Managing Human Resources
The Challenge of Human Resources Management

After studying this chapter, you should be able to

1. Identify how firms gain sustainable competitive advantage through people.
2. Explain how globalization is influencing human resources management.
3. Describe the impact of information technology on managing people.
4. Identify the importance of change management.
5. State HR’s role in developing intellectual capital.
6. Differentiate how TQM and reengineering influence HR systems.
7. Discuss the impact of cost pressures on HR policies.
8. Discuss the primary demographic and employee concerns pertaining to HRM.
9. Provide examples of the roles and competencies of today’s HR managers.
There's an old joke that goes . . .

The organization of the future will be so technologically advanced that it will be run by just one person and a dog. The person will be there to feed the dog, and the dog will be there to make sure that the person doesn’t touch anything.

In the past, observers feared that machines might one day eliminate the need for people at work. In reality, just the opposite has been occurring. People are more important in today’s organizations than ever before. As Ed Gubman, author of The Talent Solution, points out, “In many fast-growing economies, it may be easier to access money and technology than good people.” Competitive advantage belongs to companies that know how to attract, select, deploy, and develop talent.

We use a lot of words to describe the importance of people to organizations. The term human resources implies that people have capabilities that drive organizational performance (along with other resources such as money, materials, and information). Other terms such as human capital and intellectual assets all have in common the idea that people make the difference in how an organization performs. Successful organizations are particularly adept at bringing together different kinds of people to achieve a common purpose. This is the essence of human resources management (HRM).

Why Study Human Resources Management?

As you embark on this course, you may be wondering how the topic of human resources management relates to your interests and career aspirations. The answer to the question “Why study HRM?” is pretty much the same regardless of whether you plan on working in an HR department or not. Staffing the organization, designing jobs and teams, developing skillful employees, identifying approaches for improving their performance, and rewarding employee successes—all typically labeled HRM issues—are as relevant to line managers as they are to managers in the HR department.

To work with people effectively, we have to understand human behavior, and we have to be knowledgeable about the various systems and practices available to help us build a skilled and motivated workforce. At the same time, we have to be aware of economic, technological, social, and legal issues that either facilitate or constrain our efforts to achieve organizational goals. Because employee skills, knowledge, and abilities are among the most distinctive and renewable resources on which a company can draw, their strategic management is more important than ever. As Thomas J. Watson, the founder of IBM, said, “You can get capital and erect buildings, but it takes people to build a business.”

While “competing through people” may be a theme for human resources management, the idea remains only a framework for action. On a day-to-day basis, managers focus on specific challenges and issues that pertain to human resources. Figure 1.1 provides an overall framework for human resources management. From this figure, we can see that HRM has to help blend many aspects of management; at this point we will simply classify them as either “competitive challenges” or “employee concerns.” By balancing sometimes competing demands, HRM plays an important role in getting the most from employees and providing a work environment that meets
their short-term and long-term needs. We will use this framework as a basis for our discussion throughout the rest of this chapter.

Competitive Challenges and Human Resources Management

Professional organizations such as the Society for Human Resource Management (SHRM) and the Human Resource Planning Society (HRPS) conduct ongoing studies of the most pressing competitive issues facing firms. By seeking the input of chief executives and HR managers, these organizations keep a finger on the pulse of major trends. For the past decade or so, there has been a constant theme around the following issues:

- Going global
- Embracing new technology
- Managing change
- Managing talent, or human capital
- Responding to the market
- Containing costs

These trends extend beyond “people issues” per se, but they all focus on the need to develop a skilled and flexible workforce in order to compete in the twenty-first century.

Challenge 1: Going Global

In order to grow and prosper, many companies are seeking business opportunities in global markets. Competition—and cooperation—with foreign companies has become an important focal point for business. Indeed, exporting accounts for a large portion of the U.S. economy, and totaled more than $1,146.1 billion in 2004. On the flip side, the United States has imported more than it has exported every year since
the early 1970s. Between 2003 and 2004 alone, the U.S. trade deficit increased from nearly $500 billion to more than $600 billion. By all accounts, the insatiable demand of U.S. consumers is currently propelling the world’s economic growth forward. Much of the deficit is now with China, whose new free-trade policies have helped turn the country into an economic growth powerhouse.4

**The Impact of Globalization**

By partnering with firms in other regions of the world and using information technologies to coordinate distant parts of their businesses, companies such as Motorola, General Electric, and Toyota have shown that their vision for the future is to offer customers "anything, anytime, anywhere" around the world. Even well-known products are losing their national identities: BMW has traditionally been a German brand, but now the automaker is building cars in South Carolina; Hafer, a major Chinese appliance and electronics corporation, has opened a plant in North Carolina; and Chevrolets—as American as apple pie—are now being assembled in Mexico.5 But globalization is not of interest only to large firms. While estimates vary widely, approximately 70–85 percent of the U.S. economy today is affected by international competition. Even small companies partner with organizations in other countries; for example, SpringHill Greenhouses in Lodi, Ohio, partners with florists through associations such as FTD and Teleflora to work with growers in Holland (tulips and lilies) and Colombia (roses) to serve customers around the world. Even though they produce only 30 percent of the total value of American manufactured exports, nearly 97 percent of all U.S. exporters are small and medium-sized companies, and their numbers are growing rapidly, up from 65,000 in 1987 to almost 250,000 today, according to the National Small Business Association.6

Numerous free-trade agreements forged between nations in the last half-century have helped quicken the pace of globalization. The first major trade agreement of the twentieth century was made in 1948, following World War II. Called the General Agreement on Tariffs and Trade (GATT), it established rules and guidelines for global commerce between nations and groups of nations. Since GATT began, world trade has increased more than sixfold. GATT paved the way for the formation of the European Union in 1986; the North American Free Trade Agreement (NAFTA), encompassing the United States, Canada, and Mexico in 1994; and the Asia-Pacific Economic Cooperation (APEC) in 1989, which loosened trade restrictions among Pacific Rim countries. The World Trade Organization (WTO), headquartered in Lausanne, Switzerland, now has more than 148 member countries, accounting for more than 97 percent of world trade.6

**Globalization and Corporate Social Responsibility.** Even though globalization has led to a great improvement in people's living standards in the last half-century, free-trade agreements still stir fierce debate. When NAFTA talks were first underway, U.S. and Canadian citizens worried that the agreement would lead to a loss of jobs to Mexico, where labor costs are cheaper. Other people worry that free trade is creating a “have/have not” world economy, in which the people in developing economies and the world’s environment are being exploited by companies in richer, more developed countries. This has sparked anti-free-trade protests in many nations.

Concerns such as these, coupled with numerous scandals plaguing U.S. corporations in recent years, have led to a new focus on corporate social responsibility, or good citizenship. Companies are discovering that being socially responsible helps the
bottom line. Moreover, workers applying for jobs are saying corporate responsibility is now more important to their job selection. One of HR’s leadership roles is to spearhead the development and implementation of corporate citizenship throughout the organization. Highlights in HRM 1 lists a number of Internet sites of organizations...
with different conduct codes firms internationally are striving to adhere to. Also listed are a number of general web sites useful to HR professionals.

**Effect of Globalization on HRM**

For all of the opportunities afforded by international business, when managers talk about “going global,” they have to balance a complicated set of issues related to different geographies, cultures, employment laws, and business practices. Human resources issues underlie each of these concerns and include such things as gauging the knowledge and skill base of foreign workforces and figuring out how best to hire and train them, sometimes with materials that must be translated into a number of different languages. Relocating managers and other workers to direct the efforts of a foreign workforce is a challenge as well. HR personnel are frequently responsible for implementing training programs and development opportunities to enhance managers’ understanding of foreign cultures and practices. In many cases, HR managers must adjust the compensation plans of employees working abroad to ensure that they receive fair and equitable pay in parts of the world where living costs differ. Perhaps the most difficult task is retaining these employees in the face of the culture shock they and their families are likely to experience.

So while managing across borders provides new and broader opportunities for organizations, it also represents a quantum leap in the complexity of human resources management. In fact, the international arena for HRM is so involved that we have devoted an entire chapter (Chapter 15) to discussing its competitive, cultural, and practical implications.

**Challenge 2: Embracing New Technology**

Advancements in information technology have enabled organizations to take advantage of the information explosion. With computer networks, unlimited amounts of data can be stored, retrieved, and used in a wide variety of ways, from simple record keeping to controlling complex equipment. The effect is so dramatic that at a broader level, organizations are changing the way they do business. Use of the Internet to transact business has become so pervasive for both large and small companies that e-commerce is rapidly becoming the organizational challenge of the new millennium. Even following the “dot-com bust,” in which many promising new Internet companies failed rapidly, the Web is transforming the way traditional brick-and-mortar companies do business. Organizations are connected via computer-mediated relationships, and they are giving rise to a new generation of “virtual” workers who work from home, in hotels, in their cars, or wherever their work takes them. The implications for HRM are at times mind boggling.

**From Touch Labor to Knowledge Workers**

The introduction of advanced technology tends to reduce the number of jobs that require little skill and to increase the number of jobs that require considerable skill. In general, this transformation has been referred to as a shift from “touch labor” to “knowledge workers,” in which employee responsibilities expand to include a richer array of activities such as planning, decision making, and problem solving. In many cases, current employees are being retrained to assume new roles and responsibilities. Even when employees are displaced, they also require retraining.
Technology, transportation, communications, and utilities industries tend to spend the most on training. Knowledge-based training has become so important that Manpower Inc., the largest employment agency in the United States, offers free information technology training through its Manpower Global Learning Center (http://www.manpowernet.com), an online university for its 2.5 million employees worldwide. The Manpower site features more than 5,000 hours of online instruction in technology applications, along with professional-development and business skills, and telecommunications courses. In fact, Manpower is so focused on developing technical skills in potential employees that it has set up the system so that some training and career-planning information is available to those who simply send the company a resume. A trend toward “just-in-time” learning delivered via the Internet to employees’ desktops has developed, as well. Cisco, for example, has online digital videos its employees can download from its Intranet when and where they need them to do their jobs.

