

Functional Area 03

HR Service Delivery

Senior Professional in Human Resources – International
(SPHRi)



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Part One: HR Planning & Staffing

1. Workforce Planning

Workforce planning (also called human resource planning, HRP) has traditionally been used by organizations to ensure that the right person is in the right job at the right time. Under past conditions of relative environmental certainty and stability, human resource planning focused on the short term and was dictated largely by line management concerns. Increasing environmental instability, demographic shifts, changes in technology, and heightened international competition are changing the need for and the nature of human resource planning in leading organizations. Planning is increasingly the product of the interaction between line management and planners. In addition, organizations are realizing that in order to adequately address human resource concerns, they must develop long-term as well as short term solutions. As human resource planners involve themselves in more programs to serve the needs of the business, and even influence the direction of the business, they face new and increased responsibilities and challenges.

A scholar defined HRP as the process by which management determines how the organization should move from its current manpower position to its desired position. Through planning, management strives to have the right number and the right kinds of people, at the right places, at the right time, doing things which result in both the organization and the individual receiving maximum long-run benefits.

In addition, workforce planning focuses on analyzing an organization's HR needs as the organization's conditions change, and then supplying strategies to help respond proactively to those changes over time. HRP helps ensure that the right numbers of the right kinds of people are available at the right times and in the right places to translate organizational plans into reality. This process becomes strategic when some attempt is made to anticipate long-term HR "supplies and demands" relative to changing conditions facing the organization, and then to use HR department programs in an effort to meet these identified HR needs.

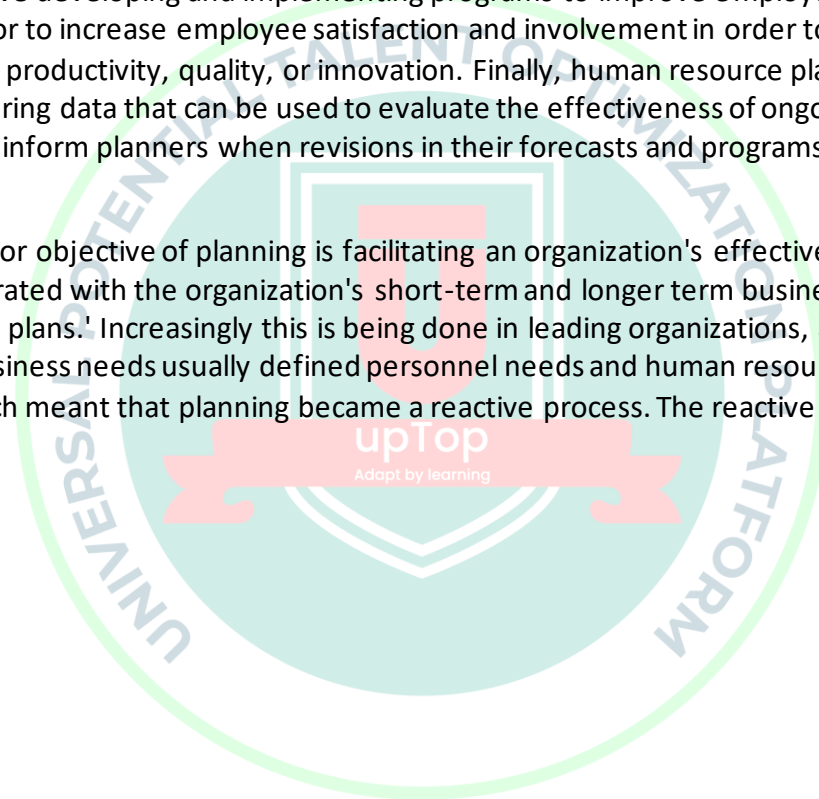
When the right skills are in place and they are matched with the right positions, long-term objectives are met more easily, and your company is guaranteed to see more successful results. Here are some reasons why implementing strategic workforce planning is important for your company. Developing a workforce action plan is a key component of your business planning.

1.1. Business Objectives

The linkage between business and human resource plans as one by which human resource and line managers work jointly to develop business plans and determine human resource needs, analyze the work force profile in terms of future business strategies, review emerging human resource issues, and develop programs to address the issues and support the business plans.

Contemporary human resource planning occurs within the broad context of organizational and strategic business planning. It involves forecasting the organization's future human resource needs and planning for how those needs will be met. It includes establishing objectives and then developing and implementing programs (staffing, appraising, compensating, and training) to ensure that people are available with the appropriate characteristics and skills when and where the organization needs them. It may also involve developing and implementing programs to improve employee performance or to increase employee satisfaction and involvement in order to boost organizational productivity, quality, or innovation. Finally, human resource planning includes gathering data that can be used to evaluate the effectiveness of ongoing programs and inform planners when revisions in their forecasts and programs are needed.

Because a major objective of planning is facilitating an organization's effectiveness, it must be integrated with the organization's short-term and longer term business objectives and plans.¹ Increasingly this is being done in leading organizations, although in the past business needs usually defined personnel needs and human resource planning, which meant that planning became a reactive process. The reactive nature of



the process went hand-in-hand with a short-term orientation. Now, major changes in business, economic, and social environments are creating uncertainties that are forcing organizations to integrate business planning with human resource planning and to adopt a longer term perspective. For example, according to a HR executive, Human resources is part of the strategic (business) planning process. It's part of policy development, line extension planning and the merger and acquisition processes. Little is done in the company that doesn't involve us in the planning, policy or finalization stages of any deal.

Another executive of human resources describes an integrated linkage between business and human resource plans as one by which human resource and line managers work jointly to develop business plans and determine human resource needs, analyze the work force profile in terms of future business strategies, review emerging human resource issues, and develop programs to address the issues and support the business plans. According to him, such joint efforts occur when human resource planners convince corporate business planners that "human resources represent a major competitive advantage" that can increase profits when managed carefully. It describes some of the activities that industrial/organizational (I/O) psychologists are engaged in as they seek to improve the competitiveness of organizations through effective human resource planning.

1.2. Workforce Supply Analysis

Supply forecasts can be derived from both internal and external sources of information, but internal sources are generally most crucial and most available. By assessing the extent to which the current workforce possesses skills and abilities that can be transferred to aid their performance in jobs predicted to exist in the future, HR professionals can help organizations assess how much of a discrepancy exists between their current skills profile and the profile required to meet their strategic plan. Moreover, computer technology has increased the feasibility of keeping information provided from such inventories up-to-date.

1.2.1. Manual Systems and Replacement Charts

Simple manual devices can be used to keep inventories and development records to compile qualifications information on each employee. Personnel replacement charts show the present performance and promotability for each position's potential replacement. Position replacement cards can also be created for each position to show possible replacements as well as their present performance, promotion potential, and training.

1.2.2. Computerized Information Systems

They are used to track the qualifications of hundreds or thousands of employees. The system can provide managers with a listing of candidates with specified qualifications after scanning the database.

1.2.3. The Matter of Privacy

Employers must balance an individual's right to privacy while making HR information legitimately available to those in the firm who need it.

1.2.4. Forecasting the Supply of outside Candidates

This may involve considering general economic conditions and the expected rate of unemployment.

1.3. Workforce Demand Analysis

In order to forecast the numbers and qualities of people who will be needed to perform the jobs, strategic planners, attempt to predict organizational outputs, such as expected production, volume, and sales levels. The outputs that an organization intends to produce or deliver, in combination with the technology that the organization intends to use to generate the outputs, dictate the human resource needs of the organization. Predicting outputs requires considering factors such as future demands from the marketplace for the products and services that the organization provides, the percentage of the market that the organization is likely to be able to serve, the availability and nature of new technologies that may affect the amounts and types of products or services that can be offered, and the different countries in which the organization expects to operate.

1.3.1. Trend or flow Analysis

It means studying a firm's employment levels over a period of years to predict future needs. Using this simple flow analysis allows the HR manager to visualize the change in the department and predict future staffing needs. Projecting turnover is another essential technique to use in estimating HR requirements.

1.3.2. Ratio Analysis

It means making forecasts based on the ratio between (1) some causal factor, like sales volume, and (2) number of employees required, like number of salespeople.

1.3.3. The Scatter Plot

It shows graphically how two variables (such as a measure of business activity and a firm's staffing levels) are related.

1.3.4. Using Computers to Forecast Personnel Requirements

The use of software programs can enable employers to quickly translate projected productivity and sales levels into forecasts of personnel needs, while estimating how personnel requirements will be affected by various productivity and sales levels.

1.4. Workforce Gap

After projecting future human resource supplies and demands, workforce gap is identified and action plans are developed to meet the objectives, through the joint efforts of the human resource planner and relevant managers throughout the organization. Differences in the types of objectives established for the short and intermediate term reflect differences in the types of changes that are feasible with two or three additional years of time. Thus, whereas short-term objectives include attracting, accessing, and assigning employees to jobs, intermediate-term objectives are more likely to include readjusting employees' skills, attitudes, and behaviors to fit

major changes in the needs of the business,' as well as adjusting human resource practices to fit changes in the needs of employees.

Here are some common used methods to fill the gap by staffing:

1.4.1. Regular staffing

Full time equivalent (FTE) is the number of working hours that represents one full-time employee during a fixed time period, such as one month or one year. FTE simplifies work measurement by converting work load hours into the number of people required to complete that work.

The number of FTE needed = workload hours / the working hours of 1 FTE in your organization

1.4.2. Contingent staffing

A contingent workforce is a labor pool whose members are hired by an organization on an on-demand basis.

1.4.3. Decruitment or RIF

Decruitment is the process by which an organization reduces its workforce. In some cases, an organization may terminate occupied employment positions caused by lost funding, change of work requirements, or the reorganization of a department or business operation, called Reduction in Force (RIF). There are several decruitment methods as follows:

- a. Firing - This refers to permanent involuntary termination of employees.
- b. Layoffs - These refer to temporary involuntary termination of employees. Layoffs may last only for a few days or extend up to years.
- c. Attrition - This is achieved when an organization does not fill the openings created by voluntary resignations or normal retirements of its employees.
- d. Transfers - This happens when employees are moved either laterally or downward. This usually does not reduce costs but, it can reduce intra-organizational supply—demand imbalances.
- e. Reduced workweeks - This is achieved by having employees work fewer hours per week, share jobs, or perform their jobs on a part-time basis.
- f. Early retirements - Here, the organization provides incentives to older and more senior employees for retiring before their normal retirement date.
- g. Job sharing - This is achieved by having employees share one full-time position.

1.5. Staffing Plan

Staffing is the process of acquiring, deploying, and retaining a workforce of sufficient quantity and quality to create positive impacts on the organization's effectiveness.

1.5.1. Staffing Quantity

A organization as a whole, as well as for each of its units, forecasts workforce quantity requirements-the needed headcount- and then compared these to forecasted workforce availabilities-the likely employee headcount-to determine its likely staffing level position. Making sure headcount requirements match availabilities, the projection is that the organization will be fully staffed, do not be understaffed or overstaffed.

Headcounts are the budget amount of full-time equivalent (FTE) for a given position. An FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time. The headcount does not include independent contractors or temporary workers on an agency's payroll.

1.5.2. Staffing Quality

Staffing quality includes person/job match and person/organization match. The person/job match seeks to align characteristics of individuals and jobs in ways that will result in desired HR outcomes. Often an organization seeks to determine not only how well the person fits or matches the job but also the organization. Likewise, applicants often assess how they think they might fit into the organization, in addition to how well they match the specific job's requirements and rewards.

1.5.3. Staffing Strategy

Staffing strategy is the planning process of identifying and addressing the staffing implications of business plans and strategies, or better still, as the process of identifying and addressing the staffing implications of change. Others call the process "strategic workforce planning," by any name, this effort typically includes:

- Defining the number (staffing levels) and types (capabilities) of employees who will be needed at a particular point in the future to implement plans effectively (often including how that staff should be organized and deployed);
- Identifying the staffing resources that are currently available;
- Projecting the "supply" of talent that will be available at that point in the future for which requirements have been defined (e.g., factoring in the effects of turnover, retirements, planned movement, etc.);
- Identifying differences between anticipated demand and forecasted supply; and
- Developing and implementing staffing plans/actions needed to close talent gaps and eliminate surpluses.

Increasingly, long-term human resource planning (for beyond three years) is becoming critical to the effective functioning of organizations. The rapidly changing and highly competitive worldwide marketplace is causing firms to turn to their human resources for survival and competitiveness. Because there is a greater understanding that an organization's work force cannot be turned around on a dime, long-term human resource planning is gaining currency. It is an activity that demands integration of the skills and knowledge of the human resource planner and all the other executives responsible for strategic planning.

Staffing the upper echelons of organizations presents a number of unique challenges, particularly when a company practices a promotion-from-within policy. Because the planning horizon is so long, greater uncertainty exists when predicting both future demand and future supply. The uncertainty in predicting supply is compounded by the small numbers of people and jobs involved, which changes the prediction task from one of estimating the percentage of a pool of employees who are likely to be with the company x years into the future to one of estimating the probability that a few particular individuals will still be with the company x years into the future. Providing developmental experiences to a greater number of employees helps reduce the uncertainty of forecasted supply, but orchestrating developmental experiences for large numbers of employees can be very difficult logistically because development is best accomplished by rotating employees through many key jobs throughout their careers. Predicting who will be available and with what capabilities is only half of the problem, of course. Equally challenging is predicting the needs of the organization.

Because the purpose of human resource planning is to ensure that the right people are in the right place at the right time, it must be linked with the plans of the total organization. Traditionally, there has been a weak one-way linkage between business planning and human resource planning. Business plans, where they exist, have defined human resource needs, thereby making human resource planning a reactive exercise. Many organizations now recognize that they can benefit from a two-way linkage between business and human resource planning. With a two-way linkage, business plans are considered somewhat malleable in that they are influenced by human resource considerations, such as the cost and availability of labor. Such organizations realize that profitability requires that business objectives be linked to people-planning activities. If the right people are unavailable, performance goals cannot be met. A two-way linkage is evident when astute managers no longer assume that every plan is doable.

1.5.4. Equating Workforce Demand to Supply

Demand Equals Supply

Should labor demand equal labor supply—a situation that could occur in very small firms operating in a stable environment but is not likely to happen in large organizations facing dynamic conditions—no action need be taken. The company can simply continue doing what it is doing; nothing else is required, at least in the short run.

Demand Is Less Than Supply

As more and more large organizations down-size, restructure, right-size, and streamline to cut costs, increase efficiency, improve productivity, and remain competitive, the potential for the demand for employees to be less than the available supply is a distinct possibility. Several methods are available for equating demand and supply, such as restricted hiring, reduced working hours, job sharing, early retirement, retraining, and layoffs.

Demand Is Greater Than Supply

Faced with a shortage of personnel, an organization must intensify its efforts to obtain the necessary supply of people to meet the needs of the firm. Several actions may be taken, such as creative recruiting (seeking different sourcing), compensation incentive (premium pay, four-day workweeks, flexible working hours, telecommuting, part-time, employment, and child care centers), training programs (special training programs to prepare previously unemployable individuals for positions with a firm), and different selection standards (lowering of employment standards and coupled with training programs).

In line with HR planning, staffing plans help employers analyze and respond to staffing gaps. Many factors drive the loss of staff, including changing labor markets, wage inflation due to competition for key skills, lack of employee engagement, and retirement. The model below outlines how employers can evaluate and respond to such losses. There are Demand-side and Supply-side staffing strategies. Consider a combination of strategies when addressing staffing gaps.

1.5.5. Demand-side Strategies

Demand-side strategies reduce the number of positions that need to be filled. They include:

Retention: Reduce turnover through retention incentives and employee engagement strategies.

Reorganization: Reduce the number of management positions by expanding supervisory span of control.

Work Process Redesign: Reduce staffing needs by streamlining workflows and methods.

Employee Performance Management: Reduce staffing needs by improving individual productivity.

1.5.6. Supply-side Strategies

Supply-side strategies help fill the remaining staffing gap once demand-side strategies have reduced the number of positions that must be filled. They include:

Recruitment: Expand applicant pools through enhanced marketing (e.g., broadening the target recruitment area, increasing advertising venues, and improved branding strategy).

Modified Qualifications: Expand applicant pools by considering a broader range of experience and education.

Workforce Development: Grow future applicant pools by supporting schools and apprenticeship programs.

Training and Development: Keep current staff up-to-date in their knowledge and skills through on-the-job and other training and development programs.

Succession Planning: Grow new internal applicant pools through training and development programs.

2. HR Forecasting

More often than not, human resource (HR) planners pay more attention to HR forecasting than to environmental scanning. Historically, literature on HR planning has emphasized forecasting and nearly ignored scanning. The difference between them is one of focus: Strategists and HR planners prefer to emphasize the influence of future trends on the content of jobs, the people doing those jobs, and the HR department's efforts over the number of jobs and the people doing them. Environmental scanning focuses on qualitative (content) changes over time; forecasting focuses on quantitative (numbers) over time. Some evidence does exist to suggest that HR planners are moving away from historical estimates of future HR needs and are beginning to think in terms of just-in-time approaches.

The HR forecaster is responsible for estimating numbers of people and jobs needed by an organization to achieve its objectives and realize its plans over time in the most efficient and effective manner possible. In the simplest sense, HR needs are computed by subtracting HR supplies or numbers of people available from expected HR demands or numbers of people required to produce at a desired level. To carry out the forecasting process, HR planners:

- Classify employees into distinct and unambiguous categories, which include age, race, sex, length of tenure, and present position.
- Classify positions into categories, which include (for example) educational preparation, experience required, or placement of the job in the organizational structure.
- Equate historical relationships between output and staffing levels. For instance, how many people are needed to produce a specific number of goods? Offer a specific level of service?
- Forecast demand by analyzing current HR requirements and projecting future HR requirements.
- Forecast supply by analyzing current HR inventories and comparing expected internal and external availability of human resource supplies.

Forecasting can be looked at from more than just the perspective of the forecaster's role. In one classic and still-relevant treatment, a scholar indicates that it consists of six steps.

- The first step is to assess the internal and external environment, either as part of strategic business planning efforts or as special stand-alone studies commissioned solely for human resources planning.
- The second step is to inventory available talent through examination of current employee appraisal information and succession plans.
- The third step is to forecast future labor supply based on attrition or turnover patterns, mobility or movement between job classes, skills utilization, and future assumptions.

- On the other side of the demand-supply equation, the fourth step consists of analyzing present HR requirements. Forecasters examine the number of present positions, the nature of the organization's structure, and the desired mix or pattern of occupations.
- The present is then projected into the future. Special attention is devoted to expected demand (what will probably be) and desired demand (what should be in the future).
- The final step is a comparison of supply and demand.

This process indicates shortfalls where action will be necessary to bring together the number of people available and the number needed in the future. Action is taken through such HR practice areas as recruitment and training.

HR planners (1) assess labor demand by projecting requirements implied by organizational plans; (2) assess internal labor supply by examining turnover patterns and inventories of existing skills and people; (3) assess external labor supply expected in the future; (4) compare supply and demand; and (5) reconcile labor shortfalls in such categories as the number of people/positions, experience, abilities, and race/sex of employees.

External environmental issues as well as internal forecasting can be included in a model of human resources planning (HRP), which is thus based on making comparisons between short- and long-range labor supplies and demands. Demand is stimulated by external environmental, organizational, and workforce conditions. Supply is a function of internal and external availability.

These models are primarily quantitative, equating supply and demand to numbers of people or positions by category. People are viewed not so much as individuals with unique talents, strengths, and weaknesses but rather as members of classifiable groups, clustered for ease in quantifying attributes, patterns, and characteristics. This reflects the traditional quantitative bias of HR forecasting.

2.1. Steps One and Two: Classifying Employees and Positions

The first two steps in the forecasting model we propose involves classifying employees and positions into distinct categories. Depending on the purpose for which forecasting is conducted; it can be handled in several ways.

People are categorized by age, if the purpose of forecasting is to project expected numbers of retirements; by race and sex, if the purpose is to compare goals and results for diversity, equal employment opportunity, or affirmative action; by tenure or seniority, if the purpose is to predict turnover rates/promotion; by educational level, if the purpose is to narrow the pool of qualified candidates for transfers and promotions; and by experience, if the purpose is to assess bench strength or identify people with adequate preparation for transfers or promotions.

On the other hand, positions are categorized by level, if the purpose is to relate positions to decision-making authority; by educational and training requirements, if the purpose is to identify work or experience prerequisites, based on task differences that distinguish one position from others; by employee type, if the purpose is to classify positions according to designations provided by the U.S. Equal Employment

Opportunity Commission and state government counterparts of that commission; by location, if the purpose is to identify positions by geography; and by activity or function, if the purpose is to identify positions by their location in organizational departments, divisions, and work groups.

Organization charts and budget documents are excellent starting points for establishing position categories. They show relationships between units and authorized staffing levels. They provide a snapshot of what is—present conditions. They can also serve as guides for dealing with what will probably be, or serve as projections into the future, taking into account assumptions and what should be in the future, or desired numbers of people/positions. Likewise, individualized career profiles provide a starting point for categorizing individuals, summarizing in a single place all the information pertinent to individual performance, education, career aspirations, and prior experience.

Decisions about what categories to use—and how many—depend solely on the purpose or aim of the HR forecast.

2.2. Step Three: Equating Staffing and Output

The key to forecasting is to determine some relationship between people and positions and organizational outputs. HR planners need to identify or devise a predictor or measure of revenues or outputs that relates numbers and types of people to goods or services produced. Predictors can be historic or past oriented, based on projections into the future of relationships identified in the past; they can be judgmental or future-oriented, based on the expected influence on staffing of changes in such areas as technology, sales, and productivity. In any case, predictors must be proportionate; that is, changes in expected or required production levels must affect staffing levels and vice versa.

Unfortunately, it is not a simple matter to identify a predictor from past staffing/output relationships or to devise one based on judgments about the future. Research provides few clues about what predictors are being used, when they are appropriate or inappropriate, and when alternatives should be chosen.

Intuitive predictors are probably most common. Managers simply estimate how many and what kind of people they will need to achieve functional plans related to production, finance, and marketing, and to achieve output objectives established for their organizational units. Little attempt is made to pinpoint a precise mathematical variable or variables to serve as a predictor; rather, each manager simply relies on intuition. HR planners survey managers at each level and, in this way, arrive at forecasts of HR needs.

Of course, more sophisticated predictors can be identified from (1) historical data (from past staffing levels and output patterns, HR planners identify a productivity index; it is used, in turn, to estimate future staffing requirements resulting from expected or desired output levels); (2) the total budget of the organization (a ratio of workers to budget dollars is devised; as the budget increases, numbers of workers increase in proportion to it); (3) numbers of units processed (if the numbers of units expected to be processed increases, staffing is correspondingly increased); (4) changes in productivity (to the extent that outputs per worker are affected by identifiable trends,

they can be used as predictors); and (5) staffing cycles (when staffing requirements vary by season or when the work itself is temporarily stepped up or slows down, it can be identified from past trends and then projected into the future).

Not one of these predictors sheds light on what skills should be possessed in what jobs. This important qualitative issue has been traditionally ignored by HR forecasters, though growing interest does exist in knowledge management and intellectual capital that examines these issues.

2.3. Step Four: Forecasting Demands

Forecasting demand is the process of estimating how many people will be needed in the future in various job categories, geographical locations, and organizational units. The process is based on applying the predictor identified or devised in the previous step. More art than science, demand forecasting—as it is sometimes called—is the driving force in HR planning. Estimates of supply are matched to it. A scholar indicates that professional HR departments have, for the most part, devised well-established methods for addressing this issue, but that those methods are also the greatest source of dissatisfaction.

What Are Some Reasons for Demand Forecasting?

There are several good reasons to conduct demand forecasting. It can help to:

(1) quantify the positions necessary for producing a given number of goods or offering a given amount of services in demand; (2) identify departments or work groups that can benefit from productivity improvement efforts; (3) determine what staff mix is desirable in the future (that is, numbers of people/positions of one class or occupational group relative to others); (4) assess appropriate staffing levels in different parts of the organization so as to hold down unnecessary costs; (5) prevent shortages of people where and when they are most needed; and (6) monitor compliance with equal employment opportunity goals. Demand forecasting thus helps control costs associated with human resources by ensuring that recruitment, management of HR, and promotions/transfers match organizational needs.

Causes of HR Demand

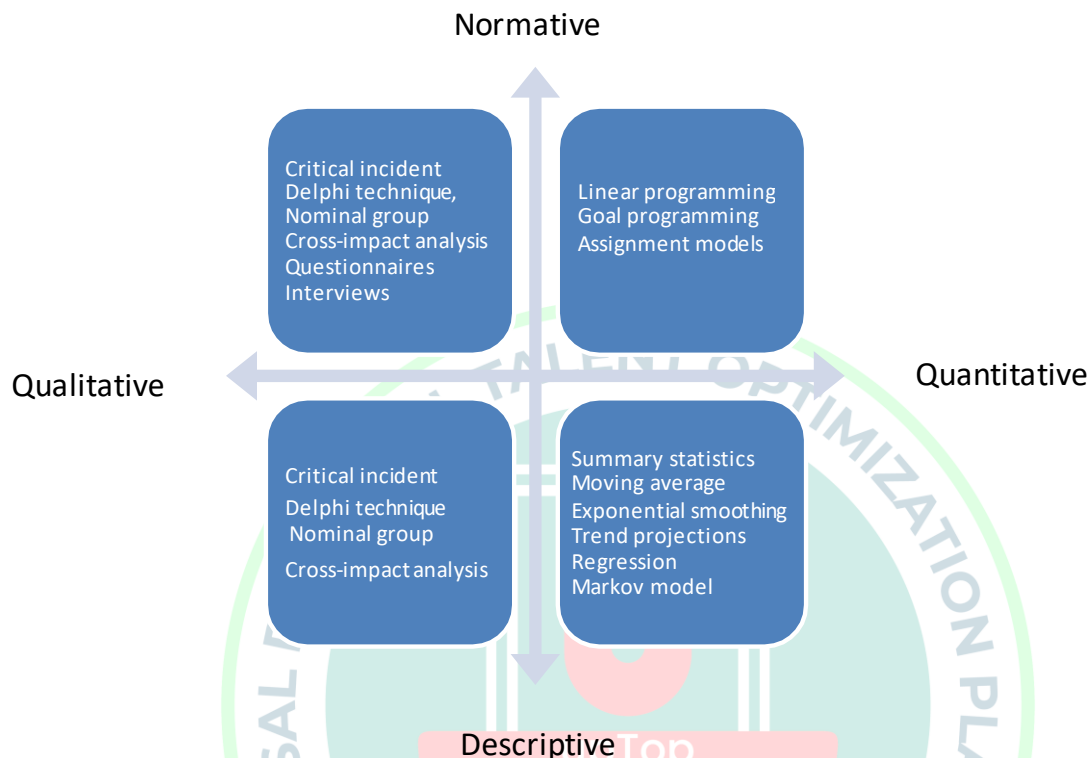
Demand for human resources stems from such causes as changes in the external environment (as economic, technological, social, demographic, and other external factors exert influence on work performed by the organization, labor demand is affected); organizational plans and objectives (How do strategists want the organization to perform? At what level of output do they plan to produce goods or offer services? Answers to those questions affect demand, especially when staffing is linked to output levels by means of a predictor); and productivity levels (How much is each worker producing? Labor demand remains constant or even decreases when each worker increases output). Each source of demand can be separately considered in the forecasting process.

Forecasting Methods

Few topics among HR planners have commanded as much attention as methods of

forecasting. Indeed, it appears that writers on the subject place great faith in these tools of the HRP trade. Articles on forecasting outnumber those on almost any other topic in the HRP field.

Forecasting methods can be categorized as below figure including (1) quantitative/descriptive, (2) quantitative/normative, (3) qualitative/descriptive, or (4) qualitative/normative.



Source: Rothwell, W.J. & Kazanas, H.C. (2003). *Planning and Managing Human Resources*. Amherst, MA, USA, Human Resource Development Press.

Quantitative/descriptive methods are most widely touted in the HRP literature. They focus on estimating how many people will be needed in the future in the various job categories. Their purpose is to describe what will probably be. Methods include summary statistics, moving averages, exponential smoothing, trend projections, regression models, and flow models. Each one is complicated.

Summary statistics is by far the simplest quantitative/descriptive method. Past personnel movements are tracked on the basis of movement (1) into the organization (What kinds of people are being hired? How many will probably be hired?); (2) through the organization (How many people are moving to lateral positions? Higher-level ones? Lower-level ones?); (3) out of the organization (How much movement out of the organization occurs through turnover, through such means as voluntary resignations or retirements, as well as such involuntary means as firings and death). These statistics are used, in turn, to forecast future HR demand based on past movements. The method is quite appropriate when the organization's internal and external environments are relatively stable.

The moving average, as the name implies, literally averages data about HR demand from recent periods and simply projects them into the future. The actual number of people required over the past three, six, or twelve months is divided by the number of months in the forecast to compute a simple mean. That mean will vary slightly, depending on how much demand has fluctuated during the time included in the forecast.

Suppose we wish to forecast HR demand at month 10, using information on actual demand for 7 previous months and forecasted demand for 2 more. Assuming that a 3-month moving average is used as the basis of the forecast and that 85 people were needed in month 7, 102 were forecasted for month 8, and 110 were forecasted for month 9, then 99 people will be forecast for month 10. Yet if a five-month moving average is used, 106 people might be forecasted.

The chief advantage of the moving average method is its simplicity. Unfortunately, it also has serious disadvantages: (1) Months are weighed equally, when in fact they can differ greatly in significance, (2) seasonal or cyclical patterns are ignored, and (3) heavy reliance is placed on past rather than future data.

