Plan

Carter Cleaning Centers has traditionally provided only legislatively required benefits for its employees. These include unemployment compensation, Social Security, and workers' compensation (which is provided through the same insurance carrier that insures the stores for such hazards as theft and fire). The principals of the firm—Jack, Jennifer, and their families—have individual, family-supplied health and life insurance.

Jennifer can see several potential problems with the company's policies regarding benefits and services. One is turnover. She wants to study whether similar companies' experiences with providing health and life insurance benefits enable these firms to reduce employee turnover and perhaps pay lower wages. Jennifer is also concerned that her company has no formal vacation or paid days off or sick leave policies. Informally, at least, it is understood that employees get 1 week's vacation after 1 year's work, but in the past the policy regarding paid vacations for days such as New Year's Day and Thanksgiving Day has been very inconsistent. Sometimes employees who had been on the job only 2 or 3 weeks were paid fully for one of these holidays, while at other times employees who had been with the firm for 6 months or more had been paid for only half a day.

She also wonders whether it would be advisable to establish some type of day care center for the employees' children. Many of them have no place to go during the day (they are preschoolers) or have no place to go after school; she wonders whether a day care benefit would be in the best interests of the company.

Questions

13-12. Draw up a policy statement regarding vacations, sick leave, and paid days off for Carter Cleaning Centers.

13-13. What would you tell Jennifer are the advantages and disadvantages to Carter Cleaning Centers of providing its employees with health, hospitalization, and life insurance programs?

13-14. Would you advise establishing some type of day care center for the Carter Cleaning employees? Why or why not?

Translating Strategy into HR Policies and Practices Case*,§

** The accompanying strategy map for this chapter is in MyLab Management; the overall map on the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The New Benefits Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

While the Hotel Paris's benefits (in terms of things like holidays and health care) were comparable to other hotels', Lisa knew they weren't good enough to support the high-quality service behaviors her company sought. Indeed, the fact that they were roughly comparable to those of similar firms didn't seem to impress the Hotel Paris's employees. Sixty percent of them consistently said they were dissatisfied with their benefits. Lisa's concern (with which the CFO concurred) was that dissatisfaction with benefits contributed to low morale and engagement, and thus to inhibiting the Hotel Paris from achieving its strategic aims. Lisa therefore turned to the task of assessing and redesigning the company's benefits plans.

As they reviewed the benefits numbers, Lisa and the CFO became concerned. They computed several benefits-related metrics for their firm, including benefits costs as a percentage of payroll, sick days per full-time-equivalent employee per year, benefits cost/competitor's benefits cost ratio, and workers' compensation experience ratings. The results, said the CFO, offered a "good news–bad news" situation. On the good side, as noted, the ratios were similar to most competing hotels'. The bad news was that the measures were well below those for high-performing service businesses. The CFO authorized Lisa to design and propose a new benefits plan.

Lisa knew there were several things she wanted to accomplish. She wanted a plan that contributed to improved employee morale and engagement. And, she wanted the plan to include elements that made it easier for her employees to do their jobs—so that, as she put it, "they could come to work and give their full attention to giving our guests great service, without worrying about child care and other family distractions."

The new plan's centerpiece was a proposal for much better family-friendly benefits. Because so many of each hotel's employees were single parents, and because each hotel had to run 24 hours a day, Lisa's team proposed, and the board approved, setting aside a room in each hotel for an on-site child-care facility and for hiring a trained professional attendant. They considered instituting a flexible work schedule program, but for most of the jobs, this was impractical, because each front-line employee simply had to be there at his or her appointed hour. However, they did institute a new job-sharing program. Now two people could share one housekeeping or front-desk clerk job, as long as the job was covered.

One of the metrics Lisa and her team specifically wanted to address was the relatively high absence rate at the Hotel Paris. Because so many of these jobs are front-line jobs—valets, limousine drivers, and front-desk clerks, for instance—absence had a particularly serious effect on metrics like overtime pay and temporary help costs. Here, at the urging of her compensation consultant, Lisa decided to opt for a system similar to Marriott's BENETRADE. With this benefit program, employees can trade the value of some sick days for other benefits. As Lisa put it, "I'd rather see our employees using their sick day pay for things like additional health-care benefits, if it means they'll think twice before taking a sick day to run a personal errand."

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After just less than a year, Lisa and the CFO believe the new program is successful. Their studies suggest that the improved benefits are directly contributing to improved employee morale and commitment, sick days have diminished by 40%, and employee turnover is down 60%. And when they advertise for open positions, over 60% of the applicants cite "family-friendly benefits" as a top reason for applying to work at the Hotel Paris.

Questions

13-15. What is your opinion of the new Hotel Paris benefits plan?

13-16. Because employers typically make benefits available to all employees, they may not have the motivational effects of incentive plans. Given this, list five employee behaviors you believe Hotel Paris could try to improve through an enhanced benefits plan, and explain why you chose them.

13-17. Given your answer to question 13-16 and what you read in this chapter of Dessler *Human Resource Management*, explain specifically what other benefits you would recommend the Hotel Paris implement to achieve these behavioral improvements.

MyLab Management

Go to **www.pearson.com/mylab/management** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

13-18. You are applying for a job as a manager and are at the point of negotiating salary and benefits. What questions would you ask your prospective employer concerning benefits? Describe the benefits package you would try to negotiate for yourself.

13-19. Your clients want to know how they can use their employee benefits package to improve employee engagement. What would you tell them?

13-20. MyLab Management only—comprehensive writing assignment for this chapter.

Key Terms

benefits, 421
supplemental pay benefits, 422
unemployment insurance (or compensation), 422
sick leave, 424
severance pay, 427
supplemental unemployment benefits, 427
workers' compensation, 428
health maintenance organization (HMO), 429
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family-friendly (or work–life) benefits, 439
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14 Building Positive Employee Relations

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

14-1 **Define** *employee relations*.

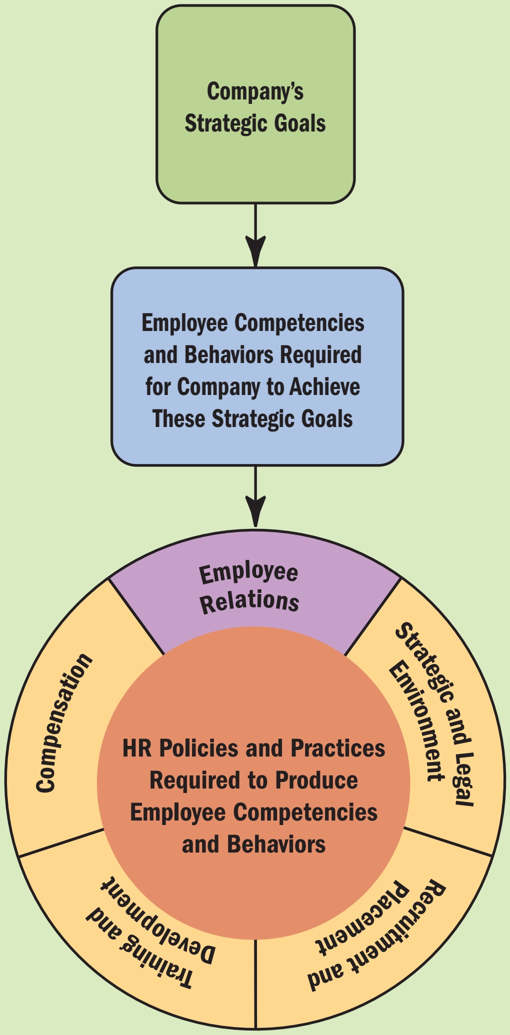
14-2 **Discuss** at least four methods for managing employee relations.

14-3 **Explain** what is meant by ethical behavior.

14-4 **Explain** what is meant by fair disciplinary practices.

14-5 **Answer** the question, "How do companies become 'Best Companies to Work For'?"

After a worker uprising over pay and work rules at Apple Inc.'s Foxconn iPhone assembly plant in Shenzhen, China, Apple asked the plant's owner to have the Fair Labor Association (FLA) survey the plant's workers. The FLA found "tons of issues."[1] We'll see what they found and what Foxconn's management did to improve the situation.



WHERE ARE WE NOW . . .

Although people tend to view recruitment, selection, appraisal, training, and compensation as the heart of human resource management, most employees expect something more. For example, they expect to be treated fairly, and to have a safe work environment. Now, in Part Five, we therefore turn to ethics, employee fairness, safety, and union relations. The main purpose of this chapter is to explain the building blocks of positive employee relations. Our topics include **What Is Employee Relations**, **Managing Employee Relations**, **Using Human Resource Management Tools to Promote Ethics and Fair Treatment**, **Managing Employee Discipline,** and **Employee Engagement Guide for Managers**.

KNOWLEDGE BASE

LEARNING OBJECTIVE 14-1

Define *employee relations*.

What Is Employee Relations?

Anyone who has worked knows that some companies are better to work for than are others. Some companies we've touched on in this book—Wegmans, SAS, and Google, for instance—show up repeatedly on "Best Companies to Work For" lists, while others always seem to have labor problems and negative press. This commonsense observation reflects the fact that some companies do have better employee relations than do others.

employee relations
The activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

Employee relations is the managerial activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.[2] Whether you're recruiting employees, managing union organizing campaigns, asking employees to work overtime, or doing some other task, it obviously makes sense to have employees "on your side." Many employers therefore endeavor to build positive employee relations, on the sensible assumption that doing so beats building negative ones. Managing employee relations is usually assigned to HR, and is a topic that both the SHRM and HRCI exams address.

Employers can do many things to build positive employee relations. Some examples include good training, fair appraisals, and competitive pay and benefits (all of which we discussed in previous chapters). However, most employers also institute special "employee relations programs" to maintain positive employee relations. These include employee fair treatment programs, improving employee relations through improved communications, developing employee recognition/relations programs, and having fair and predictable disciplinary procedures.

KNOWLEDGE BASE

LEARNING OBJECTIVE 14-2

Discuss at least four methods for managing employee relations.

Employee Relations Programs for Building and Maintaining Positive Employee Relations

We'll begin with how to ensure fair treatment.