### Influence of Technology in HRM
Information technology has, of course, changed the face of HRM in the United States and abroad. Perhaps the most central use of technology in HRM is an organization’s **human resources information system (HRIS)**. Organizations determined to improve productivity and lower costs are finding HR a good place to start. Because HR affects the entire workforce—everyone who works for the company must be hired, trained, and paid, usually through HR—the impact of HRIS can be dramatic. It can be a potent weapon for lowering administrative costs, increasing productivity, speeding up response times, and improving decision making and customer service.
The most obvious impact has been operational—that is, automating routine activities, alleviating administrative burdens, reducing costs, and improving productivity internal to the HR function itself. As shown in Highlights in HRM 2, the most frequent uses include automating payroll processing, maintaining employee records, and administering benefits programs. One of the big trends in recent years has been toward HRIS “self-service”—setting up systems, usually on an Intranet, to allow managers to access employee records themselves for administrative purposes, and to allow employees to access and change their own benefits and other personal information. Merck’s HR system was redesigned to enable line managers and employees to enter, retrieve, and edit data in order to make better decisions faster. This has helped alleviate many of the paper burdens Merck’s HR group previously faced and offered greater convenience to both managers and their employees.

Today, however, software applications are available to automate far more HR activities than just payroll, records, and benefits information. All sorts of routine HR activities, from front to back, have seen some sort of automation. Companies are now using software to recruit, screen, and pretest applicants online before hiring them as well as to train and promote employees once they’ve been hired. For example, Merck’s staffing management system supports the hiring process by tracking applicants’ information, scanning resumes, and making the information immediately accessible to line managers so they can search systematically for the people whose skills they want. Managers can search online for internal and external talent by running searches of candidates who have been categorized by skill set. An outside vendor that specializes in web-based recruiting administers the system and acts as a conduit between Merck and broader databases such as Monster.com and Hotjobs.com.

Corning, Inc., uses HR software, among other things, to set the developmental goals of its employees once they’ve been hired and gauge how well they are meeting them. Employees can look online to see their own goals and mark their progress as well as see everyone else’s goals in the command chain, from the CEO down to their

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Highlights in HRM 2

Most Common HR Information Systems Applications

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Payroll</td>
<td>76.7%</td>
</tr>
<tr>
<td>Benefits administration</td>
<td>57.1%</td>
</tr>
<tr>
<td>Benefits enrollment</td>
<td>41.4%</td>
</tr>
<tr>
<td>Recruiting—applicant tracking</td>
<td>39.1%</td>
</tr>
<tr>
<td>Personnel administration</td>
<td>39.1%</td>
</tr>
<tr>
<td>Training and development</td>
<td>31.6%</td>
</tr>
<tr>
<td>Employee self-service</td>
<td>24.8%</td>
</tr>
<tr>
<td>Manager self-service</td>
<td>18.0%</td>
</tr>
<tr>
<td>Other</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

immediate supervisors. This “cascading” of goals has helped Corning’s employees align their personal goals with the organization’s overall objectives in order to reach higher levels. “Like any large company, we tended to get ‘silo-ed’ and fragmented the more we grew,” said one vice president at a company using a system similar to Corning’s. “We needed a better way to pull our global team together and get people focused on what the priorities are for our business.” Brown and Williamson Tobacco uses a program called Career Tracker not only to trace the performance of employees but also to allow them to create a personalized learning curriculum from materials online. Similarly, Merck worked with a software vendor to develop a system that provides coaching tips and learning tools and resources for employees and managers based on their goals.11

Highlights in HRM 3 shows just a partial list of software companies and the products they provide for managing people. According to a survey by Cedar Group, a technology consulting firm, prepackaged, or “canned,” HR web-based solutions are as commonly used as custom-designed systems. Generally, companies also have the choice of hosting the applications on their own servers or having a vendor do it for them. Most companies have outside vendors such as Oracle-PeopleSoft (sometimes called ASPs, which stands for application service providers) support the applications, instead of the IT groups within their own organizations.

So what sort of system should HR professionals choose from among the many options available to them? Expert say the first step in choosing an HRIS is for HR personnel to evaluate the biggest “headaches” they experience, or most time-consuming tasks, and then choose the applications that can have the strongest impact on the firm’s financial measures—that is, the ones that get the “biggest bang for the buck.” These applications are more likely to get “buy-in” from the firm’s top managers. HR managers should then calculate the costs based on average salaries, or HR hours, that could be saved by using an HRIS, along with the hours of increased productivity that would occur as a result.

Other factors that need to be evaluated include the following:

- **Fit of the application to the firm’s employee base.** If many of the firm’s employees work on a factory floor, is the system appropriate, or does HR need to install kiosks in employee areas? How will the information be secured? Will employees need to be assigned passwords? Can they access the information from offsite, say, from their homes?
- **Ability to upgrade or customize the software.** What sorts of costs will be involved to upgrade the software in the coming years?
- **Compatibility with current systems.** Does the HRIS link into existing, or planned, information systems easily and inexpensively?
- **User friendliness.** Does the software provide additional features such as links to learning resources or help for managers who might need it?
- **Availability of technical support.** Should the HRIS system be supported internally or should the vendor host it? What are the vendor’s technical support capabilities?
- **Time required to implement and train staff members to use the HRIS, including HR and payroll personnel, managers, and employees.** Who is responsible for training employees and how will it be done?
- **Initial costs and annual maintenance costs.** Is a “suite” of applications needed or just a few key applications? Experts advise HR managers to price each application separately and then ask vendors for a “bundled” price.12
### Human Resources Information System Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Website</th>
<th>Location</th>
<th>Contact Information</th>
<th>Services Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADP</td>
<td><a href="http://www.adp.com">http://www.adp.com</a></td>
<td>Roseland, NJ</td>
<td>(973) 974-5000</td>
<td>Provides solutions and services for payroll, tax, and HR benefits administration, including 401k/retirement services.</td>
</tr>
<tr>
<td>Best Software Inc.</td>
<td><a href="http://www.bestsoftware.com">http://www.bestsoftware.com</a></td>
<td>Irvine, CA</td>
<td>(800) 854-3415</td>
<td>Provider of software for accounting, budgeting and planning, fixed assets, customer relationship, analytics, human resources, and payroll.</td>
</tr>
<tr>
<td>Ceridian</td>
<td><a href="http://www.ceridian.com">http://www.ceridian.com</a></td>
<td>Minneapolis, MN</td>
<td>(952) 853-8100</td>
<td>Integrated human resources, payroll, tax, time, benefits management, and employee effectiveness services.</td>
</tr>
<tr>
<td>Employease</td>
<td><a href="http://www.employease.com">http://www.employease.com</a></td>
<td>Norcross, GA</td>
<td>(770) 325-7700</td>
<td>Hosted, web-based human resources software and services benefits administration, reporting, and applicant tracking applications.</td>
</tr>
<tr>
<td>Kronos</td>
<td><a href="http://www.kronos.com">http://www.kronos.com</a></td>
<td>Chelmsford, MA</td>
<td>(978) 250-9800</td>
<td>Provider of systems that collect attendance data and automatically post it to payroll. Labor management analysis software and payroll processing applications.</td>
</tr>
</tbody>
</table>

Oracle-PeopleSoft
http://www.oracle.com/peoplesoft/index.html
Redwood City, CA
(650) 506-7000
Software for data center management, business intelligence, corporate governance, information security, supply chain management, and relationship management.

People Trak, by Technical Difference
http://www.people-trak.com
Bonsall, CA
(760) 941-5800
Offers tools for personnel management, time and attendance, COBRA administration, workplace safety management, recruitment applicant tracking, and training administration.

SAS Institute
http://www.sas.com
Cary, NC
(919) 677-8000
Human capital software that can gather and analyze information on headcount, retention, churn, compensation, staffing, recruiting, budgeting, employment history, and affirmative action and EEO issues.

Spectrum Human Resource Systems Corporation
http://www.spectrumhr.com
Denver, CO
(303) 592-3200
Offers a variety of web-based and desktop-based software products for human resource management that allow for employee self-service. Spectrum also provides in-house support services for its software, including planning, training, and a hotline.
When an effective HRIS is implemented, perhaps the biggest advantage gained is that HR personnel can concentrate more effectively on the firm’s strategic direction instead of routine tasks. This can include forecasting personnel needs (especially for firms planning to expand, contract, or merge), planning for career and employee promotions, and evaluating the impact of the firm’s policies—both those related to HR functions and other functions—to help improve the firm’s earnings and strategic direction. “We wanted our HR teams to focus on people issues instead of data problems,” explains Sandra Hoffman, CIO of MAPICS, an HR applications provider.

The initial drive to adopt human resources information systems was related to cutting HR costs. But HR managers have since discovered that the systems have allowed them to share information with line managers, who, by having access to it, have been able to come up with better production practices and cost control solutions. As a result, HR managers are now asking their application providers to develop additional software to meet certain goals, such as lowering a company’s total spending on employee health care and improving customer service.

Challenge 3: Managing Change

Technology and globalization are only two of the forces driving change in organizations and HRM. Today, being able to manage change has become paramount to the firm’s success. As one pundit put it, “No change means chance.” Successful companies, says Harvard Business School professor Rosabeth Moss Kanter, develop a culture that just keeps moving all the time. Given the pace of today’s commerce, organizations can rarely stand still for long. In highly competitive environments, where competition is global and innovation is continuous, change has become a core competency of organizations.

Types of Changes

Programs focused on total quality, continuous improvement, downsizing, reengineering, outsourcing, and the like are all examples of the means organizations are using to modify the way they operate in order to be more successful. Some of these changes are reactive change, resulting when external forces have already affected an organization’s performance. Other changes are proactive change, initiated by managers to take advantage of targeted opportunities, particularly in fast-changing industries in which followers are not successful. Bob Nardelli, for example, recognized the need for change when he took over as CEO of Home Depot. Even though the company was the leader in the home improvement industry, Nardelli recognized the unrealized potential of the company and its capacity for growth. In the first year of his term, Nardelli and Dennis Donovan, executive vice president of HR, utilized their experience at GE (working under Jack Welch) to initiate organization-wide transformation of the company. The main thrust of the change-management program was to involve employees in instituting continuous innovation and excellent customer service. These types of change initiatives are not designed to fix problems that have arisen in the organization so much as they are designed to help renew everyone’s focus on key success factors.