Exponential smoothing is a somewhat more sophisticated quantitative/descriptive method. The basic idea is simple enough. The forecast for the current period is added to an error term, computed by multiplying forecast error during the present period by a constant between one and zero. Forecast error is present demand less present forecast. Choice of a constant is judgmental, depending on the forecaster's awareness of management needs and the unique nature of the forecasting situation. In reality, exponential smoothing is a general term applied to a whole range of methods. It is more advantageous than moving averages because forecasters can vary weights associated with different time periods. It is disadvantageous for planning in that, like moving averages, its basis is the past rather than the future.

Trend projections are somewhat simpler. Forecasters plot past demand for HR on a graph. Numbers of people hired or requested are placed on one axis; time is placed on the other. Forecasters simply eyeball the data and plot a straight line from past to future. While not a method characterized by great accuracy, trend projections are easily explained to strategists and easily prepared by HR planners.

Regression models, similar to trend projections, are more mathematically precise. A line is fitted on a graph much like that in trend projection, except a mathematical regression formula is used to relate staffing and output variables. Multiple regression is similar except that more variables are included.

Flow models are very frequently associated with HR forecasting. The simplest one is called a Markov model. Forecasters:

- Determine the time that will be encompassed. This choice is, of course, based on the planning horizon desired, usually coinciding with the time horizon of strategic business plans. Shorter lengths of time are generally more accurate than longer ones.
- Establish categories to which employees can be assigned. These categories, called

states, must not overlap, but must take into account every possible category to which an individual can be assigned. The number of states must not be too large or too small.

- Count annual “flows” or movements between states for several prior time periods. These states are defined as absorbing (gains or losses to the organization) or non-absorbing (changes in position levels or employment status). Losses include death or disability, absence, resignations, and retirement; gains include hiring, rehiring, transfer, and movement by position level.
- Estimate the probability of transitions from one state to another based on past trends. Demand is a function of replacing those who make a transition.

There are alternatives to the simple Markov model. One, called the semi-Markov, takes into account not just state but also tenure of individuals in each state. After all, likelihood of movement increases with tenure. Another method is called the vacancy model, which predicates probabilities of movement and numbers of vacancies. While the semi-Markov does the best job of estimating movement among those whose situations and tenures are similar, the vacancy model produces the best results for an organization.

Markov analysis is advantageous in that it makes sense to decision-makers. They can easily understand its underlying assumptions and are thus more likely to rely on the results. The disadvantages: past-oriented data might not be accurate in periods of dynamically wrenching change and accuracy in forecast about individuals is sacrificed to achieve accuracy across groups.

Unlike quantitative/descriptive demand forecasting methods, **quantitative/normative** ones optimize numbers of people and positions. Their purpose is thus to assess what should be in the future, not what will probably be. Specific methods include linear programming, goal programming, and assignment models.

Linear programming is the general title applicable to a whole range of techniques. It is appropriate to use when (1) managers seek a single, well-defined objective; (2) alternatives for action exist; (3) achievement of the objective is constrained by scarce resources; (4) objectives and constraints are expressed as mathematical functions (“linear inequalities”); and (5) a linear relationship exists between the objective and constraints on achieving it. This method helps determine HR demand equated with desired output. In other words, it assesses the required staffing level that matches required output levels.

Goal programming is a related method, pairing linear programming and Markov modeling. When constraints such as budget and promotion policies influence staffing and when the forecasting problem encompasses several time periods, the method is appropriate. It pinpoints attainable and optimal goals by comparing discrepancies between targets and forecasted results. It has been used in business firms and government organizations.

Assignment models match individuals to job vacancies. Their focus on individuals rather than groups distinguishes them from such other methods as linear and goal

programming, Markov analysis, and regression or trend projections. Individuals are matched to positions on the basis of career aspirations or tenure in existing jobs, for example. The aim is to achieve great precision in examining use of talent and pinpointing shortages and surpluses.

The chief advantage of methods like linear programming, goal programming, and assignment models is that they establish norms or yardsticks for HR forecasts. They facilitate control of human resources, helping hold down costs. Unfortunately, they require sophisticated mathematics. The techniques are sometimes greeted with skepticism by managers who have trouble understanding the mathematics behind them.

Qualitative/descriptive forecasting methods constitute a third category of approaches to assessing HR demand. Like their quantitative/descriptive counterpart, they focus on what is expected in the future, not necessarily what is desired. Unlike their quantitative counterpart, however, they do not rely on mathematics. Specific methods include simple judgments by managers, the critical incident approach, the Delphi technique, the nominal group technique, and cross-impact analysis. Scholars indicated that they factors inside and outside an organization will influence jobs, people, and the HR department in the future, and predict how those factors will influence jobs, people, and the HR department. Without repeating lengthy descriptions of these methods, we shall simply note that they can be applied to HR forecasting as well as to environmental scanning. Each method is potentially useful for forecasting HR labor demand; each is directed at assessing what will probably be.

Qualitative/normative methods are directed at forecasting what should be in the future. They forecast according to the manager's desires in line with strategic business plans, not mere expectations. Numbers of people and positions are assessed without mathematics. Methods used in qualitative/descriptive forecasting are also used in qualitative/normative forecasting, though intent is different: to determine what ought to be, not just what will probably be. Hence, qualitative/normative forecasting can make use of the critical incident process, the Delphi technique, nominal group technique, cross-impact analysis, questionnaires, and interviews.

The state of the forecasting art is quite advanced. In short, the methods available—as we have seen—can be rather sophisticated, some relying on advanced mathematics that is easier to use with the appropriate software. While there are many mathematical methods available to conduct HRP, they are less often used in practice than they are touted in writings about HRP. Several reasons may account for this: (1) managers are sometimes skeptical of quantitative forecasts; (2) problems that confront organizations do change, rendering reliance on specific forecasting approaches inappropriate; and (3) not all HR planners possess appropriate skills to apply all forecasting methods.

2.4. Step Five: Forecasting Labor Supply

The fifth step in HR forecasting is analysis of the supply of workers—the numbers and the types of people expected to be available to meet demand. This worker supply can come from two places: from the inside of the organization (people can be promoted, demoted, transferred, or trained and developed to help meet future HR demand) and from the outside of the organization (people can be recruited from colleges,

competitors, specialized training programs, and other sources to help meet future HR demand).

What Are Some Reasons for Supply Forecasting?

Fewer organizations estimate HR supplies than demand. One reason is that decision-makers tend to take for granted the existing workforce in the organization. In addition, some managers assume that employees are just “warm bodies” who can be easily moved or replaced at will. Old beliefs die hard, even at a time when (at this writing) most employers say that attracting and retaining talent is a key competitive challenge and a key constraint on organizational growth. HR planners still encounter managers who make this assumption, even when it is apparent that not just anybody can perform adequately in highly specialized positions requiring years of preparation.

Supply forecasting helps:

- Quantify numbers of people and positions expected to be available in the future to help the organization realize its plans and meet its objectives.
- Identify how much productivity improvement is possible in areas of the organization that are thought to be able to benefit from such initiatives.
- Clarify likely staff mixes that will exist in the future.
- Assess existing staffing levels in different parts of the organization.
- Prevent shortages of people where and when they are most needed.
- Monitor expected future compliance with equal employment opportunity goals.

Causes of Supply Shifts

Changes in HR supplies stem from:

- External factors. For instance, internal supplies are influenced by economic conditions (as the economy heats up, turnover often increases; as the economy cools down, turnover decreases); technological conditions (automation can change the distribution of demand; it can mean reduction in supply like layoffs and creation of entirely new job categories); and governmental/legal conditions (changes in laws, regulations, and court rulings mean that some groups or employee categories are accorded specialized protection from layoff and are given specialized attention in hiring, training, and promotion).
- Internal factors. Supplies in the organization are affected by job climate/morale (voluntary turnover increases when climate is poor, work group morale is low, and individuals experience job dissatisfaction) and structure (some organizational structures require more people than others).
- Workforce factors. External HR supplies are affected by availability of talent from competitors; high schools, colleges, and universities; and different age groups. Smaller numbers of people in specific age categories mean that some HR supplies are less plentiful.

There are, of course, other reasons why worker supplies change. For example, as average individual job tenure or length of service increases, more people will be unavailable for the future. With longer job tenure, the probability of movement is greater. Turnover can also affect HR supply.

Supply Forecasting Methods

There are essentially two kinds of supply forecasting methods:

- The quantitative, in which mathematical methods are used.
- The qualitative, in which nonmathematical and largely judgmental methods are used.

Quantitative methods have most frequently been advocated by academic researchers. They trace historical movements between job categories and allow for loss resulting from turnover and retirement.

On the other hand, **qualitative** supply forecasting methods include staffing charts, replacement charts, succession charts, and skill inventories. They help clarify what future HR supplies will probably be available. They are not, like quantitative methods, based on mathematical calculations.

A staffing chart is prepared before or after an annual budget. Its time frame tends to be short-term—a year in most cases. This chart depicts numbers of people in each job category authorized for the year and numbers presently occupying those positions. Differences between those numbers reveal anticipated openings at some point, typically at the start of the budget period. The chart is a static representation that does not indicate whether openings will be filled from without. It is useful for identifying what head count should exist by the end of a budget period. Of course, it does little to establish targets for productivity improvement, because numbers of people/positions are not equated to output.

A replacement chart is a graphic depiction of who inside the organization is ready to assume a higher position. In simplistic terms, preparation of a chart is about the least that can be done to plan for the sudden loss of key executives. Replacement charts can also help plan for impending retirement of key executives or other employees. Unfortunately, they provide very limited information.

As a result, managers in some organizations prefer more detailed replacement summaries that more completely describe replacement candidates, including information about their relative ages, educational backgrounds, and experiences.

Succession charts are more detailed and they are not limited to executives like replacement charts. Indeed, succession planning tends to be more long term in focus and more developmental in thrust. Chief components of a succession planning program include:

- Candidate data, including performance appraisal information, career interests, and individual biographical information
- Position requirements, including expected organization structure, position

descriptions, and career paths between positions, indicating what education and experience are needed to progress from one level to another.

- An organized process for reviewing candidate data relative to position requirements over time
- Individual development plans such as training and education plans, developmental assignments, and testing methods
- Succession plans, including candidate summaries, indicating relative strengths/weaknesses for promotion, and position/succession summaries indicating what internal candidates are at what levels of preparedness for higher or alternative positions and how to overcome expected surpluses and shortfalls of supply for various positions.

The culmination of a succession program is either a chart or series of succession summaries for most positions in the organization, except, perhaps, those like entry-level positions that are customarily filled through external recruitment. Companies vary in how they handle the succession-planning process.

Skill inventories are more comprehensive than replacement and succession charts. They provide very detailed information about everyone in the organization. Common data elements include employee name, work location, present position title, previous position titles, date of birth, date of hire, educational preparation, training completed, fluency in foreign language, career objectives, medical history, publications, professional licenses, hobbies, salary history, and potentially much more. The challenge is to decide what to include and what to exclude.

Forecasting External Labor Supply

It is much more difficult to forecast the supply of labor available outside the organization. Several reasons account for this. First, no centralized, national projections of labor supplies exist. The U.S. Bureau of Labor Statistics provides some information of this type, though it is often too broad to be useful to individual employers. Second, few firms are large enough to justify the expense of devoting substantial effort to forecasting external supplies available nationally, regionally, and locally from colleges, universities, competitors, and other sources. Third, organizations differ in their unique requirements. It will not be enough to forecast general numbers, such as availability of accounting graduates in the United States. It might be more useful to narrow this forecast by focusing on those graduates possessing several characteristics desired by the firm. Of course, cross-matching of characteristics will mean that real supplies available dwindle quickly. There might be many accounting graduates in the United States each year, but there are substantially fewer who (for example) are minorities and who possess specialized experience in one industry. Fourth, and finally, labor availability differs by location. The distribution of the U.S. population is not even. There are, for example, more young workers in western than in northern states.

Very little information exists on how organizations estimate external labor supply. Perhaps few do. Some HR planners have proposed economic models to estimate labor supply. The prototypes of this approach were geared to determining, for purposes of

equal employment opportunity, how many people in various sex and race categories could be attracted to employment with one firm. A more sophisticated approach is based on using scenarios of different economic and technological conditions.

There is just no simple way to go about forecasting external labor supply.

2.5. Step Seven: Forecasting HR Needs

The final step in HRP forecasting is a relatively simple one, as long as supply and demand are expressed in terms compatible enough to allow for comparison. In other words, if demand focuses on numbers of people in job categories, then supply forecasts must be expressed in similar terms.

One way to forecast needs is to graph expected demand and expected internal supply. The gap between them will have to be closed through:

- Recruitment and hiring. This action will be affected by availability of external labor supply.
- Training. This action will involve preparing people in some job categories to move into other categories in which HR demand is expected to increase.
- Promotions and transfers. These actions typically follow training and involve actually moving people from one category to another.
- Job redesign. The organization's allocation of work duties can be changed so as to alter need for more people. Job redesign usually implies enrichment—that is, loading a lower-level job category with responsibilities associated with a higher category. Another possibility is job enlargement, in which more of the same kind of tasks/duties are added to a job.
- Turnover reduction. One way to increase available internal labor supply is to reduce the number of competent, experienced people who leave the organization. This strategy involves examining quality of work life issues such as job satisfaction, and employee intentions about leaving. It can also involve identifying existing or expected problems stemming from organizational policies on compensation/benefits, labor relations, and other issues.
- Increased productivity. One way to change labor demand is to change the ratio between demand and staffing.

Overall, HR forecasting tends to focus more on quantitative than on qualitative issues. It has been the subject of much attention in HR planning literature, but there is still no foolproof method to handle it. The basis of most forecasting methods? Historic and past-oriented relationships between staffing levels and bottom-line measures of outputs and revenues. Even when some attempt is made to incorporate expectations about how the future will differ from the past, HR planners tend to preserve their heavy emphasis on past-oriented information. For this reason, environmental scanning is more valuable than quantitative forecasting for job incumbents, HRP practitioners, and managers in strategic planning for HR.

3. Contingent Staffing

In today's labor market, there is a shortage of workers with critical skill sets. This has resulted in a steady, year-over-year growth in the size and cost of the contingent workforce. As the baby boomer generation is starting to retire, companies are bridging the critical skills gap with more contingent workforce. Many organizations regularly report that the contingent workforce is increasingly being used for strategic reasons, such as supplementing internal talent capabilities as well as for operational reasons such as increasing the flexibility and responsiveness of the workforce.

Contingent staffing also referred to as alternative staffing, also called flexible staffing, it uses alternative recruiting sources and workers who are not regular employees. Many staffing approaches are possible other than conventional full-time arrangements where the organization directly hires, supervises, and provides compensation and benefits to regular employees.



Heneman III, H., Judge, T., & Kammeyer-Mueller, J. (2014). *Staffing Organizations* (8th Edition). Columbus, OH: McGraw-Hill Education.

3.1. Independent contractors

Independent contractors are self-employed individuals hired on a contract basis for specialized services.

3.2. Temporary employees

Temporary employees hired to work on a specified job to supplement the regular workforce on a short-term basis or for a specific period of time. Temporary floaters are hired to work directly on the company's payroll on a short-term basis or for a specific period of time to rotate among several positions or departments as needed.

3.3. On-call employment

On-call are workers who report to work only when needed.

3.4. Part time employment

Part-time employees scheduled to work less than a regular workweek on an ongoing basis; benefit eligibility depends on various factors.

3.5. Seasonal employment

Seasonal workers are part-time or "casual" workers hired to perform seasonal work in a variety of industries.

3.6. Co-employment

Co-employment, or joint employment, generally describes a situation in which an organization shares joint responsibility and liability for their alternative workers with the alternative staffing supplier.

3.7. Temp-to-lease

In an explicit joint venture, a company transfers all or substantially all employees at a discrete site or facility to the payroll of an employee leasing firm; the professional employer organization (PEO) leases employees back to the company while handling most of the HR administrative functions (e.g., payroll, benefits, personnel records management).

3.8. Outsourcing

Outsourcing or managed service is an independent company with expertise in operating a specific function contracts with a company to assume full operational responsibility for the function (as opposed to just supplying personnel); functions may be peripheral to the core business (e.g., security, landscaping, food services) or closer to operations (such as managing all flexible staffing programs or the IT function).

3.9. Work made for hire

Work made for hire is something that was created by an employee while on the job, or by an independent contractor who was hired to create the work. The copyright on work made for hire belongs to the employer or the party who commissioned the work. If a work is a work made for hire, the employer or other person for whom the work was prepared is the initial owner of the copyright unless there has been a written agreement to the contrary signed by both parties.

3.10. Remote worker

Remote workers work on a telecommuting basis, often from their homes. Some people working remotely do so while traveling on business for their employer. People working from home can arrange their work hours around childcare and other responsibilities as well as save money on transportation and clothing. Many remote workers are independent contractors that aren't employed by a company, but rather pay their own taxes and insurance. Businesses save money on overhead costs and

don't have to have benefits such as medical insurance plans for these workers.

4. Recruiting

Recruitment includes those practices and activities carried on by the organization with the primary purpose of identifying and attracting potential employees. Recruiting is the process of (a) generating applicants, (b) maintaining applicant status, and (c) influencing job choice decisions. That is, (a) certain recruitment activities (e.g., advertising on a Spanish-speaking radio station) may influence the number and type of individuals who apply for a position, (b) certain activities (e.g., professional treatment during a site visit) may affect whether job applicants withdraw during the recruitment process, and (c) certain recruitment actions (e.g., the timeliness of a job offer) may influence whether a job offer is accepted.

In other word, recruitment involves searching for and obtaining qualified job candidates in such numbers that the organization can select the most appropriate person to fill its job needs. In addition to filling job needs, the recruitment activity should be concerned with satisfying the needs of the job applicants. Consequently, recruitment does not only attract individuals to an organization, but also increases the chance of retaining them once they are hired. This can be affected by recruiting people that can 'fit' within the culture of the firm.

4.1. The Purpose of Recruitment

As stated above, the general purpose of recruitment is that of providing a pool of potential qualified job candidates. Attracting the appropriate quantity of applicants is necessary but not sufficient. The quality of applicants is the critical factor in meeting recruitment goals. More specifically, the purposes of recruitment include the following:

- Determine the present and future recruitment needs of the organization in conjunction with HR planning and job analysis activities.
- Increase the pool of qualified job candidates with minimum cost.
- Enhance the success rate of the selection process by reducing the number of obviously under-qualified job applicants.
- Reduce the probability that job applicants, once recruited and selected, will leave the organization after only a short period of time.
- Increase organizational and individual effectiveness in the short and long term.
- Evaluate the effectiveness of various recruiting techniques and sources for all types of job applicants.

Apart from the traditional functions of recruitment mentioned above, quality organizations -via recruitment - can attract individuals that: have a potential to add value to the firm; be able to work in teams; and possess the new leadership skills demanded of managers in a TQM environment. Another major decision that organizations following a quality improvement program face is who should recruit employees? Should recruitment be the preserve of management and the personnel function, or should team members be free to 'choose' their own colleagues?

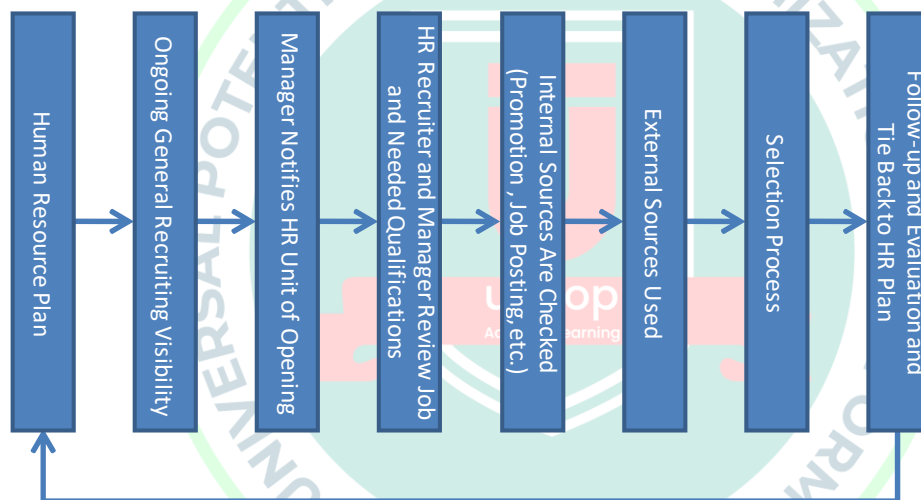
Traditionally, of course, managers and professional staff have performed this function. Yet, there are an increasing number of instances where teams also play an important part in the recruitment process.

4.2. The Recruitment Process

Recruiting efforts aim to translate HR plans into action. Regardless of organization size, the following decisions about recruiting must be made:

- How many people does an organization need?
- Where will the organization get these people?
- What special skills and experience are really necessary?
- How will the organization spread its message of openings?
- How effective are the recruiting efforts?

The basic steps in a typical recruiting process are identified in the below figure:



Dessler, D. (2013). *Human Resource Management*. Edition 13e. New York City, NY: Pearson.

In fairly large organizations, a manager notifies someone in the HR unit that an opening exists and needs to be filled. A requisition is forwarded to the human resources department for handling by the recruiter. The recruiter then places job postings based on the requisition and discussions with the hiring manager or department supervisor. Job requisitions, for the most part, are part of the checks-and-balances procedures that many organizations follow for workforce planning and staffing actions. At the next step, the HR representative and the manager must review the job description and job specifications so that both have clear and up-to-date information on the job duties and the specific qualifications desired of an applicant. Following this review, the actual recruiting effort begins. Internal sources of available recruits through transfers, promotions, and job posting usually are checked first. Then, external sources are

contacted as required, and all applicants are screened through the selection process. Lastly, follow-up is necessary to evaluate the effectiveness of the recruiting efforts and to tie those efforts back into the human resource plan and ongoing recruiting activities.

4.3. Recruitment Planning

Recruitment planning begins with a clear specification of: (1) the number of people needed and (2) when they are needed. Implicit in the later specification is a time frame - the duration between the receipt of a curriculum vitae (CV) and the time a new hire starts work. This time frame is sometimes referred to as 'the recruitment pipeline'.

4.4. Sources of Recruitment

Most employers combine the use of internal and external recruiting sources. Both promoting from within the organization (internal recruitment) and hiring from outside the organization (external recruitment) come with advantages and disadvantages.

Organizations that face rapidly changing competitive environments and conditions may need to place a heavier emphasis on external sources in addition to developing internal sources. A possible strategy might be to promote from within if a qualified applicant exists and to go to external sources if not. However, for organizations existing in environments that change slowly, emphasis on promotion from within may be more suitable. Once the various recruiting policy decisions have been addressed, the actual recruiting methods can be identified and used for both internal and external recruiting.



Internal Sources of Recruitment

4.4.1. Promotions

The promotion policy is followed as a motivational technique for the employees who work hard and show good performance. Promotion results in enhancements in pay, position, responsibility and authority. The important requirement for implementation of the promotion policy is that the terms, conditions, rules and regulations should be

well-defined.

4.4.2. Retirements

The retired employees may be given the extension in their service in case of non--availability of suitable candidates for the post.

4.4.3. Former employees

Former employees who had performed well during their tenure may be called back, and higher wages and incentives can be paid to them.

4.4.4. Transfer

Employees may be transferred from one department to another wherever the post becomes vacant.

4.4.5. Job Bidding (Internal job posting)

The existing employees may be interested in taking up the vacant jobs. As they are working in the company since long time, they know about the specification and description of the vacant job. For their benefit, the advertisement within the company is circulated so that the employees will be intimated.

External Sources of Recruitment

4.4.6. Press advertisement

A wide choice for selecting the appropriate candidate for the post is available through this source. It gives publicity to the vacant posts and the details about the job in the form of job description and job specification are made available to public in general.

4.4.7. Campus recruitment

It is the best possible method for companies to select students from various educational institutions. It is easy and economical. The company officials personally visit various institutes and select students eligible for a particular post through interviews. Students get a good opportunity to prove themselves and get selected for a good job.

4.4.8. Placement Agencies

A databank of candidates is sent to organizations for their selection purpose and agencies get commission in return. Private employment agencies operate in most cities. For a fee collected from either the employee or the employer, these agencies do some preliminary screening and put employers in touch with applicants. Private employment agencies differ considerably in the levels of service, costs, policies, and types of applicants they provide. One specific type of private agency, the outplacement firm, is highlighted in the HR Perspective.

“Headhunters” The size of the fees and the aggressiveness with which some firms pursue candidates for executive and other openings have led to such firms being called headhunters. These employment agencies focus their efforts on executive, managerial,

and professional positions. The executive search firms are split into two groups: (1) contingency firms that charge a fee only after a candidate has been hired by a client company, and (2) retainer firms that charge a client a set fee whether or not the contracted search is successful. Most of the larger firms work on a retainer basis. However, search firms are generally ethically bound not to approach employees of client companies in their search for job candidates for another employer.

4.4.9. Job Fair

Employers in various labor markets needing to fill a large number of jobs quickly have used job fairs and special recruiting events. Job fairs have been held by economic development entities, employer and HR associations, and other community groups to help bring employers and potential job candidates together. For instance, the SHRM chapter in a Midwestern metropolitan area annually sponsors a job fair at which 75 to 100 employers can meet applicants. Publicity in the city draws several hundred potential recruits for different types of jobs. However, two cautionary notes are in order: (1) Some employers at job fairs may see attendees who are currently their employees “shopping” for jobs with other employers; and (2) “general” job fairs are likely to attract many people, including attendees who are not only unemployed but also unemployable. Industry- or skill-specific events usually offer more satisfactory candidates. Such job fairs also can attract employed candidates who are casually looking around but may not put their résumés on the Internet.

4.4.10. Online Job boards

Various sites such as jobs.com, naukri.com, and monster.com are the available electronic sites on which candidates upload their resume and seek the jobs.

4.4.11. Competitors

By offering better terms and conditions of service, the human resource managers try to get the employees working in the competitor’s organization.

4.4.12. Employee referrals

Some companies also encourage current employees to refer their friends or acquaintances for positions in the organization. This system has the advantage that the new employees also have a fair idea about the organization and its culture. The downside is that this system tends to create nepotism and allows cliques of friends and relatives to form in an organization.

4.4.13. Websites

With the advent of the Internet, searching for candidates has acquired a whole new dimension. Web portals dedicated to finding jobs have been setup. The candidates key in their details and post their resumes. Employers have to just browse through these resumes or use the site search engine to list out people with specific skills.

4.4.14. Social Media

Social media can provide persuasive communication channels on a global basis to capture the attention of both potential job seekers and gainfully employed candidates.

Social recruiting is a great way to create and establish your corporate and employment brands, communicate your current job openings and future needs for talent as well as establish more personal on-going relationships with your candidates.

4.4.15. Talent Database

Most companies sit on a treasure trove of job applicants from past positions that they never touch again. You'll have to turn down good candidates for a particular role, but keep those resumes handy to revisit for new positions.

5. Employer Branding

One of the greatest challenges facing companies right now is their ability to exploit synergies and efficiencies in their talent acquisition and retention programs. When considered with the fact we are about to enter an era of unparalleled talent scarcity around the world, employer branding is set to become one of the most critical roles inside global companies. Then, what is the "Employer Branding"?

5.1. Definition of Employer Branding

It is the process of positioning an organization as an "employer of choice" in the workforce market. An employer brand creates an image that makes people want to work for and stay working for the organization. An organizational value proposition of employees is the foundation of employer branding.

5.2. Branding Techniques

Employer branding uses the same marketing, communications, and performance technology used to market products and services to create an image of what it is like to work at the company. Firms typically use the following techniques, collectively or in a selective manner:

5.2.1. The corporate Web site

5.2.2. Media ads (e.g., print, television, radio)

5.2.3. Collateral materials (e.g., brochures)

5.2.4. Marketing campaigns

5.2.5. Representation of the company at job fairs, campuses, etc.

5.2.6. Community events, sponsorships, and CSR, etc.

5.2.7. Continuous recruiting to keep visible in the labor market.

5.3. Employee Value Proposition (EVP) is the Foundation of Employer Branding

An EVP answers the question, why would a talented person want to work for the organization? The EVP must be aligned with the organizational strategic plan, vision, mission, and values and create an image that attracts and retains people. Further, it must provide an accurate picture of employment for employees and candidates. Any

inconsistencies in the work environment can erode the credibility of a branding strategy.