Ensuring Fair Treatment

Anyone who has suffered unfair treatment at work knows it is demoralizing. It reduces morale, poisons trust, and negatively impacts employee relations and performance.[3] Employees of abusive supervisors are more likely to quit, and to report lower job and life satisfaction and higher stress.[4] The effects on employees of such abusiveness are particularly pronounced where the abusive supervisors seem to have support from higher-ups.[5] Even when someone just witnesses abusive supervision—for instance, seeing a coworker abused—it triggers adverse reactions including unethical behavior.[6] At work, **fair treatment** reflects concrete actions such as "employees are treated with respect," and "employees are treated fairly" (see Figure 14-1).[7]

fair treatment
Reflects concrete actions, such as "employees are treated with respect," and "employees are treated fairly."

There are many reasons why managers should be fair. The golden rule is one obvious reason. What may not be so obvious is that unfairness can backfire on the company. For example, victims of unfairness exhibit more workplace deviance, such as theft and sabotage.[8] Victims of unfairness also suffer a range of ill effects including poor health, strain, and psychological conditions.[9] Unfairness leads to increased tensions between the employee and his or her family or partner.[10] Abusive supervisors undermine their subordinates' effectiveness and may prompt them to act destructively.[11] Witnessing disrespectful behavior in the morning contaminated employees' perceptions all day, making even innocent interactions seem rude.[12]

In terms of employee relations, employees' perceptions of fairness relate *positively* to employee commitment; job involvement; satisfaction with the company, job, and leader; and organizational citizenship behaviors; and *negatively* to employees' turnover intention.[13]

The employer and its managers are responsible for ensuring that employees are treated fairly and with respect. Techniques for minimizing unfairness discussed in previous chapters include hire competent employees and supervisors, ensure equitable pay, have fair performance appraisal systems, and have policies requiring fair treatment. Communications systems (such as periodic attitude surveys), and disciplinary appeals programs (both discussed later in this chapter) also reduce unfairness.

FIGURE 14-1 Perceptions of Fair Interpersonal Treatment Scale

Source: "The Perceptions of Their Interpersonal Treatment Scale: Development and Validation of a Measure of Interpersonal Treatment in the Workplace" by Michelle A. Donovan, from *Journal of Applied Psychology* 83, no. 5 (1998).

What is your organization like most of the time? Circle yes if the item describes your organization, No if it does not describe your organization, and ? if you cannot decide.

IN THIS ORGANIZATION:

1. Employees are praised for good work	Yes	?	No
2. Supervisors yell at employees (R)	Yes	?	No
3. Supervisors play favorites (R)	Yes	?	No
4. Employees are trusted	Yes	?	No
5. Employees' complaints are dealt with effectively	Yes	?	No
6. Employees are treated like children (R)	Yes	?	No
7. Employees are treated with respect	Yes	?	No
8. Employees' question and problems are responded to quickly	Yes	?	No
9. Employees are lied to (R)	Yes	?	No
10. Employees' suggestions are ignored (R)	Yes	?	No
11. Supervisors swear at employees (R)	Yes	?	No
12. Employees' hard work is appreciated	Yes	?	No
13. Supervisors threaten to fire or lay off employees (R)	Yes	?	No
14. Employees are treated fairly	Yes	?	No
15. Coworkers help each other out	Yes	?	No
16. Coworkers argue with each other (R)	Yes	?	No
17. Coworkers put each other down (R)	Yes	?	No
18. Coworkers treat each other with respect	Yes	?	No

Note: R = the item is reverse scored

procedural justice
Refers to just procedures in the allocation of rewards or discipline, in terms of the actual procedures being evenhanded and fair.

distributive justice
Refers to a system of distributing rewards and discipline in which the actual results or outcomes are evenhanded and fair.

RESEARCH INSIGHT A study illustrates the effects of unfairness. College instructors first completed surveys concerning the extent to which they saw their colleges as treating them with *procedural* and *distributive* justice. (**Procedural justice** refers to justice in the allocation of rewards or discipline, in terms of the *procedures* being evenhanded and fair; **distributive justice** refers to a system for distributing rewards and discipline in which *the actual results* or outcomes are evenhanded and fair.) Procedural justice items included, for example, "In general, the department/college's procedures allow for requests for clarification or for additional information about a decision." Distributive justice items included, "I am fairly rewarded considering the responsibilities I have."

Then the instructors completed organizational commitment questionnaires, with items such as "I am proud to tell others that I am part of this department/college." Their students then completed surveys, with items such as "The instructor was sympathetic to my needs," and "The instructor treated me fairly."

The results were impressive. Instructors who perceived high distributive and procedural justice were more committed. Furthermore, these instructors' students reported higher levels of instructor effort, prosocial behaviors, and fairness, and had more positive reactions to their instructors.[14] So in this case, treating some professors badly backfired on the university. Treating others fairly produced improved employee commitment and results.

The accompanying Strategic Context feature shows how one employer in China improved the fairness with which it treated employees.

IMPROVING PERFORMANCE: *THE STRATEGIC CONTEXT*

A New HR Strategy at the Foxconn Plant in Shenzhen, China

The phrase *social responsibility* tends to trigger images of charitable contributions, but it actually refers to much more. For example, it refers to the honesty of the company's ads; to the quality of the parts it builds into its products; and to the honesty, ethics, fairness, and "rightness" of

social responsibility
Refers to the extent to which companies should and do channel resources toward improving one or more segments of society other than the firm's owners or stockholders.

its dealings with customers, suppliers, and, of course, employees. The basic question is always whether the company is serving all its constituencies (or "stakeholders") fairly and honestly. Corporate **social responsibility** thus refers to the extent to which companies should and do channel resources toward improving one or more segments of society other than the firm's owners or stockholders.[15]

A worker uprising at Apple's Foxconn iPhone assembly plant in Shenzhen, China, shows that workers around the globe want their employers to treat them in a fair and socially responsible manner.

Producing quality products as efficiently as possible was long the strategy at this plant. However, after the uprising over pay and work rules at the Foxconn plant, Apple asked the plant's owner to have the Fair Labor Association (FLA) survey the workers. It found "tons of issues."[16] For example, employees faced "overly strict" product-quality demands: "Every job is tagged to time, there are targets on how many things must be completed within an hour," said Xie Xiaogang, 22, who worked at Foxconn's Shenzhen plant. "In this environment, many people cannot take it."[17] Heavy overtime work and having to work through a holiday week were other examples.

To foster the improved behaviors that the plant's performance required, Hon Hai, the Foxconn plant's owner, tweaked its efficiency-first strategy and changed its plant human resource strategy and practices. It made 284 changes altogether, including raising salaries and cutting mandatory overtime.[18] The changes show that fair treatment is a global obligation.

MyLab Management Talk About It 1

If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete this discussion question. How would you explain the fact that workers in such diverse cultures as America and China seem to crave fair treatment?

Bullying and Victimization

Some workplace unfairness, such as bullying, is blatant. Bullying and victimization—singling out someone to harass and mistreat—is a serious problem. For example, a survey of 1,000 U.S. employees concluded that about 45% said they'd worked for abusive bosses.[19] Victims will often suffer in silence in fear of retribution.[20] The U.S. government (www.stopbullying.gov) says most would agree that bullying involves three things:

- ***Imbalance of power.*** People who bully use their power to control or harm, and the people being bullied may have a hard time defending themselves.
- ***Intent to cause harm.*** Actions done by accident are not bullying; the person bullying has a goal to cause harm.
- ***Repetition.*** Incidents of bullying happen to the same person over and over by the same person or group, and that bullying can take many forms, such as:
    - ***Verbal:*** name-calling, teasing
    - ***Social:*** spreading rumors, leaving people out on purpose, breaking up friendships
    - ***Physical:*** hitting, punching, shoving
    - ***Cyberbullying:*** using the Internet, mobile phones, or other digital technologies to harm others

Undoubtedly, the perpetrator is to blame for bullying. However, how some people behave does make them more likely victims.[21] These include submissive victims (who seem more anxious, cautious, and sensitive), provocative victims (who show more aggression), and victims low in self-determination (who leave it to others to make decisions for them). Similarly, high performers can earn colleagues' envy and thus suffer victimization.[22] Using team-building training, social gatherings, and interteam competition to build team cohesion can reduce envy and victimization.[23] Other suggestions include identify bullying through morale surveys, train employees to recognize bullying, and have a code of conduct.[24]

Beyond this, maintaining positive employee relations entails having communications programs that let employees both express their opinions, and let management know if there's a problem. We turn to these programs next.

Improving Employee Relations through Communications Programs

Many employers use communications programs, on the reasonable assumption that employees feel better about their employers when they're "kept in the loop." For example, one university's Web site emphasizes its intention to keep employees in the loop regarding matters like policies and benefits.[25] This employer uses an *open-door policy* to encourage communication between employees and managers, an *employee handbook* covering basic employment information, as well as abundant *e-mail* and *hard copy notes and memos*.[26]

Two-way communication also helps management know what's bothering employees. To paraphrase one writer, soliciting complaints is vital for employers who want to short-circuit inequitable treatment and maintain positive employee relations.[27] Tactics include hosting employee *focus groups*, making available *ombudsman* and *suggestion boxes*, and implementing telephone, messaging, and Web-based *hotlines*. (Some employers use hotline providers to manage their hotlines. A vendor sets up the hotlines for the employer; it also receives the employees' comments, and provides ongoing feedback to the employer about employees' concerns, as well as periodic summaries of comments and trends.) *Exit interviews*, discussed in an earlier chapter, should enable the manager to sample the quality of employee relations and identify potential problem areas.[28] Managers also use *open-door policies* and "management by walking around" to informally ask employees "how things are going."

USING ORGANIZATIONAL CLIMATE SURVEYS Similarly, employers use attitude, morale, or *climate surveys* to support employee relations efforts. They use the surveys to "take the pulse" of their employees' attitudes toward a variety of organizational issues including leadership, safety, role clarity, fairness, and pay, and to thereby get a sense of whether their employee relations need improvement. The dividing lines between attitude surveys, satisfaction or morale surveys, and climate surveys are somewhat arbitrary; we can define **organizational climate** as the perceptions employees have of and the meaning that attach to a company's psychological environment, in terms of dimensions such as concern for employee well-being, supervisory behavior, political behaviors, and rewards.[29]

organizational climate
The perceptions a company's employees share about the firm's psychological environment, for instance, in terms of things like concern for employees' well-being, supervisory behavior, flexibility, appreciation, ethics, empowerment, political behaviors, and rewards.