Managing Change through HR

In a survey by the American Management Association (AMA), 84 percent of executives polled said that they have at least one change initiative going on in their organizations.
Yet surprisingly, in contrast to the Home Depot experience, only about two-thirds said that their companies have any sort of formal change-management program to support these initiatives! This is unfortunate because successful change rarely occurs naturally or easily. Most of the major reasons why change efforts can fail come down to HR issues. Some of the top reasons are as follows:

1. Not establishing a sense of urgency
2. Not creating a powerful coalition to guide the effort
3. Lacking leaders who have a vision
4. Lacking leaders who communicate the vision
5. Not removing obstacles to the new vision
6. Not systematically planning for and creating short-term “wins”
7. Declaring victory too soon
8. Not anchoring changes in the corporate culture

Most employees—regardless of occupation—understand that the way things were done five or ten years ago is very different from how they are done today (or will be done five or ten years from now). Responsibilities change, job assignments change, and work processes change. And this change is continuous—a part of the job—rather than temporary. Nevertheless, people often resist change because it requires them to modify or abandon ways of working that have been successful or at least familiar to them. As Dr. Marilyn Buckner, the immediate past president of the Human Resource Planning Society in New York City, put it: “Non-technical, unattended human factors are, in fact, most often the problem in failed change projects.” To manage change, executives and managers, including those in HR, have to envision the future, communicate this vision to employees, set clear expectations for performance, and develop the capability to execute by reorganizing people and reallocating assets. Organizations that have been successful in engineering change typically build into their change-management planning these key elements:

- They link the change to the business strategy.
- They create quantifiable benefits.
- They engage key employees, customers, and their suppliers, early.
- They integrate required behavior changes.
- They lead clearly, unequivocally, and consistently.
- They invest to implement and sustain change.
- They communicate continuously and personally.
- They sell commitment to the change, not communication about the change.

**Challenge 4: Managing Talent, or Human Capital**

The idea that organizations “compete through people” highlights the fact that success increasingly depends on an organization’s ability to manage talent, or human capital.
The term human capital describes the economic value of employees’ knowledge, skills, and capabilities. Although the value of these assets may not show up directly on a company’s balance sheet, it nevertheless has tremendous impact on an organization’s performance. The following quotations from notable CEOs illustrate this point:

- “If you look at our semiconductors and melt them down for silicon, that’s a tiny fraction of the costs. The rest is intellect and mistakes.” (Gordon Moore, Intel)
- “An organization’s ability to learn, and translate that learning into action rapidly, is the ultimate competitive business advantage.” (Jack Welch, General Electric)
- “Successful companies of the 21st century will be those who do the best jobs of capturing, storing and leveraging what their employees know.” (Lew Platt, Hewlett-Packard)

**Human Capital and HRM**

Human capital is intangible and elusive and cannot be managed the way organizations manage jobs, products, and technologies. One of the reasons for this is that the employees, not the organization, own their own human capital. If valued employees leave a company, they take their human capital with them, and any investment the company has made in training and developing those people is lost.

To build human capital in organizations, managers must continue to develop superior knowledge, skills, and experience within their workforce. Staffing programs focus on identifying, recruiting, and hiring the best and the brightest talent available. Training programs complement these staffing practices to provide skill enhancement, particularly in areas that cannot be transferred to another company if an employee leaves. In addition, employees need opportunities for development on the job. The most highly valued intelligence tends to be associated with competencies and capabilities that are learned from experience and are not easily taught. Consequently, managers have to do a good job of providing developmental assignments to employees and ensuring their job duties and requirements are flexible enough to allow for growth and learning.

Beyond the need to invest in employee development, organizations have to find ways of using the knowledge that currently exists. Too often, employees have skills that go unused. As Robert Buckman (who served as CEO of Buckman Laboratories for twenty-two years, a period of unprecedented growth for the company) noted, “If the greatest database in the company is housed in the individual minds of the associates of the organization, then that is where the power of the organization resides. These individual knowledge bases are continually changing and adapting to the real world in front of them. We have to connect these individual knowledge bases together so that they do whatever they do best in the shortest possible time.” Efforts to empower employees and encourage their participation and involvement more fully utilize the human capital available. (Employee empowerment is discussed fully in later chapters.)

In companies such as Texas Instruments and Toys “R” Us, managers are evaluated on their progress toward meeting developmental goals. These goals focus on skill development and gaining new competencies and capabilities. In a growing number of instances, pay is attached to this knowledge and skill acquisition. Skill-based pay, for example, rewards employees for each new class of jobs they are capable of performing. We will discuss skill-based pay (or pay-for-knowledge) more in Chapter 9.

Developmental assignments, particularly those involving teamwork, can also be a valuable way of facilitating knowledge exchange and mutual learning. Effective
communication (whether face to face or through information technology) is instrumental in sharing knowledge and making it widely available throughout the organization. As Dave Ulrich, professor of business at the University of Michigan, noted: “Learning capability is g times g—a business’s ability to generate new ideas multiplied by its adeptness at generalizing them throughout the company.”

HR programs and assignments are often the conduit through which knowledge is transferred among employees. A recent survey by the Human Resource Planning Society revealed that 65 percent of responding companies believed that their HR group plays a key role in developing human capital. Boeing Satellite Systems, for example, has created a “lessons learned” site on its Intranet where all areas of the company can store the knowledge they have learned. As information and intellectual capital are posted to the company’s electronic newsgroups, they can be analyzed and consolidated by editorial teams. Employees can access and use this new codified knowledge directly from the Internet. Executives at Boeing estimate that this form of intellectual capital has reduced the cost of developing a satellite by as much as $25 million.

HR managers and line managers each play an important role in creating an organization that understands the value of knowledge, documents the skills and capabilities available to the organization, and identifies ways of utilizing that knowledge to benefit the firm. We will address these issues throughout the text, but particularly in Chapters 5 and 7 on career development and training.

**Challenge 5: Responding to the Market**

Meeting customer expectations is essential for any organization. In addition to focusing on internal management issues, managers must also meet customer requirements of quality, innovation, variety, and responsiveness. These standards often separate the winners from the losers in today’s competitive world. How well does a company understand its customers’ needs? How fast can it develop and get a new product to market? How effectively has it responded to special concerns? “Better, faster, cheaper”—these standards require organizations to constantly align their processes with customer needs. Management innovations such as total quality management (TQM) and process reengineering are but two of the comprehensive approaches to responding to customers. Each has direct implications for HR.

**Total Quality Management, Six Sigma, and HRM**

**Total quality management (TQM)** is a set of principles and practices whose core ideas include understanding customer needs, doing things right the first time, and striving for continuous improvement. Total quality management techniques were developed in the mid-1940s by Dr. W. Edward Deming after studying Japanese companies rebuilding following WWII. The TQM revolution in the United States began in the mid-1980s, led by companies such as Motorola, Xerox, and Ford. But since that time, criteria spelled out in the Malcolm Baldrige National Quality Award have provided the impetus for both large and small companies to rethink their approach to HRM. Currently, the Baldrige Award is given annually in each of five categories: manufacturing, service, small business, education, and healthcare.

Unfortunately, early TQM programs were no panacea for responding to customer needs and improving productivity. In many cases, managers viewed quality as a quick fix and became disillusioned when results did not come easily. When TQM
initiatives do work, it is usually because managers have made major changes in their philosophies and HR programs. More recently, companies such as Motorola, GE, Dow Chemical, and Home Depot have adopted a more systematic approach to quality, called Six Sigma, which includes major changes in management philosophy and HR programs. Six Sigma is a statistical method of translating a customer’s needs into separate tasks and defining the best way to perform each task in concert with the others. By examining the optimal process, Six Sigma can have a powerful effect on the quality of products, the performance of customer service, and the professional development of employees. What makes Six Sigma different from other quality efforts is that it catches mistakes before they happen. In a true Six Sigma environment, variation from standard is reduced to only 3.4 defects per million.26

The importance of HR to Six Sigma begins with the formation of teams, and extends to training, performance management, communication, culture, and even rewards. As individuals progress through Six Sigma training, they can move up from “green belt” to eventually achieve “black belt” status. Many of Dow’s key HR slots require black-belt certification, for example. If this all sounds a bit hokey, take note of the successful companies that have made cultural—and performance—transformation as a result: Motorola credits Six Sigma with $16 billion in savings over the past twelve years; Ford reports that it saved more than $4 billion in one year alone; Motorola is so committed to Six Sigma that it now conducts Six Sigma training for employees of other firms who attend its Motorola University.27 The most important quality-improvement techniques stress employee motivation, change in corporate culture, and employee education. Organizations known for product and service quality strongly believe that employees are the key to that quality.

One of the reasons that HR programs are so essential to programs such as Six Sigma is that they help balance two opposing forces. According to Laurie Broedling, an organizational psychologist and human resources expert, “One set of forces (the need for order and control) pulls every business toward stagnation, while another set of forces (the need for growth and creativity) drives it toward disintegration.” Six Sigma’s focus on continuous improvement drives the system toward disequilibrium, while Six Sigma’s focus on customers, management systems, and the like provide the restraining forces that keep the system together. HR practices help managers balance these two forces. Like human resources information systems, TQM has helped HR departments progress from a focus on functional activities to strategic planning. Better business thinking builds more strategic HR thinking.28

Reengineering and HRM
In addition to TQM and Six Sigma programs, some companies take a more radical approach to process redesign called reengineering. Reengineering has been described as “the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in cost, quality, service, and speed.”29 Reengineering often requires that managers start over from scratch in rethinking how work should be done, how technology and people should interact, and how entire organizations should be structured. HR issues are central to these decisions. First, reengineering requires that managers create an environment for change, and, as we mentioned previously, HR issues drive change. Second, reengineering efforts depend on effective leadership and communication processes, two other areas related to HRM. Third, reengineering requires that administrative systems be reviewed and modified. Selection, job descriptions, training, career planning, performance appraisal, compensation, and
labor relations are all candidates for change to complement and support reengineering efforts. We will return to these issues, and speak more directly to the organizational development tools necessary for reengineering, in later chapters.