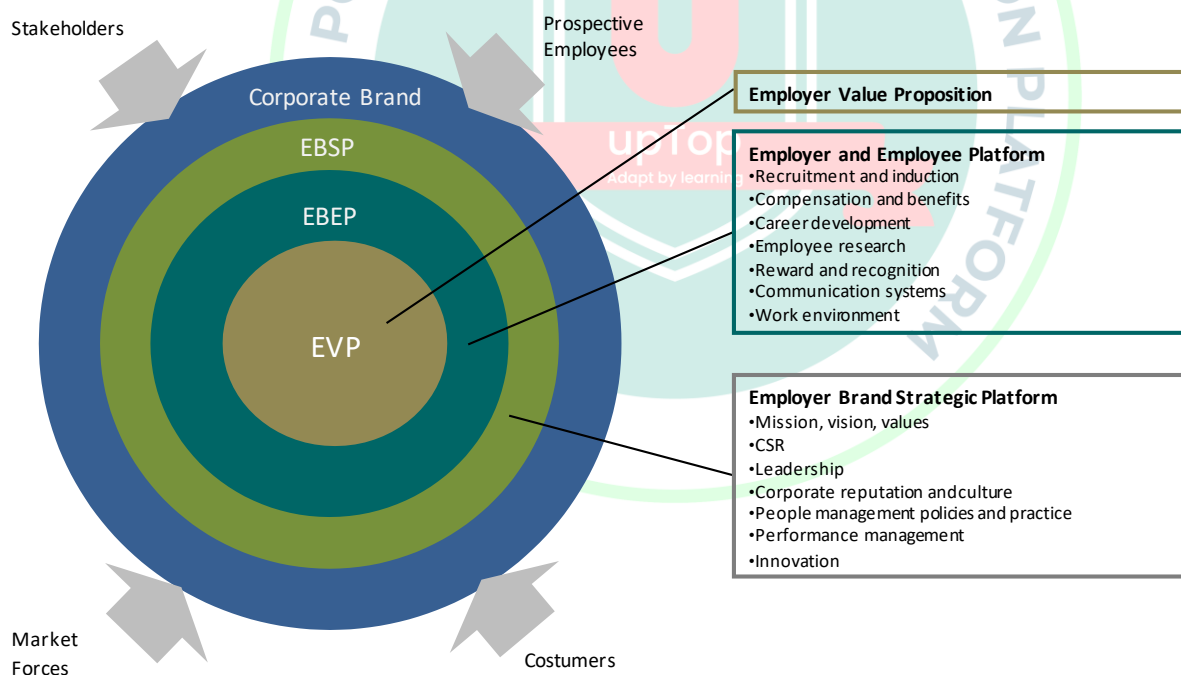
An EVP should promote the tangible and intangible benefits that people derive from working there. Many people are attracted to work for international NGOs or other nonprofits because they want to make a difference.

To create a global Employee Value Proposition can build on the principles of corporate brand to further differentiate the company in an increasingly competitive talent marketplace. This included identifying:

- 5.3.1. Any different approaches needed to attract and retain different talent segments and what those differences should be.
- 5.3.2. Priority areas for change in order to maintain and improve engagement of key talent.
- 5.3.3. The messages to use to attract different talent groups in different countries.

5.4. Employer Brand Framework

An employer brand framework defines the employment experience from a stakeholder perspective. The Framework considers the role of stakeholders including employees, prospective candidates, customers, investors, and society in employer branding.



Employer Brand Excellence Framework

Source: Minchington, B. (2011). Employer Branding Without Borders – A Pathway to Corporate Success. Retrieved from ere.net.

Adapting the employer brand strategy to external environments should begin with a focus on the employee experience. Not all employees are the same and while companies like to use a “one-size-fits-all” engagement strategy, the reality is that most employees want to have their own needs met before they consider those of their team members or the organization as a whole. The employer brand strategy has to be built from the ground up.

5.5. Manage the Employer Brand for the Long Term

If there is one variable that causes more employer brand strategies to fail or to not even get started, it is the lack of relevant measures to determine the return on investment of the employer brand strategy over the long term. Most metrics used are short-term measures such as recruitment advertising costs or job-board spends. Metrics need to be more strategic and should include measures such as quality of hire, retention rate, and employee engagement which will provide deeper insights into the level of value creation from your employer brand strategy.

At the onset of your employer brand strategy, metrics based on desired outcomes should be established. There is no one-size-fits-all measurement tool for your employer brand program. The key is developing a set of metrics that is based on your own unique challenges and business objectives. Senior managers should develop a dashboard of metrics that is relevant to their organization’s strategy rather than implementing a “me-too” ROI measurement tool.

The key differentiator of companies that successfully adopt the employer brand concept in the future will be those that appoint dedicated employer brand resources and staffing, develop a clear strategy to work toward, achieving a Tier 1 status, and whose outcomes consider the objectives of candidates, employees, customers, investors, and society.

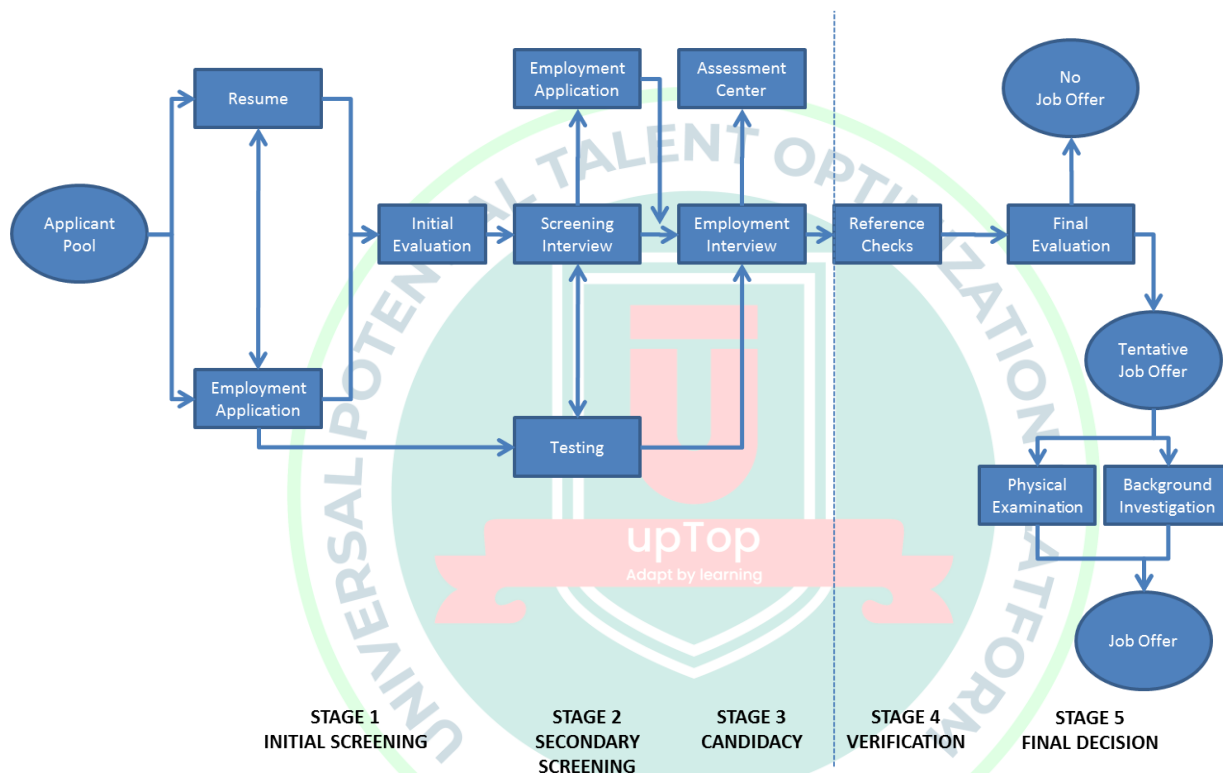
6. Selection Process

Selecting is the process of choosing from a group of applicants that individual deemed to be best qualified for a particular job opening. An organization’s success in its recruiting activities significantly affects the efficiency and effectiveness of selection. An adequate pool of applicants provides organization greater latitude in choosing employees; an inadequate pool reduces latitude and may result in the employment of marginally qualified candidates.

Selecting is, at best, a difficult process because it requires making judgments about people. Three essential questions must be answered if the most qualified person is to be selected: “What is the applicant’s can do ability?”; “What is the applicant’s will do ability?”; “How well will the applicant fit into the organization?” Can do ability refers to the experience and education required to perform a specific job; will do ability refers to the level of motivation the person will actually exhibit in performing the job; fit refers to how well the individual will conform to the sociopsychological environment or culture of the organization. Making these determinations requires skill, effort, and time. Moreover, in an effective selecting process, such decisions are carefully made.

Mistakes in selecting can be costly. Hiring individuals who cannot, or will not, do their jobs leads to output and quality problems, and ultimately to employee turnover. Hiring individuals who do not fit into the organization well leads to the same problems and may also adversely affect the morale of other employees. Consequently, selecting must be done carefully in order to minimize potential negative impacts, financial and otherwise, on the organization.

As emphasized throughout this workbook, the entire human resource management function operates in an increasingly legalistic environment. Nowhere is it more open to potential discrimination charges and lawsuits than in selection. The challenge to an organization in selecting employees thus is twofold: one, to select the best qualified individual and two, to make the selection decision in accordance with the letter and spirit of the law.



Source: Gatewood, R., Field, H.S., & Barrick, M. (2015). Human Resource Selection (8th Edition). Boston, MA: South-Western College Pub.

A generalized model of the selecting process is depicted in the Figure. Selection begins where recruitment ends—with the applicant pool—and proceeds through five stages: initial screening, secondary screening, candidacy, verification, and final decision. Selection procedures vary from organization to organization; consequently, the steps outlined may not be followed in the described sequence by every firm. Moreover, an applicant may be rejected at any point during the first four stages. The purpose of the model is to illustrate the basic steps, in a logical sequence that are typically followed in evaluating and ultimately hiring a job applicant.

6.1. Stage One: Initial Screening

Once individuals are interested in applying for employment, they may do so by submitting a resume (a common procedure for technical, professional, or managerial positions) or by completing an employment application (standard procedure for entry-level, operative, clerical, or other non-exempt positions). The majority of applicants will be screened out at this point based on an individual evaluation of the resume or the employment application. Applicants who submitted a resume may be asked to complete an employment application if their credentials survive the initial review.

6.2. Stage Two: Secondary Screening

The two components of Stage two are the screening interview and testing. The purpose of the screening interview is to eliminate from further consideration those individuals whose qualifications, although passing preliminary inspection, do not measure up to the standards of the position. Based on the screening interview, applicants for certain types of positions may be asked to take employment tests. Applicants passing the screening interview who have not yet completed an employment application will be asked to do so at this stage. On occasion, applicants may move from completion of the employment application in Stage I directly into employment testing before the screening interview takes place—a common procedure for keyboardists or machine operators. If the test results are favorable, the screening interview then takes place.

6.3. Stage Three: Candidacy

Since the vast majority of applicants are eliminated in Stages one and two, if selection procedures are working effectively, only genuinely qualified candidates enter Stage III. The basic component of this stage is the employment interview or series of employment interviews, which focus on an in-depth evaluation of the applicant's qualifications. In some organizations, individuals successfully completing their employment interviews are sent to an assessment center where they may complete batteries of tests and engage in various simulations to further assess their capabilities. Applicants completing Stage III are potential employees.

6.4. Stage Four: Verification

Stage four is concerned with verifying the reference information furnished by the applicant. Due to the increasing number of negligent hiring cases, organizations must be careful to exercise due diligence in verifying and documenting references.

6.5. Stage Five: Final Decision

Stage five is the decision-making stage. The information furnished by the applicant and gathered by the organization is evaluated. If the information is favorable, a job offer is made; if the information is unfavorable, no job offer is extended. The tentative job offer is subject to a physical examination (typically including a drug screen) and a background investigation. If the candidate successfully completes these two final hurdles, a final job offer is made. The physical examination is delayed until this stage so as to avoid any possible discrimination based upon disability. The background investigation is delayed for similar reasons—to avoid any potential charge of

discrimination based on non–job-related factors.

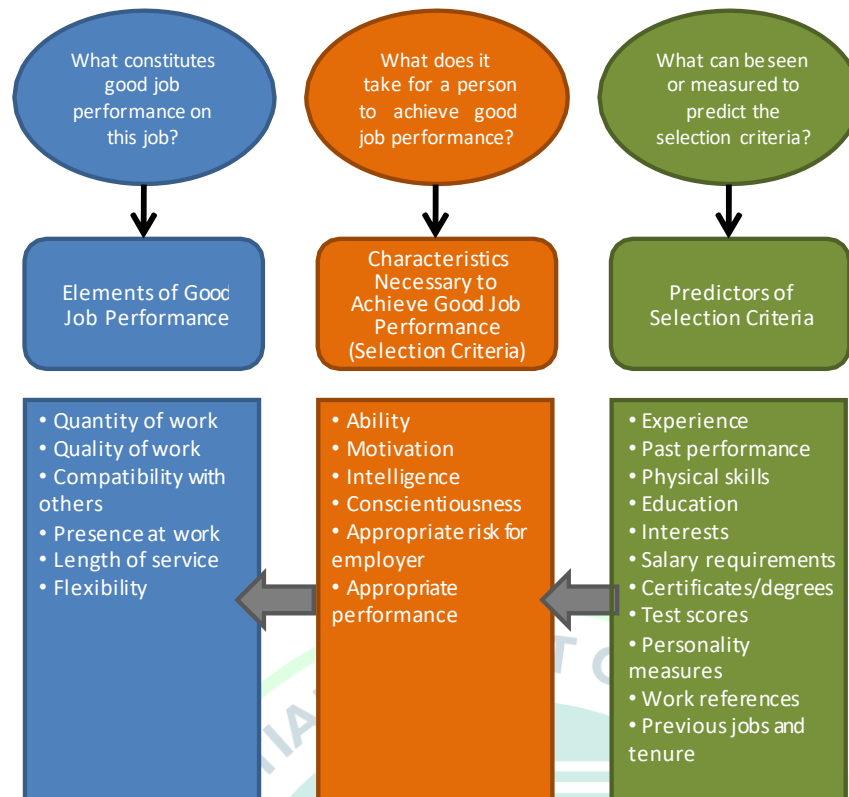
In reviewing the generalized selecting model, note that the least time consuming, least expensive selection activities are performed first. The most time-consuming, most expensive activities are performed later in the process. This sequencing helps assure the cost-effectiveness of selection.

7. Criteria, Predictors, and Performance

Regardless of whether an employer uses specific KSAs or a more general approach, effective selection of employees involves using selection criteria and predictors of these criteria. At the heart of an effective selection system must be the knowledge of what constitutes good job performance. When one knows what good performance looks like on a particular job, the next step is to identify what it takes for the employee to achieve successful performance. These are called selection criteria. A selection criterion is a characteristic that a person must possess to successfully perform work. Below figure shows that ability, motivation, intelligence, conscientiousness, appropriate risk, and permanence might be selection criteria for many jobs. Selection criteria that might be more specific to managerial jobs include “leading and deciding,” “supporting and cooperating,” “organizing and executing,” and “enterprising and performing.”

To determine whether candidates might possess certain selection criteria (such as ability and motivation), employers try to identify predictors of selection criteria that are measurable or visible indicators of those positive characteristics (or criteria). For example, as the figure indicates, three good predictors of “permanence” might be individual interests, salary requirements, and tenure on previous jobs. If a candidate possesses appropriate amounts of any or all of these predictors, it might be assumed that the person would stay on the job longer than someone without those predictors.

The information gathered about an applicant through predictors should focus on the likelihood that the individual will execute the job competently once hired. Predictors can be identified through many formats such as application forms, tests, interviews, education requirements, and years of experience, but such factors should be used only if they are found to be valid predictors of specific job performance. Using invalid predictors can result in selecting the “wrong” candidate and rejecting the “right” one.



Mathis, R.L. & Jackson, J.H. (2010). Human Resource Management. (13 Edition). Mason, OH: South-Western Cengage Learning.

7.1. Validity

In selection, validity is the correlation between a predictor and job performance. In other words, validity occurs to the extent that the predictor actually predicts what it is supposed to predict. Several different types of validity are used in selection. Most validity decisions use a correlation coefficient, an index number that gives the relationship between a predictor variable and a criterion (or dependent) variable. Correlations always range from -1.0 to $+1.0$, with higher absolute scores suggesting stronger relationships.

Concurrent validity is one method for establishing the validity associated with a predictor. Concurrent validity uses current employees to validate a predictor or “test.” Concurrent validity is measured when an employer tests current employees and correlates the scores with their performance ratings on such measures as their scores on performance appraisals.

A disadvantage of the concurrent validity approach is that employees who have not performed satisfactorily at work are probably no longer with the firm and therefore cannot be tested. Also, extremely good employees may have been promoted or may have left the company for better work situations. Any learning on the job also might confound test scores.

Predictive validity, another method for establishing criterion-related validity is predictive validity. To calculate predictive validity, test results of applicants are

compared with their subsequent job performance. Job success is measured by assessing factors such as absenteeism, accidents, errors, and performance appraisal ratings. If the employees who had one year of experience at the time of hire demonstrate better performance than those without such experience, then the experience requirement can be considered a valid predictor of job performance. In addition, individual experience may be utilized as an important “selection criterion” when making future staffing decisions.

The Equal Employment Opportunity Commission (EEOC) has favored predictive validity because it includes the full range of performance and test scores. However, establishing predictive validity can be challenging for managers because a large sample of individuals is needed (usually at least 30) and a significant amount of time must transpire (perhaps one year) to facilitate the analysis. Because of these limitations, other types of validity calculations tend to be more popular.

7.2. Reliability

Reliability of a predictor or “test” is the extent to which it repeatedly produces the same results over time. For example, if a person took a test in December and scored 75, and then took the same test again in March and scored 76, the exam is probably a reliable instrument. Consequently, reliability involves the consistency of predictors used in selection procedures. A predictor that is not reliable is of no value in selection.

7.3. Combining Predictors

If an employer chooses to use only one predictor, such as a pencil-and-paper test, to select the individuals to be hired, the decision becomes straightforward. If the test is valid and encompasses a major dimension of a job, and an applicant does well on the test, then that person should be given a job offer. When an employer uses predictors such as “three years of experience,” “possesses a college degree,” and “acceptable aptitude test score,” job applicants are evaluated on all of these requirements and the multiple predictors must be combined in some way. Two approaches for combining predictors are:

7.3.1. Multiple hurdles

A minimum cutoff is set on each predictor, and each minimum level must be “passed.” For example, in order to be hired, a candidate for a sales representative job must achieve a minimum education level, a certain score on a sales aptitude test, and a minimum score on a structured interview.

7.3.2. Compensatory approach

Scores from individual predictors are added and combined into an overall score, thereby allowing a higher score on one predictor to offset, or compensate for, a lower score on another. The combined index takes into consideration performance on all predictors. For example, when admitting students into graduate business programs, a higher overall score on an admissions test might offset a lower undergraduate grade point average.

7.4. Person-Environment Fit

The aim in the employee selection is to select the best possible applicant who has the capacities that are needed in the job and who will fit with the organization. The most used theory in the employee selection context is perhaps the theory of Person-Environment fit. Person-environment (PE) fit refers to the degree of match between individuals and some aspect of their work environment. On the person side, characteristics may include interests; preferences; knowledge, skills, and abilities (KSAs); personality traits; values; or goals. On the environment side, characteristics may include vocational norms, job demands, job characteristics, organizational cultures and climates, and company or group goals. Various synonyms have been used to describe fit, including congruence, match, similarity, interaction, correspondence, and need fulfillment.

The basic premise of PE fit is that for each individual there are particular environments that are most compatible with that person's personal characteristics. If a person works in those environments, positive consequences including improved work attitudes and performance, as well as reduced stress and withdrawal behaviors, will result. Although the premise is straightforward, research on PE fit is one of the most eclectic domains in organizational psychology. In part this is because of the wide variety of conceptualizations, content dimensions, and measurement strategies used to assess fit.

7.4.1. Person-Job Fit

The first type of fit concerns the relationship between an individual and a specific job. Labeled person-job (P-J) fit, this includes the match between a person's KSAs and the demands of a job (demands-abilities fit), or the person's needs and interests and the resources provided by the job (needs-supplies fit). Traditional notions of personnel selection, which began during World War II with the selection of soldiers into specific positions in the army, emphasized the importance of hiring people who possessed the requisite KSAs for particular jobs. Thus, P-J fit was defined from the organization's perspective, such that the most appropriately qualified people would be hired.

P-J Fit involves the measurement of what we often refer to as "hard" information about a candidate's suitability for the tasks that are required for successful performance of a specific job. "Hard" aspects of P-J Fit include things such as a candidate's specific skills, their levels of knowledge about specific subject matter, and their cognitive abilities. In many cases, P-J Fit also includes "softer" measures such as the examination of an applicant's personality traits relative to specific job requirements. However, personality is kind of in a no man's land when it comes to defining fit.

7.4.2. Person-Organization Fit

Person-organization (P-O) fit, defined broadly as the compatibility between people and organizational characteristics, is the second type of PE fit. P-O fit emphasizes the objective fit between individuals' values and those that senior management believe best represent the organization. The general idea behind the importance of P-O fit is based on the attraction-selection-attrition (A-S-A) theory. According to the A-S-A theory, individuals are attracted to organizations with similar values and organizations

tend to hire such individuals during the selection process. Finally, attrition becomes important as the employee sees first-hand the extent to which he or she is actually congruent with the organization, leading to a choice to either continue working for or leave the company.

While the softer nature of the dimensions of P-O Fit means that they are often not the best tools to use when trying to predict hard, objective aspects of job performance, research has demonstrated many ways in which fit can have value for an organization. Probably the most notable outcome of a good P-O Fit is increased tenure. It makes perfect sense that the greater the fit between the values of an individual and those of the organization, the more likely they will be to remain with that organization.

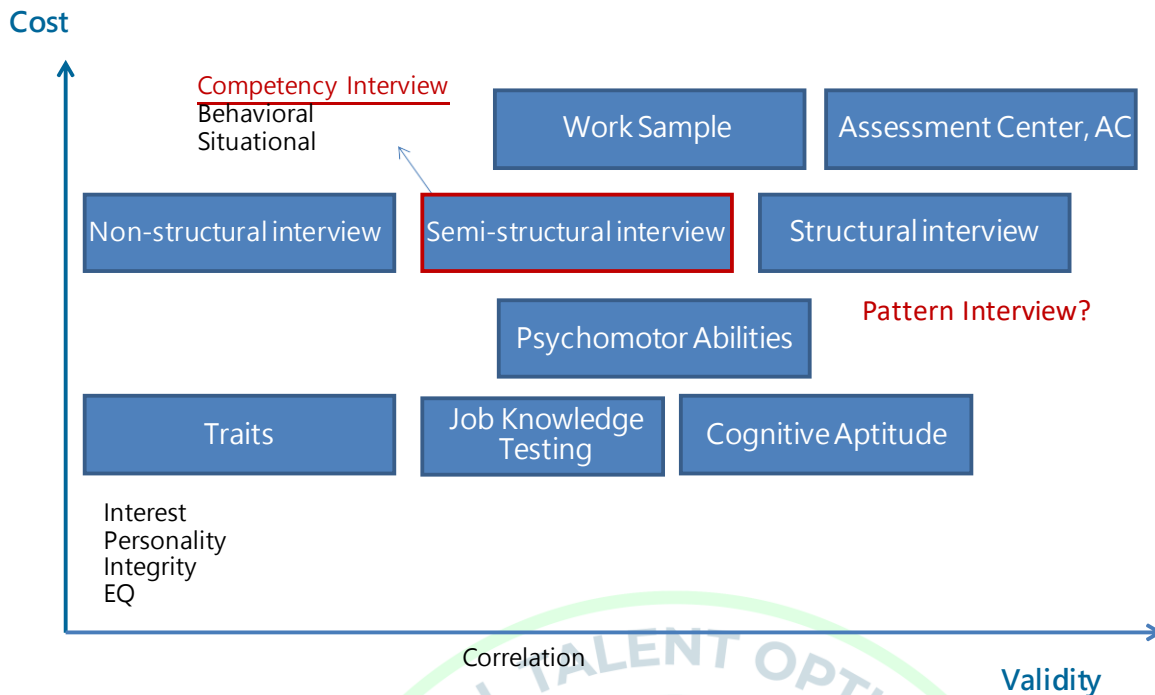
7.4.3. Person-Group Fit

A third type of PE fit is the match between individuals and members of their immediate work groups. Most of the emphasis on person-group (P-G) or person-team fit has been on demographic variables. The concept of relational demography suggests that individuals' attitudes and behaviors are influenced by the demographic similarity among teammates or coworkers. However, more recent studies have moved beyond demographic similarity to examine fit on deeper, less directly observable characteristics, including personality traits, goals, and KSAs. Outcomes most strongly associated with PG fit are group-level attitudes, including cohesion and satisfaction with coworkers, as well as contextual performance.

8. Selection Tools

In this process, many different kinds of tests can be used to help select qualified employees. They are used to assess various individual factors that are important for the work to be performed. These useful employment tests allow companies to predict which applicants will be the most successful before being hired.

However, selection tests must be evaluated extensively before being utilized as a recruiting tool. The development of the test items should be linked to a thorough job analysis. Also, initial testing of the items should include an evaluation by knowledge experts, and statistical and validity assessments of the items should be conducted. Furthermore, adequate security of the testing instruments should be coordinated, and the monetary value of these tests to the firm should be determined.



Gatewood, R., Field, H.S., & Barrick, M. (2015). Human Resource Selection (8th Edition). Boston, MA: South-Western College Pub.

8.1. Cognitive Aptitude Tests

Cognitive aptitude or ability is a person's capacity to learn or to perform a job that has been previously learned. Tests that measure this characteristic are most often used in the selection of employees who have had little or no job experience. Aptitudes or abilities may be broken down into many factors, but the ones that are most often job-related.

- Verbal aptitude refers to an individual's ability to use words in thinking and communication. Managerial, technical, and sales positions are jobs for which verbal ability is crucial. Measurement of a person's ability in this area is usually accomplished by a vocabulary test.
- Numerical aptitude is the ability to perform the basic arithmetic functions of adding, subtracting, multiplying, and dividing. These abilities are essential in engineering, accounting, and similar jobs.
- Perceptual Speed is the ability to identify similarities and differences rapidly, accurately, and in detail. Perceptual speed is most likely to be used to ascertain clerical aptitude.
- Spatial Ability is concerned with visualizing objects in space and determining their relationship to each other. Jobs that may require this aptitude include design engineer, tool and die maker, aviation mechanic, and assembler.
- Reasoning is the ability to analyze items or facts and make correct judgments based on their logical implications. This aptitude is critical for executive,

managerial, or sales jobs.

- General Intelligence refers to an individual's overall mental abilities. Tests used in this area attempt to arrive at some global estimate of a person's intellectual performance or aptitude. Normally, they provide a single score such as an IQ. However, intelligence tests with great disfavor since they tend to adversely impact certain protected classes. This testing contains items that are unrelated to successful job performance. Consequently, it should proceed with great caution, making absolutely certain that the test has been validated in terms of job-relatedness and performance.

8.2. Psychomotor / Physical Abilities

Psychomotor abilities refer to strength, dexterity, coordination, and other aspects of physical performance. There are a number of abilities that may be measured in the psychomotor area. Finger dexterity is the ability to make precise, skillful, coordinated manipulations of small objects with one's fingers. Manual dexterity refers to the ability to make skillful, coordinated, well-directed movements of the hands and arms. Wrist-finger speed is the ability to make rapid movements such as those involved in tapping. Aiming is the ability to move the hands and fingers rapidly, accurately, and successfully from one location to another. Arm-hand steadiness is the ability to make precise positioning movements with minimal strength and speed. Reaction time is the speed with which an individual responds to a stimulus.

Physical ability tests measure an individual's abilities such as strength, endurance, and muscular movement. At an electric utility, line workers regularly must lift and carry equipment, climb ladders, and perform other physical tasks; therefore, testing of applicants' mobility, strength, and other physical attributes is job related. Some physical ability tests measure such areas as range of motion, strength and posture, and cardiovascular fitness.

8.3. Job Knowledge Tests

Job knowledge tests measure an applicant's understanding of the duties and responsibilities of the position for which he or she is applying. These tests may require written responses, or they may be administered orally. Normally, these tests are short, consisting of a few key questions that readily distinguish experienced from inexperienced applicants. A primary advantage of the job knowledge test is that it is by definition job-related.

8.4. Work Sample Tests

A work sample test is one in which the applicant completes a task or series of tasks that are representative of, or actually a part of, the job for which the person is applying. A typing test is probably the most common work sample test. Evidence suggests that work sample tests can produce high predictive validities and reduce adverse impact. Adverse impact is defined as a substantially different rate of selection in hiring, promotion or other employment decision which works to the disadvantage of members of a race, sex or ethnic group.

Many organizations use situational tests, or work sample tests, which require an

applicant to perform a simulated task that is a specified part of the target job. Requiring an applicant for an administrative assistant's job to type a business letter as quickly as possible would be one such test. An "in-basket" test is a work sample test in which a job candidate is asked to respond to memos in a hypothetical in-basket that are typical of the problems experienced in that job. Once again, these tests should assess criteria that are embedded in the job that is to be staffed.

Situational judgment tests are designed to measure a person's judgment in work settings. The candidate is given a situation and a list of possible solutions to the problem. The candidate then has to make judgments about how to deal with the situation. Situational judgment tests are a form of job simulation.

8.5. Vocational Interest Tests

Interest tests, called career interest tests, are designed to measure the degree of interest a person has in various occupations. When individuals' interests match those of their occupation, they are happier with their jobs and are more likely to remain in their chosen occupation, but the interest inventories are not valid predictors of job performance. Consequently, interest measures should always be used in conjunction with aptitude and ability tests. John L. Holland developed a useful interest test with six dimensions, called RIASEC or Strong Vocational Interest Blank (SVIB), stand for:

- Realistic - practical, physical, hands-on, tool-oriented
- Investigative - analytical, intellectual, scientific, explorative
- Artistic - creative, original, independent, chaotic
- Social - cooperative, supporting, helping, healing/nurturing
- Enterprising - competitive environments, leadership, persuading
- Conventional - detail-oriented, organizing, clerical

Another most widely used interest inventory is the Myers-Briggs Type Inventory (MBTI). The 16 types are typically referred to by an abbreviation of four letters:

- ESTJ: extraversion (E), sensing (S), thinking (T), judgment (J)
- INFP: introversion (I), intuition (N), feeling (F), perception (P)

However, the 16 types constructs have been found to be related to the Big five personality characteristics discussed as following.