Many employers use online surveys from firms like Know Your Company (http://knowyourcompany.com), focusing on questions such as "Are you proud to work here?"[30] Google conducts an annual "Googlegeist" survey of its employees. This survey measures things such as employees' willingness to leave.[31] Other surveys are available off the shelf. For instance, one SHRM sample survey has employees use a scale from 1 ("to a very little extent") to 5 ("to a very great extent") to answer survey questions. Questions include, "Overall, how satisfied are you with your supervisor?," "Overall, how satisfied are you with your job?," and "Does doing your job well lead to things like recognition and respect from those you work with?"[32]

Develop Employee Recognition/Relations Programs

In addition to communications programs, company-wide employee recognition and award programs improve employee relations. As one example, a trade journal notes how the Murray Supply Co. held a special dinner for all its employees, at which it gave out special awards for things like safe driving, tenure with the company, and branch employee of the year.[33] Employers often distribute such awards with much fanfare at special events such as awards dinners. One SHRM survey found that 76% of organizations surveyed had such employee recognition programs, and another 5% planned to implement one soon.[34]

Recognition and service award programs requires planning.[35] For example, starting a *service award program* requires reviewing employee tenure and setting meaningful award periods (1 year, 5 years, etc.). It also requires setting a budget, selecting awards, having a procedure for monitoring what awards to actually award, having a process for giving awards (such as special dinners or staff meetings), and measuring program success. Similarly, starting a *recognition program* requires developing criteria (such as customer service, and cost savings), creating forms and procedures for submitting and reviewing nominations, selecting awards, and having a process for awarding the awards.

There are online tools for automating the employee recognition process. Employees use these to recognize each other's contributions, for instance through peer recognition, spot awards, e-Cards, and incentives.[36] For example Globoforce.com organized a "Lift" recognition program for JetBlue. Employees nominate colleagues for their everyday contributions, and for outstanding work.[37]

Use Employee Involvement Programs

Employee relations also tend to improve when employees are *involved* with the company in positive ways.

Employers encourage involvement in various ways. Some organize focus groups. A *focus group* is a small sample of employees who are presented with a specific issue and who interactively express their opinions and attitudes on that issue with the group's assigned facilitator. Many employers use *social media* such as the photo-sharing Web site Pinterest to encourage involvement.[38] One survey found that about half of employers use social media to communicate with employees and to develop a sense of community.[39] For example, Red Door Interactive used a Pinterest-based project it called "San Diego Office Inspiration." This encouraged employees to contribute interior design and decor ideas for its new offices.[40]

USING EMPLOYEE INVOLVEMENT TEAMS Employers have long used special teams to encourage employee involvement and boost productivity. **Suggestion teams** are temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity. One airline split employees (such as baggage handlers and ground crew) into teams, linking team members via its Web site for brainstorming and voting on ideas.[41] Semi-permanent **problem-solving teams** research work processes, and develop solutions to work problems.[42] A **quality circle** is a permanent problem-solving team, more popular in the past than now. They are usually composed of 6 to 12 specially trained employees who meet weekly to solve problems affecting their work area.[43] The team gets training in problem-analysis techniques (including basic statistics).

A **self-managing/self-directed work team** is a small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who supervise themselves with little or no outside supervision, usually for the purpose of accomplishing a specific mission.[44] For example, at the GE aircraft engine plant in Durham, North Carolina, employees work in teams, all of which report to the factory manager.[45] Teams like these usually function with minimal supervisory oversight, collectively voting on who could join the team, training each other, and handling quality control, for instance. Several years ago, GE expanded its footprint in North Carolina, opening new aircraft facilities. GE partnered with a local community college to do the preliminary training for its new employees.[46]

suggestion teams
Temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity.

problem-solving teams
Teams that identify and research work processes and develop solutions to work-related problems.

quality circle
A special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.

self-managing/self-directed work team
A small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who basically run themselves with little or no outside supervision, usually for the purpose of accomplishing a specific task or mission.

USING SUGGESTION SYSTEMS Employee suggestion plans can produce significant savings (and, through involvement and rewards, improve employee relations). For example, one study several years ago of 47 companies concluded that the firms had saved more than $624 million in one year from their suggestion programs; more than 250,000 suggestions were submitted, of which employers adopted over 93,000 ideas.[47] The accompanying HR as a Profit Center feature provides an example.

IMPROVING PERFORMANCE: *HR AS A PROFIT CENTER*

The Cost-Effective Suggestion System[48]

A Lockheed Martin unit in Oswego, New York, developed its "Cost-Effectiveness Plus" suggestion program to encourage and recognize employees for streamlining processes. With the Cost-Effectiveness Plus program, employees electronically submit their ideas. These are then evaluated and approved by the local manager and the program's coordinator (and by higher management when necessary). This program reportedly saves this facility about $77,000 per implemented idea, or more than $100 million each year.

Today's suggestion systems are more sophisticated than the "suggestion boxes" of years ago.[49] The main improvements are in how the employer formalizes and communicates the suggestion process. The essential elements of an effective employee suggestion system include the following:[50]

- ✓ Senior staff support
- ✓ A simple, easy process for submitting suggestions
- ✓ A strong process for evaluating and implementing suggestions
- ✓ An effective program for publicizing and communicating the program
- ✓ A program focus on key organizational goals ■

MyLab Management Talk About It 2

If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete this discussion. Based on this, write a one-page outline describing an employee suggestion system for a small department store.

HR AND THE GIG ECONOMY: *EMPLOYEE RELATIONS AND GIG WORKERS*[51]

Employers can take steps to improve employee relations with gig workers.

First understand that gig workers each come to their jobs with their own needs. For example, one researcher interviewed Uber and Lyft drivers. He found that how drivers reacted to things like pay cuts depended on why they were driving. Some were driving mostly for social interaction and to relax from their full-time jobs. (One psychotherapist wasn't too upset by Uber's pay cuts. He was just happy to unwind from 40 hours per week of counseling people). On the other hand, drivers who *were* financially dependent on driving were understandably quite upset by the cuts.

In any case, here are suggestions for improving gig-worker employee relations:

- Don't treat gig workers like they're disposable. Even if it's a short gig, communicate with the worker, and get to know him or her. Recognize their contributions.
- Make signing on as frictionless as possible. Many gig workers are looking for part-time flexible gigs, and want work, not paperwork.
- Research shows that most employers put little time into onboarding gig workers, which is a mistake: even an abbreviated onboarding process is better than none. Give them a brief background on your company and/or project, and make them feel part (albeit an independent-contractor part) of your business.
- It is important legally to make it clear that they are independent contractors. However, to the extent possible, share company news with and seek feedback from your gig workers. Include them in intracompany communications and to the extent possible in company social and educational events.

LEARNING OBJECTIVE 14-3
Explain what is meant by ethical behavior.

The Ethical Organization

People face ethical choices every day. Is it wrong to use a company credit card for personal purchases? Is a $50 gift to a client unacceptable? Compare your answers by doing the quiz in Figure 14-2.

Most of those reading this book rightfully view themselves as ethical people, so why include ethics in a human resource management book? For three reasons: First, ethics is not theoretical. Instead, it greases the wheels that make businesses work. Managers who promise raises but don't deliver, salespeople who say "The order's coming" when it's not, production managers who take kickbacks from suppliers—they all corrode the trust that day-to-day business transactions rely on.

Second, it is hard to even imagine an *un*ethical company with good employee relations.

The spread of technology into the workshop has raised a variety of new ethical questions and many old ones still linger. Compare your answers with those of other Americans surveyed, on page 479.

Office Technology

1. Is it wrong to use company e-mail for personal reasons?
   ☐ Yes ☐ No
2. Is it wrong to use office equipment to help your children or spouse do schoolwork?
   ☐ Yes ☐ No
3. Is it wrong to play computer games on office equipment during the workday?
   ☐ Yes ☐ No
4. Is it wrong to use office equipment to do Internet shopping?
   ☐ Yes ☐ No
5. Is it unethical to blame an error you made on a technological glitch?
   ☐ Yes ☐ No
6. Is it unethical to visit pornographic Web sites using office equipment?
   ☐ Yes ☐ No

Gifts and Entertainment

7. What's the value at which a gift from a supplier or client becomes troubling?
   ☐ $25 ☐ $50 ☐ $100
8. Is a $50 gift to a boss unacceptable?
   ☐ Yes ☐ No
9. Is a $50 gift *from* the boss unacceptable?
   ☐ Yes ☐ No
10. Of gifts from suppliers: Is it OK to take a $200 pair of football tickets?
    ☐ Yes ☐ No
11. Is it OK to take a $120 pair of theater tickets?
    ☐ Yes ☐ No
12. Is it OK to take a $100 holiday food basket?
    ☐ Yes ☐ No
13. Is it OK to take a $25 gift certificate?
    ☐ Yes ☐ No
14. Can you accept a $75 prize won at a raffle at a supplier's conference?
    ☐ Yes ☐ No

Truth and Lies

15. Due to on-the-job pressure, have you ever abused or lied about sick days?
    ☐ Yes ☐ No
16. Due to on-the-job pressure, have you ever taken credit for someone else's work or idea?
    ☐ Yes ☐ No

FIGURE 14-2 ***The Wall Street Journal*** **Workplace Ethics Quiz**

Source: Ethics and Compliance Officer Association, Waltham, MA, and the Ethical Leadership Group, Global Compliance's Expert Advisors, Wilmette, IL. (printed in *The Wall Street Journal*, October 21, 1999, pp. B1–B4).

Third, many ethical predicaments involve human resource management. For example, one HR manager described how employees at one plant were told to "vent poisonous gas into the air," something that could have killed them.[52] A survey found that 6 of the 10 most serious ethical work issues—workplace safety, employee records security, employee theft, affirmative action, comparable work, and employee privacy rights—were HR-related.[53]

ethics
The study of standards of conduct and moral judgment; also the standards of right conduct.

Ethics are "the principles of conduct governing an individual or a group"—the principles people use to decide what their conduct should be.[54] Of course, not all conduct involves ethics.[55] For example, buying an iPad usually isn't an ethical decision. Instead, ethical decisions are those rooted in *morality*. Morality refers to society's accepted standards of behavior. To be more precise, morality (and therefore ethical decisions) always involves the most fundamental questions of what is right and wrong, such as stealing, murder, and how to treat other people.