**Challenge 6: Containing Costs**

Investments in reengineering, TQM, human capital, technology, globalization, and the like are all very important for organizational competitiveness. Yet at the same time, there are increasing pressures on companies to lower costs and improve productivity to maximize efficiency. Like other functional department managers, human resources managers are now under pressure to show top managers the “bottom line” financial results their departments are achieving. Labor costs are one of the largest expenditures of any organization, particularly in service- and knowledge-intensive companies. Moreover, the healthcare costs of insuring workers and their families have skyrocketed in the past decade, posing a much bigger burden to firms. Organizations are taking many approaches to lowering labor-related costs. In addition to shifting some of the rising costs of healthcare back onto employees, firms are also downsizing, outsourcing, offshoring, and engaging in employee leasing in an attempt to enhance productivity. Each of these efforts has a big impact on HR policies and practices.

**Downsizing**

**Downsizing** is the planned elimination of jobs. For example, when L. L. Bean saw that sales had fallen, the company undertook a number of efforts to identify what it called “smart cost reductions.” Bean’s TQM activities helped the company target quality problems and saved an estimated $30 million. But the cuts were not enough, and ultimately Leon Gorman, president of the firm, and Bob Peixotto, vice president of HR and quality, realized the company needed to eliminate some jobs. Instead of simply laying off people, however, the company started early retirement and “sweetened” voluntary separation programs. Then the company offered employees sabbaticals for continuing education.

These efforts, combined with better employee communication, helped soften the blow of layoffs at L. L. Bean. But the pain of downsizing has been widespread throughout the United States. Virtually every major corporation within the country has undergone some cycle of downsizing. During the period from 1995 to 2002, about 2 million U.S. manufacturing jobs were lost—an 11 percent drop. One-third of companies downsized following 9/11. And it’s not just U.S. firms that are losing manufacturing jobs. China lost 15 percent of its industrial jobs during the 1995–2002 period as well.

Historically, layoffs tended to affect manufacturing firms and line workers in particular, but in the 1990s, the layoffs began to encompass white-collar workers in greater numbers. In fact, in the largest U.S. firms, most of the jobs lost in the last decade have been white-collar jobs. One of the hardest-hit industries has been information technology.

But downsizing is no longer being regarded as a short-term fix when times are tough. It’s now become a tool continually used by companies to adjust to changes in technology, globalization, and the firm’s business direction. For example, in a study that surveyed 450 senior HR executives at companies that had downsized in the past three years, only 21 percent said that financial difficulties had spurred the cutbacks,
compared to 78 percent in a similar study in 1994. In fact, 34 percent of the executives said that the downsizing was done to strengthen their companies’ future positions; 21 percent said it was done to achieve fundamental staff realignment; 17 percent said it was due to a merger or acquisition.

Whatever the reason, while some firms improve efficiency (and lower costs) with layoffs, many others do not obtain such benefits. These kinds of trade-offs have led some firms to establish a policy of “no layoffs.” For example, in an industry that has seen layoffs in the tens of thousands, Southwest Airlines hasn’t laid off a single employee. In fact, the company hasn’t had layoffs in thirty years. Nucor Steel is another company with a no-layoff policy. These practices are admittedly an exception, but some firms are taking such an approach because of downsizing’s toll on retention and recruitment. A study by Watson Wyatt of 750 companies showed that companies with excellent recruiting and retention policies provide a nearly 8% higher return to shareholders compared to those that don’t. Those with a strong commitment to job security earned an additional 1.4% for shareholders.

Advocates of a no-layoff policy often note that layoffs may backfire after taking into account such hidden costs as the following:

- Severance and rehiring costs
- Accrued vacation and sick-day payouts
- Pension and benefit payoffs
- Potential lawsuits from aggrieved workers
- Loss of institutional memory and trust in management
- Lack of staffers when the economy rebounds
- Survivors who are risk averse, paranoid, and political

In contrast, companies that avoid downsizing say they get some important benefits from such policies:

- A fiercely loyal, more productive workforce
- Higher customer satisfaction
- Readiness to snap back with the economy
- A recruiting edge
- Workers who aren’t afraid to innovate, knowing their jobs are safe

More than one executive has concluded that you don’t get dedicated and productive employees if at the first sign of trouble you show them that you think they are expendable.

To approach downsizing more intelligently, companies such as Continental Airlines, Dial Corporation, and L. L. Bean have made special efforts to reassign and retrain employees for new positions when their jobs are eliminated. This is consistent with a philosophy of employees as assets, as intellectual capital.

**Outsourcing, Offshoring, and Employee Leasing**

Over the past twenty-five years, the employment relationship between companies and employees has shifted from relationship-based to transaction-based. Fewer people are working for one employer over the course of their lifetimes, and the Internet has created a workforce that is constantly scanning for new opportunities. More people are choosing to work on a freelance or contract basis, or to work part-time, especially women. Outsourcing is evidence of this trend. Outsourcing simply means hiring...
someone outside the company to perform tasks that could be done internally. Companies often hire the services of accounting firms, for example, to take care of financial services. They may hire advertising firms to handle promotions, software firms to develop data-processing systems, or law firms to handle legal issues. Maintenance, security, catering, and payroll are being outsourced in order to increase the organization's flexibility and lower its overhead costs. Interest in outsourcing has been spurred by executives who want to focus their organization's activities on what they do best versus peripheral activities. Increasingly, outsourcing is changing the way HR departments operate as well. Indeed, outsourcing has been one of the most prominent HR trends of the last 10 years, and will continue to be until the last dollar of excess costs has been wrung out. HR outsourcing is already a $25 billion market, according to the research firm Gartner, Inc. In 2005, more than 85 percent of U.S. employers expected to outsource at least one HR function.34

**Offshoring**, also referred to as “global sourcing,” is the controversial practice of moving jobs overseas. Nonetheless, almost half of 500 senior finance and HR leaders surveyed said their firms are either offshoring or are considering offshoring in the next three years, according to a study by Hewitt Associates.35 Figure 1.2 shows the huge number of jobs estimated to be offshored in the coming years, along with the fields most likely to be affected. Cost reduction is the overwhelming motivator for doing so—companies estimate that they can save 40–60 percent on labor costs by offshoring work to countries such as India, where highly educated workers can perform the same jobs as U.S. workers at half the price. Other markets include the Philippines, Russia, China, Mexico, Brazil, and Hungary. But hidden costs can chew up most, if not all, of the profits gained from offshoring, including those associated with finding foreign vendors, productivity lost during the transition, domestic layoff costs, language difficulties, foreign regulatory challenges, and political and economic instability that can threaten operations.

In Chapter 2, you will learn about the other ways firms can get a competitive edge besides just cutting labor costs. But offshoring is going to continue to be a fact
### Estimated Number and Types of U.S. Jobs Moving Offshore by 2015

**Figure 1.2**

**Estimated Number and Types of U.S. Jobs Moving Offshore by 2015**

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions of Jobs</th>
<th>Year</th>
<th>US$ Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>0.3 (0.6%)</td>
<td>2010</td>
<td>$19.7</td>
</tr>
<tr>
<td>2004</td>
<td>0.5 (0.9%)</td>
<td>2008</td>
<td>$23.3</td>
</tr>
<tr>
<td>2005</td>
<td>0.8 (1.5%)</td>
<td>2007</td>
<td>$36.7</td>
</tr>
<tr>
<td>2006</td>
<td>1.0 (1.7%)</td>
<td>2006</td>
<td>$42.4</td>
</tr>
<tr>
<td>2007</td>
<td>1.1 (1.9%)</td>
<td>2007</td>
<td>$48.2</td>
</tr>
<tr>
<td>2008</td>
<td>1.2 (2.2%)</td>
<td>2008</td>
<td>$50.8</td>
</tr>
<tr>
<td>2009</td>
<td>1.3 (2.5%)</td>
<td>2009</td>
<td>$75.4</td>
</tr>
<tr>
<td>2010</td>
<td>1.5 (3.1%)</td>
<td>2010</td>
<td>$151.2</td>
</tr>
</tbody>
</table>

**NUMBER OF U.S. JOBS MOVING OFFSHORE BY JOB CATEGORY, 2003–2015**

<table>
<thead>
<tr>
<th>Job Category</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>3,500</td>
<td>15,000</td>
<td>34,000</td>
<td>42,000</td>
<td>48,000</td>
<td>64,000</td>
<td>106,000</td>
<td>259,000</td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>30,000</td>
<td>55,000</td>
<td>91,000</td>
<td>105,000</td>
<td>120,000</td>
<td>136,000</td>
<td>176,000</td>
<td>356,000</td>
<td></td>
</tr>
<tr>
<td>Computer</td>
<td>102,000</td>
<td>143,000</td>
<td>181,000</td>
<td>203,000</td>
<td>228,000</td>
<td>247,000</td>
<td>322,000</td>
<td>542,000</td>
<td></td>
</tr>
<tr>
<td>Architecture</td>
<td>14,000</td>
<td>27,000</td>
<td>46,000</td>
<td>54,000</td>
<td>61,000</td>
<td>70,000</td>
<td>93,000</td>
<td>191,000</td>
<td></td>
</tr>
<tr>
<td>Life sciences</td>
<td>300</td>
<td>2,000</td>
<td>4,000</td>
<td>5,500</td>
<td>6,500</td>
<td>9,000</td>
<td>16,000</td>
<td>39,000</td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td>6,000</td>
<td>12,000</td>
<td>20,000</td>
<td>23,000</td>
<td>26,000</td>
<td>29,000</td>
<td>39,000</td>
<td>79,000</td>
<td></td>
</tr>
<tr>
<td>Art, design</td>
<td>2,500</td>
<td>4,500</td>
<td>8,000</td>
<td>9,000</td>
<td>10,000</td>
<td>11,000</td>
<td>15,000</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>11,000</td>
<td>22,000</td>
<td>38,000</td>
<td>47,000</td>
<td>55,000</td>
<td>67,000</td>
<td>97,000</td>
<td>218,000</td>
<td></td>
</tr>
<tr>
<td>Office</td>
<td>146,000</td>
<td>256,000</td>
<td>410,000</td>
<td>475,000</td>
<td>541,000</td>
<td>616,000</td>
<td>815,000</td>
<td>1,600,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>315,000</td>
<td>540,000</td>
<td>830,000</td>
<td>960,000</td>
<td>1,100,000</td>
<td>1,200,000</td>
<td>1,700,000</td>
<td>3,400,000</td>
<td></td>
</tr>
</tbody>
</table>

of life as the global economy shifts and the lure of low labor costs continues to entice U.S. corporations. Too often, however, the decision to offshore is made by top managers and finance, without HR’s initial input: “Companies can minimize hidden costs and maximize their returns by enabling HR to have a seat at the table early so they can carefully address issues such as skill and language requirements, labor costs by market, alternative talent pools, workforce training, retraining and change management,” says Mark Arian, a corporate restructuring and change practice leader for Hewitt. To minimize problems, line and HR managers have to work together with the firm’s other functional groups to define and communicate transition plans, minimize the number of unknowns, and help employees identify their employment options.36