8.6. Personality Tests

Personality tests attempt to measure a person's social interaction skills and patterns of behavior. They report what might be described as traits, temperaments, or dispositions. Personality tests were not perceived as valid selection method; however, recent advances suggested much more positive conclusions about the role of personality test in predicting job performance (especially organizational citizenship behaviors, OCBs). Mainly, this is due to the widespread acceptance of a major taxonomy of personality, often called the Big Five as follow:

- Emotional Stability: disposition to be calm, optimistic, and well adjusted.
- Extraversion: tendency to be sociable, assertive, active, upbeat, and talkative
- Openness to experience: tendency to be imaginative, attentive to inner feelings, have intellectual curiosity and independence of judgment
- Agreeableness: tendency to altruistic, trusting, sympathetic, and cooperative
- Conscientiousness: tendency to purposeful, determined, dependable, and attentive to detail

*Organizational citizenship behaviors (OCBs) are discretionary workplace behaviors that exceed one's basic job requirements. They are often described as behaviors that "go above and beyond the call of duty".

**The Big five (emotional stability is the strongest) are highly correlate with trait of "Emotional Intelligent, EQ"-ability to cope with environmental pressures and demand.

"Faking" is a major concern for employers using personality tests. Many test publishers admit that test profiles can be falsified, and they try to reduce faking by including questions that can be used to compute a social desirability or "lie" score. Researchers also favor the use of "corrections" based on components of the test to account for faking—a preference that also constitutes a strong argument for professional scoring of personality tests. Another possibility is use of a "fake warning," which instructs applicants that faking can be detected and can result in a negative hiring impression.

8.7. Integrity Test

Integrity tests attempts to assess an applicant's honesty and moral character. There are two major types of integrity test: clear purpose (sometimes called overt) and general purpose (sometimes called veiled purpose). Some evidences indicate that applicants who score high on integrity tests also tend to score high on conscientiousness, emotional stability, and agreeableness base on Big Five personality model.

The **polygraph**, more generally and incorrectly referred to as the "lie detector," is a mechanical device that measures a person's galvanic skin response, heart rate, and breathing rate. The theory behind the polygraph is that if a person answers a question incorrectly, the body's physiological responses will "reveal" the falsification through the recording mechanisms of the polygraph. Many governments in the world prohibit the use of polygraphs for employment screening purposes by most employers. Some agencies allow employers to use polygraphs as part of internal investigations of thefts or losses. But in those situations, the polygraph test should be taken voluntarily, and the employee should be allowed to end the test at any time.

8.8. Substance Abuse Tests

Substance abuse tests are measures intended to ensure a drug-free workplace. Concern about workplace safety issues and alcohol and/or chemical use in the workplace has prompted many employers to require employees/applicants to submit to drug tests.

8.9. Assessment Center (AC)

An assessment center is not a place but an assessment composed of a series of evaluative exercises and tests used for selection and development. Most often used in the selection process when filling managerial openings, assessment centers consist of multiple exercises and are evaluated by multiple raters. In one assessment center, candidates go through a comprehensive interview, a pencil-and-paper test, individual and group simulations, and work exercises. Individual performance is then evaluated by a panel of trained raters.

Again, AC is not necessarily a place but rather a method of evaluating candidates. They are content-valid work samples of a managerial job and are typically used to select internal employees with potential for promotion to managerial positions. Assessment centers can range from one day to one week in duration, but they generally have three characteristics: multiple means of assessment, multiple assesses, and multiple assessors.

In one example of an assessment center, candidates go through a battery of standardized tests conducted by trained assessors. Exercises may include pencil-and-paper tests, comprehensive interviews, individual and/or group simulation activities, in-basket exercises, and work-related performance tests. The results are evaluated by a panel of trained assessors.

It is crucial that the tests and exercises in an assessment center reflect the content of the job for which individuals are being screened, and the types of problems faced on that job. For example, a technology communications organization used a series of assessment centers to hire employees who would interact with clients. The company found that these centers improved the selection process and also provided new employees with a good road map for individual development.

8.10. Job Interview

Job interviews are the most frequently used selection device, most organizations depend on them for making critical hiring decisions. Given their wide use, one might think that they are extremely valuable. The truth of the matter is that they are a high cost, damaging and ineffective selection device (low reliability and low validity). This is true even when they are in the hands of someone who has been trained to ask the right questions.

Selection interviewing of job applicants is done both to obtain additional information and to clarify information gathered throughout the selection process. Interviews are commonly conducted at two levels: first, as an initial screening interview to determine if the person has met minimum qualifications, and then later, as an in-depth interview with HR staff members and/or operating managers to determine if the person will fit into the designated work area. Before the in-depth interview, information from all available sources is pooled so that the interviewers can reconcile conflicting information that may have emerged from tests, application forms, and references.

Interviewing for selection is imperfect and should be focused on gathering valid

information that has not been gained in other ways. Because selection interviewing is imperfect, the focus must be on techniques that minimize errors and provide the best information.

Interviews must be reliable and allow interviewers, despite their limitations, to pick the same applicant capabilities again and again. High intra-rater reliability (within the same interviewer) can be demonstrated, but only moderate to-low inter-rater reliability (across different interviewers) is generally shown. Inter-rater reliability becomes important when each of several interviewers is selecting employees from a pool of applicants, or if the employer uses team or panel interviews with multiple interviewers.

Employers prefer to use interviews over other selection activities because they have high “face validity” (i.e., interviews make sense to employers). It is often assumed that if someone interviews well and the information obtained in the interview is useful, then the individual will be a good hire. However, an unstructured interview does not always provide much actual validity, causing a growth in the popularity of structured interviews. There are various types of selection interviews are used. They range from structured to unstructured, and they vary in terms of appropriateness for selection.

8.10.1. Structured vs. Unstructured Interviews

Unstructured or nondirective interviews generally have no set format. Structured or directive interviews generally identify questions and all applicants are asked the same questions. Sometimes acceptable responses are specified in advance and the responses are rated for appropriateness of content. While structured interviews may reduce spontaneity, they ensure that similar information will be gathered from all candidates. This makes it possible to compare qualifications and reduce equity concerns.

Semi-structured interviewing is more flexible than standardized methods such as the structured interview. Structured interviews keep the order and phrasing of the questions consistent across interviews to ensure consistency in the data being collected. In contrast, semi-structured interviews may prescribe a combination of questions and more general topics to cover. Questions in semi-structured interviews are more open-ended to allow interviewers to follow issues that diverge from the guide.

Competency interview (also referred to as situational, behavioral or competency based interview) questions are a style of semi-structured interviewing often used to evaluate a candidate's key competencies. In the following, we would discuss two frequently used types of semi-structured interview.

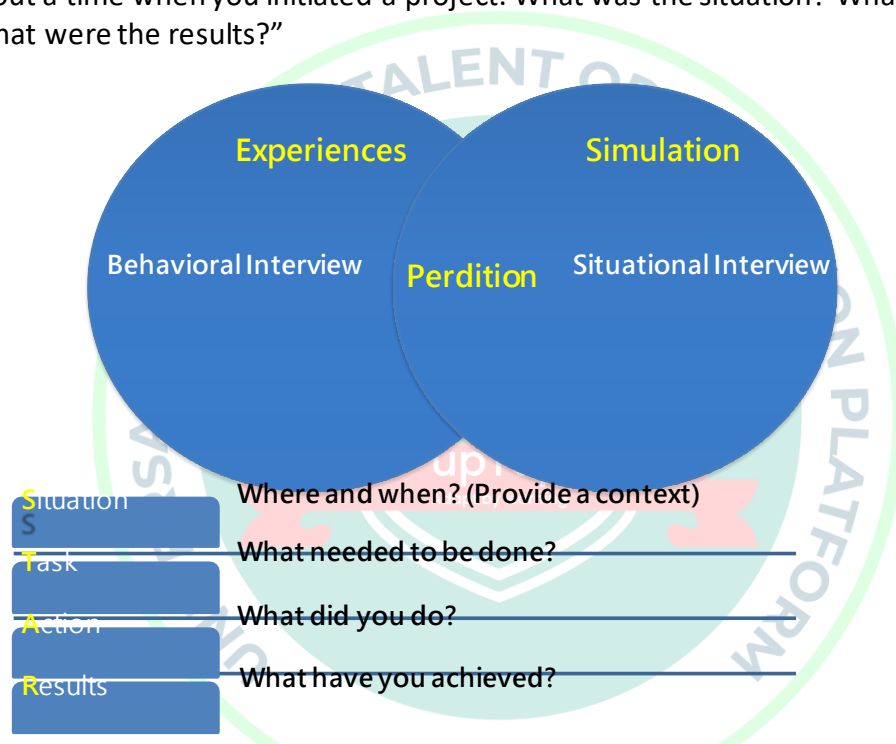
8.10.2. Situational Interview

The situational interview contains questions about how applicants might handle specific job situations. Interview questions and possible responses are based on job analysis and checked by job experts to ensure content validity. The interviewer typically codes the suitability of the answer, assigns point values, and adds up the

total number of points each interviewee has received. A variation is termed the case study interview, which requires a job candidate to diagnose and correct organizational challenges during the interview. Situational interviews assess what the interviewee would consider to be the best option, not necessarily what they did in a similar situation.

8.10.3. Behavioral Interview

In the behavioral interview technique, applicants are asked to describe how they have performed a certain task or handled a problem in the past, which may predict future actions and show how applicants are best suited for current jobs. A recent study showed that “past behavior” interviews are better at identifying achievement at work than are situational interviews, because they focus on what applicants have actually done in real situations rather than on what they think they might do in hypothetical situations. An example of a behavioral interview line of questioning might be: “Tell me about a time when you initiated a project. What was the situation? What did you do? What were the results?”



Source: Eder, R.W. & Harris, M.M. (1999). *The Employment Interview Handbook* 2nd Edition. Thousand Oaks, California: SAGE Publications

8.10.4. STAR technique

The STAR (Situation, Task, Action, Results) format is a job interview technique used by interviewers to gather all the relevant information about a specific capability that the job requires. This interview format is said [by whom?] to have a higher degree of predictability of future on-the-job performance than the traditional interview. This technique is a behavioral interview technique.

Situation

The interviewer wants you to present a recent challenge and situation in which you found yourself.

Task

What did you have to achieve? The interviewer will be looking to see what you were trying to achieve from the situation.

Action

What did you do? The interviewer will be looking for information on what you did, why you did it and what the alternatives were.

Results

What was the outcome of your actions? What did you achieve through your actions and did you meet your objectives? What did you learn from this experience and have you used this learning since?

8.10.5. Other Types of Interviews

Prescreening interviews: are useful when an organization has a high volume of applicants for a job and face-to-face interviews are needed to judge prequalification factors.

Patterned interview is also called a targeted interview. The interviewer asks each applicant questions that are from the same knowledge, skill, or ability area; the questions, however, are not necessarily the same. Patterned interview a kind of structured interview, frequently utilized in personnel choosing, which is modeled to cover specified particular regions, but at the same time to give the interviewer the option to steer the conversation into side channels and pose queries on points which need to be cleared up. Commonly referred to as semi structured interview.

Stress interview: the interviewer assumes an aggressive posture to see how the candidate responds to stressful situations. This style is used extensively in law enforcement, air traffic control, and similar high-stress industries.

Directive interviews: the interviewer poses specific questions to the candidate and keeps control. This type of interview is highly structured.

Nondirective interviews, the interviewer asks open questions and provides general direction but allows the applicant to guide the process.

Group interviews: One type is where there are multiple job candidates that are interviewed by one or more interviewers at the same time. This type of group interview is usually done only where the job duties are clearly defined and where numerous candidates can be informed and/or asked about job requirements.

The more common type of group interviews is where there are multiple people in an organization that serve as interviewers for a single job candidate. Each interviewer serves a different purpose and screens the candidate for specific qualities.

Panel Interview: Group interviews can be further described as team interviews and panel interviews. A team interview is used in situations where the position relies heavily on team cooperation. It is akin to a 360-degree process. Supervisors, subordinates, and peers are usually part of a team interview process. In a panel interview, structured questions are spread across the group. The individual who is most competent in the relevant area usually asks the question.

Phone and Video Interviews – are often conducted entirely by phone. Technology has also made interviewing by videoconferencing possible, saving time and travel costs.

Computerized Interviews: involve computers administering the interview. Typically the questions are presented in a multiple-choice format, one at a time, and the applicant is expected to respond to the questions on the screen by pressing a key.

Web-Assisted Interviews: utilize PC video cameras to conduct interviews online via Webcasts.

9. Onboarding

After effective recruitment and selection, one of the most important ways that organizations can improve the effectiveness of their talent management systems is through the strategic use of onboarding. Onboarding is the process of helping new hires adjust to social and performance aspects of their new jobs quickly and smoothly. This should always be a priority for HR departments.

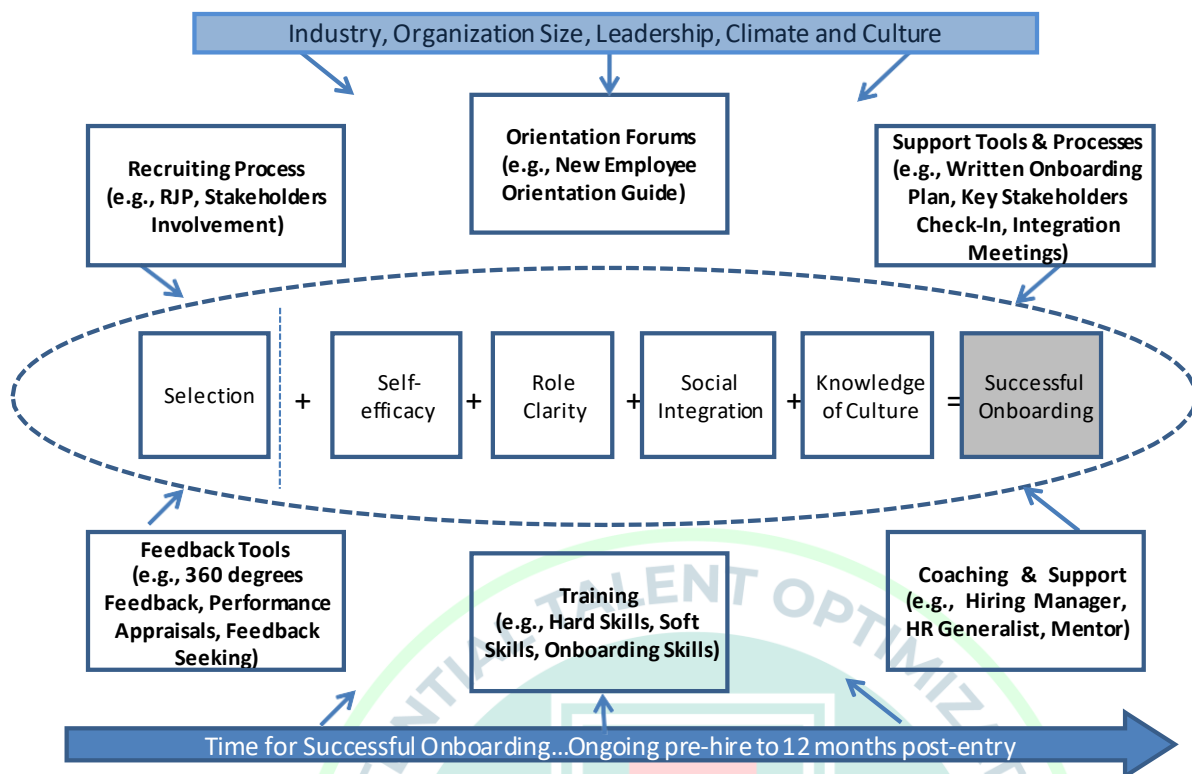
In Fortune 500 companies alone, about 500,000 managers take on new roles each year, and overall, managers begin new jobs every two to four years. Unfortunately, in the midst of all these transitions:

- Half of all senior outside hires fail within 18 months in a new position.
- Half of all hourly workers leave new jobs within the first 120 days.

This report will explain why onboarding is so important, where it fits into the larger HR context, how HR managers can proactively manage onboarding and, finally, how new employees can help facilitate their own onboarding process.

Until recently, academics have studied the onboarding process under the larger category of “socialization,” and onboarding has been considered a minor part of human resource management (HRM). Today, however, both academic researchers and those responsible for onboarding within their organizations understand that the best programs are those that are based on solid research and also make sense in practice. Below is a diagram of research about factors that play a role in successful onboarding of new employees. The model summarizes both new employee adjustment and outcomes of successful onboarding. The recruitment and selection process is actually the first step to effective onboarding. Clearly identifying valued behaviors and hiring candidates who demonstrate them will increase the likelihood of a smooth onboarding process.

A RESEARCH-BASED MODEL OF ONBOARDING



Source: Bauer, T.N. (2010). Onboarding New Employees: Maximizing Success. SHRM Foundation's Effective Practice Guidelines Series.

During onboarding, firms engage in a variety of activities that may facilitate the process. Successful onboarding is the result of several HRM functions working together in a coordinated fashion. Although here each function is discussed separately, the key to successful onboarding is for HRM functions to work together seamlessly to support new employees. The process starts even before a new employee arrives: the first HRM function, and the first interaction of a new employee with the firm, is recruiting.

9.1. Recruiting

In Passive Onboarding, organizations' recruiting processes are unrelated to new employee onboarding plans. Rather than viewing recruitment as a time to begin the onboarding process, it is seen as a separate function. In fact, the entire goal of recruitment should be to get candidates to the next step— selection—and then to help them fit into the organizational environment and get to know organizational insiders and stakeholders. The recruitment process provides information, but it also helps new employees form realistic expectations and engage coping mechanisms. In this way, the quality of recruitment practices relates to higher organizational commitment.

Realistic Job Previews

Organizations can provide employees with realistic job previews (RJPs) regarding both

the specific job to be done and the organizational culture. RJPs have advantages and disadvantages. As an experiment, one firm randomly assigned prospective employees to either an RJP group or a non-RJP group. As expected, the RJP group was more likely to reject a job offer, but they had 50 percent less turnover than the non-RJP group. Realistic previews help to prevent new employees from suffering unmet expectations. Past research has found that new employees receiving large amounts of accurate information about a company and their new job tend to adjust better than those who don't acquire this information.⁴⁰ RJPs can be provided during recruitment and hiring or through more on-the-job experiences such as internships.

9.2. Orientations

Some organizations now use some type of new-employee orientation—either in person or online. Formal orientation programs help new employees understand many important aspects of their jobs and organizations, including the company's culture and values, its goals and history, and its power structure. Orientation programs also serve a social role, helping newcomers feel welcome by introducing them to their co-workers and other individuals within the organization. Orientations, which may last a few hours to a few months, can provide new employees with valuable information and the chance to process a lot of paperwork and procedures quickly, using tools that include discussions, lectures, videotapes and written material. During short orientations, companies often use computer-based information systems and intranets to help support new employees. This approach lends consistency to orientations in different locations and at different times.

9.3. Support Tools and Processes

Both during and after the orientation, readily available support tools, such as those discussed below, are invaluable for onboarding success.

- **A written onboarding plan.** A formal document, or roadmap, that outlines the specific timeline, goals, responsibilities and support available to new hires will help them succeed because it spells out what they should do and what assistance they can expect. The most effective onboarding plans are usually written, communicated to all members of the company, consistently applied and tracked over time.
- **Stakeholder meetings.** Some organizations often create check-in meetings at specific intervals to help new employees get the information they need in a timely manner. Many stakeholders should be involved in these onboarding meetings, and the schedule should identify who is involved at what point in time. With regular "touching base" meetings, potential problems can be solved before they expand into large problems.
- **Onboarding online.** Some organizations use technology to deliver initial orientation programs, but one study shows that benefits may not be quite as positive in computer-based orientations. Researchers compared employees taking part in a regular, face-to-face orientation to those in a computer-based orientation and found less understanding of the job and the company for those in the computer-based version. Technology also can be used to follow the onboarding

process, automate basic forms, track progress against development and career plans, and help stakeholders monitor new employees to see when they may need additional support.

9.4. Coaching and Support

As mentioned above, stakeholder involvement is extremely valuable for successful new employee onboarding because stakeholders can help newcomers manage and meet expectations. Stakeholders include those involved in hiring, training, HR, and normal coaching and support. They can influence new hires by not only sharing information but also serving as role models to be emulated.

Mentors are a similar resource to help new employees learn the ropes. A mentor can teach new employees about the organization, offer advice, help with job instruction, and provide support in social and political terms. New employees may go to mentors with questions that they are hesitant to ask their managers for fear of seeming incompetent. One study found that new employees with mentors became more knowledgeable about their new organizations than new employees who did not have mentors. Researchers have also found that new employees are more likely to have learned and internalized the key values of their organization's culture if they had spent time with a mentor. Mentoring programs, opportunities for informal interaction with colleagues and adequate information certainly will help the new employees adapt more easily to the new work environment.

Both internal and external coaching can be critical in the success or failure of new employees. External coaches can be especially important for executive onboarding, where the stakes are high. An objective coach can help new executives by offering a safe sounding board for ideas and approaches. External coaches can also help new executives prepare for their onboarding process before they enter, as well as assist with any challenges they encounter in their new organization.

9.5. Training

A new employee needs the confidence, clarity and skills to do the job he or she has been hired to do. Potential training for new employees includes hard skills, soft skills and onboarding skills, and each skill set is important. If a new employee has low levels of self-efficacy at the start, training is even more necessary to boost subsequent ability to cope and job performance. Training can show newcomers how to proactively help their own adjustment and therefore encourage successful onboarding.

9.6. Feedback Tools

New employees often make missteps and may find it challenging to understand and interpret positive or negative reactions they receive from co-workers. This means they will often need feedback and guidance. Research consistently shows the benefits of feedback for new employee adjustment. During onboarding, feedback is a two-way process. New employees seek and receive information, and companies vary in how well they use feedback tools during the onboarding process. A couple of common approaches to employee feedback are:

- Performance appraisals and 360-degree feedback. Within the HRM system,

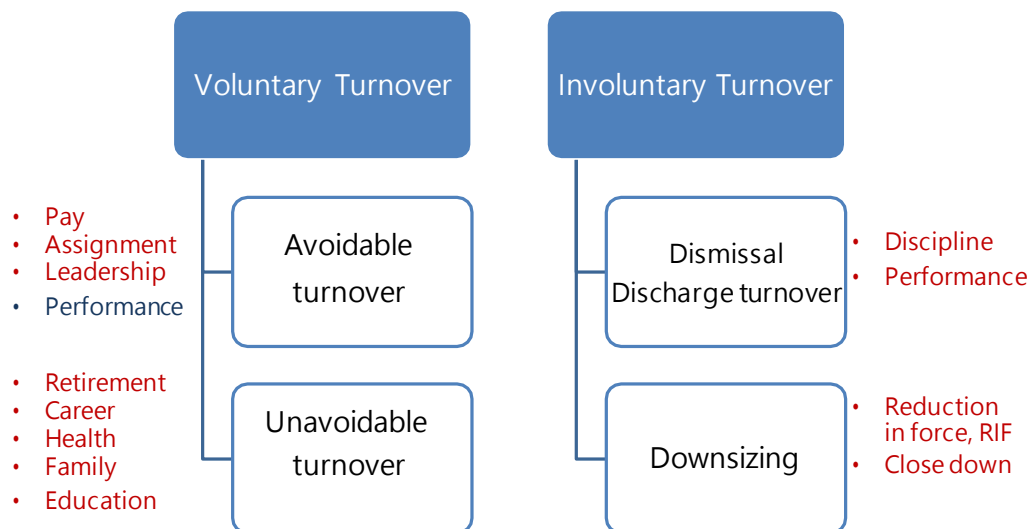
performance appraisals can give new employees developmental feedback. Normally, however, organizations conduct appraisals only once or twice a year. When integrating appraisals into the onboarding process, quarterly meetings can be helpful. The benefit of 360-degree feedback is that it helps new employees understand how others view them. Feedback from all sides can help resolve any disagreements early on.

- Employee-initiated information and feedback seeking. Employees can help or hinder their own onboarding. Information-seeking and feedback are proactive new employee behaviors that may help them adjust as they ask questions about different aspects of their jobs, company procedures and priorities—all to make sense of the new workplace. Workers may seek information using more passive methods—monitoring the environment, viewing the company web site, reading the employee handbook or other written literature. But very little insight about company culture and unwritten rules will emerge from passive methods. As time passes, employees should start asking more questions of supervisors about expectations and evaluation, but they may be reluctant to do so if they believe such questioning will reveal their own weaknesses. Yet asking questions will often communicate to others that the new employee is interested in learning the norms and performing well. The need for new employees to ask the most basic questions is lessening as more organizations institute formal onboarding programs that include help desks, online information centers and regularly scheduled meetings with stakeholders.

1. Employee Turnover

Over the last two decades of awareness of managerial issues, the issue of employee turnover still exists in most of the organization throughout the world. The extent to which employers face high turnover rates and costs varies by organization and industry. For higher-level executives and professionals, turnover costs can run as much as two times the departing employees' annual salaries, and rates often are linked to executive job expectations and needed skills changes. In many service industries, the turnover rates and costs are frequently very high.

Turnover is classified in a number of ways. One classification uses the following categories, although the two types are not mutually exclusive:



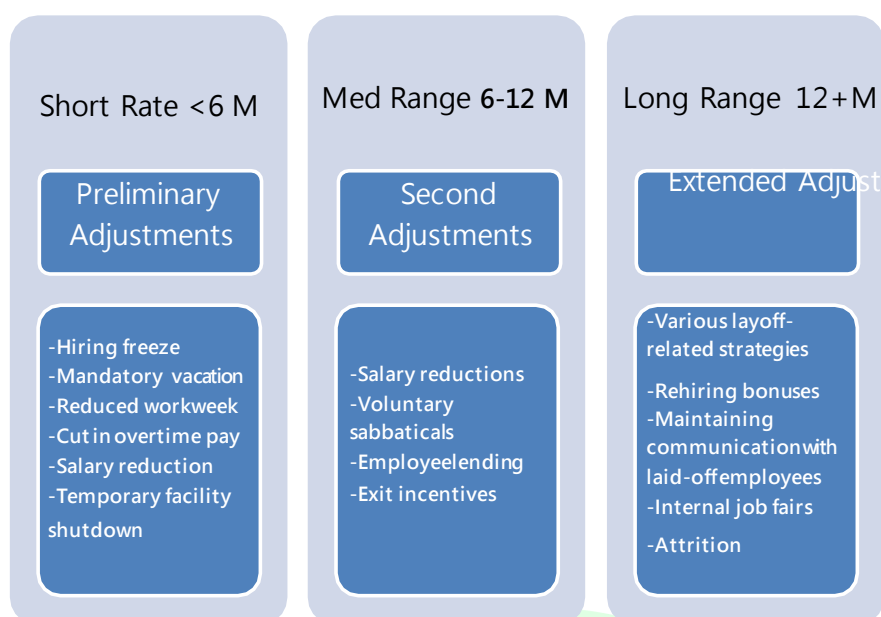
Turnover Rate: (number of employees leaving/average number of employees)*100

10. Reduction in Force (RIF)

Downsizing has been a pervasive managerial practice for the past three decades. Over the years, a firm's standard response to finding itself in financial difficulty was to reduce its workforce. While there is ample evidence suggesting that downsizing activities rarely return the widely anticipated benefits, there is also a sobering understanding that downsized firms are forced to deal with the human, social, and societal aftereffects of downsizing, also known as secondary consequences. Research shows clearly that the human consequences of layoffs are costly and particularly devastating for individuals, their families, and entire communities. While workforce reductions cannot always be avoided, there are compelling reasons why downsizing-related layoffs must nonetheless be seen as a managerial tool of absolute last resort.

During an economic downturn a firm must carefully consider its options and assess the feasibility and applicability of cost-reduction alternatives before deciding on layoffs. While a considerable number of research articles that discuss alternatives to downsizing have been published, there is no conceptual understanding of downsizing-related layoffs as they relate to the actual cost-reduction stages of a firm. Indeed, it is critical for an organization to factor in the concept of cost-reduction and to recognize the specific cost-reduction stage that characterizes the firm's current business position and environment. Thus, a firm needs to determine the expected duration of the business downturn. In order to do so successfully, the executive manager must know exactly where the firm is in its cost-cutting stage. A firm's cost-reduction stage, by definition, refers to the timeframe the company requires to be able to reduce operational expenditures successfully.

We would discuss the framework of cost-reduction stages of a firm coupled with creative modern-day human resource (HR) practices that firms typically adopt. There are three cost-reduction stages: short-range, mid-range, and long-range phases. The underlying framework of the cost-reduction stages is depicted in the below figure.



Source: Gandolfi, F. (2008). HR strategies that can take the sting out of downsizing-related layoffs. Ivy Business Journal. Available on iveybusinessjournal.com.

10.1. Short-range cost adjustments

The first stage of the cost-reduction framework represents short-range cost adjustments in response to a short, temporary decline in business activities. Most likely, the firm resorts to minor, moderate cost-reduction measures in this early stage. These preliminary adjustments should enable the firm to shun downsizing-related layoffs and involuntary cutbacks, and return to normal business activity within a timeframe of four to six months. A firm experiences this stage because of an unexpected drop in sales and a decline in sales forecast. It is characterized by short-term expenditure adjustments in order to prevent a medium-range downturn or a more lasting, long-range decline. The immediate recognition of a temporary business slip and the resolute engagement in preliminary cost-reduction methods should allow the firm to focus its operations in a cost-sensitive mode for a quick recovery.