KNOWLEDGE BASE

Ethics and Employee Rights

Societies don't rely just on employers' ethics or sense of fairness or morality to ensure that they do what's right. Societies also institute laws, and procedures for enforcing these laws. These laws lay out what employers can and cannot do, for instance, in terms of discriminating based on race. In so doing, these laws also carve out explicit rights for employees. For example, Title VII of the Civil Rights Act gives employees the right to bring legal charges against an employer who they believe discriminated against them due to race. And, the Fair Labor Standards Act gave employees the right to a minimum wage and overtime pay. The bottom line is that although ethics, fairness, and morality help govern how employers treat their employees, the enforceable rights embedded in employment law also govern what employers and employees can do.

What Shapes Ethical Behavior at Work?

Why do people do bad things? It's complicated. However, one review of over 30 years of ethics research concluded that three factors combine to determine the ethical choices we make.[56] The authors titled their paper "Bad Apples, Bad Cases, and Bad Barrels." This title highlighted their conclusion that when

"Bad apples" (people who are inclined to make unethical choices), must deal with

"Bad cases" (ethical situations that are ripe for unethical choices), while working in

"Bad barrels" (company environments that foster or condone unethical choices), . . . then people tend to act unethically.

Here's a closer look at what they found.

THE PERSON (WHAT MAKES BAD APPLES?) First, because people bring to their jobs their own ideas of what is morally right and wrong, each person must shoulder much of the credit (or blame) for his or her ethical choices.

For example, researchers surveyed CEOs to study their intentions to engage in two questionable practices: soliciting a competitor's technological secrets, and making illegal payments to foreign officials. The researchers concluded that the CEOs' personal predispositions more strongly affected their decisions than did outside pressures or characteristics of their firms.[57] The most principled people, with the highest level of "cognitive moral development," think through the implications of their decisions and apply ethical principles. They have "moral attentiveness," and are aware of the ethical dilemma at hand.[58] How would you rate your own ethics? Figure 14-2 (page 461) presented a short self-assessment survey (you'll find typical survey takers' answers on page 479).

WHICH ETHICAL SITUATIONS MAKE FOR ETHICALLY DANGEROUS SITUATIONS (BAD CASES)? It's not just the person but the situation that's important. For example, the researchers found that "smaller" ethical dilemmas prompt more bad choices. What determines "small"? Basically, how much harm can befall victims of the choice, or the number of people potentially affected. People seemed more likely to "do the wrong thing" in "less serious" situations, in other words. That obviously doesn't mean that some people don't do bad things when huge consequences are involved; it just means that people cut more ethical corners on small things. The problem is that one thing leads to another; people start by doing small bad things and then "graduate" to larger ones.[59]

KNOWLEDGE BASE

WHAT ARE THE "BAD BARRELS"?—THE OUTSIDE FACTORS THAT MOLD ETHICAL CHOICES Finally, the study found that some companies produce more poisonous social environments ("outside factors" or "barrels") than do others; these bad environments in turn encourage unethical choices.[60] For example, companies that promoted an "everyone for him- or herself" culture were more likely to suffer unethical choices. Those that encouraged employees to consider the well-being of everyone had more ethical choices. Most important, companies whose managers put in place "a strong ethical culture that clearly communicates the range of acceptable and unacceptable behavior" suffered fewer unethical decisions.[61]

How Any Manager Can Create an Ethical Environment

We can translate findings like these into the following specific steps managers can take to create more ethical environments.

REDUCE JOB-RELATED PRESSURES If people did unethical things at work solely for personal gain or because they were "bad people," it perhaps would be understandable (though inexcusable). The scary thing is that it's often not personal interests but the pressures of the job. As one former executive said at his trial, "I took these actions, knowing they were wrong, in a misguided attempt to preserve the company to allow it to withstand what I believed were temporary financial difficulties."[62]

One study illustrates this. It asked employees to list their reasons for taking unethical actions at work.[63] For most of these employees, "meeting schedule pressures," "meeting overly aggressive financial or business objectives," and "helping the company survive" were the three top causes. "Advancing my own career or financial interests" ranked about last.[64] So first, reducing such "outside" pressures helps head off ethical lapses.

MAKE IT CLEAR WHAT'S OKAY AND NOT OKAY[65] If your company has an ethics code, make it clear you take it seriously; if there is no code, show by your own actions and words what's acceptable and not acceptable.

MODEL THE DESIRED BEHAVIOR ("WALK THE TALK") It's hard to resist even subtle pressure from a boss. In one report, "the level of misconduct at work dropped dramatically when employees said their supervisors exhibited ethical behavior."[66] Examples of how supervisors lead subordinates astray include the following:

- Tell them to do "whatever is necessary" to achieve results.
- Look the other way when wrongdoing occurs.
- Take credit for others' work or shift blame.[67]

Put another way, managers must walk the talk—not just pay lip service to ethics but behave ethically. Some managers urge employees to apply a quick "ethics test" to evaluate whether what they're about to do fits the company's code of conduct. For example, Raytheon Co. asked employees to ask:

- Is the action legal?
- Is it right?
- Who will be affected?
- Does it fit Raytheon's values?
- How will it "feel" afterward?
- How will it look in the newspaper?
- Will it reflect poorly on the company?[68]

REINFORCE THE DESIRED BEHAVIOR, NOT THE UNDESIRABLE BEHAVIOR[69] People tend to do what they get positive reinforcement for, and gradually stop doing what's not reinforced. Do not inadvertently reinforce unethical behavior (nor punish ethical behavior).

TAKE IT SERIOUSLY When students complained of inappropriate behavior by an osteopathic medical school administrator, university administrators (including an attorney) put a letter in his file and got his agreement to change. It transpired that they should have taken stronger action. The moral is, investigate ethics-related accusations vigorously and make sure you correct the problem.

How Human Resource Managers Can Create More Ethical Environments

There are also steps human resource managers can take.

INSTITUTE ETHICS POLICIES AND CODES Employers use ethics policies and codes to signal that their companies are serious about ethics. For example, IBM's code of ethics says, in part:

> Neither you nor any member of your family may, directly or through others, solicit or accept from anyone money, a gift, or any amenity that could influence or could reasonably give the appearance of influencing IBM's business

relationship with that person or organization. If you or your family members receive a gift (including money), even if the gift was unsolicited, you must notify your manager and take appropriate measures, which may include returning or disposing of what you received.[70]

ENFORCE THE RULES Codifying rules without enforcing them is useless. To paraphrase one study, managers' statements can reduce unethical behavior on the part of employees, but knowing that behavior is actually monitored and enforced has the biggest impact.[71] *Ethics audits* address topics like conflicts of interest, giving and receiving gifts, and employee discrimination.[72] One study found that fraud controls such as hotlines, surprise audits, fraud training for employees, and mandatory vacations can each reduce internal theft by around 50%.[73] Lockheed Martin Corp. has a chief ethics officer.[74]

KNOWLEDGE BASE

ENCOURAGE WHISTLEBLOWERS Some companies encourage employees to use hotlines and other means to "blow the whistle" on the company when they discover fraud. Several U.S. laws, including Dodd–Frank, the False Claims Act, the U.S. Financial Institutions Reform, Recovery, and Enforcement Act, and U.S. federal sentencing guidelines address whistleblowing.[75] Under the U.S. Securities and Exchange Commission's whistleblower program, awards are not limited to company employees. Consultants, independent contractors, vendors, and sometimes audit and compliance personnel are also eligible.[76]

MyLab Management Apply It!

What steps did an actual company take to tighten its ethics processes after confronting accusations of corporate misdeeds? If your professor has chosen to assign this activity, go to **www.pearson.com/mylab/management** to complete the video exercise.

organizational culture
The characteristic values, traditions, and behaviors a company's employees share.

FOSTER AN ETHICAL CULTURE[77] Several years ago Uber faced multiple harassment claims, in part due to the company's uninhibited culture.[78] **Organizational culture** is the "characteristic values, traditions, and behaviors a company's employees share." A *value* is a basic belief about what is right or wrong, or about what you should or shouldn't do. ("Honesty is the best policy" would be a value.) Managing people and shaping their behavior depends on shaping the values they use as behavioral guides. For example, if management really believes "honesty is the best policy," the actions it takes should reflect this value. Managers therefore should think through how to send the right signals to their employees—in other words, create the right culture. Doing so includes:

- ***Choose as leaders*** people who reflect the culture you're trying to achieve.[79]
- ***Clarify expectations.*** Make it clear what values you want subordinates to adhere to. For example, IBM's ethics statement shows the company takes ethics seriously.
- ***Use signs and symbols.*** *Symbolism*—what the manager actually does—ultimately does the most to create and sustain the company's culture. As we said earlier, managers should "walk the talk." They can't say "don't falsify the financials" and then do so themselves.
- ***Provide physical support.*** The physical signs of the employer's values—its incentive plan, appraisal system, and disciplinary procedures, for instance—send strong signals regarding what employees should and should not do. For example, do promotions reward ethical behavior or penalize it?[80]
- ***Interact frequently*** with employees to explain the values that are important.[81]

The accompanying HR Tools feature illustrates ethics management in small businesses.

IMPROVING PERFORMANCE: *HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES*

Small Business Ethics

When people think of unethical corporate behavior, big companies come to mind, because they're usually in the headlines. Yet studies show that small enterprises are prone to the same unethical behavior as big firms.

For example, one study of 20 small to midsize firms found that bribery, corrupt dealings, and a general tone of dishonesty were all "business as usual" at many of these firms.[82] Some were clever about it. When doing business abroad, one U.S. business kept its hands "clean" by partnering with a local firm. The latter did the dirty work, for example, the local bribes, while the U.S. firm's managers looked the other way.

Smaller firms should be alert to unethical behavior. They don't have the resources for ethics officers, ethics hotlines, or the ethics training that big firms have. Furthermore, having an unethical accountant in a billion-dollar firm embezzle $10 million is a nuisance. Having the bookkeeper of a $10 million firm abscond with $1 million could be the end.