As an alternative to downsizing, outsourcing, and offshoring, many companies, especially small ones, have decided to sign employee leasing agreements with professional employer organizations (PEOs). A PEO—typically a larger company—takes over the management of a smaller company’s HR tasks and becomes a co-employer to its employees. The PEO performs all the HR duties of an employer—hiring, payroll, and performance appraisal. Because PEOs can co-employ a large number of people working at many different companies, they can provide employees with benefits such as 401k and health plans that small companies can’t afford. Today 700 PEOs oversee 2 to 3 million American workers. The value of employee leasing lies in the fact that an organization can essentially maintain its working relationships with its employees but shift some employment costs to the PEO, in return for a fee. Full-service PEOs sell an even broader range of services, including high-end benefits such as adoption assistance, usually found only at the largest corporations. More details on employee leasing will be discussed in Chapter 5.37

Productivity Enhancements

Pure cost-cutting efforts such as downsizing, outsourcing, and leasing may prove to be disappointing interventions if managers use them as simple solutions to complex performance problems. Overemphasis on labor costs perhaps misses the broader issue of productivity enhancement.

Employee productivity is the result of a combination of employees’ abilities, motivation, and work environment, and the technology they have to work with. Since productivity can be defined as “the output gained from a fixed amount of inputs,” organizations can increase productivity either by reducing the inputs (the cost approach) or by increasing the amount that employees produce, by adding more human and/or physical capital to the process. Nonetheless, it is quite possible for managers to cut costs only to find that productivity falls even more rapidly. Conversely, managers may find that increasing investment in employees (raising labor costs) may lead to even greater returns in enhanced productivity.

In absolute terms, the United States remains the world’s most productive nation. Figure 1.3 shows how markedly U.S. productivity per person (in dollars) has increased since the 1930s. That said, the growth in output per worker is now climbing faster in less-developed countries such as China that have lacked expertise and technology in the past but are making strides to close the gap. Even in the wake of the last U.S. recession, however, new investments in technology kept the productivity of U.S. workers climbing upward. The problem is that this rapid investment in faster computers and more-efficient machine tools is beginning to level off. This will limit how much assistance technology can offer U.S. employees in terms of their productivity in the years to come. And employees are already working more hours than they...
have at any time since 1973. This means that that any additional productivity will have to come from the enhanced ability of employees, their motivation, and their work environment—which makes the job of the HR manager in the coming years all the more crucial. Figure 1.4 shows some of the topics that we cover in this textbook that help managers increase productivity in their organizations.
In addition to the competitive challenges facing organizations, managers in general—and HR managers in particular—need to be concerned about changes in the makeup and the expectations of their employees. As we noted at the beginning of this chapter, HRM involves being an advocate for employees, being aware of their concerns, and making sure that the exchange between the organization and its employees is mutually beneficial. Highlights in HRM 4 shows a summary of social concerns in HRM. We will discuss some of these issues here and address all of them in greater detail throughout the book.

### Demographic Changes

Among the most significant challenges to managers are the demographic changes occurring in the United States. Because they affect the workforce of an employer, these changes—in employee background, age, gender, and education—are important topics for discussion.
Because the U.S. population is becoming more diverse, companies that don’t hire minorities reflecting the change are likely to find themselves at a competitive disadvantage.

The Diversity Challenge

As shown in Figure 1.5, minorities in the United States are increasing relative to the total population. It comes as no surprise, then, that American workers are becoming more diverse as well. The U.S. Census Bureau estimates that in 2012, minorities will make up an even larger share of the U.S. labor force than they do today, and the white non-Hispanic labor force will continue to comprise a smaller share. For example, between 2002 and 2012, the Hispanic labor force is expected to grow by more than 30 percent versus just 10 percent for the white, non-Hispanic labor force. Much of the growth of the minority workforce is due to the arrival of immigrants who often are of working age but have different educational and occupational backgrounds from those of the U.S. population. In cities such as New York, Houston, Chicago, Los Angeles, Atlanta, and Detroit, minorities currently represent more than half the population.

To accommodate the shift in demographics, many organizations have increased their efforts to recruit and train a more diverse workforce. In this regard, a group of 600 firms such as Chevron, AT&T, and Monsanto has developed an organization called Inroads, which for the past twenty-five years has identified promising minority students during their senior year in high school and offered them summer internships. Darden Restaurants, best known for its Olive Garden and Red Lobster chains, has a long history of recruiting minority employees. Denny’s and 7-Eleven have stepped up their efforts to attract minority owners of their franchises.

Age Distribution of Employees

Past fluctuations in American birthrates are producing abrupt changes in the makeup of the labor force. The U.S. Census Bureau projects that between 2002 and 2012, the annual growth rate of the 55-and-older group will be 4.1 percent—four times the annual growth rate for the overall labor force. Imbalance in the age distribution of the labor force has significant implications for employers. Companies such as Pacific Gas and Electric and Dow Chemical are finding that large portions of their workforces are nearing
Beyond the sheer number of employees they will have to replace, managers are concerned that the expertise of these employees is likely to be drained too rapidly from the company. As a stopgap measure, employers are making positive efforts to attract older workers, especially those who have taken early retirement. And workers are taking them up on the offer. AARP has reported that 68 percent of workers between ages 50 and 70 plan to work in retirement or never retire. Good health and longer life expectancies play the biggest role in extended work lives. But some retirees have returned to the workforce because of economic needs.

Home Depot is one company participating in a pilot program with AARP in an effort to attract older workers. As part of the program, AARP’s web site matches AARP members with corporations looking to hire them. Bob Nardelli, Home Depot’s CEO, said he intends to hire older employees in direct proportion to their increase as a share of the population. Borders, the national bookseller, is attempting to do likewise. “Whenever our demographics match up with a community, sales are better,” says Borders senior vice president Dan Smith.

Recruiting older workers may sound counterintuitive because they incur higher healthcare costs. But older workers also have fewer dependents and offer other cost savings. “Our over-50 employee turnover is 10 times less than those under 30,” says Smith. “So when you think about the savings you have in training costs, transitions costs, and recruitment costs, you save a lot more on that for the over-50 workers than you do for others.”

The other problem that accompanies age imbalances in the workforce might be referred to as the “echo boom” effect. Similar to the trends with baby boomers, those...
who constitute the new population bulge are experiencing greater competition for advancement from others of approximately the same age. This situation challenges the ingenuity of managers to develop career patterns for employees to smooth out gaps in the numbers and kinds of workers.\textsuperscript{60}

**Gender Distribution of the Workforce**

Sixty percent of women participate in the labor force, and as a group they represent 47 percent of the total U.S. labor force. Approximately 80 percent of mothers with school-age children are employed in some capacity. As shown in Figure 1.6, projections by the Bureau of Labor Statistics suggest that women will continue to join the U.S. labor force and are expected to account for just under 48 percent by 2012.\textsuperscript{44} Educational attainment of women is also increasing relative to men. Employers who want to attract the talent that women have to offer are taking measures to ensure that women are treated equally in the workplace in terms of advancement opportunities.

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**Figure 1.6** Labor Force and Gender Distributions

![Labor Force Participation Rate by Sex, Projected 1950–2012](chart1)

Continuing a historical trend, the labor force participation rate for men will decline as the rate for women increases.

**Labor Force Growth by Sex, Projected 2002–2012**

The number of women in the labor force is expected to grow at a higher rate than that for men.

Source: U.S. Department of Labor.
and compensation. They also need to accommodate working parents through parental leaves, part-time employment, flexible work schedules, job sharing, telecommuting, and child and elder care assistance.

**Rising Levels of Education**

Over the years, the educational attainment of the U.S. labor force has risen dramatically. Not coincidentally, some of the fastest-growing sectors of employment over the past few decades have been in areas requiring higher levels of education. Figure 1.7 shows the average payoff in annual earnings from education. It is important to note, however, that while the complexity of jobs is increasing significantly, the skills gap is huge and widening. One study by the U.S. Department of Education found that less than half of all high school seniors can handle mathematics problems involving fractions, decimals, percents, elementary geometry, and simple algebra. Between 45 and 50 percent of adults in the United States have only limited reading and writing abilities needed to handle the minimal demands of daily living or job performance. As a result, busi-

![Figure 1.7: Education Pays](image_url)

Source: U.S. Department of Labor
nesses now spend billions of dollars on basic skills training for their employees. In a speech to the Commonwealth Club of California, David Kearns, the renowned former CEO of Xerox Corporation and ardent education advocate, said, “The American workforce is in grave jeopardy. We are running out of qualified people. If current demographic and economic trends continue, American business will have to hire a million new workers a year who can’t read, write, or count.”

And it’s not just workers with four-year degrees that are in great demand. Companies are having trouble finding trained and certified workers such as pipe fitters, motorcycle mechanics, and air traffic controllers. As the baby boomer generation retires, the problem will likely worsen. HR departments will have to offer higher compensation packages to attract qualified candidates, and recruiting and selection systems will have to function much more competitively in order to identify talent. Given the recession the United States experienced earlier in the decade, this might sound strange. But demographic shifts can, and will, have a huge impact on HR and society.