The likelihood of success for short-range cost adjustments hinges on a number of factors. First, senior management must be able to effectively articulate why the cost-adjustment measures are necessary and the short time frame of the strategy. Executives' ability to convey the message that the implementation of preliminary cost-reduction measures at the present time will prevent future layoffs is critical. Second, the HR Director's role is to communicate the decision(s) made by the executive board to the entire workforce promptly and to implement the cost-reduction methods effectively. Third, employees' flexibility in allowing the firm to modify cost structures increases the chance of success for the planned cost alterations. In sum, a firm's capacity to overcome a business downturn in the first stage will depend on the organization's ability to respond to the new environment by immediately modifying expenditures.

There are several HR practices that firms can adopt in an effort to engage in

preliminary cost reductions. Some of the more popular approaches that have emerged are:

10.1.1. Hiring freeze

A hiring freeze constitutes a mild form of downsizing and reduces labor costs in the short term. Some firms continue to hire new employees while cutting jobs at the same time. While this practice may make sense in terms of supplying the firm with key personnel, it also tends to send a confusing message to the rest of the workforce.

10.1.2. Mandatory vacation

Implementing mandatory vacation involves requiring employees to use their accrued vacation days or mandating that individuals take a number of unpaid vacation days during a certain time period. While employees might not want to be told when and how to use their entitlements, they will nonetheless appreciate the reaffirmed job security.

10.1.3. Reduced workweek

Firms sometimes resort to a reduced workweek. This may translate into the reduction from 40 to 35 or fewer hours and thereby reduce the short-term payroll expenditures. While most employees appreciate the idea of being able to spend more time with their families, they may not always welcome a reduced paycheck. Also, employees may find that the same amount of work still needs to be performed while they spend less time on the job.

10.1.4. Cut in overtime pay

Reducing or abolishing overtime pay for employees can be a potent technique for reducing operational costs in the short term. Firms may decide on an across-the-board (i.e., all employees) abolition or it may confine the cut to selected categories only (e.g., non-management, blue-collar employees, or salaried employees, etc.).

10.1.5. Salary reduction

Salary reduction has been a standard practice for firms experiencing unexpected financial pressure. Whereas salary reduction may mitigate financial concerns in the short-run, extended salary reductions can affect employee morale and loyalty. Also, while companywide salary reductions may prevent layoffs, there is a clear risk that top performers will be encouraged to leave for competitors that offer superior compensation.

10.1.6. Temporary facility shutdown

Temporary facility shutdowns occur when a work site closes for a designated period of time, while some administrative functions are still performed. A shutdown allows employees to have time off without using their vacation days. While the overall company production decreases, the firm can achieve considerable cost savings while avoiding layoffs.

10.1.7. Soliciting cost-reduction ideas from employees

Employees appreciate the opportunity to make a positive impact on their workplace and environment. Firms frequently solicit cost-reduction ideas from employees who are often creative in producing cost-reduction solutions. This HR practice has shown to be most effective when employees are able to make suggestions in the early stages of cost cutting.

Clearly, there are many HR practices and options that firms can adopt to reduce short-term expenditures. While some firms have come up with fairly creative ideas, others have resorted to corporate layoffs as a first resort.

10.2. Medium-range cost adjustments

The second stage of the cost-reduction framework constitutes medium-term cost adjustments in response to a business downturn exceeding six months. These secondary cost-reduction adjustments are frequently signaled through extended company-wide or industry-wide forecasts of diminished sales activity. If properly recognized and executed, the firm may be able to transition to mid-range cost adjustments and thus prevent long-term layoffs and forced downsizing activities. Constituencies need to recognize that deeper cost-reduction strategies may be required in order to avert downsizing-related layoffs. Executive management and the HR Director must be able to articulate the underlying purpose and objectives of the expenditure adjustments to the entire workforce. This should ensure buy-in and commitment on the part of employees. The application of HR practices in this stage could potentially alter employees' work environment. Thus, the HR department will play a critical role in the conduct and transition of these practices.

10.2.1. Extended salary reductions

Extending salary reductions can be a method of choice if an economic downturn exceeds 6 months. While extended salary reductions can negatively affect employee commitment and morale, advocates stress that employees would prefer a smaller income temporarily rather than seeing their jobs disappear permanently. As with short-term salary reductions, there is a risk that high-performing individuals will be encouraged to pursue external employment opportunities. Firms have generally been creative about altering variable pay options. For instance, while some firms balance the reduced salaries by distributing once-a-year payments over 12 months, others substitute stock awards for variable cash payments.

10.2.2. Voluntary sabbaticals

Voluntary sabbaticals, also called furloughs, allow salaried employees to take voluntary leaves for a designated period of time. Companies may offer sabbaticals with considerably reduced pay or no pay at all. Most firms continue to provide benefits during sabbaticals. Sabbaticals enable firms to reduce their medium-term expenditure and act as a potent method for avoiding downsizing-related layoffs. While employees may feel motivated and re-energized upon their return, HR experts point out that medium-range and long-term sabbaticals may cause employees to lose their leading-edge and return with outdated skills. Interestingly, there is evidence suggesting that firms offer generous sabbaticals during times of economic growth while companies refrain from this HR practice during tough financial periods.

10.2.3. Employee lending

Employee lending is a modern-day HR practice whereby the current employer, the lending firm, lends an employee to another employer firm for a set period of time while continuing to pay salary and providing benefits. The borrowing firm, which can be a competitor, in return, reimburses the lending company for part or all of the salary. While employee lending can dramatically decrease medium-range expenditure of the lending firm, some employees may not wish to work for a third-party. There is also the risk that the borrowing firm may decide to hire the employee permanently once the contracted period is lapsed. As a consequence, the lending firm would thus lose a critical knowledge base.

10.2.4. Exit incentives

This option entails offering employees incentives to leave the firm in the form of optional severance or early retirement. This strategy enables firms to better target jobs and units in that it recognizes employees for their service and helps retain the remaining employees. At the same time, exit incentives can be costly and can create an entitlement mentality for the remaining workforce in the future.

In sum, corporate executives and HR directors need to find innovative ways to reduce medium-term expenditures. Unfortunately, similar to the first stage, too many firms resort to layoffs by default.

10.3. Long-range cost adjustments

The third stage of the cost-reduction framework represents long-term adjustments which are necessary if a firm experiences a prolonged business downturn exceeding 12 months and beyond. This stage may be recognized through an extended decline of current and projected customer demand and/or extremely volatile economic conditions. This third stage generally requires extended long-range expenditure adjustments on the part of the firm. It is in this phase that downsizing-related layoffs are frequently inevitable. While permanent layoffs should always be seen as a final resort, firms must try to avoid across-the-board, mass layoffs at all costs. Companies who find themselves forced to engage in extensive layoffs must adopt practices that instill loyalty and commitment in the remaining and exiting workforces.

10.3.1. Rehiring bonuses

It is not uncommon for firms to rehire laid-off employees. While some firms provide a monetary rehiring bonus for veterans to return to the company within a specified period of time, other companies hire previously laid off employees as external consultants. In some cases, firms realize that they cut too many and/or the wrong employees, while in other cases management decides to hire back after the economic downturn. Research shows that employees and consultants frequently return to the downsized firm with improved monetary rewards.

10.3.2. Maintaining communication with laid-off employees

Firms should make an effort to maintain friendly relations with laid-off victims. Firms provide and facilitate highly-effective ways to foster and sustain positive employer-

employee relationships. This is particularly important if firms intend to rehire the former employees when the economic climate has improved.

10.3.3. Internal job fairs

Firms should make every possible effort to retain high-performing employees. A powerful method is an internal job fair, where firms host events in order to help place and redeploy downsized employees within the company.

10.3.4. Attrition

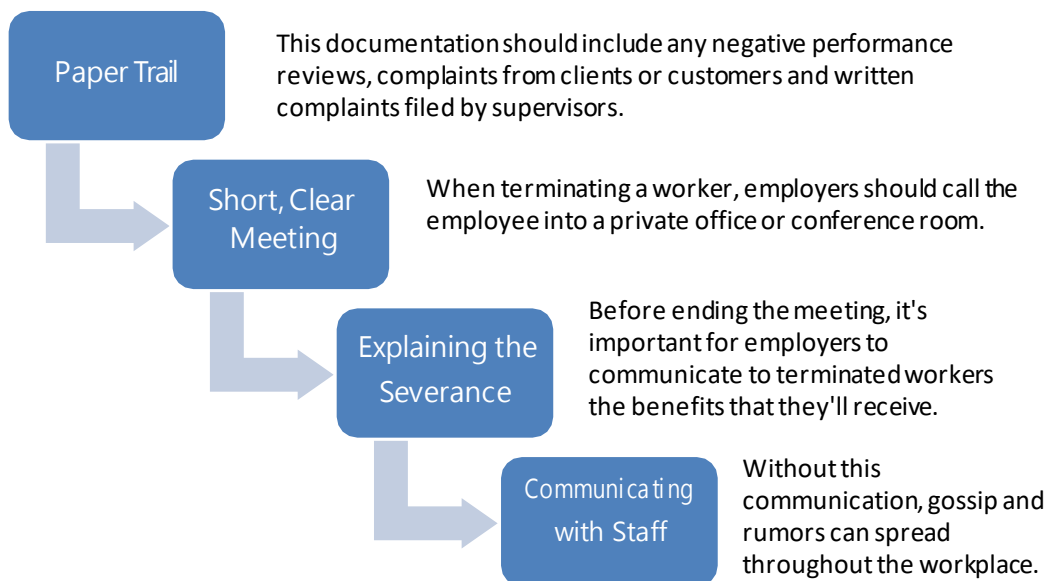
If the employer faces financial circumstances in which a reduction in staff is necessary, the staffing options are to reduce hours, lay off employees or slowly reduce the workforce through natural attrition. The latter option takes longer than immediate termination, but it can keep employee morale stable and make the transition of job responsibilities smoother and less jarring, which can keep productivity levels on track.

Attrition occurs when an individual leaves the employment, either through retirement, termination or resignation. Rather than hire new staffers to assume the vacated positions, employer simply reabsorb the responsibilities of those roles by assigning the jobs to different departments or individuals or eliminate them altogether.

While reducing the employee numbers through attrition or other means will save employer on payroll expenditures, it could also have the unintended consequence of stressing the remaining work staff. If the employer expects productivity levels to remain on par with figures the company generated with a full staff, which means remaining people in the company will be doing additional work for the same pay. This can lead to decreased morale, lower job satisfaction and a propensity for staffers to seek employment elsewhere.

11. Employee Termination

It's one of the most unpleasant tasks that employers face: firing an employee. It's a task that employers must handle carefully, calling for direct communication with the fired employee and the company's remaining staffers. Employers need to explain clearly to employees the reason behind their termination and build a paper trail that protects them in case a fired worker files a lawsuit. Employers must also communicate with remaining staffers, briefly and in general terms, about what the termination means to them and the future of the company.



Mader-Clark, M. & Guerin, L. (2007). *The Progressive Discipline Handbook: Smart Strategies for Coaching Employees*. Berkeley, CA: Nolo.

11.1. Paper Trail

Before employers terminate a worker, they should take the time to build a paper trail detailing the reasons for the dismissal. This documentation should include any negative performance reviews, complaints from clients or customers and written complaints filed by supervisors. Such written evidence can protect the company if the terminated employee decides to file a lawsuit alleging unlawful termination.

11.2. Short, Clear Meeting

When terminating a worker, employers should call the employee into a private office or conference room. Once away from other staffers, employers should immediately but politely tell the worker that he is being terminated. Employers should always include concrete reasons for this firing: The worker's job performance may not have improved. The worker may have been turning in shoddy work. Clients and customers may have filed too many complaints against the worker. Perhaps he violated company policy.

11.3. Explaining the Severance

Before ending the meeting, it's important for employers to communicate to terminated workers the benefits that they'll receive in their severance package. Tell a fired employee how many additional weeks of pay she will receive, if any job training services are available and how many weeks of health insurance coverage she will receive.

11.4. Communicating with Staff

After the termination is complete, employers must then communicate with the rest of their workers about the firing. Without this communication, gossip and rumors can spread throughout the workplace. Employers should say that a certain worker was

terminated, but shouldn't go into details about the reason for the firing. They should instead focus on future plans: Will a new worker be hired immediately? Is the fired employee's position being eliminated, too? If so, how will the fired worker's workload be dispersed among remaining employees? The more information about the future that employers can provide, the less likely it is that employees will form their own, incorrect, assumptions about the company's direction.

11.5. Discharge, Layoff, and Resignation

Discharge, layoffs and resignation are three means by which employment relationships are severed, but each carries distinctly different connotations and implications. Discharges and layoffs are generally viewed as a negative necessity, but resignations can occur under positive or negative conditions. Understanding the difference between these three terms can give you more insight into employees' relationships with their employers.

11.5.1. Discharge

Discharging an employee can also be referred to as firing an employee. Companies fire employees for a wide range of reasons. Employers may fire specific employees due to a lack of performance after numerous attempts to help the employee improve his productivity, for example. Employees can be fired after continual confrontations with management or co-workers, as a way to prevent subversive influences from creating a hostile work environment. In extreme cases, companies may fire employees on the spot for exhibiting violent or threatening behavior, or for committing a criminal act such as fraud or theft on the job.

11.5.2. Layoff

A layoff is similar to a discharge, except that layoffs are not performed due to the negative behavior or poor performance of employees. Companies lay off workers when they cannot afford to pay them anymore due to financial hardship. Layoffs can also occur when two companies merge, due to human resources redundancies that need to be right-sized. Companies also lay off employees as a precursor to outsourcing departments internationally.

11.5.3. Resignation

A resignation occurs when an employee takes the initiative to terminate the employment relationship. Employees resign for a wide range of reasons. Employees may leave their employers due to the type of continual confrontation mentioned, or for purely financial reasons. Employees may resign while maintaining a good relationship with their employer, to pursue other career opportunities, to move their home to a different area or a host of other possibilities. In rare cases, employees may voluntarily resign after committing an act that would require the company to discharge them.

11.5.4. Re-hiring

The three ways to end an employment relationship each carry different implications for the possibility of re-hiring employees. Discharged employees are the least likely to be re-hired, and many companies have policies in place preventing them from re-hiring

any employee who has been fired. Laid-off employees are the most likely to be offered their jobs back, as long as the jobs actually come back, and some employers actually lay off employees with the intention of re-hiring them when the company gets back on its feet.

Re-hiring employees who have resigned is a highly subjective matter. Employees who quit for negative reasons may present the same type of problems that previously discharged employees do if they are brought back on board. On the other hand, re-hiring these employees can instill in them a stronger sense of loyalty than ever before.

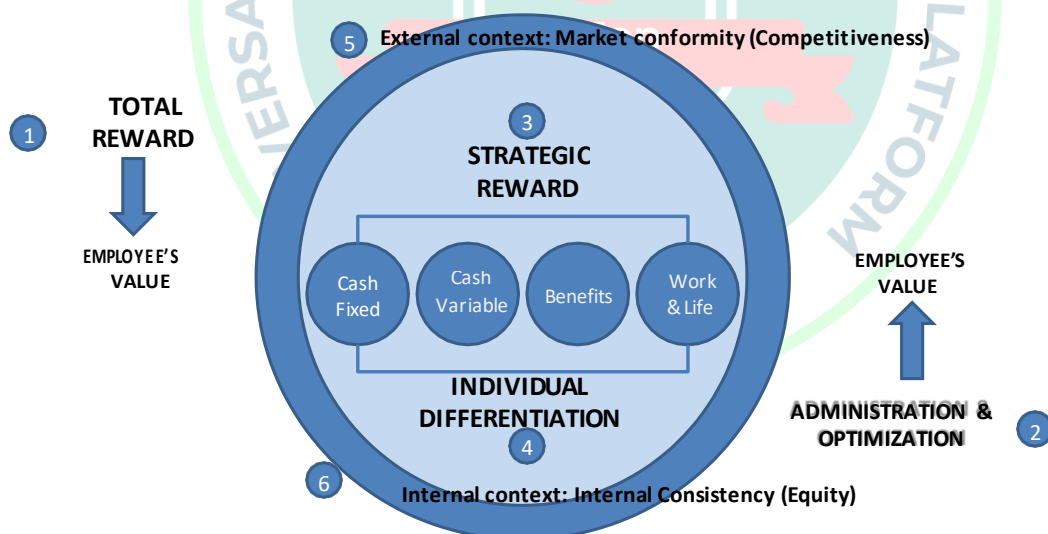


Part Two: Total Rewards & Wellbeing

1. Compensation Design

Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship. Also, compensation refers to a form of monetary payment provided to a person who has suffered damage, harm, or injury. Many HR authors use the term Remuneration rather than Compensation. This is because Remuneration is used to connote something broad, like a package, essentially implying that it is not only a salary, but many other benefits that are included in this “package.” In general, Remuneration is referred to as the payment made to an employee for his/her services or work. Typically, this is the payment of a salary or wage. However, Remuneration is much broader and encompasses not only the periodic payment given to an employee but also other payments and non-monetary benefits. It is the whole package offered to an employee during his/her term of employment with the employer. Monetary benefits include salary, overtime pay, vacation pay, bonuses and performance-related payments. Non-monetary payments refer to benefits such as the provision of a company vehicle, medical and/or hospital insurance, food and shelter, pension or retirement schemes, family support schemes, child care, subscriptions and any other benefits.

Remuneration is an important factor affecting how and why people choose to work at one organization over others. Employers must be reasonably competitive with several types of compensation in order to hire, keep, and reward performance of individuals in the organization. There are several important concepts about compensation designing as follows:



WorldatWork (2015). *The WorldatWork Handbook of Compensation, Benefits and Total Rewards: A Comprehensive Guide for HR Professionals*. Hoboken, New Jersey: Wiley.

1.1. Total Reward

Total Reward relates to all aspects of the employment offering, including the

remuneration package (base pay, variable pay and benefits) as well as the intangible aspects of the psychological contract such as career development, employment security and working environment. It is a key component of any Employer Brand through which an organization establishes its competitive position in the labor market and hence determines its ability to attract, recruit, retain and motivate employees of the required caliber.

Formerly referred to as simply compensation and benefits, total rewards takes on a more creative and broad definition of the ways employees receive compensation, benefits, perks and other valuable options. WorldatWork defines this new term: "Total rewards include everything the employee perceives to be of value resulting from the employment relationship." According to Aon Hewitt, there are four factors that can help employers think about the value total rewards deliver for employees, rather than an ever-growing list of programs that are given equal importance. This new model is intended to serve as a catalyst to stimulate new thinking around where to focus energy, effort and expense in total rewards.

1.1.1. Access

Access refers to those rewards to which the organization provides access only—the rewards themselves are paid for by the employee or (in some cases) perhaps a third party. These could include things like group legal insurance, critical illness insurance and discount programs.

1.1.2. Basic

Basic rewards are those “table stakes” reward elements that the organization feels it must provide to be in the game, things like health and welfare and retirement benefits.

1.1.3. Contingent rewards

Contingent rewards are those elements of the package that are delivered based on some level of performance or behavior by the employee. Wellness incentives are an example of these types of rewards.

1.1.4. Differentiators

Differentiators are the one, two or—at most—three reward elements that are going to set your company apart, the elements for which you want to be famous.

Thinking about benefits within this total rewards framework provides focus to how you design, deliver and communicate. With this framework, the emphasis shifts from providing access to rewards as well as basic rewards to using rewards to drive behavior (contingent rewards) and those rewards that are going to set you apart (differentiators). In the end, these are the rewards that will create the greatest return on your investment.

1.2. Administration and Optimization

In addition to overseeing the total reward framework, HR professionals must assure administrative efficiency and costs optimization for designing total rewards. Optimizing your investment in total rewards begins with a core set of guiding principles and

continues with understanding what employees value most. The following texts describe key steps in the development of a total rewards strategy.

1.2.1. Define your differentiator

For years, communication efforts have centered on benefits, due in large part to open enrollment and legal requirements. With this primary focus, employers miss the opportunity to truly differentiate the employment experience. In addition to helping inform your overall total rewards strategy and programs, identifying what it is you want to be famous for can guide your key communication messages. Your differentiator should support your business and what it is that motivates your employees, and can fall into any one of the four quadrants described earlier. Keep in mind, many leading companies are shifting more of their total rewards in the areas of career opportunities, learning and development, and coaching. They are doing so, in part, because those programs are harder for competitors to replicate.

1.2.2. Learn what motivates your employees

Knowing what motivates employees can help you develop a comprehensive, yet targeted, communication strategy. One approach that is gaining traction within HR, total rewards and benefits is segmentation—the process of breaking down large populations into similar groups of employees to understand what is important to them and how they might behave in certain circumstances. The more data you can gather and leverage (demographics, attitudes, behaviors and preferences), the more successful and targeted your communication strategy will be.

1.2.3. Develop a total rewards brand

Consumer marketers have always known the power of a strong brand (i.e., a clear voice, compelling message, and consistent visual identity). Employers are starting to get the picture, too. An effective total rewards brand tells a compelling story—what's expected of employees and what they can expect in return when it comes to maximizing their total rewards. An effective total rewards brand articulates the value of not only the collection of programs you offer but things like culture and work experience. And, most importantly from a talent perspective, an effective total rewards brand inspires action by making it clear to employees what it takes to meet both business and personal needs. Once a total rewards brand is established, you're able to communicate consistently, using the same language, tone and style each time you reach to employees. Repeating the message on a regular basis so that it becomes familiar and recognizable is critical.

1.2.4. Personalize the experience

When it comes to total rewards, it's all personal. Employees want to know how they're rewarded, how they're protected and what they need to do to be successful. And as outlined earlier in this article, employees generally think in terms of total rewards vs. benefits. So the best way to address those needs is to get personal. That's one of the reasons personalized statements—both print and online—remain one of the most popular and effective communication tools. (According to the Aon Hewitt database of total rewards statement customers, nearly 90% of employees who received a total

rewards statement say that the statement provides value.) And in today's world, we have the ability to provide employees with even greater access to real-time information on total rewards through total rewards statements and portals.

1.2.5. Reach people through multiple communication channels

When it comes to communication, one size definitely doesn't fit all. Employers that deliver communication through multiple vehicles are more successful at reaching their people and thereby creating greater perceived value. Using a variety of channels — social media, direct mail, electronic solutions—signals that total rewards messages are important and require attention/action.

1.2.6. Project cost and risk profile of rewards

In addition to achieving alignment and delivering employee value, successful reward plans strike a balance between effectiveness and cost. With health care costs continuing to increase, optimizing reward programs may be critical to success. HR must use operating income growth as a metric in determining funding for short term incentive plans..

1.3. Strategic Reward

Compensation decisions must be viewed strategically. Because so many organizational funds are spent on compensation-related activities, it is critical for top management and HR executives to view the "strategic" fit of compensation with the strategies and objectives of the organization. The changes in the global marketplace for products and services have led to organizational changes in business philosophies, strategies, and objectives. Increasingly, organizations are recognizing that compensation philosophies must change also. For example, if a firm wishes to create an innovative, entrepreneurial culture, it may offer bonuses and stock equity programs so that employees can participate in the growth and success of the company, but set its base pay and benefits at relatively modest levels. However, for a large, stable organization, highly structured pay and benefit programs may be more common.

Strategic reward management involves the formulation and implementation of an equitable reward system that is congruent with the organization's strategic objectives. A strategic reward system is a type of human resource management tool that is used to reward hardworking employees in an organization. It operates on two main principles; the best fit perspective and the best practice advocates claim. The objectives of a strategic reward system are; attract and retain employees, motivate performance, promote skill development, encourage corporate culture and determine pay costs. Rewards can be either intrinsic or extrinsic. However, it is important when designing, implementing and using a reward strategy, that it meets both individual and organizational needs.

A total reward management process consists of four building blocks: fixed pay, variable pay, employee benefits and non-financial rewards such as work-life balance. With enormous change in the labor markets and employment contracts, reward systems today have also evolved. Contemporary reward strategies include employability pay, person-based pay, market-determined pay and team-based rewards. Reward

management is a vital part of the total strategic human resource management process as it supports the achievement of strategic objectives through the communication of desired behaviors to employees. It also elicits a clear link between individual performance and organizational performance and thereby acts as a catalyst for positive organizational cultural change.

1.4. Individual Differentiation

Differentiation of rewards is supported where there are differences in the scope of the position within an organizational context, and/or due to superior individual or team contributions. For example, a reward program for an organization might look very different from a compensation program for the manufacturing group or the sales team, with varying incentives based on cash compensation and non-cash compensation options. The goal is to attract, develop, and retain a high performing staff, as well as to differentiate the highest performers so you can properly reward them. To achieve this type of compensation structure, follow these four basic steps.

1.4.1. Step 1: Segment the Workforce

Every organization has critical skill sets. To find the value of various employees and roles, first determine how people contribute to the well being of the organization, then tie their value to a meaningful compensation plan. Identify critical roles within your organization and critical skills that impact its success. Based on this understanding you can segment your rewards programs to properly compensate those roles and skill sets that are most important to the company. Once compensation has been awarded, survey employees to learn about what they like and dislike, and whether there are other types of compensation they would value more. This information provides valuable insights for setting compensation budgets in the future, and provides employees an opportunity to have their preferences heard.

1.4.2. Step 2: Create Flexible Compensation and Incentive Plans

As you design your incentive plan, establish clear links between incentives and corporate goals, divisional goals, departmental goals, and individual goals. Each employee should know how their actions impact the company. Executives and senior directors should be incented based on their impact on their respective regions and divisions. Line-of-business professionals often share team-based goals. They should be incented based on how they support critical objectives and by how their individual achievements influence results. Variable compensation plans are most effective if they are structured to pay out over time, based on performance. Don't give away all the money up front. Spend wisely and reward people as they make valuable contributions. As the labor market improves many companies will see increased turnover among their staffs. To retain top employees, consider offering them three-year compensation plans tied to agreed-upon performance metrics.

1.4.3. Step 3: Enforce Equitable Policies with Complete Transparency

Compensation policies must be fair and equitable to everyone, not just to the high-performing segment of the workforce. There can't be any perception of favoritism—not just in the cash compensation plans, but also in non-cash based rewards such as

the projects to which they are assigned, opportunities for training, etc.

Even the best planned compensation strategies will fail if employees think they are being treated unfairly. Fostering an environment of fairness requires transparency: you must be able to convey the total rewards philosophy to each employee. HCM systems include employee portals and online compensation statements that paint a complete picture of each employee's pay, benefits, and incentives.

It's also important to facilitate extensive communication between management and staff as well as total transparency into performance and goals. It helps to have good development plans and performance plans and highly engaged managers who can facilitate goal setting and career planning. HR can support these efforts: first by acquiring the right e-HR solutions to summarize and communicate total compensation plans, second by instituting top-down policies governing effective communication with employees.

1.4.4. Step 4: Use Technology to Simplify Administration

Modern IT applications enable managers to allocate budgets for incentives, manage the salary review process, and generate compensation statements. They typically incorporate business intelligence tools that let authorized users examine salary trends, market developments, salary structures, and distribution scenarios.

Utilizing these platforms can streamline market analysis, program design, and administration of total rewards programs. These platforms also simplify key activities for the compensation team such as defining and editing business rules, verifying employee eligibility, and creating a performance-driven culture with transparency into compensation policies and practices. Additionally, total rewards professionals will be freed up and empowered to add strategic value to the business by consulting with managers, rather than being mired in the tactics of the process.

1.5. Market Conformity (Competitiveness)

In order for a business to operate effectively, the company needs to develop a compensation strategy that achieves the two goals of rewarding considered fair to employees, while providing a financial return on the investment for the employer. Pay equity has two approaches. The first is externally driven by market forces. The second is an internal focus, driven by the employer's valuation of the job.

Using market pricing to establish wages and salaries is called market conformity or competitiveness. Achieving external competitiveness in the area of compensation means balancing the need to keep operating costs (including labor costs) low with the need to attract and retain quality workers. External competitiveness is how a company's rates of pay compare to those of its competitors.

Market based pay systems benefit from being inherently empirical, built from research, through surveys, reporting what similar jobs are paid in the organizations that one competes with in the labor market. Committing to a market base pay compensation structure means that employees will be paid at a competitive salary when compared with rates offered to people in similar positions in peer organizations. The labor market, ruled by supply and demand, drives this approach.

Establishing the pay level balances a company's profit requirements with competition for competent employees. Factors determining pay level include:

- 1.5.1. Competition in the labor market: the supply and demand for employees with various qualifications.
- 1.5.2. Product market conditions: the degree of demand for specific products and the level of industry competition.
- 1.5.3. Organizational characteristics: industry, management philosophy, size, and technology.

Weighing all these considerations, firms can choose to pay more than the industry average, and therefore favor attracting and retaining quality employees, or pay less than their competitors' average hoping to attract and retain employees through non-compensation means such as recognition events, achievement celebrations, and working in a pleasant environment. A competitive pay level—one that balances all considerations—can help contain labor costs, enlarge the pool of qualified applicants, increase quality and experience, reduce voluntary turnover, discourage unionization, and abate pay-related work stoppages. Once a company has determined its pay level relative to its competitors, compensation managers must determine the best compensation package for each occupation.

1.6. Internal Consistency (Equity)

External equity is one side of the coin. There is also the employer's perception of fairness called internal equity. Where external equity is a measure of market competitiveness forming its basis on job functions and duties, internal equity is a measure of internal worth with a basis in job autonomy and responsibility. If you have multiple incumbents in the same job title who are paid differently, the differences in pay are an expression of internal equity.

Arriving at fair compensation is not always easy. Aside from the fact that each position has a unique value to an organization and not all jobs are created equal, employers also face the challenge of recognizing and rewarding exemplary performance in a given role. There are a variety of definitions for internal equity.