Small business owners can take several steps. First, *size up your company's current ethics-related activities*.[83] Even a self-audit based on guidelines like those in this chapter (having an ethics code, ethics training, controls to monitor ethical behavior, and so on) are worthwhile. Second, *create a code of conduct (Googling "code of conduct" reveals thousands of examples)*, and show you take it seriously. Third, *train your people*. Training needn't be complicated. For example, one expert suggests having your managers develop scenarios, relevant to your business, illustrating which behaviors are ethical and which are not; then meet to discuss these. Fourth, make it easier to *solicit feedback* from your employees, to report unethical behavior. ("Open door" polices and suggestion boxes are examples.) Finally, *walk the talk*. In a small business, the owner is so visible that employees will take their ethical signals from him or her. ■

> **MyLab Management Talk About It 3**
>
> If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete this discussion. Create a 50-word ethics code for a small business. Then, explain how the owner might use an ethics code to help avoid mistreatment of employees.

HIRE RIGHT The most straightforward way an HR manager can build an ethical organization is to attract and hire ethical people. Start with recruitment ads that highlight your firm's commitment to ethics. Then screen carefully. An integrity test "is a specific type of personality test designed to assess an applicant's tendency to be honest, trustworthy, and dependable."[84] Use interview questions (such as "Have you ever observed someone doing something dishonest at work? What did you do?").[85] Check backgrounds thoroughly.

Also treat job applicants fairly. "If prospective employees perceive that the hiring process does not treat people fairly, they may assume that ethical behavior is not important in the company."[86] What exactly to do? Here:

- Applicants tend to view the *formal procedure* (such as the interview) as fair to the extent that it tests job-related criteria and provides an opportunity to demonstrate competence.
- Applicants expect respect. *Fair interpersonal treatment* reflects things like the propriety of the questions, the politeness of interviewer, and the degree of two-way communication.
- Applicants see a selection system as fair to the extent that the employer provides *useful feedback* about the candidate's own performance.[87]

USE ETHICS TRAINING Ethics training is basically mandatory. Since 1991, federal sentencing guidelines have prescribed reduced penalties for employers accused of misconduct who implement codes of conduct and ethics training.[88] The Sarbanes–Oxley Act of 2002 makes ethics training even more important.

Ethics training involves showing employees how to recognize ethical dilemmas, how to apply codes of conduct to resolve problems, and how to use personnel activities like discipline in ethical ways.[89] The training should illustrate the moral underpinnings of the ethical choice, and the company's commitment to integrity and ethics. Include participation by top managers to emphasize that commitment.[90]

Lockheed Martin's annual *Giving Voice to Values* ethics training program is an example.[91] Lockheed Martin's CEO, Marillyn Hewson, first trains her immediate staff. They in turn train their subordinates. The program first reviews Lockheed Martin's business conduct code. It then prepares employees to recognize and react to ethics-laden situations. To do this, trainees review videos of actual ethics cases from the company's Ethics Office. Then they discuss the cases and how to react to them.

USE REWARDS AND DISCIPLINE Employees expect employers to punish unethical conduct and to reward ethical conduct, (including executives', not just underlings').[92] A code of conduct generally describes what employees should and should not do ethically.[93] Employers often put their code of conduct policies in the employee manual.[94] For example, one university lists "penalties ranging from a formal written warning notice up to, and including, discharge" for violations such as "immoral or indecent conduct."[95]

KNOWLEDGE BASE

INSTITUTE EMPLOYEE PRIVACY POLICIES With Facebook and others routinely marketing users' personal information, privacy seems to be going out of style; as one cybersecurity expert said, "surveillance is the business model of the internet."[96]

But while some online users willingly share personal information as the price of freely staying in touch, privacy still matters at work.[97] Here employee privacy violations include *intrusion* (such as locker room and e-mail surveillance), *publication* of private matters, and *disclosure* of medical records.[98] In practice, background checks, monitoring off-duty conduct and lifestyle, drug testing, workplace searches, and workplace monitoring trigger most privacy violations.[99] Such activities have legitimate business purposes; however, they can be abused—as when erroneous background information leads to unjust treatment.[100] Many employers therefore include privacy policies in their ethics programs. For example, Ceridian's Privacy Policy Web site starts with "Ceridian is committed to protecting the privacy of our employees, our customers, and their employees."[101]

KNOW YOUR EMPLOYMENT LAW

Electronic Monitoring

Electronic Communications Privacy Act (ECPA)
The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications.

There are two main restrictions on workplace monitoring. One is the **Electronic Communications Privacy Act (ECPA).** The other are *common-law protections* (protections that evolved from court decisions, for instance, decisions against defaming employees by publicizing highly personal matters about them). The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications. (Several states have similar laws.) It contains two exceptions. The "business purpose exception" permits employers to monitor communications if they can show a legitimate business reason for doing so. The second, "consent exception," lets employers monitor communications if they have their employees' consent to do so.[102]

In one survey several years ago, 41% of employers with more than 20,000 employees had someone reading employee e-mails.[103] Ninety-six percent block access to adult Web sites, 61% to game sites.[104] (A court found one employer liable when one employee used his company computer at work to distribute child pornography.)[105] Some check employees' personal blogs or Facebook sites to see if they're publicizing work-related matters.[106]

More employers are using iris scanning to verify employee identity.

Monty Rakusen/Cultura/Getty Images

Electronic eavesdropping is legal—up to a point. For example, federal law and most state laws allow employers to monitor employees' phone calls in the ordinary course of business. However, they must stop listening when it becomes clear the conversation is personal. You can also intercept e-mail to protect the property rights of the e-mail provider. Many employees assume that their messages using the company's e-mail system are open to review, but that e-mails they send via the employer's system but using personal e-mail like Gmail aren't. However, that's not necessarily true.

To be safe, employers issue e-mail and online service usage policies. These warn employees that their systems should be used for business only. Employers also have employees sign e-mail and telephone monitoring acknowledgment statements like that in Figure 14-3.

Monitoring raises privacy issues, but can also boost profits. For example, employers routinely use software to monitor what their employees are doing online. When one employer noticed high employee overtime claims, it installed new software, and discovered many employees spent hours daily shopping online instead of working. Computer monitoring usually involves loading software directly onto the device. It then keeps logs of keystrokes, screenshots, and URLs visited by individuals.[107]

FIGURE 14-3 Sample E-Mail Monitoring Acknowledgment Statement

I understand that XYZ Company periodically monitors any e-mail communications created, sent, or retrieved using this company's e-mail system. Therefore, I understand that my e-mail communications may be read by individuals other than the intended recipient. I also understand that XYZ Company periodically monitors telephone communications, for example to improve customer service quality.

____

Signature Date

____

Print Name Department

An attorney should review the company's e-mail policy. At a minimum, make it clear that employees should have no expectation of privacy in their e-mail and Internet usage.[108] Also emphasize that all messages sent and received on the employer's e-mail system are company property and not confidential.[109] Employee monitoring best practices include: don't target a legally protected class or monitor in nonwork areas, do be consistent in how you monitor employees, and get legal advice before installing a monitoring system.[110]

Videotaped workplace monitoring requires more caution. Continuous video surveillance of employees in an office setting may not be a problem. But a Boston employer had to pay over $200,000 to five workers it secretly videotaped in an employee locker room, after they sued.[111]

More companies are monitoring in part due to the proliferation of online and smart devices and social media. For example, a thumb drive can carry off huge amounts of corporate data. And, increasingly, disgruntled employees are using their companies' cloud services to hack into and undermine their computer systems.[112]

Monitoring goes beyond work stations and phones. One hospital uses biometric scanners to ensure that employees who clock in really are who they say they are. The Federal Aviation Administration uses iris scanning to control employees' access to their network information systems. One restaurant monitors most everything waiters do, for instance, tracking every ticket, dish, and drink that they process.[113] (This makes it easier to track employee theft, but also helps identify conscientious waiters). The British grocer Tesco has some distribution center employees wear armbands that track how quickly employees are unloading and scanning goods.[114] ■

> **MyLab Management Talk About It 4**
>
> If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete these discussion questions. How would you feel if your employer told you to wear an armband monitor? Why? How would you react?

KNOWLEDGE BASE

LEARNING OBJECTIVE 14-4

Explain what is meant by fair disciplinary practices.

Managing Employee Discipline

The purpose of *discipline* is to encourage employees to behave sensibly at work (where *sensible* means adhering to rules and regulations). Discipline is required when an employee violates a rule.[115]

Proper disciplinary procedures are important for several reasons. For one thing, positive employee relations requires trust, and few personnel actions will undermine trust as will arbitrary discipline. Legal concerns are important too. One study surveyed 45 published arbitration awards in which tardiness had triggered discipline and/or discharge. When arbitrators overturned employers' decisions, it was usually due to inadequate disciplinary procedures—for example, the employer failed to clarify what "tardy" meant. Unfair disciplinary procedures can backfire in other ways. For example, it can trigger retaliatory employee misbehavior.

The Three Pillars of Fair Discipline

Disciplining employees is often unavoidable, but any such discipline should be rooted in the need to be fair. The manager builds a fair discipline process on three pillars: rules and regulations, a system of progressive penalties, and an appeals process.[116]

RULES AND REGULATIONS An acceptable disciplinary process begins with a set of clear disciplinary rules and regulations. The rules should cover problems such as theft, destruction of company property, drinking on the job, and insubordination. Examples of rules include:

Poor performance is not acceptable. Each employee is expected to perform his or her work properly and efficiently and to meet established standards of quality.

Alcohol and drugs do not mix with work. The use of either during working hours and reporting for work under the influence of either are both strictly prohibited.

The purpose of the rules is to inform employees ahead of time what is and is not acceptable behavior. Tell employees, preferably in writing, what is not permitted. The employee handbook should contain the rules and regulations.

PROGRESSIVE PENALTIES A system of progressive penalties is the second pillar of effective discipline. The severity of the penalty usually depends on the offense and the number of times it has occurred. For example, most companies issue warnings for the first unexcused lateness. However, for a fourth offense, discharge is the usual disciplinary action.

APPEALS PROCESS Third, the aim of an appeals process is to ensure that supervisors mete out discipline fairly. FedEx's *guaranteed fair treatment* multistep program illustrates this. We'll look at it in a moment.