HR managers are interested in these trends because the economy and job market are critical to HR’s operations. For example, given that minorities and women have increased their share of the labor force, HR managers frequently analyze how each group is represented in both fast-growing and slow-growing occupations. Women, for example, are fairly well represented in fast-growing occupations such as health services but are also represented in some slow-growth occupations such as secretarial, computer processing, and financial records processing. For blacks and Hispanics, the data are less encouraging. Blacks and Hispanics have been heavily concentrated in several of the slow-growth and declining groups. Given these data, a number of efforts have been undertaken to encourage minority recruitment, selection, and training.

But these are only the initial efforts to provide an overall environment that values and utilizes a diverse workforce. **Managing diversity** means being acutely aware of characteristics common to employees, while also managing these employees as individuals. It means not just tolerating or accommodating all sorts of differences but supporting, nurturing, and utilizing these differences to the organization’s advantage. Figure 1.8 summarizes a model for developing a diversity strategy in organizations. While there are important social reasons for including a broader spectrum of workers, there are some essential business reasons as well. Highlights in HRM 5 shows the primary business reasons for diversity management.

**Cultural Changes**

The attitudes, beliefs, values, and customs of people in a society are an integral part of their culture. Naturally, their culture affects their behavior on the job and the environment within the organization, influencing their reactions to work assignments, leadership styles, and reward systems. Like the external and internal environments of which it is a part, culture is undergoing continual change. HR policies and procedures therefore must be adjusted to cope with this change.

**Employee Rights**

Over the past few decades, federal legislation has radically changed the rules for management of employees by granting them many specific rights. Among these are laws granting the right to equal employment opportunity (Chapter 3), union representation if desired (Chapter 14), a safe and healthful work environment (Chapter 12), pension plans regulated by the government (Chapter 11), equal pay for men and
women performing essentially the same job (Chapter 9), and privacy in the workplace. An expanded discussion of the specific areas in which rights and responsibilities are of concern to employers and employees, including the often-cited employment-at-will doctrine, will be presented in Chapter 13.

Concern for Privacy
HR managers and their staffs, as well as line managers in positions of responsibility, generally recognize the importance of discretion in handling all types of information about employees. Since the passage of the federal Privacy Act of 1974, increased attention to privacy has been evident, heightened by the increase in identity theft in recent years. While the act applies almost exclusively to records maintained by federal agencies, it has drawn attention to the importance of privacy and has led to the passage of additional privacy legislation, including the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and the associated privacy rule issued by the U.S. Department of Health and Human Services, which protects the use and disclosure of personal medical information. (Although the Electronic Communications
Privacy Act of 1986 legislated the protection of electronic communications such as e-mail, the rules are different when it comes to the privacy that employees can expect with regard to their electronic communications at work.) Globalization has added another twist to privacy compliance. For example, EU countries prohibit the transfer of personal data to countries with inadequate data protection laws, such as China.

According to the Society for Human Resources Management, of more than 400 human resources professionals, 54 percent said they now have written privacy policies safeguarding employee data. IBM was one of the first companies to show concern for how personal information about employees was handled. It began restricting the release of information as early as 1965, and in 1971 it developed a comprehensive privacy policy. Other things companies are doing to protect their employees include limiting the use of Social Security numbers on time sheets, log-in sheets, and other employment forms. Some companies lock up employee files, conduct background checks on employees who have access to others’ files, educate employees in fraud prevention, and contract with outside firms specializing in identity theft. In Chapter 13, we will discuss the content of such programs, along with the privacy employees can expect while on the job, and present some recommended privacy guidelines.

Changing Attitudes toward Work
Employees today are less likely to define their personal success only in terms of financial gains. This trend has been evolving for some time, but observers have noted that it has peaked since the terrorist attacks of September 11, 2001. Personal fulfillment and self-expression—as well as a balance between work and family—are key factors in a complex array of job attitudes. Many people view life satisfaction as more likely to result from balancing the challenges and rewards of work with those in their personal lives. Though most people still enjoy work, and want to excel at it, they tend to
be focused on finding interesting work and may pursue multiple careers rather than being satisfied with just “having a job.” In fact, in a survey of more than 3,000 workers, 86 percent said work fulfillment and work-life balance were their top priorities. Only 35 percent said being successful at work and moving up the ladder were their top priorities. People also appear to be seeking ways of living that are less complicated but more meaningful. These new lifestyles cannot help having an impact on the way employees must be motivated and managed. Consequently, HRM has become more complex than it was when employees were concerned primarily with economic survival.

Balancing Work and Family
Work and the family are connected in many subtle and not-so-subtle social, economic, and psychological ways. Because of the new forms that the family has taken—such as the two-wage-earner and the single-parent family—work organizations find it necessary to provide employees with more family-friendly options. “Family friendly” is a broad term that may include unconventional hours, daycare, part-time work, job sharing, pregnancy leave, parental leave, executive transfers, spousal involvement in career planning, assistance with family problems, and telecommuting.

Flextime options for employees are on the rise, according to the Society for Human Resource Management. More than half of all companies—American Express, Levi Strauss, PepsiCo, and Schering-Plough among them—now offer such programs. In general, these companies calculate that accommodating individual needs and circumstances is a powerful way to attract and retain top-caliber people. Aetna Life and Casualty, for example, cut turnover by 50 percent after it began offering six-month parental leaves, coupled with an option for part-time work when employees return to the job. Bank of America encourages all its employees to visit their children’s schools or volunteer at any school—on company time. Still, there are acknowledged costs. In professional firms such as law, career paths and promotions are programmed in a lockstep manner. Time away from work can slow down—and in some cases derail—an individual’s career advancement.

Furthermore, family-friendly companies have to balance the benefits they provide to families versus their single employees. A majority of employees have no children under 18. A Conference Board survey of companies with family-friendly programs found that companies acknowledge that childless employees harbor resentment against employees with children who are able to take advantage of these programs.

The Partnership of Line Managers and HR Departments
We have taken a good deal of time up front in this book to outline today’s competitive and social challenges to reinforce the idea that managing people is not something that occurs in a back room called the HR department. Managing people is
every manager’s business, and successful organizations combine the experience of line managers with the expertise of HR specialists to develop and utilize the talents of employees to their greatest potential. Addressing HR issues is rarely the exclusive responsibility of HR departments acting alone. Instead, HR managers work side by side with line managers to address people-related issues of the organization. And while this relationship has not always achieved its ideal, the situation is rapidly improving. HR managers are assuming a greater role in top-management planning and decision making, a trend that reflects the growing awareness among executives that HRM can make important contributions to the success of an organization.

**Responsibilities of the Human Resources Manager**

Although line managers and HR managers need to work together, their responsibilities are different, as are their competencies and expertise. The major activities for which an HR manager is typically responsible are as follows:

1. **Advice and counsel.** The HR manager often serves as an in-house consultant to supervisors, managers, and executives. Given their knowledge of internal employment issues (policies, labor agreements, past practices, ethics and corporate governance, and the needs of employees) as well as their awareness of external trends (economic and employment data, new legal and regulatory issues, and the like), HR managers can be an invaluable resource for making decisions. For example, larger companies have begun appointing “chief ethics officers” to help their employees wade through gray areas when it comes to right and wrong. The firm’s top HR manager is in a good position for this job. In smaller companies, however, this task frequently falls on the shoulders of individual HR managers. These managers need to counsel both employees and executives in this area and areas in which Congress has passed new corporate governance laws to prevent, among other things, top executives from abusing their power. (Corporate governance relates to the way rights and responsibilities are shared within corporations, especially between managers and shareholders.) HR managers are also being relied on more heavily to advise compensation committees, which are more closely scrutinizing executives’ pay than they have in years past.

2. **Service.** HR managers also perform a host of service activities such as recruiting, selecting, testing, planning and conducting training programs, and hearing employee concerns and complaints. Technical expertise in these areas is essential for HR managers and forms the basis of HR program design and implementation. Moreover, managers must be convinced that the HR staff is there to help them increase their productivity rather than to impose obstacles to their goals. This requires not only the ability on the part of the HR executive to consider problems from the viewpoint of line managers and supervisors but also skill in communicating with the managers and supervisors.

3. **Policy formulation and implementation.** HR managers generally propose and draft new policies or policy revisions to cover recurring problems or to prevent anticipated problems. Ordinarily, these are proposed to the senior executives of the organization, who actually issue the policies. HR managers may monitor performance of line departments and other staff departments to ensure conformity with established HR policies, procedures, and practices. Perhaps more important, they are a resource to whom managers can turn for policy interpretation.
4. **Employee advocacy.** One of the enduring roles of HR managers is to serve as an employee advocate—listening to employees’ concerns and representing their needs to managers. Effective employee relations provides a support structure when disruptive changes interfere with normal daily activities.

In the process of managing human resources, increasing attention is being given to the personal needs of the participants. Thus throughout this book we will not only emphasize the importance of the contributions that HRM makes to the organization but also give serious consideration to its effects on the individual and on society.

Increasingly, employees and the public at large are demanding that employers demonstrate greater social responsibility in managing their human resources. Complaints that job stress is devitalizing the lives and injuring the health of employees are not uncommon. Charges of discrimination against women, minorities, the physically and mentally disabled, and the elderly with respect to hiring, training, advancement, and compensation are being leveled against some employers. Issues such as comparable pay for comparable work, the high cost of health benefits, daycare for the children of employees, elder care for their parents, and alternative work schedules are concerns that many employers must address as the workforce grows more diverse. All employers are finding that privacy and confidentiality of information about employees are serious matters and deserve the greatest protection that can be provided.

Where employees are organized into unions (covered in Chapter 14), employers can encounter costly collective bargaining proposals, threats of strike, and charges of unfair labor practices. Court litigation, demands for corrective action by governmental agencies, sizable damage awards in response to employee lawsuits, and attempts to erode the employment-at-will doctrine valued by employers are still other hazards that contemporary employers must try to avoid. (We will discuss these issues in detail in Chapter 13.)

Top management generally recognizes the contributions that the HR program can make to the organization and thus expects HR managers to assume a broader role in the overall organizational strategy. Thus HR managers must remember the bottom line if they are to fulfill their role.