“Internal equity is a situation that results when people feel that performance fairly determines the pay for each individual with a certain job or that relative difficulty results in appropriate differences in pay rates between jobs.”

This and other definitions of internal equity have one fact in common: in order to achieve internal equity, it's not enough that compensation be fair according to the employer, compensation must be seen as fair by employees. Employees will have their own ideas about how their jobs should be valued relative to other roles in the company—and they may not agree with the company's perspective.

One way to achieve a sense of internal equity is by following a consistent set of principles when designing and applying compensation structures and by avoiding ad hoc negotiations. If you're concerned about internal equity in your organization or you hear rumblings of discontent on the topic, you may choose to conduct an internal

equity study to help determine whether concerns are justified.

The number of levels and the degree of pay differentials are based on three general criteria: the value of a job and a job's responsibilities, the skills and knowledge needed, and job performance and productivity. Employers can use these criteria to modify employee behavior by indicating what kinds of responsibilities, performance, productivity, skills, and knowledge employees need to move into a different level and receive a higher pay rate. More specifically, six primary but interrelated factors can shape a company's pay structure:

1.6.1. Social Customs

Beginning in the thirteenth century, employees began demanding a "just" wage. This idea evolved into the current notion of a federally mandated minimum wage. Hence, economic forces do not determine wages alone.

1.6.2. Economic Conditions

Demand for labor influences employee wages. Employers pay wages based on the relative contributions employees make to production goals. In addition, supply and demand for knowledge and skills helps determine wages.

1.6.3. Company Factors

Pay structures depend on the kind of technology a company has and on whether a company uses pay as an incentive to motivate employees to improve job performance and to accept more responsibilities.

1.6.4. Job Requirements

Some jobs may require greater skills, knowledge, or experience than others and hence fetch a higher pay rate.

1.6.5. Employee Knowledge and Skills

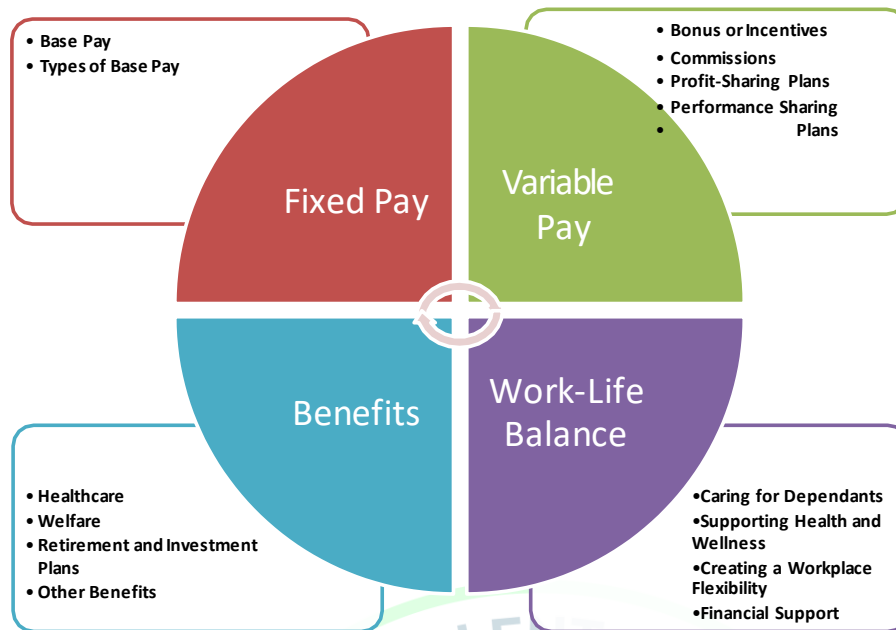
Likewise, employees bring different levels of skills and knowledge to companies and hence they are qualified to work at different levels of a company hierarchy and receive different rates of pay as a result.

1.6.6. Employee Acceptance

Employees expect fair pay rates and determine if they receive fair wages by comparing their wages with their coworkers' and supervisors' rates of pay. If employees consider their pay rates unfair, they may seek employment elsewhere, put forth little effort in their jobs, or file lawsuits.

2. Total Reward Approach

Throughout the history, employers have been challenged with attracting, motivating and retaining employees. During the past decade, the Compensation topic has continued mature. Increasingly, it has become clear that the battle for talent involves much more than highly effective, strategically designed compensation and benefits programs.



Source: Burguillos, B. & López, M. (2013). How to develop a Global Total Compensation Model. HR Strategy: Gamification & Engagement.

The most successful companies have realized that they must take a total rewards approach, emphasizing attraction, motivation and retention. It is undoubtedly crucial to design, develop and implement a Total Compensation plan successfully. We should consider this as the previous step before to develop the whole Total Rewards Model, including concepts as “Performance & Recognition” and “Development & Career Opportunities”.

2.1. Fixed Pay

Fixed pay, also known as base pay, is nondiscretionary compensation that does not vary according to performance or results achieved. It’s usually determined by the organization’s philosophy and pay structure.

2.1.1. Base Pay

Fixed or base pay is the compensation paid to an employee for performing specific job:

- The definition of base pay can vary by country.
- Base pay levels need to take into account variations in equivalent monthly salaries vary by country.
- The bottom line to fixed pay practices need to be based on a competitive strategy for each country.

2.1.2. Types of Base pay

Once pay structures are built, the organization must determine how employees will be paid:

- Salary: paid on a weekly, biweekly or monthly basis rather than by the hour, generally to higher level positions.
- Nonexempt / hourly rates: paid by the hour for a job being performed. An individual's annual pay is dependent on the number of hours worked during the course of the year.
- Piece rate: payment is based on an individual's rates production. A payment is received for each piece or unit work produced.

2.2. Variable Pay

Incentive or Variable pay, also known as pay at risk, is compensation that is contingent on discretion, performance or results achieved. Much of the innovation in compensation is occurring in the variable pay element. Companies are making greater use of variable pay programs by expanding them to a significantly broader portion of the workforce that they have in the past. These schemes are adopted by many corporations in order to improve the employee morale and increase the motivation to work for the employees. Based on performance measures and metrics defined by the human resources of the specific organization incentive plans are devised and the specific mode of incentive is decided.

2.2.1. Bonus or Incentives

Bonuses or Incentives are delivered through plans that predetermine a performance and reward schedule. The incentive can be paid in an accounting period (month, quarter, year, multi-year) or upon an event (reaching an objective, completing a project, etc). Organizations that seek to create a closer link between employee compensation and the risks of doing business have increased the prevalence of group/team incentives.

2.2.2. Commissions

Commission is a sum of money that is paid to an employee upon completion of a task, usually selling a certain amount of goods or services. Commission may be paid as percentage of the sale or as a flat dollar amount based on sales volume. Employers often use sales commissions as incentives to increase worker productivity. A commission may be paid in addition to a salary or instead of a salary. Commissions are cash payments, based on predetermined performance and reward schedule. They are typically based on sales or profit margin on those sales. Commissions are usually for sales employees. Sales incentive plans matched to type of responsibilities: Customer identification, customer service or customer persuasion.

2.2.3. Profit-Sharing Plans

Profit- Sharing is a form of variable pay provided to all employees based on the profits of the company. Companies usually have predetermined goals and formulas for determining the amount that will be allocated to employees. Profit- Sharing is typically implemented to achieve employee participation and identification with the organization's success.

2.2.4. Performance-Sharing Plans

A variable pay plan bases rewards on the performance of a combination of quantitative and/or qualitative measures. The objective increase employee identification with the organization's success and increase employee understanding of what is important to the organization and communicate the basis upon which success is measure.

2.3. Benefits

Benefits are a core element of the Total Rewards Model. Benefits include Health and Welfare plans, Retirement plans and programs providing pay for time not worked. Over time, employee benefits have evolved from basic fringe benefits of insurance coverage and a few perquisites to wide a range of benefits designed to strike a balance between an employee's personal and professional life.

2.3.1. Healthcare

Healthcare systems are influenced by the beliefs, values, culture and perceptions in different regions regarding the role of government in providing health care to its citizens. The employers commonly supplement the government health programs with health care plans influenced by corporate objectives, competitive practices and the limitations of government programs. Limitations government-sponsored programs may include restricted access, limits on services/facilities, payments, reimbursement and gaps in coverage.

2.3.2. Welfare

The factors that influence health and retirement benefits may also affect other benefits such as life insurance, disability and time off. Depending on the type of benefit, statutory requirements, coordination with government programs, collective bargaining agreements and other influences may shape or define the final program, limiting employer flexibility in plan design. In addition, offer wellness programs to employees are very useful to increase the satisfaction and healthy life.

2.3.3. Retirement and Investment Plans

Qualified retirement plans include both the traditional defined benefit pension plans and defined contribution plans:

Defined benefit plan is based on a formula that considers pay and service (i.e. one percent of compensation for each year of continuing service). Provide better benefits to employees with long service.

Defined contribution plan is characterized by employee and employer contributions made to individual participant accounts.

Hybrid plans; combine elements of defined benefits and defined contribution plans.

Relative Advantages of Different Pension Alternative

<i>Defined Benefit Plan</i>	<i>Defined Contribution Plan</i>
1. Provides an explicit benefit which is easily communicated	1. Unknown benefit level is difficult to communicate
2. Company absorbs risk associated with changes in inflation and interest rates which affect cost	2. employees assume these risks
3. More favorable to long service employees	3. More favorable to short-term employees
4. employer cost unknown	4. Employer cost known up front

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2.3.4. Other benefits

- Housing Allowance
- Transportation Allowance
- Meal Allowance
- Phone Allowance
- Training Allowance

2.3.5. Flexible benefits

Flexible benefits are the approach to benefits in an increasing number of American organizations. In essence, employees are typically given choices, up to a certain dollar limit, among a series of options for their benefits, including such things as pension contributions, health insurance options, dental insurance, life insurance, etc. MNEs are beginning to examine flex benefits for their global operations.

Issues such as tax treatment of benefits, private versus state health care, employee expectations and culture, non-standardized social benefits from country to country, and varying company structures will need to be addressed in order to design flexible benefit packages that might be used throughout an MNE. Nevertheless, such an approach may help simplify worldwide complete compensation systems for multinational firms.

2.3.6. Voluntary Benefits

The cost of providing employee benefits is expensive. Controlling costs is high on the employee-benefits agenda at most companies. But many employers are also looking to enhance their benefits programs to advance basic business objectives such as attracting and retaining good employees. One increasingly popular approach is to supplement existing employer-paid benefits with so-called voluntary benefits -- those for which employees pay at least half, or more typically all, of the costs. Group-rate

supplemental life insurance is an old standby in this domain, but employers today also are giving their employees access to additional voluntary benefits such as auto and homeowner's insurance, long-term care insurance, dental insurance, retiree dental insurance and legal services. These programs are attractive to employees because they typically can get institutional pricing when they buy these products through their employer, and, in the case of insurance policies, group underwriting rules that provide some level of guaranteed issuance. Plus, they can pay for it through the convenience of payroll deductions, which employees like a lot. Beyond offering employees access to potentially cheaper group rates and convenient enrollment procedures, giving them access to voluntary benefits can help them plug important gaps in their financial plans, too.

2.4. Work-Life Balance

Work-Life Balance (WLB) is an umbrella term used to describe a variety of benefit-related initiatives to help employees effectively manage work, family, and personal life without extreme stress or negative impact. Many organizations report that balancing work and family has overtaken other benefit and compensation items as a key factor in employee satisfaction surveys. WLB is composed of offerings in the Total rewards package that address the unique individual needs of the employee. These offerings are important to the employee but may be less tangible than compensation and benefits. Categories which support work – life could be:

- 2.4.1. Caring for dependents
- 2.4.2. Supporting health and wellness
- 2.4.3. Creating a workplace flexibility
- 2.4.4. Flexible Work Hours
- 2.4.5. Financial support programs

The intent of work/life programs and services is to support the well-being of employees and help them achieve a balance between their jobs, families, and personal lives. Some organizations couch work/life programs in terms of diversity and corporate social responsibility (CSR) initiatives. Others feature WLB as part of the organization's brand. There are many compelling reasons for WLB. However, as with the success of other organizational and global HR strategies, commitment and communication can make or break success. Having work/life programs means little if employees are unaware of them or the culture does not support the initiatives.

2.5. Other Elements of Total Rewards

There are five elements of total rewards, each of which includes programs, practices, elements and dimensions that collectively define an organization's strategy to attract, motivate and retain employees. These elements are compensation, benefit, work-life, performance & recognition, and “development & career opportunities”.

After we have our Global Total Compensation model (including compensation, benefit, and work-life as discussed at previous text) successfully implemented in our company, it's time to think about “Performance & Recognition” and “Development & Career

Opportunities” thus completing the corporative Total Rewards Model is required to get business goals.

2.5.1. Performance & Recognition

Performance: The alignment and assessment of organizational, team and individual efforts towards the achievement of business goals.

Recognition: Acknowledges or gives special attention to employee efforts or positive performance. It meets an intrinsic psychological need for appreciation and can support business strategy by reinforcing certain behaviors that contribute to organizational success. Awards can be cash or non-cash (e.g., verbal recognition, trophies, certificates, plaques, dinners, tickets, etc.).

2.5.2. Development & Career Opportunities

Development: A set of learning experiences designed to enhance employees' applied skills and competencies; development engages employees to perform better and leaders to advance their organizations' people strategies.

Career Opportunities: A plan for an employee to advance their own career goals and may include advancement into a more responsible position in an organization. The organization supports career opportunities internally so that talented employees are deployed in positions that enable them to deliver their greatest value to their organization.

Development and career opportunities can be in the form of learning opportunities, coaching/mentoring opportunities, and advancement opportunities.

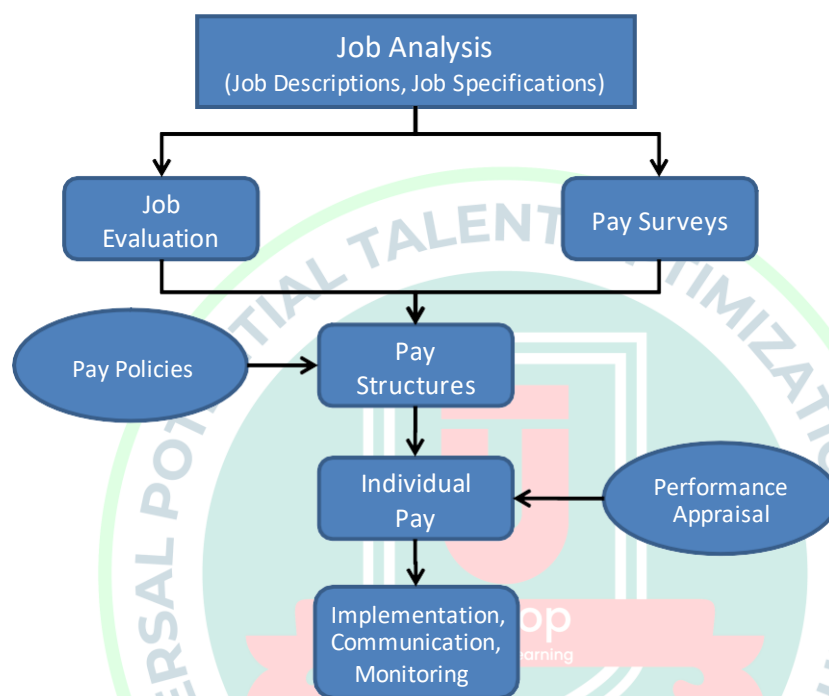
The elements represent the "tool kit" from which an organization chooses to offer and align a value for both the organization and the employee. The elements are not mutually exclusive. Total rewards strategy involves the art of combining the five key elements into tailored packages designed to achieve optimal engagement. An effective total rewards strategy results in satisfied, engaged and productive employees, who create desired business performance and results.

3. Compensation Administration

A general principle of compensation administration encompasses the creation and management of a pay system based on four basic, interrelated policy decisions: internal consistency, external competitiveness, employee contributions, and administration of the compensation program. Compensation professionals work with these policy decisions according to individual corporations' needs, keeping in mind the ultimate objectives of compensation administration—efficiency, equity, and compliance. Companies develop their individual pay policies by placing varying degrees of emphasis on these four policy decisions.

Once pay policies have been determined, the actual development of a base pay system begins. Because most organizations use task-based systems focusing on work done in specific jobs, that is the emphasis of this discussion. If skill-based or team pay systems are used, then many of the activities discussed here must be modified.

As the below figure shows, the development of a wage and salary system assumes that accurate job descriptions and job specifications are available. The job descriptions then are used in two activities: job evaluation and pay surveys. These activities are designed to ensure that the pay system is both internally equitable and externally competitive. The data compiled in these two activities are used to design pay structures, including pay grades and minimum-to-maximum pay ranges. After the pay structures have been developed, individual jobs must be placed in the appropriate pay grades and employees' pay adjusted based on length of service and performance. Finally, the pay system must be monitored and updated.



Source: Burguillos, B. & López, M. (2013). How to develop a Global Total Compensation Model. HR Strategy: Gamification & Engagement.

The administrative policy refers to the tasks of compensation managers in designing and implementing a pay program. Taking into consideration the three policies, compensation managers must choose the components that they will include in a company's compensation program—that is, which kinds of base pay, wage and salary add-ons, incentives, and benefits they will offer employees with different jobs and skill levels. Administration also involves determining whether the pay program will attract and retain needed employees successfully, whether employees consider the pay program fair, how competitors pay their employees and if competitors are more or less productive.

Companies adopt different approaches to compensation administration responsibilities. Some rely on a centralized approach where the design and administration of compensation programs are performed by a single company department. Others opt for a decentralized approach where multiple company departments have these responsibilities. The drawback to the centralized approach is that a compensation program may suit general corporate

needs, but not individual department needs. Creating compensation task forces with members drawn from various departments helps avoid this problem. Likewise, the decentralized approach also can lead to problems. This approach may make it difficult to transfer employees from one department to another and may bring about a lack of internal consistency.

Consequently, compensation administrators frequently adopt general guidelines that all departmental compensation policies must follow, but allow departments to develop their own policies, such as those for incentives, as long as they adhere to the general guidelines. A compensation program must be flexible enough to reflect the different needs of the individual and the organization; joint investments in ongoing training; the ebb and flow of an employee's contributions without creating expectations of permanence, and each employee's changing needs over time."

4. Job Evaluation

Employees receive remuneration for the services specified in their contract of employment. The legislator classes as remuneration any financial means and benefits provided by the employer which can be understood as being a consideration for the services performed by the employee. It includes wages (manual workers) and salaries (white-collar workers).

Some people use the terms wages and salary interchangeably. Wages is best associated with employee compensation based on the number of hours worked multiplied by an hourly rate of pay. Base wage tends to reflect the value of work or skills and generally ignores differences attributable to individual employees. Salary refers to pay for those workers who are exempt from the U.S. labor regulations, and hence do not receive overtime pay. In contract, non-exempts calculated at an hourly rate referred to as a wage. Generally, salary is best associated with employee compensation quoted on an annual basis.

Wages or salary is generally provided by organizations following structured methods. These methods are more than identifying the wage incentive plans for employees. Wages or salary should be based on identifying the characteristics of various job activities and its value and importance to the organization.

Organizations consider job evaluation methods that are structured methods of determining wages or salary for employees and play a significant role especially when planning for new business ventures. Thus, we can say that global job valuation can determine the value and price of a job in order to attract and retain employees in a competitive global environment.

4.1. Objectives of Job Evaluation

Job evaluation techniques are required to develop a suitable compensation / remuneration plan based on the above mentioned factors. Job evaluation is a process of determining the relative worth of a job within an organization and accordingly aims at:

4.1.1. Reducing inequalities in salary structure by bringing about external and internal consistency in salary further motivating employees within an organization.

- 4.1.2. Enabling structured approach to division of labor or specialization by defining specific jobs and salary levels.
- 4.1.3. Helping in selecting employees by defining jobs and responsibilities.
- 4.1.4. Developing harmonious relationship between employer and employees to avoid any conflicts on salaries.
- 4.1.5. Creating standardization by determining salary differentials for different jobs further helping to bring about uniformity into salary structure.
- 4.1.6. Generating relevance and relative value to new jobs.

4.2. Aspects of Job Evaluation

The most important aspects of job evaluation concern ensuring that the methodology is understood by both managers and employees and that evaluation and qualification standards are determined through a process that involves employee participation:

- 4.2.1. A measure of job content: content has innate value outside of external market.
- 4.2.2. A measure of relative value: relevant groups can consensus on relative value.
- 4.2.3. Link with external market: job worth cannot be specified without external market information.
- 4.2.4. Measure device: honing instruments will provide objective measures.
- 4.2.5. Negotiation: put face of rationality to a social/political process.

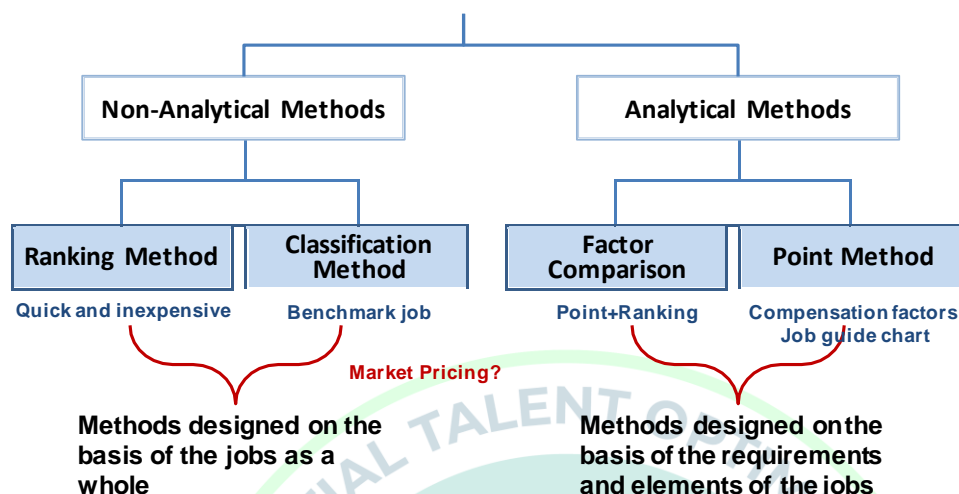
4.3. Job Evaluation Methods

Generally, job evaluations methods are of two types, analytical and non-analytical, where in analytical schemes are designed on the basis of the requirements and elements of a job and non-analytical schemes are designed on the basis of jobs as a whole. Analytical and non-analytical methods are further divided into different sub-types which will be explained in the following sections.

- Non-Analytical Schemes: These schemes involve assigning wages in terms of whole jobs and then compared in terms of rank or order. This implies that jobs are compared with one another and then decided whether it should be valued more, less or the same. There will be only two kinds of non-analytical schemes studied during this course – 1. Ranking Method and 2. Classification Method.
- Non-Analytical Schemes: These schemes involve assigning wages in terms of whole jobs and then compared in terms of rank or order. This implies that jobs are compared with one another and then decided whether it should be valued more, less or the same. Non-analytical schemes, for example, include Ranking Method and Classification Method.
- Analytical Schemes: These schemes are designed on the basis of the requirements and elements of the jobs. Grades are also generated under these schemes but these grades are developed on the basis of certain elements and factors of a job

and not the whole job as seen in non-analytical methods. Analytical schemes, for example, include Factor Comparison Method and Point Method.

Job Evaluation Methods



Types of Job Evaluation Methods

Armstrong, M., Cummins, A., Hastings, S., & Wood, (2003). *The Job Evaluation Handbook: A Guide to Achieving Equal Pay*. Kogan Page Business Books.

4.3.1. Ranking Method:

Ranking is the process of comparing jobs with one another and arranging them in order of their importance, their difficulty, or their value to the organization. Accordingly, the first step is to create benchmark jobs like producers, maintenance, administrators, etc. For example, benchmark jobs in a firm can be categorized as accounting, purchase department, operations and administration.

The second step would be to list down the jobs that are perceived to be of the highest and lowest value; selecting a job mid-way between the two and finally choosing others at lower or higher intermediate points. For example, the firm's most important job is that of an accountant and the least is that of the office boy. The job/s mid-way between the two could be of a purchase assistant / machine-operator. The intermediate jobs could be the job of an accounts clerk below and above the accountant job and the purchase assistant respectively and typist job below and above the machine operator and the office boy respectively.

The third and the last step are to divide the ranked jobs into grades. An initial estimate should be identified depending upon the number of grades or levels that may be required. Grade boundaries may be drawn between groups of jobs with common features with the aim of being able to separate the benchmark jobs in terms of content, activity and levels of jobs. For example, if the accountant in the accounting department is the highest position in the firm in the accounting department, then the

head of purchase in the purchase department under whom the purchase assistant works could also be considered as the highest grade despite of different job descriptions and activities. Correspondingly, the accountant and the head of purchase could more or less come under the same wage bracket. Please refer to the slides for this method's advantages and limitations.

4.3.2. Classification Method

Job Classification (or grading) is a simple, widely used method in which you categorize jobs into groups. The groups are called classes or benchmark jobs if they contain similar jobs or grades if they contain jobs that are similar in difficulty but otherwise different.

Classification method is a revised version of the ranking method that considers one whole job of an organization and divides the job into different grades and levels. Accordingly, grades/levels are defined in terms of certain factors such as the key tasks carried out, skill, competence, experience, initiative and responsibility. The number of grades is usually limited between 4 and 8 and between each grades there are differences in demands made by any job in its respective grade.

Like ranking method, classification method is simple and easily understood but cannot be considered for jobs that are divided more than 8 grades. Further grade definitions tend to be generalized and they may not help in evaluating border-line cases especially at more senior levels. It often fails to deal with the problem of evaluating and grading jobs in dissimilar occupational or job families where demands made on job holders are widely different. For example, technical and administrative jobs may be graded at the same levels but the demands from each job category are different. Grade definitions also tend to be inflexible and unresponsive to technological and organizational changes that affect roles and job content.

4.3.3. Factor Comparison Method:

Factor Comparison is a quantitative technique, which is a refinement of the ranking method. It entails deciding which jobs have more of the chosen compensable factors. Factor comparison method as the name suggests compares factors of a job on whose basis the grades and levels are identified. First step is to identify all key jobs in a business unit followed by analyzing them into more than 4 factors that describe the requirements of a job and are also known as "critical" or "compensation" factors. The compensation factors can be different for different key jobs and activities across firms and businesses. For example, in our class 5 critical factors were identified – Mental Requirement; Physical Requirements; Skill requirements; Working conditions and; Responsibility. These factors are requirements in a manufacturing unit that need mental and physical work, feasible working conditions, skills and responsibility. Additional characteristics of this manufacturing unit could include that the tools manufacturing unit produces tools like saw, hammers, sickle, etc. The relative importance of each of these critical factors will be different for different types of employees and the jobs they perform. For example, the jobs in the manufacturing unit example were identified to be – Tool maker; Craft worker; Process Operator and Maintenance assistant. The employees with relevant jobs are ranked in accordance to the compensation factors between 1 and 4 wherein 1 indicates most important and 4

indicating least important. Each rank will be different for different factors for each job as seen in the example discussed in class. Following assigning ranks, assign benchmark wages to each of the factor.

Finally, total wage for each key job is calculated by adding wages assigned across each factor. These wages for key jobs act as benchmark or threshold wages in accordance to which newer jobs and their wages can be compared depending upon the critical factors. The newer jobs are non-benchmark jobs whose wages will be more or less the same as the benchmark jobs depending upon the future employees knowledge, skill etc. across each compensation factor.

Among all advantages and disadvantages the striking disadvantage of factor comparison method is the presence of subjective judgment in deciding wages across critical factors as seen in the example above. The basis of deciding wages across each critical factor is subjective and could be held discriminatory.

4.3.4. Point Methods

The point method is a more quantitative technique, involves identifying several compensable factors, each having several degrees numerically scaled, as well as the degree to which each of these factors is present in the job.

Point method is believed to be more objective and analytical than factor comparison and all other methods. The first step in the point-method is similar to that of factor comparison method that involves selecting key jobs. However, the point-method considers key jobs into job clusters and the specific jobs within the job clusters for evaluation. For example, 'Accounting' is a job cluster and the jobs under this category could be of an accountant, accounting assistant, data-entry, book-keeping and filing. The point-method's most important characteristic is to list out and define specific compensation factors for each job within the job cluster.

The number of compensation factors used in point- method can be more than 8 depending upon the size of the organization, jobs in different companies.

Computerized job Evaluations use structured questionnaires and statistical models. They can simplify job analysis, help keep job descriptions up to date, increase evaluation objectivity, reduce the time spent in committee meetings, and ease the burden of system maintenance.

Evaluating jobs on the basis of their external market values (market-based evaluation) is not a true job evaluation system, but market rates can be used to develop a job-worth hierarchy. Jobs are priced in the labor market(s) in which the organization wants to be competitive.

Market pricing approach emphasizes external competitiveness and de-emphasizes internal consistency. "Rank to market", it involves first determining the competitive rates for positions for which external market data are available and then blending the remaining (non-benchmark) jobs into the pay hierarchy.