An appeals process is essential but is no panacea. Often employers can mitigate the effects of unfair discipline by catching it during an appeal. However, some supervisory behavior may be impossible to overcome. For example, behaviors that attack the employee's personal and/or social identity are difficult to remedy.[117] Remember that punishment is particularly objectionable when it seems motivated by revenge.[118]

Diversity Counts: Comparing Males and Females in a Discipline Situation

A well-known study about 20 years ago concluded that when a woman doesn't act the way other men and women expect she should act, they tend to treat her more harshly than they might if a man acted unexpectedly.[119]

The study involved 360 graduate and undergraduate business school students. They reviewed a labor arbitration case. The case involved two employees, one male and one female, with similar work records and tenure with their employers. Both were discharged for violation of company rules related to alcohol and drugs. The case portrays one worker's behavior as a more serious breach of company rules: The more culpable worker (a male in half the study and a female in the other half) had brought the intoxicant to work. The students had to express their agreement with two alternative approaches (tough or not-so-tough) to settling the dispute that arose after the discharge.

The researchers found bias against the female "employee" by both the male and female students. Both the male and female students recommended harsher treatment for the "culpable" female employee in the case than they did for the "culpable" man. As the researchers conclude, "women, as decision makers, appear to be as willing as men to impose harsher discipline on women than upon men." ■

How to Discipline an Employee

Even if you're a manager in a *Fortune* 500 company, you may find yourself without company guidelines when you have to discipline an employee. An error could trigger a costly appeal, or even litigation. To help head off errors, fair discipline guidelines would include:[120]

- Make sure the evidence supports the charge of employee wrongdoing.
- Adequately warn the employee of the disciplinary consequences of his or her alleged misconduct. Have the employee sign a form as in Figure 14-4.
- The rule that allegedly was violated should be "reasonably related" to the facility's efficient and safe operation.
- Objectively investigate the matter before disciplining.
- The investigation should produce substantial evidence of misconduct.
- Apply applicable rules, orders, or penalties *without discrimination*.
- The U.S. Constitution contains the *due process* clause, specifically that no one shall be "deprived of life, liberty or property without due process of law."[121] Most basically, due process means that anyone accused or suspected deserves to have his or her case reviewed through a fair process. For example, did the person have a chance to defend himself or herself? Was there an appeals process?

FIGURE 14-4 Report of Employee Discipline

Apex Telecommunications Corporation
Report of Disciplinary Action and Warning

Employee's Name ____________________

Employee's Department ____________________

Date of Misconduct ____________________ Today's Date ____________________

Description of incident and misconduct (including witnesses, if any) ____________________

Witnesses to incident ____________________

If the misconduct violated an Apex Co. policy or rule, state the policy or rule ____________________

Employee's explanation for misconduct, if any ____________________

Disciplinary action taken, if any ____________________

The employee was warned today that if misconduct such as this reoccurs at any time during the next ____ weeks, he or she may be subject to the following disciplinary action ____________________

____________________	____________________
Supervisor's signature	Employee's signature
____________________	____________________
Print name	Print name

- Maintain the employee's right to counsel. For example, all union employees generally have the right to bring a representative to a disciplinary interview.
- Don't rob your subordinate of his or her dignity, for instance by disciplining in public.
- Listen to what the person has to say.
- Remember that the burden of proof is on you. In U.S. society, a person is considered innocent until proven guilty.
- Get the facts. Don't base your decision on hearsay evidence or on your general impression.
- Don't act while angry.

Discipline without Punishment

Traditional discipline processes have two main drawbacks. First, no one likes being punished. Second, punishment tends to gain short-term compliance, but not long-term cooperation.

Discipline without punishment (or alternative or nonpunitive discipline) aims to avoid these drawbacks by reducing the punitive nature of the discipline. Steps include:[122]

1. ***Issue an oral reminder for a first infraction.*** Have a private discussion with the employee.
2. ***Should another incident arise within 6 weeks, issue a formal written reminder, and place a copy in the employee's personnel file.*** Also, hold a second private discussion with the employee.

3. ***Give a paid, one-day "decision-making leave."*** If another incident occurs in the next 6 weeks or so, tell the employee to take a 1-day leave with pay, and to consider whether he or she wants to abide by the rules. When the employee returns to work, he or she meets with you and gives you a decision.
4. ***If no further incidents occur in the next year or so, purge the 1-day paid suspension from the person's file.*** If the behavior is repeated, the next step is dismissal.

The process would not apply to exceptional circumstances. Criminal behavior or in-plant fighting might be grounds for immediate dismissal, for instance.

KNOWLEDGE BASE

Employee Engagement Guide for Managers

How Companies Become "Best Companies to Work For"

LEARNING OBJECTIVE 14-5

Answer the question, "How do companies become 'Best Companies to Work For'?"

We began this chapter by noting that some companies are better to work for than are others, and we therefore focused on programs managers use to cultivate the positive employee relations that contribute to being a best place to work. This final section zeroes in on three companies that are known in part for actually being best places to work.

The "Best Companies to Work For"

Each year, several organizations publish "Best Companies to Work For" lists, the most notable of which is probably "*Fortune* Magazine's 100 Best Companies to Work For®."[123] Based on an extensive multinational survey of employees by the Great Place to Work® Institute (www.greatplacetowork.com), the survey seeks to identify the best companies to work for, based on how the employees working in them actually feel about working there. The Great Place to Work Institute defines a great workplace as one where employees trust the people they work for, have pride in the work they do, and enjoy the people they work with.[124] They say that these companies "have the highest levels of trust, strongest evidence of employee engagement and demonstrate the best applied management practices and programs" as defined by the institute's proprietary models.[125] We'll look at three recent "*Fortune* Magazine's 100 Best Companies to Work For"—SAS, Google, and FedEx.[126]

SAS: Great Benefits, Trust, and Work–Life Balance

SAS, headquartered in Cary, North Carolina, is a leader in providing business analytics software and services to companies that include 90 of the top 100 companies on the *Fortune* global 500 list.[127] Founded in the 1970s, the company is privately owned and has long been known for the quality of its benefits and for the support it provides for its employees' work–life balance. It has annual revenues of over $2.3 billion, and a worldwide workforce of over 13,000 people, about half at the company's North Carolina campus.

When people think about employee relations at SAS, the first thing that comes to mind is probably its employee benefits, which are extraordinary. To paraphrase its CEO, the firm's employees are happier and healthier because SAS's extensive benefits remove unnecessary distractions and stress.[128] They include (for example) 3 to 4 weeks per year company-paid vacations, paid sick days, flexible work schedules, 11 paid holidays, competitive pay, company-paid life insurance and accidental death insurance, retirement plans, an on-site fitness center, employee assistance programs, domestic partner benefits, and subsidized on-site child-care centers in Cary.[129]

In a larger sense, such benefits symbolize SAS's approach to employee relations. While many employers talk about "putting their employees first," SAS puts its money where its mouth is. For example, late in 2008, as the recession was gaining speed, most employers were laying off employees. SAS's founder and CEO, Dr. Jim Goodnight, held a special global webcast to announce to employees that none of SAS's 13,000 worldwide employees would lose their jobs.[130] They have reportedly never laid off an employee.[131] SAS goes to great lengths to foster trust in other ways, for instance by giving employees abundant freedom in the hours they work. They also have the Great Place to Work Institute survey employees on important characteristics of trust including open communication, respect, and career paths.[132]

What does all this do for SAS? As one long-term employee put it, "I just can't imagine leaving SAS, and I felt that way for a very long time . . . if somebody offered to double my salary, I wouldn't even think about it."[133] Employee turnover, about 20% in software companies, is about 3% at SAS, which highlights another important facet of the SAS benefits programs.[134] One expert estimates that the lower turnover alone saves SAS \$60 million to \$80 million a year. As another example, letting employees visit on-campus health professionals (as SAS does) cuts hours out of the average employee's time away from work.[135] And, of course, the effect on engagement, morale, and productivity may be priceless.

Google: Happiness and People Analytics

When Google founders Larry Page and Sergey Brin began building Google, they wanted to make it a great place to work, so they turned to SAS. They met with SAS executives and sent a team there to better understand what made SAS consistently a "Best Company to Work For."[136]

It's therefore not surprising that Google is one of the few employers whose employee benefits equal or exceed those at SAS. In addition to things like health-care benefits and flexible work hours (and the possibility of making millions on stock options), its benefits include on-site dry cleaners, bowling alleys, cafés, transportation to and from campus, and nap pods.[137] As Google puts it, "It's all about removing barriers so Googlers can focus on the things they love, both inside and outside of work. We're constantly searching for unique ways to improve the health and happiness of our Googlers."[138]

Aside from its benefits, what sets Google apart is the scientific way it decides how to "improve the health and happiness" of Google employees. At Google, maintaining positive employee relations is highly analytical (one writer calls Google "The Happiness Machine").[139] Google calls its human resource department, "People Operations" (employees call it "POPS"). It hired social scientists to create what they call the People & Innovation Lab, with a Google "people analytics team" charged with finding out how to make Googlers happy.[140] Google "monitors its employees' well-being to a degree that can seem absurd to those who work outside [Google's headquarters in] Mountain View [California]."[141] The social scientists run experiments, for instance, to determine if successful middle managers have certain skills, and what's the best way to remind people to contribute to their 401(k)s.[142] In one example, when the analytics team found that women staffers' turnover was too high, they concluded that new mothers were leaving at twice Google's average departure rate.[143] This led to a redesigned maternity leave plan including 5 months off at full pay and full benefits. The new plan cut female Googler turnover in half.[144] To support its analytical approach, Google "solicits employee feedback on everything from how they prefer to be compensated, to the design of new bicycles used throughout the expansive headquarters campus."[145] So, it's little wonder why Googlers are happy.

FedEx: Guaranteed Fair Treatment

FedEx has been one of the "*Fortune* Magazine's 100 Best Companies to Work For" for 12 of the past 15 years. Several things—excellent benefits, competitive salaries, and (as we discussed in Chapter 5) a focus on promoting from within help to explain this; however, it may be FedEx's emphasis on building trust through communications that most sets it apart.

SURVEY FEEDBACK ACTION (SFA) The FedEx survey feedback action (SFA) program is one example. SFA includes an anonymous survey that allows employees to express feelings about the company and their managers, and to some extent about service, pay, and benefits. Each manager then has an opportunity to use the results to help design a blueprint for improving workgroup engagement and commitment.[146]

SFA has three phases. First, the survey itself is a standard, anonymous questionnaire given each year to every employee. The questions are designed to gather information about what helps and hinders employees in their work environment. Sample items include: "I can tell my manager what I think" and "My manager tells me what was expected." A workgroup's survey results are compiled and sent anonymously to the manager.

The second phase is a feedback session between the manager and his or her workgroup. The goal here is to identify specific concerns or problems, examine causes for these problems, and devise action plans to correct the problems.