**Competencies of the Human Resources Manager**

As top executives expect HR managers to assume a broader role in overall organizational strategy, many of these managers will need to acquire a complementary set of competencies. These competencies are summarized here and shown graphically in Figure 1.9.

1. **Business mastery.** HR professionals need to know the business of their organization thoroughly. This requires an understanding of its economic and financial capabilities so that they can “join the team” of business managers in order to develop the firm’s strategic direction. It also requires that HR professionals develop skills at external relations focused on their customers.

2. **HR mastery.** HR professionals are the organization’s behavioral science experts. In areas such as staffing, development, appraisal, rewards, team building, and communication, HR professionals should develop competencies that keep them abreast of changes.

3. **Change mastery.** HR professionals have to be able to manage change processes so that HR activities are effectively merged with the business needs of the organi-
zation. This involves interpersonal and problem-solving skills, as well as innova-
tiveness and creativity.

4. Personal credibility. HR professionals must establish personal credibility in the
eyes of their internal and external customers. Credibility and trust are earned by
developing personal relationships with customers, by demonstrating the values
of the firm, by standing up for one’s own beliefs, and by being fair-minded in
dealing with others. Highlights in HRM 6 outlines the code of ethics HR profes-
sionals should follow, according to the Society for Human Resource Management.

The ability to integrate business, HR, and change competencies is essential. By
helping their organizations build a sustained competitive advantage and by learning
to manage many activities well, HR professionals are becoming full business partners.
Forward-looking CEOs such as Bob Nardelli at Home Depot; Herb Kelleher, the
Highlights in HRM 6

SHRM Code of Ethical and Professional Standards in Human Resource Management

Society for Human Resource Management

CODE PROVISIONS

PROFESSIONAL RESPONSIBILITY

Core Principle
As HR professionals, we are responsible for adding value to the organizations we serve and contributing to the ethical success of those organizations. We accept professional responsibility for our individual decisions and actions. We are also advocates for the profession by engaging in activities that enhance its credibility and value.

Intent
• To build respect, credibility and strategic importance for the HR profession within our organizations, the business community, and the communities in which we work.
• To assist the organizations we serve in achieving their objectives and goals.
• To inform and educate current and future practitioners, the organizations we serve, and the general public about principles and practices that help the profession.
• To positively influence workplace and recruitment practices.
• To encourage professional decision-making and responsibility.
• To encourage social responsibility.

Guidelines
1. Adhere to the highest standards of ethical and professional behavior.
2. Measure the effectiveness of HR in contributing to or achieving organizational goals.
3. Comply with the law.
4. Work consistent with the values of the profession.
5. Strive to achieve the highest levels of service, performance and social responsibility.
6. Advocate for the appropriate use and appreciation of human beings as employees.
7. Advocate openly and within the established forums for debate in order to influence decision-making and results.

PROFESSIONAL DEVELOPMENT

Core Principle
As professionals we must strive to meet the highest standards of competence and commit to strengthen our competencies on a continuous basis.

Intent
• To expand our knowledge of human resource management to further our understanding of how our organizations function.
• To advance our understanding of how organizations work (“the business of the business”).
Guidelines
1. Pursue formal academic opportunities.
2. Commit to continuous learning, skills development and application of new knowledge related to both human resource management and the organizations we serve.
3. Contribute to the body of knowledge, the evolution of the profession and the growth of individuals through teaching, research and dissemination of knowledge.
4. Pursue certification such as CCP, CEBS, PHR, SPHR, etc. where available, or comparable measures of competencies and knowledge.

ETHICAL LEADERSHIP

Core Principle
HR professionals are expected to exhibit individual leadership as a role model for maintaining the highest standards of ethical conduct.

Intent
• To set the standard and be an example for others.
• To earn individual respect and increase our credibility with those we serve.

Guidelines
1. Be ethical; act ethically in every professional interaction.
2. Question pending individual and group actions when necessary to ensure that decisions are ethical and are implemented in an ethical manner.
3. Seek expert guidance if ever in doubt about the ethical propriety of a situation.
4. Through teaching and mentoring, champion the development of others as ethical leaders in the profession and in organizations.

FAIRNESS AND JUSTICE

Core Principle
As human resource professionals, we are ethically responsible for promoting and fostering fairness and justice for all employees and their organizations.

Intent
To create and sustain an environment that encourages all individuals and the organization to reach their fullest potential in a positive and productive manner.

Guidelines
1. Respect the uniqueness and intrinsic worth of every individual.
2. Treat people with dignity, respect and compassion to foster a trusting work environment free of harassment, intimidation and unlawful discrimination.
3. Ensure that everyone has the opportunity to develop their skills and new competencies.
4. Assure an environment of inclusiveness and a commitment to diversity in the organizations we serve.
5. Develop, administer and advocate policies and procedures that foster fair, consistent and equitable treatment for all.
6. Regardless of personal interests, support decisions made by our organizations that are both ethical and legal.
7. Act in a responsible manner and practice sound management in the country(ies) in which the organizations we serve operate.

(continued on next page)
CONFLICTS OF INTEREST

Core Principle
As HR professionals, we must maintain a high level of trust with our stakeholders. We must protect the interests of our stakeholders as well as our professional integrity and should not engage in activities that create actual, apparent or potential conflicts of interest.

Intent
To avoid activities that are in conflict or may appear to be in conflict with any of the provisions of this Code of Ethical and Professional Standards in Human Resource Management or with one’s responsibilities and duties as a member of the human resource profession and/or as an employee of any organization.

Guidelines
1. Adhere to and advocate the use of published policies on conflicts of interest within your organization.
2. Refrain from using your position for personal, material or financial gain or the appearance of such.
3. Refrain from giving or seeking preferential treatment in the human resources processes.
4. Prioritize your obligations to identify conflicts of interest or the appearance thereof; when conflicts arise, disclose them to relevant stakeholders.

USE OF INFORMATION

Core Principle
HR professionals consider and protect the rights of individuals, especially in the acquisition and dissemination of information while ensuring truthful communications and facilitating informed decision-making.

Intent
To build trust among all organization constituents by maximizing the open exchange of information, while eliminating anxieties about inappropriate and/or inaccurate acquisition and sharing of information.

Guidelines
1. Acquire and disseminate information through ethical and responsible means.
2. Ensure only appropriate information is used in decisions affecting the employment relationship.
3. Investigate the accuracy and source of information before allowing it to be used in employment related decisions.
5. Safeguard restricted or confidential information.
6. Take appropriate steps to ensure the accuracy and completeness of all communicated information about HR policies and practices.
7. Take appropriate steps to ensure the accuracy and completeness of all communicated information used in HR-related training.
founder of Southwest Airlines; and Daniel Carp at Eastman Kodak make certain that their top HR executives report directly to them and help them address key issues.

At lower levels in the organization, a rapidly growing number of companies such as Ford, Intel, and Corning assign HR representatives to business teams to make certain that HR issues are addressed on the job and that HR representatives, in turn, are knowledgeable about business issues rather than simply focusing on the administrative function.

**Role of the Line Manager**

As much as we might say about the role of the HR department, in the final analysis managing people depends on effective supervisors and line managers. As one executive at Merck put it, “Human resources are far too important to be left to the personnel department.” Although HR managers have the responsibility for coordinating programs and policies pertaining to people-related issues, managers and employees themselves are ultimately responsible for performing these functions.

We understand that most readers of this book will be line managers and supervisors, rather than HR specialists. The text is, therefore, oriented to helping people manage people more effectively, whether they become first-line supervisors or chief executive officers. Students now preparing for careers in organizations will find that the study of HRM provides a background that will be valuable in managerial and supervisory positions. Discussions concerning the role of the HR department can provide a better understanding of the functions performed by this department. A familiarity with the role of HR should help facilitate closer cooperation with the department’s staff and fuller utilization of the assistance and services available from this resource.

**SUMMARY**

People have always been central to organizations, but their strategic importance is growing in today’s knowledge-based industries. An organization’s success increasingly depends on the knowledge, skills, and abilities of its employees.

Globalization influences approximately 70–85 percent of the U.S. economy and affects the free flow of trade among countries. This influences the number and kinds of jobs that are available and requires that organizations balance a complicated set of issues related to managing people in different geographies, cultures, legal environments, and business conditions. HR functions such as staffing, training, compensation, and the like have to be adjusted to take into account the differences in global management.

Advanced technology has tended to reduce the number of jobs that require little skill and to increase the number of jobs that require considerable skill, a shift we refer to as moving from touch labor to knowledge work. This displaces some employees and requires that others be retrained. In addition, information technology has influenced HRM through human resources information systems (HRIS) that streamline HR processes,
make information more readily available to managers and employees, and enable HR departments to focus on the firm’s strategies.

Both proactive and reactive change initiatives require HR managers to work with line managers and executives to create a vision for the future, establish an architecture that enables change, and communicate with employees about the processes of change.

In order to “compete through people,” organizations have to do a good job of managing human capital: the knowledge, skills, and capabilities that have value to organizations. Managers must develop strategies for identifying, recruiting, and hiring the best talent available; for developing these employees in ways that are firm-specific; for helping them to generate new ideas and generalize them through the company; for encouraging information sharing; and for rewarding collaboration and teamwork.

In order to respond to customer needs better, faster, and more cheaply, organizations have instituted total quality management (TQM) and reengineering programs. Each of these programs requires that HR be involved in changing work processes, training, job design, compensation, and the like. HR issues also arise when communicating with employees about the new work systems, just as with any change initiative. Better business thinking builds more strategic HR thinking.

In order to contain costs, organizations have been downsizing, outsourcing, offshoring, and leasing employees, and enhancing productivity. HR’s role is to maintain the relationship between a company and its employees while implementing the changes.

The workforce is becoming increasingly diverse, and organizations are doing more to address employee concerns and to maximize the benefit of different kinds of employees. Demographic changes, social and cultural differences, and changing attitudes toward work can provide a rich source of variety for organizations. But to benefit from diversity, managers need to recognize the potential concerns of employees and make certain that the exchange between the organization and employees is mutually beneficial.