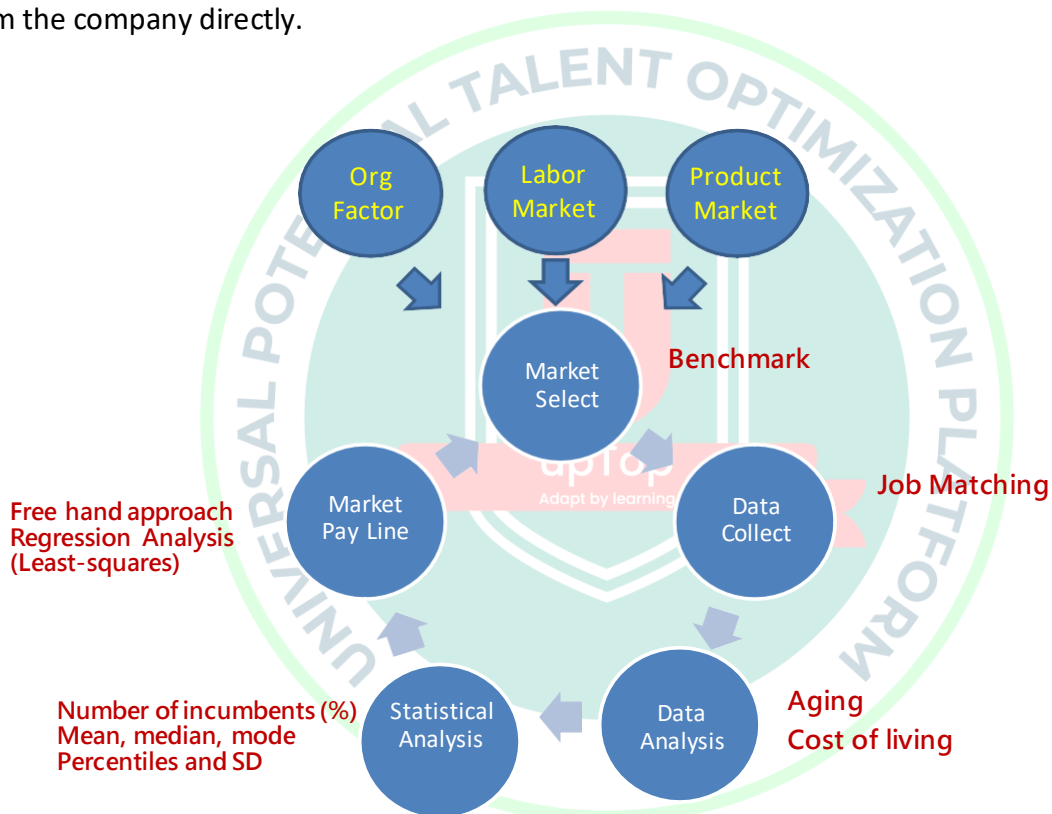
These prevailing rates are used to represent the relative "worth" of the jobs. Once a hierarchy is developed around benchmark market rates, the remaining jobs are

typically placed into the hierarchy based on whole-job comparisons to benchmark jobs.

5. Remuneration Surveys

As discussed earlier, Job evaluation which is considered to determine the relative worth of a job within an organization focuses on internal equity of compensation. Now we would then talk about external competitiveness which can be analyzed by up-to-date Remuneration survey.

Remuneration surveys collect information on prevailing market compensation and benefit practices, including base pay, other cash payments (statutory and market), variable compensation (e.g., short- and long-term incentive plans), and time off. Remuneration surveys allow organizations to recognize and relate their remuneration structures to global and local trends. Many organizations use various remuneration surveys to benchmark or measure themselves against what the industry is paying employees with similar skill sets and experience in that occupation. Most of the remuneration surveys have to be bought from the company directly.



Source: Milkovich, G., Newman, J., & Gerhart, B. (2013). Compensation, 11th edition. New York City, NY: McGraw-Hill Education.

5.1. Purposes of Remuneration Surveys

- 5.1.1. Adjust the pay level in response to changing rates paid by competitors.
- 5.1.2. Set the mix of pay forms relative to that paid by competitors.
- 5.1.3. Establish or price a pay structure.

5.1.4. Analyze pay-related problems.

5.1.5. Estimate the labor costs of product/service market competitors

5.2. Market Select

To determine the prevailing rate for a job, companies can "benchmark" jobs against compensation surveys that are detailed and specific to the companies' industries and regions. A good compensation survey uses standard, proven methods of data gathering and statistical analysis to determine how much companies pay for a specific job in a specific industry. Match your job descriptions to the descriptions in the salary survey. Only match those which strongly resemble the survey description. Not all positions in your organization will match descriptions in the survey. Relevant labor market includes employers who compete:

5.2.1. For same occupations or skills.

5.2.2. For employees in same geographic area.

5.2.3. With same products and services

5.3. Data Collect

Once an organization decides that it needs a remuneration survey, it must decide how the survey should be designed and conducted. The organization has two choices: It may develop and conduct an internal survey, or it may look to an external source. In the global environment, the use of external third-party data prevails.

There are many sources for global and country-specific compensation and benefits data. Typical sources include:

5.3.1. Government sources (e.g., ministries of labor or government statistical offices).

5.3.2. International organizations (e.g., the International Labor Organization).

5.3.3. Private firms (e.g., consulting organizations around the world that provide current global and local information for a fee).

5.3.4. Membership-based business organizations (e.g., employer federations and local chambers of commerce).

5.3.5. Professional, trade, and industrial associations.

Here are some considerations to weigh for a company who is deciding whether to purchase a compensation survey.

- **The background of the survey research firm and cosponsors, if any.** Look for reputable firms that follow proven methods to gather and analyze compensation data.
- **The scope of the survey.** Look for studies that cover industries, jobs, and regions that are most applicable to your purposes; and that provide data on enough jobs to be cost-effective.

- **The survey methodology.** Review the summary of the methodology to make sure it's consistent with standards set forth by reputable industry associations. Be especially sure the research organization is surveying human resource professionals or other people knowledgeable about compensation information within a company, rather than individuals.
- **The number of participants in the survey.** A good survey should cover a representative number of companies for its target population. A survey doesn't have to cover the entire industry or region to be robust; even a few dozen responding employers in some industries can provide enough data for a valid survey.
- **The names of participants.** Look for your competitors and peers. For many jobs, you may be competing for candidates with companies in different industries but the same geographic area. Some firms reveal a list of participants, or at least those well known within the industry. The surveying company may disclose big-name participants to draw more interest from smaller companies. A list of major employers can also add credibility to the survey. An important exception to note is that if a compensation analyst or compensation consulting firm is using multiple surveys to produce their own derivative market numbers, they will aggregate the data by combining the surveys, placing differing weight on different sources and sometimes even making a qualitative adjustment. When the data has been aggregated in this manner, it is not customary to report numbers or names of participants. The usefulness and relevance of a salary survey depends largely on the survey participants.
- **The number of incumbents covered by the survey; and the sample size for each salary.** Make sure the participants are a good sample of the recruiting market. Generally, eight to ten participating companies is a good sample for positions below the management level. The sample size should increase the more senior the positions being surveyed, both to get a good representation and to allow for more job matches, since each company is organized differently. There could be limited pay data in some industries, or the available data might not be representative of the industry because of a low participation rate in the survey.
- **The relevance of the job descriptions to the positions being benchmarked.** Look for a good match between the survey and your company. Be sure to compare job descriptions, not just job titles.
- **The effective date of the survey data.** The date a survey is published is always later than the effective date of the data within the survey. If necessary, age the data from the effective date to the current month.

As with any form of research, it is important to use multiple data sources to narrow in on the "true" answer. Relying on a single source can be misleading if that source doesn't perfectly reflect the market in question. World at Work suggests that compensation analysts should use multiple data sources wherever possible; consulting firms and academics agree. The exceptions come when there is only one data source, or when there is a spot-on data source, such as a custom survey, that truly describes a

precise market.

5.4. Data Analysis

5.4.1. Effective Date

For those surveys conducted on a regular basis, such as annual surveys, the effective date will be until the next survey is released in the following year. Otherwise, knowing the effective date of the survey can prevent companies from using outdated salary figures and causing error in pay budget forecasts.

If the survey is not current, the person using it should age the salaries to the current date. If a survey was conducted in September, the salaries are likely to be as of September or even August. If you are using the survey in December to benchmark for a new position in the company, you will have to age the number. A simple way to do this is to take the annual rate at which salaries are moving for this job and prorate it, salary increases overall this year are around 3.5% but this may vary by job title.

A similar approach is used in setting pay levels across a company. Sometimes these figures are set at the beginning, middle, or end of the company's payroll year by aging the appropriate compensation data to those dates. When salary data is aged, movement in market rates is used to adjust outdated data.

5.4.2. Job Description

If a job on a survey is similar but not identical to one in the organization, the data can be weighted or leveled for a better match. Therefore conduct job analysis or review job descriptions is important for job matching.

When consulting a compensation survey, match the job descriptions rather than the job titles, even if the survey uses generic or widely used job titles. For example, an associate could be an entry-level position at one consulting firm, or it could be the title for someone with an MBA at another. Companies are structured differently, and different companies use different names for the same jobs, so job descriptions are the best way to match positions. Beware of surveys that use only job titles, as it is unlikely the data will be a reasonable representation of the jobs you're interested in.

A survey job description should list the primary job function in one or two sentences, followed by key responsibilities. While the descriptions should be generic and not specific to any one company, they should contain enough information for participants to match appropriately to ensure the data is accurate. It is also important to match the organizational level of the positions be surveyed. A position that is at the group level at one company may be at the subgroup or the sector level at another.

Job titles are broken down differently in different surveys. Some surveys break them down by levels within the organizations, i.e., senior management, middle management, and entry level. Positions may also be broken down by job families or the types of responsibilities, i.e., business development, marketing, product management, and sales.

5.4.3. Geographic area

Some salary surveys do not provide data for a specific geographic area since wage rates will vary by location, and organization should factor for geography any national salary survey data for the local or regional recruiting area to approximate local wage rates.

5.4.4. Compensation data.

There are many things to consider when analyzing the compensation components of a salary survey. Because companies have different pay structures, compensation data is collected in ranges as well as actual pay. Salary surveys can provide employers more information on the marketplace and how to set competitive pay without overpaying or underpaying employees. Surveys should ask for the minimum, midpoint, and maximum for the surveyed positions, in addition to the actual base salary paid.

Usually, the prevailing practice for any one job is to pay a range of incomes. As a result, although the median pay for a job is likely to be a definable number, the range is just as important. Companies pay employees differently for various reasons. It could be the company's pay philosophy; or it could be the geographic location or the industry practice; or it could be the incumbent's length of service or proficiency in the job. Whatever the reason, it is unlikely that two companies will pay an employee doing the same job exactly the same amount.

When reading the base pay figures, it's important to check how the numbers are calculated. The surveying parties can dictate to the participants how the numbers should be reported. Salaries can be on an annual, monthly, or hourly basis. For example, if the incumbent is a contract employee, hourly salaries are more relevant than an annual figure. The survey may request pay data for individual incumbents or averages for all incumbents matching a specific job description, depending on the types of surveys and their objectives.

6. Pay Structure

When a company has planned to expand into new countries, it is necessary to establish a pay (salary) structure. With all the different economic situation, cultures and exchange rates, it is difficult to come up with one structure that works everywhere. In the following, we will introduce more details with regard to pay structure. There are several terms and definitions to acknowledge first:

6.1. Terms and Definitions

6.1.1. Policy Line

A job structure orders jobs on the basis of internal organizational factors. The pay structure, on the other hand, is anchored by the organization's external competitive position, reflected in its pay policy line.

The pay level that a company sets its pay at compared to the market pay line, typically the midpoint of the pay structure is set to judge the going market rate. In building pay structure scientifically, the line is a statistically computed least-squares-regression line.

6.1.2. Pay Grades

Pay grades are used to group jobs that have approximately the same relative internal or

external worth; in other words, all jobs within a particular grade are paid the same rate or within the same pay range. Grades enhance an organization's ability to move people among jobs with no change in pay.

6.1.3. Pay Range

Pay range typically means high to low or minimum to maximum pay for a certain job grade. The range midpoints, minimums, and maximums reflect career paths, promotions, and other management systems and philosophy within the organization. The differential must be large enough to induce employees to seek and/or accept the promotion or to undertake the necessary training required.

Range spread subtracts the minimum amount from the range maximum and then divides that figure by the minimum. In general, lower-level jobs typically have a narrow range between minimum and maximum salaries, while the salary ranges for higher-level jobs will be wider. People in entry-level jobs have more promotion possibilities and tend to stay at the entry level for shorter periods of time, while people in higher-level jobs tend to stay in their range for a longer period of time.

Range overlap in salary ranges that will allow career development and pay increases without promotion at each level and the percentage of increase the organization will offer an employee for a promotion.

Overlap = $(\text{max rate of lower grade} - \text{min rate of higher grade}) / (\text{max rate of higher grade} - \text{min rate of higher grade})$

6.1.4. Compa-ratios (CP)

CP is a salary expressed as a percentage of or indexed to the salary range midpoint/market rate ($\text{salary}/\text{midpoint or market rate} = \text{CP}$). The CP may be used as an indicator of how an individual is doing against plan.

6.1.5. Broadbanding

Broadbanding, which uses fewer pay grades having broader ranges than traditional compensation systems, is increasingly being used. Broadbanding, called fat grades, means collapsing pay grades and ranges into just a few wide levels or a band, which includes one minimum and one maximum range, while midpoint often not used. The purposes of using broad banding as follow:

- Provide flexibility to define job responsibilities more broadly.
- Foster cross-functional growth and development.
- Ease mergers and acquisitions.

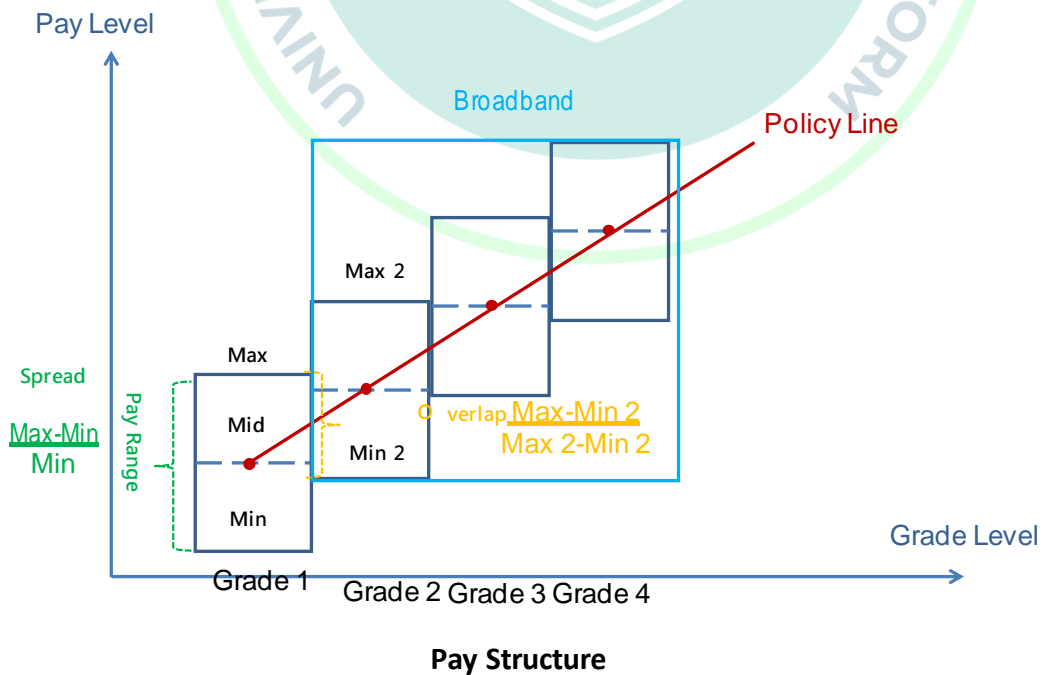
The most important difference between grades and broad banding is where the controls are located. There are several reasons why it is beneficial to reduce the number of pay grades and broaden pay ranges. First and foremost, broadbanding is more consistent with the flattening of organizational levels and the growing use of jobs that are multidimensional. With fewer bands and broader ranges, employees can shift responsibilities as market conditions and organizational needs change. Traditional

questions from employees about when a promotion to a new grade occurs, and what pay adjustments will be made for temporarily performing some new job responsibilities, are unnecessary.

Another advantage of broadbanding is that employee career development can be enhanced when the artificial barriers of numerous pay grades are removed. With broadbanding, many of the control mechanisms traditionally enforced by HR departments also are removed, and authority for more compensation decisions is decentralized to the operating managers. By allowing employees to move into other job areas and broaden their knowledge, skills, and abilities without having to deal with a large number of constraints imposed by a compensation program, the organization encourages employees to move between departments, divisions, and locations. In firms that have adopted broadbanding, employees are encouraged to move across business units and apply for openings in areas of the company other than where they have been working. This cross-functional development is beneficial because it creates more employees who have greater flexibility and broader sets of capabilities.

However, broadbanding is not appropriate for every organization. Many organizations still operate in a relatively structured manner, and the flexibility associated with broadbanding is not consistent with the traditional hierarchical culture in which executives and managers have been operating.

Another problem with broadbanding is that many employees have become "conditioned" to the idea that a promotion is accompanied by a pay raise and movement to a new pay grade. As a result of removing this grade progression, the organization may be seen as having fewer upward promotion opportunities. Furthermore, a number of individuals do not want to move across the organization into other areas.



Heaps, W. (2011). Global Salary Grades or Global Salary Structure? Retrieved from internationalhrforum.com.

6.2. Global Salary Grades

Global Salary Grades refers to a standardized method of classifying positions across a global enterprise. Alternative titles would be global bands or global job evaluation. Employers often adopt global salary grades to enable internal comparisons and standardize certain elements of compensation and benefits, such as short- and long-term incentives. For example, global salary grades helps answer the question “is the Brand Manager position in Greece equivalent to the Associate Brand Manager in France or the Marketing Manager in Kenya?” Or, all staff in band C or higher are eligible for equity compensation awards.

Salary Structure is the term used to refer to the salary ranges associated with salary grades. A Global Salary Structure, by its very name, would imply a single structure for all locations globally. Sometimes you may also see this referenced as an international salary range. Some companies use a global salary structure to manage a cadre of international assignees (usually based on the headquarters market). International organizations such as the World Bank and the United Nations, and many international NGOs, use international salary structures in managing their international (expatriate) staff as well. But it would be very unusual to have a global salary structure applicable to all staff in an organization.

If you are managing a global enterprise, global grades can be very useful in several respects. In addition to the examples above allowing comparison of equivalent positions across different markets with varying titles, and standardization of executive compensation programs, global grades allow the organization to establish leading talent management processes. The global grades will help establish competencies and career tracks, and the related training and development that is required to train future leaders. Global grades also help companies manage succession planning more easily, by providing a common language to describe the challenges and complexities of an individual position.

6.3. Global Pay Structure

Salary structures are a very useful tool for all organizations. They help ensure consistency and avoid discrimination, control costs, and together with a strong performance management process, allow managers to differentiate between different positions and varying levels of performance amongst the team. Each country is a different market, however, and therefore, you need to build your structure separately for each one. Market data plays a key role here, since the structure must be anchored to the market in which you are competing for talent.

In the end, if you design a global grading system with local pay structures, you'll get it right. The grades will give you global consistency while the structures will be tailored to the local market, guided by your global compensation philosophy, which provides standards for each country to meet.

A salary structure is commonly used by employers to set out the range of pay, from minimum to maximum, associated with each salary grade or band. By associating each position with a grade or band, employers can use a salary structure to help manage compensation in an optimal way.

Here are ten steps to develop a salary structure for your organization, with some special considerations for international developing markets:

6.3.1. Establish your compensation philosophy

Each employer needs a policy which outlines their desired market position. What percentile of the market is your target? Which comparators are appropriate? Is the target the same for all grades? A well-articulated compensation policy provides valuable guidance for the development of a pay structure. In large organizations, there is often a corporate policy which forms the basis for local policies.

6.3.2. Gather market data

Identify surveys with your desired comparators (as specified in your company policy). Most employers prefer at least two survey sources. In international markets this can be challenging, especially in developing countries and smaller markets. Consider sector-specific surveys as well as multi-sector options – certain jobs are found across many employers, not just your sector. In smaller international markets, leading employers often provide a better proxy for the most competitive market than do sector surveys with many less sophisticated employers. Don't overlook international organizations; they pay very competitively and are often well-established in the smallest of countries.

6.3.3. Identify benchmark jobs

Benchmark jobs are those that are representative of roles found across many organizations – standard roles such as Manager, Accountant, Payroll Administrator, Secretary, Clerk and Driver. Benchmark jobs are easy to understand and match to, and will appear in multiple surveys, enabling the use of multiple sources. For professional roles specific to your sector, sector surveys could be a good source. In other cases, and with multi-sector survey sources, look for those that utilize well-developed career ladders, enabling easy cross-occupational job matching. As an example, such an approach would examine Analyst positions across different functional areas (e.g., finance, HR, procurement, marketing, etc.).

6.3.4. Measure your market position

There are several ways to do this. If you have a lot of benchmark jobs, tabulate the average of all of the roles in the same internal level or grade. Weighted averages incorporating number of incumbents associated with each survey data point is a common approach. Select the market reference from the survey most appropriate under your policy. In developing countries market data is more volatile. A good approach is to use minimum and maximum values to “bookend” the data in these markets. This helps eliminate outliers and capture more realistic market survey values.

6.3.5. Calculate the compa-ratio

Calculate the compa-ratio. This is the ratio of your data to the market — 100 means

fully comparable, while a ratio under 100 indicates a below market position, and over 100, above market. There are different approaches to summarizing the data — by position, by grade, etc. Whatever approach you use, the compa-ratio analysis will illustrate which parts of the organization are competitive against the market and which ones require some attention!

6.3.6. Check your budget

This is a critical step. In 3.2.5., you can calculate the average difference between your current scale and the market. This indicates about how much of an increase would be required to make your scales fully comparable to the market. Your internal budget constraints, though, will dictate how close to this ideal you can achieve. In addition to internal budgets, consider the average market movement in your surveys, and the general inflation rates (never use inflation to determine how much more to pay staff — this is determined by cost of labor, not cost of living).

6.3.7. Start allocating

This is the start of an exercise which will repeat many times, until you get the desired result. Build a model of your organization, ideally with the number of incumbents in each grade. Using your overall percentage of market and budget number, start increasing your scale (use Mid points, or the Mins and Maxs). See how close you can get to fully comparable to the market, and how much it will cost. Does it jive? If not, tweak the data a bit. You can adjust the percentage each grade is increased, as well as examine the spans (range from min to max) and inter-grade differentials, in order to gain better market alignment. Obviously, the incumbent count of each grade will impact the overall costing model.

6.3.8. Final adjustments

Once you have built your new scale and matched it to the market as closely as possible, and within your budget, give it a once over. Does it make sense? Are the increase amounts distributed in a pattern which will cause unrest amongst your staff? Strive to achieve a scale which will reflect your comp policy and enhance internal cohesion in the organization. This step is the art of compensation, not the science.

6.3.9. Management approval

Review your proposed scale with management, presenting your rationale, budget and overall market comparisons. Discuss concerns you may have uncovered about specific positions or grades, and educate your management about the process used. Outline your implementation plans.

6.3.10. Communicate

Develop appropriate communications for managers and staff. Let them know all of the work that went in to the exercise, and how the organization compares to the market. Be careful here — you need to obviously put on a positive spin — that's why statistics are so flexible!

7. Strategic Rewards

The design process is started by identifying desired outcomes and goals for your organization. This is often referred to as developing your compensation philosophy. Your philosophy is formed by considering a number of factors. The balance of direct and indirect rewards, the complexity and responsibility of a role and the candidate or employee filling it, as well as your focus on internal versus external equity are just few factors explored in this section. It is the ability to achieve results that is critical to organizational success.

Compensation can be defined as all of the rewards earned by employees in return for their labor. This includes:

7.1. Direct Financial Compensation

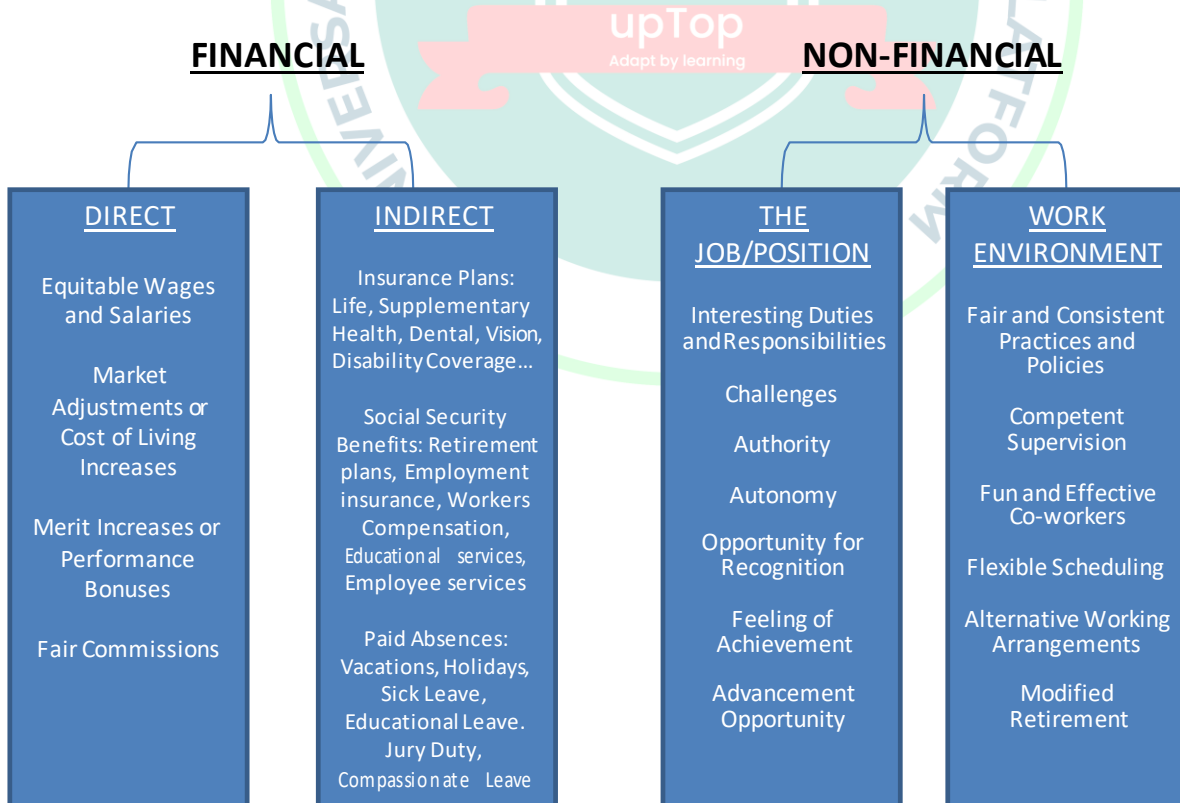
Direct financial compensation consisting of pay received in the form of wages, salaries, bonuses and commissions provided at regular and consistent intervals.

7.2. Indirect Financial Compensation

Indirect financial compensation including all financial rewards that are not included in direct compensation and can be understood to form part of the social contract between the employer and employee such as benefits, leaves, retirement plans, education, and employee services.

7.3. Non-Financial Compensation

Non-financial compensation referring to topics such as career development and advancement opportunities, opportunities for recognition, as well as work environment and conditions



Burguillos, B. & López, M. (2013). How to develop a Global Total Compensation Model. HR Strategy: Gamification & Engagement.

It is critical that organizations align their compensation practices with their organizational cultures, especially if efforts are made to change the cultures because of competitive pressures. For instance, a telecommunications firm faced major changes in the industry after government restrictions on pricing were removed and cable television firms were allowed to provide telephone service. The firm could not continue to offer the wages it had paid when government agencies allowed the pricing of services to obtain full cost recovery and a set level of profits. When changing organizational culture, organizations must change their compensation systems if they are to avoid sending mixed signals to employees.

Another strategic design consideration for compensation systems is to balance the costs of attracting and retaining employees with the competitive pressures in its industry. Considering these pressures is particularly important when the organization faces a very tight labor market for workers with specific skills. The cost pressures of industry competition with organizations in lower-wage countries such as China or Mexico must also be addressed, while maintaining competitive pricing for the firm's products and services.

Some organizations have specifically stated policies about where they wish to be positioned in the labor market. Most employers position themselves in the second quartile (P50), in the middle of the market, based on pay survey data of other employers' compensation plans. Choosing this level attempts to balance employer cost pressures and the need to attract and retain employees by mid-level compensation plans.

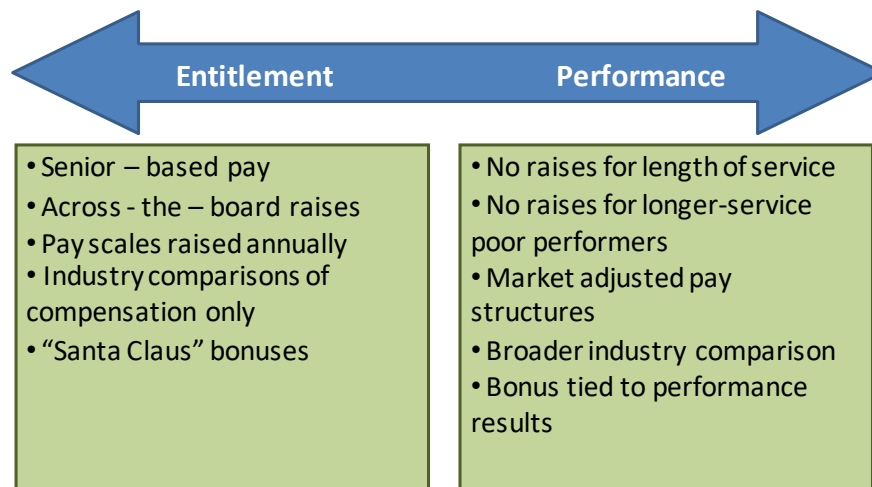
An employer using a first-quartile (P25) approach is choosing to pay below market compensation. This may be done for several reasons. One is because of a shortage of funds and the inability to pay more and still meet strategic objectives. Also, if there is an abundance of workers, particularly those with lower skills, then a below-market approach can be used to attract sufficient workers at a lesser cost. The downside of this strategy is that higher turnover of workers is more likely. If the labor market supply tightens, then difficulty in attracting and retaining workers will probably result.