The feedback meeting should lead to a third, "action plan" phase. This produces a list of actions that the manager will take to address employees' concerns and boost results. It includes: What is the concern? What's your analysis? What's the cause? and What should be done?

THE FEDEX GUARANTEED FAIR TREATMENT PROCESS FedEx's Guaranteed Fair Treatment Process (GFTP) goes beyond most grievance procedures in several ways, perhaps most notably in that an appeal can go all the way to FedEx's top executives. The effect is twofold: Complaints don't get a chance to fester, and managers think twice before acting unfairly.[147] GFTP is available to all permanent FedEx employees. It covers concerns regarding matters such as disputed performance reviews, disciplinary actions, and terminations.[148]

Employees use Guaranteed Fair Treatment Process packets, available from the HR department, to file GFTP complaints. These include a fact sheet listing the complainant's name and work history; a GFTP tracking sheet to track the complaint at each step; management's rationale (for instance, in terms of applicable policies and procedures); a write-up from the HR department; space for key documents (termination letters, and so on); and space for backup information including witness statements. The employee must try to resolve the problem with his or her supervisor before filing a GFTP appeal.

GFTP contains three steps.[149] In step one, *management review*, the complainant submits a written complaint to a manager, senior manager, or managing director, within seven calendar days of the occurrence of the eligible issue. Then the manager, senior manager, and managing director of the employee's group review all relevant information; hold a telephone conference and/or meeting with the complainant; make a decision to either uphold, modify, or overturn management action; and communicate their decision in writing to the complainant.

If turned down in step one, then in step two, *officer complaint*, the complainant submits a written complaint to an officer (VP or senior vice president) of the division within 7 calendar days of the step one decision.

Finally (if necessary), in step three, *executive appeals review*, the complainant submits a written complaint within 7 calendar days of the step two decision to the employee relations department. This department investigates and prepares a GFTP case file for the appeals board executive review. The appeals board—the CEO, the COO, the chief personnel officer, and senior vice presidents—then reviews all relevant information and makes a decision to either uphold, overturn, or initiate a board of review or to take other appropriate action; the appeals board's decision is final.

A "Best Company" Human Resource Philosophy?

SAS, Google, and FedEx are different from each other, and from other companies, so there's no guarantee that what works for them will work for other firms. For example, SAS is privately owned. Its owners can therefore more easily absorb the short-term fluctuations in profits that great benefits and no layoffs engender than can most publicly traded companies. Google has grown fast through a series of smart strategic moves, and, when the economy turns down, its managers generally still have to focus more on retaining great employees than on laying them off. FedEx, still a "Best Company to Work For," has run into some labor relations problems recently, for instance, from drivers who don't want to be independent contractors.

However, there are several things that any manager intent on building positive employee relations can learn from studying any of these three companies. For example, their managers work hard to cultivate trust and to ensure—for instance, by monitoring employees' attitudes and by instituting open-door and guaranteed fair treatment–type grievance processes—that employees are treated fairly. And, in numerous ways (such as in their recognition programs, involvement programs, ethical standards, benefits, and climate surveys and other two-way communications programs), they all exhibit a deep and evident respect for their employees and to "putting employees first."

But perhaps the single most important thing a manager can glean from these three companies is the human resource philosophy on which they built their human resource management practices. In Chapter 1, we said that people's actions are always based in part on the basic assumptions they make, and that this is especially true in regard to human resource management. The basic assumptions you make about people—Can they be trusted? Do they dislike work? Why do they act as they do? How should they be treated?—together comprise your philosophy of human resource management. And every personnel decision you make—the people you hire, the training you provide, your leadership style, and the like—reflects (for better or worse) this basic philosophy.

One of the things molding your own philosophy is that of your organization's top management. While it may or may not be stated, it is usually communicated by their actions and permeates every level and department. Google's founders want their employees to be happy, and they've worked since Google's founding to make sure that they are. FedEx founder and CEO Frederick Smith is famous for (among many other things) his P-S-P mantra, namely that when you treat your People well they will provide great Service, and Profits will follow.[150] Similarly, the founder and CEO of SAS has said, "We've worked hard to create a corporate culture that is based on trust between our employees and the company . . . a culture that rewards innovation, encourages employees to try new things and yet doesn't penalize them for taking chances, and a culture that cares about employees' personal and professional growth."[151] Such HR philosophies may well be the "magic sauce" that explains why great companies to work for are great.

Chapter Review

Chapter Section Summaries

14-1. **Employee relations** is the activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

14-2. Managers and HR management use **programs to develop positive employee relations.** Unfair treatment reduces morale, increases stress, and has negative effects on employees and should be weeded out. Managers also use communications programs, recognition programs, and employee involvement programs to build positive employee relations.

14-3. **Ethics** refers to the principles of conduct governing an individual or a group, and specifically to the standards you use to decide what your conduct should be. Numerous factors shape ethical behavior at work. These include individual factors, organizational factors, the boss's influence, ethics policies and codes, and the organization's culture. HR management can influence ethical behavior. Having a fair and open selection process, establishing special ethics training programs, and rewarding (or disciplining) ethical (or unethical) work-related behavior are some examples.

14-4. A fair and just **discipline** process is based on rules and regulations, a system of progressive penalties, and an appeals process. A number of discipline guidelines are important, including discipline should be in line with the way management usually responds to similar incidents, management must adequately investigate the matter, and do not rob a subordinate of his or her dignity.

14-5. There are several things that any manager intent on building positive employee relations and **employee engagement** can draw from studying "Best Companies to Work For" such as SAS, Google, and FedEx. Their managers cultivate trust and ensure that employees are treated fairly. They all exhibit a deep and evident respect for their employees and to "putting employees first." Their human resource philosophy emphasizes trust, respect, and caring about their employees' personal and professional growth.

Discussion Questions

14-1. Explain how you would ensure fairness in disciplining, discussing particularly the prerequisites to disciplining, disciplining guidelines, and the discipline without punishment approach.

14-2. Why is it important in our litigious society to manage electronic monitoring properly?

14-3. Provide two examples of behaviors that would probably be unethical but legal, and three that would probably be illegal but ethical.

14-4. List 10 things your college or university does to encourage ethical behavior by students and/or faculty.

14-5. You need to select a nanny for your or a relative's child, and want someone ethical. What would you do to help ensure you ended up hiring someone ethical?

14-6. You believe your coworker is being bullied. How would you verify this, and what would you do about it if it is true?

14-7. Define *employee relations*, and discuss at least four methods for managing it.

Individual and Group Activities

14-8. Working individually or in groups, interview managers or administrators at your employer or college in order to determine the extent to which the employer or college endeavors to build two-way communication, and the specific types of programs used. Do the managers think they are effective? What do the employees (or faculty members) think of the programs in use at the employer or college?

14-9. Working individually or in groups, obtain copies of the student handbook for your college and determine to what extent there is a formal process through which students can air grievances. Based on your contacts with other students, has it been an effective grievance process? Why or why not?

14-10. Working individually or in groups, determine the nature of the academic discipline process in your college. Do you think it is effective? Based on what you read in this chapter, would you recommend any modifications?

14-11. Appendices A and B at the end of this book (pages 614–634) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

KNOWLEDGE BASE

14-12. In a research study at Ohio State University, a professor found that even honest people, left to their own devices, would steal from their employers.[152] In this study, the researchers gave financial services workers the opportunity to steal a small amount of money after participating in an after-work project for which the pay was inadequate. Would the employees steal to make up for the underpayment? In most cases, yes. Employees who scored low on an honesty test stole whether or not their office had an ethics program that said stealing from the company was illegal. Employees who scored high on the honesty test also stole, but only if their office did not have such an employee ethics program—the "honest" people didn't steal if there was an ethics policy.

Individually or in groups, answer these questions: Do you think findings like these are generalizable? In other words, would they apply across the board to employees in other types of companies and situations? If your answer is yes, what do you think this implies about the need for and wisdom of having an ethics program?

Experiential Exercise

Discipline or Not?

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Purpose: The purpose of this exercise is to provide you with some experience in analyzing and handling an actual disciplinary action.

Required Understanding: Students should be thoroughly familiar with the facts of the following incident, titled "Botched Batch." **Do not read the "award" or "discussion" sections until after the groups have completed their deliberations.**

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Each group should take the arbitrator's point of view and assume that they are to analyze the case and make the arbitrator's decision. Review the case again at this point, but please do not read the award and discussion sections.

Each group should answer the following questions:

14-13. Based on what you read in this chapter, including all relevant guidelines, what would your decision be if you were the arbitrator? Why?

14-14. Do you think that after their experience in this arbitration the parties involved will be more or less inclined to settle grievances by themselves without resorting to arbitration?

Botched Batch:

Facts: A computer department employee made an entry error that botched an entire run of computer reports. Efforts to rectify the situation produced a second set of improperly run reports. Because of the series of errors, the employer incurred extra costs of $2,400, plus a weekend of overtime work by other computer department staffers. Management suspended the employee for 3 days for negligence, and revoked a promotion for which the employee had previously been approved.

Protesting the discipline, the employee stressed that she had attempted to correct her error in the early stages of the run by notifying the manager of computer operations of her mistake. Maintaining that the resulting string of errors could have been avoided if the manager had followed up on her report and stopped the initial run, the employee argued that she had been treated unfairly because the manager had not been disciplined even though he compounded the problem, whereas she was severely punished. Moreover, citing her "impeccable" work record and management's acknowledgment that she had always been a "model employee," the employee insisted that the denial of her previously approved promotion was "unconscionable."

(Please do **not** *read beyond this point until after you have answered the two questions.)*

Award: The arbitrator upholds the 3-day suspension, but decides that the promotion should be restored.

Discussion: "There is no question," the arbitrator notes, that the employee's negligent act "set in motion the train of events that resulted in running two complete sets of reports reflecting improper information." Stressing that the employer incurred substantial cost because of the error, the arbitrator cites "unchallenged" testimony that management had commonly issued 3-day suspensions for similar infractions in the past. Thus, the arbitrator decides, the employer acted with just cause in meting out an "evenhanded" punishment for the negligence.