In working with line managers to address the organization’s challenges, HR managers play a number of important roles; they are called on for advice and ethics counsel, for various service activities, for policy formulation and implementation, and for employee advocacy. To perform these roles effectively, HR managers must contribute business competencies, state-of-the-art HR competencies, and change-management competencies. Ultimately, managing people is rarely the exclusive responsibility of the HR function. Every manager’s job is managing people, and successful companies combine the expertise of HR specialists with the experience of line managers to develop and utilize the talents of employees to their greatest potential.

**KEY TERMS**

- corporate social responsibility
- downsizing
- employee leasing
- globalization
- human capital
- human resources information system (HRIS)
- human resources management (HRM)
- knowledge workers
- managing diversity
- offshoring
- outsourcing
- proactive change
- reactive change
- reengineering
- Six Sigma
- total quality management (TQM)
DISCUSSION QUESTIONS

1. Are people always an organization’s most valuable asset? Why or why not?

2. Suppose your boss asked you to summarize the major people-related concerns in opening an office in Tokyo. What issues would be on your list?

3. Will technology eliminate the need for human resources managers?

4. What are the pros and cons of change? Does it help or hurt organizational performance? Do you like change? Why or why not?

5. Can you think of a situation in which, if a particular person left an organization, the organization’s expertise would drop rapidly?

6. Someone once said that TQM “is like paving cow paths.” What do you suppose this means in relation to reengineering?

7. Do pressures on cost containment work against effective management of people? Why or why not?

8. What are the pros and cons of having a more diverse workforce? Is the United States in a better position to compete globally because of its diverse population?

9. In your opinion, what is the most important role of HR managers?
When Tom Van Berkem, senior vice president, HR, arrived at WellPoint (Thousand Oaks, Calif., $20.4 billion in 2003 revenue) seven years ago, he was faced with the challenge of cost-effectively managing human resources for a company of about 6,000 employees that planned to quadruple in size.

“We faced the strategic challenge to build an [HR] infrastructure for a Fortune 500 company to become Fortune 100,” says Van Berkem. “Our existing system wasn’t up to that challenge.”

Van Berkem’s vision for meeting that challenge was to centralize HR services, along with instituting sweeping self-service functionality and 24/7 call center capability—an ambitious set of requirements for that time. Having vetted all the vendor players in the marketplace, Van Berkem relates, WellPoint chose PeopleSoft (Pleasanton, Calif.) because, “We were looking for a vendor we thought shared our vision and most closely matched what we wanted.”

Lacking internal resources, WellPoint relied on “a major accounting firm” for PeopleSoft version 7 in January 1998, according to Chuck Moore, staff vice president, HR information systems and administration. It went live on the client/server system in October 1998, with about 100 HR staff users.

In 2000, when WellPoint was ready to make the leap to Web-based self-service, it turned to PeopleSoft Global Services to implement version 8.0 of the vendor’s solution. The five-month implementation, which ended in August 2000, required a significant investment in hardware to cope with a shift from the 100 HR users to the entire employee population of over 14,000. But it was at that time that WellPoint also
achieved a large payback from the system. A month after going live, the carrier was able to use the PeopleSoft solution to bring its open enrollment process in-house, saving $25-per-head—or roughly $400,000.

That kind of gain was possible because of the strategic role envisioned for the system, according to Moore. “At the beginning, we made the decision that the PeopleSoft database was going to be the source of all [employee] information,” he says. “Over time, we have more and more systems dependent on PeopleSoft to become the source of accurate information.” The solution is tied into tertiary budgeting and expense report systems, and it plays an important role in employee communications. For example, by tying into PeopleSoft, “a vendor can contact scores of our employees on a moment’s notice with voicemail messages,” Moore explains.

WellPoint turned to PeopleSoft Global Services again in the summer of 2003 to manage an upgrade to PeopleSoft version 8.3, which enabled all HR manager transactions to be immediately uploaded to the solution’s database. The carrier is currently in the process of launching a PeopleSoft portal, which delivers more personalized information than the standard self-service interface. WellPoint is also about to move to a PeopleSoft-driven paperless paycheck system that will save the company $1.17 per employee per check. With about 20,000 employees currently, savings for open-enrollment add up to $500,000 annually, and paperless paychecks amount to a savings of $608,400 per year.

Full-Service Strategic Solution

Added to these benefits is a savings of about 40 to 50 human resources employees, plus related facilities expenses not needed within a self-service HR paradigm. With productivity benefits owing to the efficiency of the self-service process, the solution more than pays back an investment of about $8.5 million plus undisclosed annual maintenance fees, says Van Berkem. “We have transformed a traditional payroll [and] personnel record solution into a full-service strategic solution at a cost not substantially higher than a traditional solution,” he asserts.

**QUESTIONS**

1. What problems do you think WellPoint might have encountered by moving so many employees to a web-based HR system?
2. What do you think WellPoint’s HR department should try to achieve in moving forward?
3. How can PeopleSoft make certain that WellPoint is happy with its service?


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**Florida Company Fastens Its Sights on Global Growth**

When Robert Kilbey began selling medical supplies out of his twenty-four-foot Airstream trailer in the early 1960s, he came upon a brilliant idea: make the braces and wraps with a new sort of closure—Velcro fasteners—instead of the common laces and hooks-and-eyes. The new hook-and-loop fastener, invented in the early 1940s and now used on everything from automobiles to footwear, caught on with the medical world. Kilbey moved Professional Products, Inc., from his base in Miami to DeFuniak Springs, Florida, where it quietly has become one of Walton
County’s largest and most stable employers. Forty-two years later his son, Bryan Kilbey, is expanding the company and taking it international. “We will build a new 100,000-square-foot building this year,” the company’s CEO said. “And we are going to open a new sales office for the European market.”

“From order to shipping, we can fill an order in 4½ hours,” Kilbey said. “These are often specific requests from doctors who like a piece of equipment to work a certain way. So we don’t have a lot of inventory.” Instead, as general manager Dean Stanton says, the company is vertical in its operations, designing and making most of its own components.

“We make our own elastic,” Kilbey said. “We have the thread, the rubber, and we make our own.” He said new technology and equipment will be used to streamline production. Some work will be outsourced to other countries, possibly Mexico and Honduras. That decision hasn’t been made. But no jobs will disappear.

“We have never laid off anyone,” Kilbey said. “We have worked short weeks, although we haven’t done that in 15 years. But we have kept our people.” Neither does he go into panic-hiring mode and add employees at crunch time.

“These are highly skilled jobs,” Stanton said. “We can’t just go out and hire anyone.” Stanton said, “We will cross-train people to do other jobs” when some work moves to possibly Mexico, Honduras, and other countries.

QUESTIONS

1. How would you describe Professional Products’ growth strategy?
2. Why would Professional Products commit to no layoffs in its expansion? Is this a positive move, or could it be detrimental to the company?
3. In addition to training employees for other jobs, what other HR strategies might the firm employ to maintain its relationship with its domestic employees?


In 1992, Deloitte & Touche, LLP, was celebrating the tenth year in which approximately 50 percent of its new hires were women. Because it takes nearly a decade to become a partner, the accounting firm based in Wilton, Connecticut, was now sitting back waiting for all the women in the pipeline to start making bids for partnership. But something unexpected happened. Instead of seeing an increase in the number of women applying for partnership, Deloitte & Touche saw a decline. Talented women were leaving the firm and this represented a huge drain of capable people. In a knowledge-intensive business such as theirs, this problem went beyond social consciousness. They could not afford to lose valued partners.

The company formed the Task Force on the Retention and Advancement of Women to pinpoint the reason women were leaving. The task force conducted a massive information-gathering initiative, interviewing women at all levels of the company, even contacting women who had left the firm. It uncovered three main areas of complaint: (1) a work environment that limited opportunity for advancement, (2) exclusion from mentoring and networking, and (3) work and family issues.
The networking and mentoring concerns seemed to be the most troublesome. In a male-dominated business, men often network, sometimes to the exclusion of women. To tackle this problem, Deloitte & Touche retooled the work environment. It made changes such as a renewed commitment to flexible work arrangements, reduced workload, and flextime. The firm also developed plans for company-sponsored networking and formal career planning for women. In addition, the firm’s 5,000 partners and managers attended two-day workshops called “Men and Women as Colleagues” at a price to the company of approximately $3 million.

The results were terrific. Retention of women at all levels rose, and for the first time in the history of the firm, turnover rates for senior managers (just before making partner) were lower for women than for men. In addition to winning an Optima Award, it was cited as one of the top places for women to work in a New York City survey by McKinsey & Company. Deloitte not only had one of the highest proportions of women employees among those surveyed—more than 75 percent—but received especially high marks for its leadership in work/life quality and effectiveness. The firm was singled out as the only company to have a full suite of skills training and succession planning programs specifically for women. Deloitte also ranked number six on Training magazine’s 2005 “Training Top 100” list.

QUESTIONS

1. How did the problems at Deloitte & Touche occur in the first place?
2. Did their changes fix the underlying problems? Explain.
3. What other advice would you give their managers?


NOTES AND REFERENCES


22. For more on Buckman Labs and their approach to managing human capital, visit their web site at http://www.buckman .com. The company is also well known for its knowledge management initiatives, called Knowledge Nurture, as well as its knowledge management system, called K’Netix; see http://www .knowledge-nurture.com.


26. The term Six Sigma is a registered trademark of Motorola. It is based on the Greek letter sigma, used as a symbol of variation in a process (the standard deviation). For more information see Peter S. Pande, Robert P. Neuman, and Roland R. Cavanagh, The Six Sigma Way: How GE, Motorola, and Other Top Companies Are Honing Their Performance (New York: McGraw-Hill, 2000).


41. The U.S. Department of Labor’s Bureau of Labor Statistics keeps up-to-date projections and percentages in these categories. Interested readers can access this information at http://www.bls.gov.


46. The U.S. Department of Education has either commissioned or conducted several studies on literacy rates in the United States (http://www.ed.gov). In addition, the National Institute for Literacy (NIFL) is a federal organization that shares information about literacy and supports the development of high-quality literacy services (http://www.nifl.gov). See also “Corporate America Can’t Write,” *Work & Family Newsbrief* (January 2005): 4.