Turning to the denial of the already approved promotion, the arbitrator says that this action should be viewed "in the same light as a demotion for disciplinary reasons." In such cases, the arbitrator notes, management's decision normally is based on a pattern of unsatisfactory behavior, an employee's inability to perform, or similar grounds. Observing that management had never before reversed a promotion as part of a disciplinary action, the arbitrator says that by tacking on the denial of the promotion in this case, the employer substantially varied its disciplinary policy from its past practice. Because this action on management's part was not "evenhanded," the arbitrator rules, the promotion should be restored.[153]

Application Case

Enron, Ethics, and Organizational Culture

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For many people, a company called Enron Corp. still ranks as one of history's classic examples of ethics run amok. During the 1990s and early 2000s, Enron was in the business of wholesaling natural gas and electricity. Enron made its money as the intermediary (wholesaler) between suppliers and customers. Without getting into all the details, the nature of Enron's business—and the fact that Enron didn't actually own the assets—meant that its profit statements and balance sheets listing the firm's assets and liabilities were unusually difficult to understand.

It turned out that the lack of accounting transparency enabled the company's managers to make Enron's financial performance look much better than it actually was. Outside experts began questioning Enron's financial statements in 2001. In fairly short order, Enron collapsed, and courts convicted several of its top executives of things like manipulating Enron's reported assets and profitability. Many investors (including former Enron employees) lost all or most of their investments in Enron. In Enron's case, this breakdown is perhaps more perplexing than usual. As one writer said,

> Enron had all the elements usually found in comprehensive ethics and compliance programs: a code of ethics, a

> reporting system, as well as a training video on vision and values led by [the company's top executives].[154]

Experts subsequently put forth many explanations for how a company that was apparently so ethical outwardly could actually have been making so many bad ethical decisions without other managers (and the board of directors) noticing. The explanations ranged from a "deliberate concealment of information by officers," to more psychological explanations (such as employees not wanting to contradict their bosses) and the "surprising role of irrationality in decision-making."[155]

But perhaps the most persuasive explanation of how an apparently ethical company could go so wrong concerns organizational culture. The reasoning here is that it's not the rules but what employees feel they should do that determines ethical behavior. For example (speaking in general, not specifically about Enron), the executive director of the Ethics Officer Association put it this way:

> We're a legalistic society, and we've created a lot of laws. We assume that if you just knew what those laws meant that you would behave properly. Well, guess what? You can't write enough laws to tell us what to do at all times every day of the week in every part of the world. We've got to develop the critical thinking and critical reasoning skills of our people because most of the ethical issues that we deal with are in the ethical gray areas.

Questions

14-15. Based on what you read in this chapter, summarize in one page or less how you would explain Enron's ethical meltdown.

14-16. It is said that when one securities analyst tried to confront Enron's CEO about the firm's unusual accounting statements, the CEO publicly used vulgar language to describe the analyst, and that Enron employees subsequently thought doing so was humorous. If true, what does that say about Enron's ethical culture?

14-17. This case and chapter had something to say about how organizational culture influences ethical behavior. What role do you think culture played at Enron? Give five specific examples of things Enron's CEO could have done to create a healthy ethical culture.

Continuing Case

Carter Cleaning Company

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Guaranteeing Fair Treatment

Being in the laundry and cleaning business, the Carters feel strongly about not allowing employees to smoke, eat, or drink in their stores. Jennifer was therefore surprised to walk into a store and find two employees eating lunch at the front counter. There was a large pizza in its box, and the two of them were sipping colas and eating slices of pizza and submarine sandwiches off paper plates. Not only did it look messy, but there were grease and soda spills on the counter, and the store smelled from onions and pepperoni, even with the exhaust fan pulling air out through the roof. In addition to being a turnoff to customers, the mess on the counter meant that a customer's order might actually become soiled in the store.

Although this was a serious matter, Jennifer didn't feel that what the counter people were doing was grounds for dismissal (partly because the store manager had apparently condoned their actions). It seemed to her that the matter called for more than just a warning but less than dismissal.

Questions

14-18. What would you do if you were Jennifer, and why?

14-19. Should a disciplinary system be established at Carter Cleaning?

14-20. If so, what should it cover? How would you suggest it deal with a situation such as the one with the errant counter people?

14-21. How would you deal with the store manager?

Translating Strategy into HR Policies and Practices Case*,§

**The accompanying strategy map for this chapter is in MyLab Management; the overall map in the inside back cover of this text outlines the relationships involved.*

Improving Performance at the Hotel Paris

The Hotel Paris's New Ethics, Justice, and Fair Treatment Process

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

As the head of HR for the Hotel Paris, Lisa Cruz was especially concerned about her company maintaining the highest ethical standards. Her concerns were twofold. First, there are, in any single hotel each day, at least a dozen people (including housekeepers, front-desk clerks, security guards, and so on) with easy access to guests' rooms, and to their personal belongings. Guests—many younger, and many unwary—are continually walking the halls unprotected. So, in a service company like this, there is simply no margin for ethical errors.

But she was concerned about ethics for a second reason. She knew that employees do not like being treated unfairly, and that unfairness in any form could manifest itself in low morale and in diminished performance. She wondered if her employees' low morale and engagement—as measured by her firm's attitude surveys—stemmed, in part, from what they perceived as unjust treatment. Lisa therefore turned to the task of assessing and redesigning the Hotel Paris's ethics, justice, and fair treatment practices.

When she sat with the CFO to discuss her proposal for the Hotel Paris's fairness, justice, and ethics system, Lisa came armed with some research. In 2003, the *Journal of Applied Psychology* published a study that showed how improving the level of interpersonal and procedural justice in a service company can lead to improved employee attitudes and performance and thus to improved hotel performance.[156] And the study was done in a hotel chain.

In this study, the researchers collected employee survey data from a hotel chain's 111 different hotels in the United States and Canada. The employee services department of this hotel chain obtained completed

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surveys from 8,832 of the hotel's employees. The researchers also obtained data on employee turnover as well as on the employees' commitment, employees' intentions to remain with the organization, and guest satisfaction.

Clearly, having fair and just procedures in place affected these hotels' employee morale and behavior, and thus company performance—they could even measure the links. For example, procedural justice and interpersonal justice were related to increased levels of employees' satisfaction with supervision.

For Lisa and the CFO, these results supported, in a measurably defensible way, the idea that spending the money required to improve procedural and interpersonal justice would likely improve employee attitudes and behaviors (employee commitment, discretionary service behavior, and employee turnover), and, thereby, improve guest satisfaction and company performance.

Lisa and her HR team took steps to institute new ethics, justice, and fair treatment practices at the Hotel Paris. Working with the company's general counsel, they produced and presented to the CEO a new Hotel Paris code of ethics, as well as a more complete set of ethical guidelines. These now appear on the Hotel Paris's careers Web site link, and are part of each new employee's orientation packet. They contracted with a vendor to provide a customized, Web-based ethics training program, and made it clear that the first employees to participate in it were the company's top executives.

Lisa and her team then proceeded methodically through the company's entire HR process, starting with recruitment and selection. The selection process now includes an honesty test. New guidelines ensure an open and fair performance appraisal process. The team completely revamped the hotel's disciplinary process. They instituted a new appeals process that included appeals to each hotel's manager, and then to Lisa Cruz, and finally to a top management executive appeals committee. They instituted a new discipline without punishment system.

After 6 months of operating under the new system, several changes are evident. Surveys Lisa took before the new program, and now, indicate a significant upward movement in the employees' perceptions of "consistent and equitable treatment of all employees." Grievances are down by 80%, 95% of employees are able to quote the ethics code, employee morale and commitment are up, and, in general, employee service–type behaviors (such as greeting guests in a friendly manner) have increased, too. Lisa and the CFO are pleased with the new system, and are optimistic it will also help to improve customer service satisfaction.

Questions

14-22. Based on what you learned in this chapter of Dessler *Human Resource Management*, what do you think of the adequacy and effectiveness of the steps Lisa has taken so far?

14-23. List three more specific steps Hotel Paris should take with respect to each individual human research function (selection, training, and so on) to improve the level of ethics in the company.

14-24. Based on what you learned in this chapter, write a short (less than one page) explanation Lisa can use to sell to top management the need to further improve the hotel chain's fairness and justice processes.

MyLab Management

Go to **www.pearson.com/mylab/management** for Auto-graded writing questions as well as the following Assisted-graded writing questions:

14-25. What techniques would you use as alternatives to traditional discipline? Why do you think alternatives like these are important, given industry's need today for highly engaged and committed employees?

14-26. Using several "Best Companies to Work For" as examples, explain what you would do to improve employee relations in an organization.

14-27. MyLab Management only—comprehensive writing assignment for this chapter.

MyLab Management Try It!

How would you apply the concepts and skills you learned in this chapter? If your professor has assigned this activity, go to the Assignments section of **www.pearson.com/mylab/management** to complete the simulation.

PERSONAL INVENTORY ASSESSMENTS

P I A PERSONAL INVENTORY ASSESSMENT

Leadership plays a role in fostering ethics. Go to **www.pearson.com/mylab/management** to complete the Personal Inventory Assessment related to this chapter.

Key Terms

employee relations, 455
fair treatment, 455
procedural justice, 456
distributive justice, 456
social responsibility, 457
organizational climate, 458
suggestion teams, 459
problem-solving teams, 459
quality circle, 459
self-managing/self-directed work team, 459
ethics, 461
organizational culture, 464
Electronic Communications Privacy Act (ECPA), 466

Ethics Quiz Answers

Quiz is on page 461.

1. 34% said personal e-mail on company computers is wrong.
2. 37% said using office equipment for schoolwork is wrong.
3. 49% said playing computer games at work is wrong.
4. 54% said Internet shopping at work is wrong.
5. 61% said it's unethical to blame your error on technology.
6. 87% said it's unethical to visit pornographic sites at work.
7. 33% said $25 is the amount at which a gift from a supplier or client becomes troubling, while 33% said $50, and 33% said $100.
8. 35% said a $50 gift to the boss is unacceptable.
9. 12% said a $50 gift from the boss is unacceptable.
10. 70% said it's unacceptable to take the $200 football tickets.
11. 70% said it's unacceptable to take the $120 theater tickets.
12. 35% said it's unacceptable to take the $100 food basket.
13. 45% said it's unacceptable to take the $25 gift certificate.
14. 40% said it's unacceptable to take the $75 raffle prize.
15. 11% reported they lie about sick days.
16. 4% reported they take credit for the work or ideas of others.

Endnotes

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