A third-quartile (P75) approach is an aggressive, above-market emphasis. This strategy may be chosen to ensure that sufficient workers with the required capabilities are attracted and retained. It also may allow the organization to be more selective when hiring workers. However, because it is a higher-cost approach, it is crucial that those paid above-market wages be more productive.

In determining effective rewards, however, the uniqueness of each employee must also be considered. People have different needs or reasons for working. The most appropriate compensation will meet these individual needs. To a large degree, adequate or fair compensation is in the mind of the employee.

8. Individual Differentiation

There are two basic compensation philosophies, which should be seen as opposite ends of a continuum. At one end of the continuum in the below figure is the entitlement philosophy; at the other end, the performance-oriented philosophy:



Berger, L. & Berger, D. (2015). *The Compensation Handbook: A State-of-the-Art Guide to Compensation Strategy and Design* (6th Edition). Columbus, OH: McGraw-Hill Education.

8.1. Entitlement Orientation

The entitlement philosophy can be seen in many organizations that traditionally have given automatic increases to their employees every year. Further, most of those employees receive the same or nearly the same percentage increase each year. Employees and managers who subscribe to the entitlement philosophy believe that individuals who have worked another year are entitled to a raise in base pay, and that all incentives and benefit programs should continue and be increased, regardless of changing industry or economic conditions. Commonly, in organizations following an entitlement philosophy, pay increases are referred to as cost-of-living raises, whether or not they are tied specifically to economic indicators. Following an entitlement philosophy ultimately means that as employees continue their employment lives, employer costs increase, regardless of employee performance or other organizational competitive pressures. Market comparisons tend to be made within an industry, rather than more broadly considering compensation in firms of all types. Bonuses in many entitlement-oriented organizations are determined very paternalistically and often do not reflect operating results. Instead, the CEO or owner acts as Santa Claus at the end of the year, passing out bonus checks that generally do not vary from year to year. Therefore employees “expect” to receive the bonuses as another form of entitlement.

8.2. Performance Orientation

Where a performance-oriented philosophy is followed, no one is guaranteed compensation just for adding another year to organizational service. Instead, pay and incentives are based on performance differences among employees. Employees who perform well get larger compensation increases; those who do not perform satisfactorily receive little or no increase in compensation. Thus, employees who perform satisfactorily should keep up or advance in relation to a broad view of the labor market for their jobs, whereas poor or marginal performers should fall behind.

Bonuses are paid based on individual, group, and/or organizational performance results. Few organizations are totally performance-oriented in all facets of their

Setting a range for each pay grade gives flexibility by allowing individuals to progress within a grade instead of having to be moved to a new grade each time they receive a raise. A pay range also allows managers to reward the better-performing employees while maintaining the integrity of the pay system.

Regardless of how well constructed a pay structure is, there usually are a few individuals whose pay is lower than the minimum or higher than the maximum. These situations occur most frequently when firms that have had an informal pay system develop a new, more formalized one. Red circles green circles refers to salary of employees either above or below the salary range associated with the job which the employee is the job incumbent. If the overall staff compensation is well managed, both green-circle and red-circle rates would be fairly uncommon within the organization.

10.1. Red-Circled Employees

A red-circled job is shown on the graph in the below figure. A red-circled employee is an incumbent who is paid above the range set for the job. For example, assume that an employee's current pay is \$10.92 per hour but the pay range for that grade is between \$6.94 and \$10.06. The person would be red circled, and attempts would be made over a period of time to bring the employee's rate into grade. Typically, the red-circled job is filled by a longer service employee who has declined promotions or has been viewed as unpromotable due to insufficient education or other capabilities. Yet the individual may have continued to receive large pay increases.

Several approaches can be used to bring a red-circled person's pay into line. Although the fastest way would be to cut the employee's pay, that approach is not recommended and is seldom used. Instead, the employee's pay may be frozen until the pay range can be adjusted upward to get the employee's pay rate back into the grade. The employee can also be transferred to a job with a higher grade or given more responsibilities. This method will result in greater job evaluation worth, thus justifying the job's being upgraded. Another approach is to give the employee a small lump-sum payment but not adjust the pay rate when others are given raises. There are some solutions for red circled employees:

- 10.1.1. Regular increase. In this approach a red-circle employee receives the same increase as if he or she were not at or above the maximum.
- 10.1.2. No increase. No merit-based or seniority pay raise beyond the maximum is allowed with this approach. The "no increase" strategy ensures that the company pays only what the job is worth and makes the most sense in the context of a wage/salary structure. This approach may result in the loss of valued personnel, but such turnover can be minimized if the institution provides employees with the encouragement, training, and development opportunities necessary to qualify for higher positions.
- 10.1.3. Freeze salaries until cost of living adjustments to a revised salary range catches up with the employee. This may take years or may never be possible because employees are too far above the new pay range.
- 10.1.4. Limited or minimal increase. Under this policy, only less-than-regular

increases are permitted for red-circle personnel.

10.1.5. Lump-sum bonus. With this approach eligible employees receive a cash payment “up front” when a rate change is due.

10.1.6. Allow employees to train for and transfer into higher paying jobs.

10.1.7. No established policy. Red-circle situations are handled on a case-by-case basis, with no set approach. Some red-circle employees receive regular increases; others are given limited pay raises or none at all.

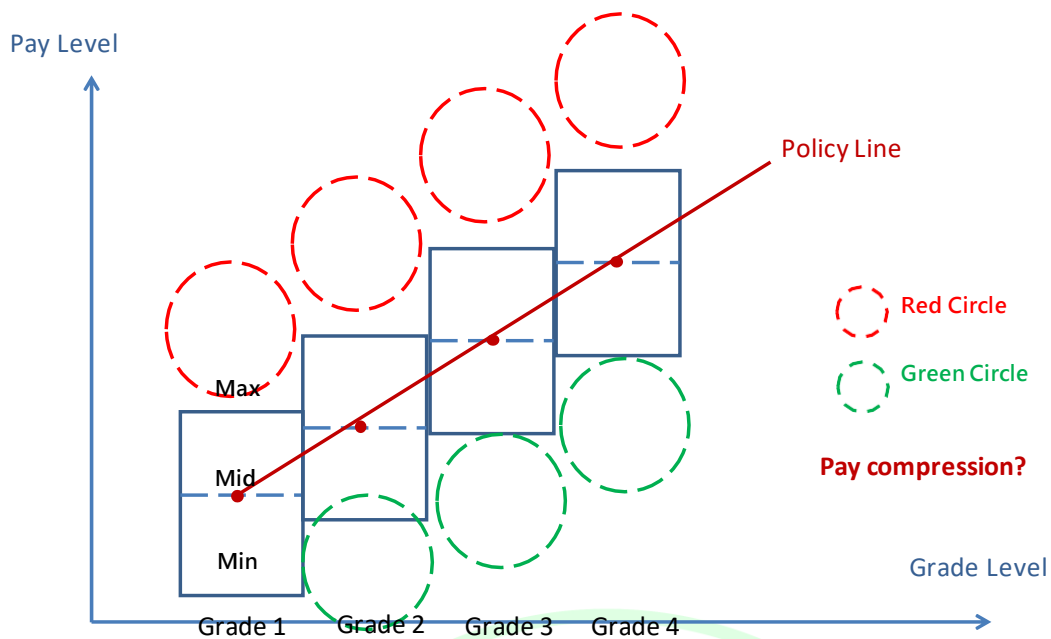
10.2. Green-Circled Employees

An individual whose pay is below the range is a green-circled employee. Promotion is a major cause of this situation. Assume someone receives a promotion that significantly increases his or her responsibilities and pay grade. Typical promotion adjustments are 8% to 15%, but such an adjustment may still leave the individual below the minimum of the new pay range. Because the promotion represents such a significant increase in responsibilities, the employer may not work to increase the person’s pay to the minimum until all facets of the new job are being fully performed. Generally, it is recommended that the green-circled individual receive pay increases to get to the pay grade minimum fairly rapidly. More frequent increases can be given if the increase to minimum would be large.

In the situation where green-circled employees are members of a protected group, such as union members, when salary ranges had been agreed in the collective agreement, the green circle status could look like discrimination and subject the organization to litigation, especially if other employees in the same job are all paid in the range. There are some solutions for green circled employees:

10.2.1. Immediate increase. With this approach immediately raise the employee’s pay to match the adjusted range in accordance with that individual’s seniority and performance. This would be the preferred method for an organization whose budget is large enough to allow such immediate action.

10.2.2. Gradual Increase. With this approach gradually raise the individual’s wages to the appropriate level, starting first with an adjustment to bring the employee’s pay to the minimum of the range. This would most likely be the preferred method for an organization whose budget is small.



Berger, L. & Berger, D. (2015). *The Compensation Handbook: A State-of-the-Art Guide to Compensation Strategy and Design* (6th Edition). Columbus, OH: McGraw-Hill Education.

10.3. Pay Compression

One major problem many employers face is pay compression, which occurs when the range of pay differences among individuals with different levels of experience and performance becomes small. Pay compression occurs for a number of reasons, but the major one involves the situation in which labor market pay levels increase more rapidly than an employee's pay adjustments. Such situations have become prevalent in many occupational areas, particularly those in the information technology field.

Occasionally, in response to competitive market shortages of particular job skills, managers may have to deviate from the priced grades to hire people with scarce skills. For example, suppose the worth of a specialized information systems analyst's job is evaluated at \$38,000 to \$48,000 annual salary in a company, but qualified individuals are in short supply and other employers are paying \$60,000. The firm must pay the higher rate. But suppose several analysts who have been with the firm for several years started at \$38,000 and have received 6% increases each year. These current employees may still be making less than salaries paid to attract and retain new analysts from outside with lesser experience. One solution to pay compression is to have employees follow a step progression based on length of service, assuming performance is satisfactory or better.

10.4. Pay Increases

Once pay ranges have been developed and individuals' placements within the ranges identified, managers must look at adjustment to individual pay. Decisions about pay increases often are critical ones in the relationships among employees, their

managers, and the organization. Individuals have expectations about their pay and about how much increase is “fair,” especially in comparison with the increases received by other employees. There are several ways to determine pay increases:

10.4.1. Pay for Performance Systems

Many employers profess to have a pay system based on performance. But relying on performance-appraisal information for making pay adjustments assumes that the appraisals are done well, and this is not always the case, especially for employees whose work cannot be measured easily. Consequently, some system for integrating appraisals and pay changes must be developed and applied equally. Often, this integration is done through the use of a pay adjustment matrix, or salary guide chart. Pay adjustment matrices base adjustments in part on a person’s compa-ratio, which is the pay level divided by the midpoint of the pay range.

In many organizations, pay-for-performance systems are becoming a popular way to change the way pay increases are distributed. In a truly performance oriented system, no pay raises are given except for increases in performance. Giving pay increases to people because they have 10 to 15 years’ experience, even though they are mediocre employees, defeats the approach. Further, unless the performance-based portion of a pay increase is fairly significant, employees may feel it is not worth the extra effort. Giving an outstanding industrial designer making \$40,000 a year the “standard raise” of 4% plus 1% for merit means only \$400 for merit versus \$1,600 for “hanging around another year.”

10.4.2. Seniority

Seniority, or time spent in the organization or on a particular job, can be used as the basis for pay increases. Many employers have policies requiring that persons be employed for a certain length of time before they are eligible for pay increases. Pay adjustments based on seniority often are set as automatic steps once a person has been employed the required length of time, although performance must be at least satisfactory in many nonunion systems. A closely related approach uses a maturity curve, which depicts the relationship between experience and pay rates. Pay rises as an employee’s experience increases, which is especially useful for professionals and skilled craft employees. Unlike a true seniority system, in which a pay raise occurs automatically once someone has put in the required time, a system using maturity curves is built on the assumption that as experience increases, proficiency and performance also increase, so pay raises are appropriate. If proficiency does not increase, theoretically pay adjustments are reduced, although that seldom happens in practice. Once a person plateaus in proficiency, then the pay progression is limited to following the overall movement of the pay structure.

10.4.3. Cost-Of-Living Adjustment (COLA)

A common pay-raise practice is the use of a standard raise or cost-of-living adjustment (COLA). Giving all employees a standard percentage increase enables them to maintain the same real wages in a period of economic inflation. Often, these adjustments are tied to changes in the Consumer Price Index (CPI) or some other general economic measure. However, numerous studies have revealed that the CPI

overstates the actual cost of living. Unfortunately, some employers give across-the-board raises and call them merit raises, which they are not. If all employees get a pay increase, it is legitimately viewed as a cost-of-living adjustment having little to do with merit or good performance. For this reason, employers should reserve the term merit for any amount above the standard raise, and they should state clearly which amount is for performance and which is the “automatic” COLA adjustment.

10.4.4. Lump-Sum Increase (LSI)

Most employees who receive pay increases, either for merit or seniority, first have their base pay adjusted and then receive an increase in the amount of their regular monthly or weekly paycheck. For example, an employee who makes \$12.00 per hour and then receives a 3% increase will move to \$12.36 per hour. In contrast, a lump-sum increase (LSI) is a one-time payment of all or part of a yearly pay increase. The pure LSI approach does not increase the base pay. Therefore, in this example the person’s base pay remains at \$12.00 per hour. If an LSI of 3% is granted, then the person received \$748.80 (computed as 36¢ per hour * 2080 working hours in the year.) However, the base rate remains at \$12.00 per hour. It is that base rate upon which overtime is figured, and keeping the base rate static slows down the progression of the base wages. It also allows for the amount of the “lump” to be varied, without having to continually raise the base rate. Some organizations place a limit on how much of a merit increase can be taken as a lump-sum payment. Other organizations split the lump sum into two checks, each representing one-half of the year’s pay raise.

As with any plan, there are advantages and disadvantages. The major advantage of an LSI plan is that it heightens employees’ awareness of what their performance “merited.” A lump-sum check also gives employees some flexibility in their spending patterns so that they can buy big-ticket items without having to take out a loan. In addition, the firm can slow down the increase of base pay, so that the compounding effect of succeeding raises is reduced. Unionized employers have negotiated LSI plans as a way to hold down base wages, which also holds down the rates paid for overtime work. Pension costs and some other benefits, often tied to base wages, can be reduced as well.

One disadvantage of LSI plans is administrative tracking, including a system to handle income tax and Social Security deductions from the lump-sum check. Also, workers who take a lump-sum payment may become discouraged because their base pay has not changed. Unions generally resist LSI programs because of this and because of the impact on pensions and benefits. To some extent, this problem can be reduced if the pay increase is split to include some in the base pay and the rest in the lump-sum payment.

11. Job vs. Person Based Pay

Pay scales have traditionally been defined by the qualifications, experience and knowledge required to perform job duties at a certain level. In other words, pay is centered on the job, not the person. Skill-based pay, also referred to as knowledge-based pay, is person-focused. Workers are compensated for each new skill that allows them to perform new tasks on the job. As workers gain each additional skill, their pay rate goes

up. Some companies believe that learning a certain sets of skills leads to higher productivity and, therefore, embrace the idea of skill-based pay.

The underlying objectives of any compensation system are to attract, motivate and retain good staff. But which compensation system is most likely to achieve that goal? The answer, not surprisingly, is that it depends.

There is no “magic bullet” — only a choice about what's right for your particular practice. There are literally hundreds of variations to choose from, but they are all derived from just a few theoretical models, which can be categorized as either base pay or performance pay. Most practices use some combination of the two categories to leverage the strengths of each. This article will examine two models of base pay — paying for the job and paying the person — as well as models that involve extra pay for performance — merit pay and practice-effectiveness pay.

Although no single model is right for everyone, the practice-effectiveness model does offer a number of advantages. Because this formula combines base salaries with variable bonus payments that depend on the performance of the practice, it helps control operating costs; rewards the right behaviors and builds unity; works with a variety of payment structures; encourages self-management and innovation; and breaks down bureaucracy. But before we analyze it, let's look at its rivals.

	Job-Based	Person-Based
Employee focus	Seek promotions to earn more pay	Seek skills/competencies
Procedures	Job analysis Job evaluation	Skill/competence analysis Certification
Advantages	Clear expectations Sense of progress Pay based on value of work performed	Continuous learning Flexibility Reduced work force Lateral movement
Limitations	Potential bureaucracy Potential inflexibility	Potential bureaucracy Requires cost controls

Berger, L. & Berger, D. (2015). *The Compensation Handbook: A State-of-the-Art Guide to Compensation Strategy and Design* (6th Edition). Columbus, OH: McGraw-Hill Education.

11.1. Paying for the job

Paying for the job is the “traditional” model that most people know. Each position is slotted into a grade level and weighted based on the education and experience the job requires and the number of staff who report directly to the person in the position. Pay raises are scheduled as an employee's tenure with the practice increases. The traditional model is designed to serve as a cost-control tool and to establish each job's relative worth in a practice.

The traditional model has a number of advantages:

- It facilitates centralized control. It gives an organization criteria with which to evaluate whether individual physicians or managers are paying their staff too much. It also makes budgeting relatively easy and makes salary expenditures predictable.
- It's a useful tool for evaluating internal pay equity. Because compensation for all jobs in the practice is based on one system, you can easily compare what staff across the practice are earning.
- It facilitates market testing of your pay scale's competitiveness. It allows a job in one practice to be scored using measures that are comparable with those used in other practices. With some of the widely used systems, extensive survey data are available to help practices set their pay levels based on what similar practices are paying.
- It has the appearance of objectivity. Although quantification doesn't ensure fairness, it does make a pay system consistent. Staff members may not be completely satisfied with their compensation, but at least they won't see the pay system as arbitrary.

In short, the traditional pay model can be appropriate if your practice needs high levels of internal equity and centralized control of compensation. But the traditional model has several disadvantages:

- It can inflate the pay system's operating costs. After implementing a traditional base-pay system, a practice may need to hire a consulting firm to provide ongoing compensation audits and survey data. In addition, the traditional model is a high producer of records and administrative overhead because it requires that each job be evaluated (with supporting documentation) and that the pay grades be revised annually.
- It encourages point grabbing and inefficiency. Staff members become quite sophisticated in how to get their jobs scored highly in compensation reviews. The traditional model rewards people for creating overhead and higher costs because overseeing larger budgets and more subordinates leads to higher pay.
- It compromises honesty in job descriptions. People quickly realize that the way to beat the system is to create flamboyant and overly inclusive job descriptions. Over time, the practice can end up paying everyone excessively.
- It rewards the wrong behavior. Giving a person more money simply for taking on new responsibilities rewards job changes rather than outstanding performance or development of needed skills.
- It doesn't accurately reward the performance of talented staff. Because compensation is determined by an employee's level and the job's rating, the model limits your flexibility to reward people based on their individual performance. For example, no matter how well a first-year billing clerk performs, he or she will earn less than someone who has been doing an average job for

the last four years. This can hurt the motivation of your best performers and encourage them to look for jobs elsewhere.

- It reinforces a vertical career orientation. More responsibilities, especially supervisory and managerial, lead to more money. This drives your best technical and clinical staff into roles where they may not be as effective, and it does little to encourage the development of technical and clinical skills. This is especially counterproductive in practices that are implementing total quality management (TQM), continuous quality improvement (CQI) or other team approaches to improving problem solving, operational efficiency and clinical outcomes.
- It reinforces hierarchy and bureaucracy. By assigning value to jobs in terms of their hierarchical position and level of control, the traditional model fosters unnecessary and undesirable pecking orders and power relationships.

In short, the traditional model offers consistency and the perception of fairness in a practice's compensation system. But be careful: Once implemented, it can become a dominant part of a practice's culture and have unintended, counterproductive results.

11.2. Paying the person

The alternative to job-based pay is to compensate staff according to the value of their skills in the market. The most common approach is competency-based pay. This model is designed to motivate staff to develop the competencies — knowledge and skills for performing specific work — that the practice needs to accomplish its objectives. This model is most appropriate for practices that need high levels of intra-group teamwork, intergroup collaboration and adaptability to change.

Advantages of the competency-based model include these:

- It can lead to a broader perspective for staff. When this model is combined with a participatory management style, it encourages and rewards cross-training, learning and the assignment of responsibilities based on the skills that staff possess (rather than their “positions”). In turn, staff learn more about how the practice works, resulting in a big-picture understanding of what improvements are needed. This broader perspective allows staff members to be more innovative in making the practice more efficient.
- It reinforces a culture of improvement. The model delivers a tangible reward to staff for growing, learning and developing new areas of competency. It is compatible with TQM, CQI and similar approaches to improvement.
- It facilitates self-management and enables leaner staffing. Because the model rewards staff members for developing new skills, it prepares them to be more productive, take on greater responsibility and work more collaboratively with other staff. It also reduces the need for physician oversight. Maximizing the staff's potential can lead to leaner, flatter staffing configurations — and substantial overhead savings.
- It improves staff retention. Because they can develop skills continuously, staff

members have more control over their pay. They are unlikely to find comparable jobs elsewhere because most organizations still use the traditional model.

- It builds acceptance for change. This model helps staff become more accepting of change because in it change represents the potential for professional growth — and better pay. As staff learn to accept change, the practice becomes better able to react to staff turnover, expansions, mergers or changes in the health care environment.

There are several disadvantages of the competency-based model as well:

- It produces high pay rates. As staff become more valuable to the practice and their tenure increases, individual salaries will increase. This doesn't necessarily mean that total payroll costs will rise. In fact, they can be lower than those generated in a traditional model, if the practice can use its fewer, but more competent, staff more effectively.
- It requires a large investment in training. Because peers train each other, productivity will decline initially. Physicians must be committed to staff training as the means of competency acquisition, and they must be patient early in the implementation process, giving the model a chance to produce the expected results.
- Market comparisons can be more difficult. Since most survey data relate to the traditional pay model, staff-salary comparisons may not be straightforward. You can overcome this challenge by examining data about what others pay for certain competency mixes rather than direct job-by-job comparisons.
- Individuals can “top out.” Practices generally establish an income ceiling for staff who master all competencies, but employees in the traditional model can also reach this kind of limit. In a competency-based model, this is less of an issue since staff have higher pay scales than traditional models offer.
- Administrative involvement can increase. Keeping track of each person's competency assessments, competency mix and pay rate requires time and effort. A computerized record-keeping system can help you deal with this. A competency-based pay model requires practices to commit to ongoing staff training and to developing an administrative infrastructure that will support the system. It may also require some mental effort to step outside the box of traditional thinking.

12. Incentive Programs

Internationalization or increased global reach is creating pressure for greater consistency in compensation strategies. One might expect just the opposite given the need to be sensitive to culture and local market differences between countries and regions. However, the convergence toward consistency is primarily at the philosophical or core levels. Performance incentive programs are rapidly being deployed in many parts of the world. There is increasing evidence that the strategies to deliver pay are becoming more uniform from one country to the next.

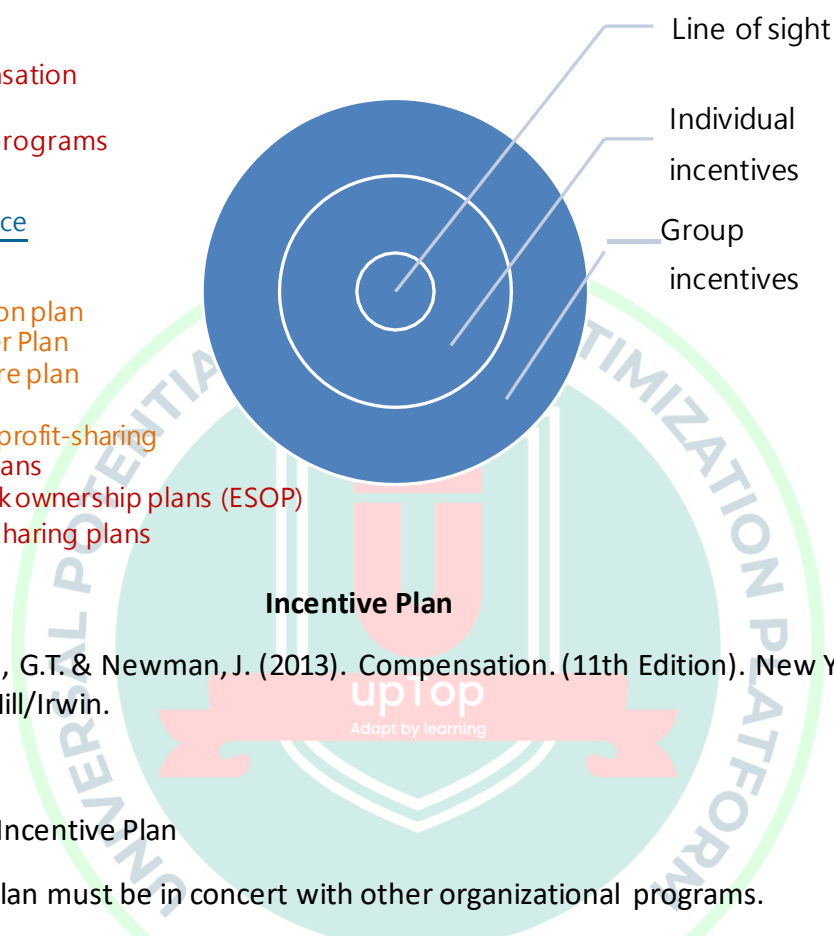
Incentive pay is paying for performance beyond normal expectations, which is designed to motivate employees to perform at higher levels. Traditionally, all incentive plans are pay-for-performance plans. They all tie employees' pay to the employees' performance. Variable pay is more specific: It is usually an incentive plan that ties a group or team's pay to some measure of the firm's overall profitability. Please refer to the below figure:

Individual performance

- Merit pay
- Piecework
- Sales compensation
- Cash awards
- Recognition programs

Group performance

- Gain-Sharing
 - The Scanlon plan
 - The Rucker Plan
 - Improshare plan
- Profit-sharing
 - Deferred profit-sharing
- Risk-sharing plans
- Employee stock ownership plans (ESOP)
- Performance-sharing plans



Source: Milkovich, G.T. & Newman, J. (2013). Compensation. (11th Edition). New York (USA): McGraw-Hill/Irwin.

12.1. Principle of Incentive Plan

- 12.1.1. The plan must be in concert with other organizational programs.
- 12.1.2. The plan must be in the line of sight-employees must be able to influence the attainment of the goal and see the direct results of their efforts.
- 12.1.3. The plan must have a sunset clause-all identified time period and have a defined end.
- 12.1.4. The plan must incorporate short- and long-term perspectives. An overlapping perspective may make it difficult for a key performer to leave the organization without significant loss of money (sometimes called the golden handcuffs approach).

12.2. Pay-for-Performance Plans

- 12.2.1. A merit pay system links increases in base pay to how highly employees are rated on a subjective performance evaluation. Small pay increase ranges will hinder performance.

- 12.2.2. Lump-Sum Bonuses are based on employee or company performance; employees receive an end of year bonus that does not build into base pay.
- 12.2.3. Individual Spot Awards typically awarded for exceptional performance. The mechanics are simple. After the fact, someone in the organization alerts top management to the exceptional performance.
- 12.2.4. Individual Incentive Plans are established standard against which employee performance is compared to determine magnitude of incentive pay.
- 12.2.5. Piecework is the oldest and still most popular individual incentive plan. Here the worker is paid a sum (called a piece rate) for each unit he or she produces.
- 12.2.6. Sales compensation plans typically rely heavily on incentives in the form of sales commissions which is an amount based on a percentage of sales (measured either in units or dollars). However, some salespeople get straight salaries, and most receive a combination of salary and commissions.
- 12.2.7. Cash awards provide employees with extra cash compensation based on performance, and always paid as a lump sum.
- 12.2.8. Recognition programs usually refer to formal programs, such as employee-of-the-month programs.
- 12.3. Group incentive plans
- 12.3.1. Gain-Sharing Plan: employees earn bonuses tied to unit-wide performance as measured by a predetermined, gain sharing formula.
- 12.3.2. The Scanlon plan, employees earn bonuses tied to unit-wide performance as measured by a predetermined, gain sharing formula.
- 12.3.3. The Rucker Plan is based on the premise that shared rewards come from the difference between labor costs and the sales value of production.
- 12.3.4. Improshare plan (Improved Productivity through Sharing), an industrial engineering-based productivity. Any savings arising from production of agreed-upon output in fewer than expected hours is shared by firm and workers.
- 12.3.5. Profit-sharing plans are plans in which all or most employees receive a share of the firm's annual profits.
- 12.3.6. Deferred profit-sharing plans, the employer contributes a percentage of profits to employee accounts in a qualified, tax-deferred retirement plan.
- 12.3.7. Risk variable pay plans (sometimes called risk-sharing plans) are plans that put some portion of the employee's weekly, monthly, or yearly pay at risk. If employees meet or exceed their goals, they earn back not only the portion of their pay that was at risk, but also an incentive. If they fail to meet their goals, they forego some of the pay they would normally have earned.
- 12.3.8. Employee stock ownership plans (ESOPs) are company-wide plans in which the employer contributes shares of its own stock (or cash to be used to

purchase such stock) to a trust established to purchase shares of the firm's stock for employees.

12.3.9. Performance-sharing plans use predetermined criteria and standards to measure results and, based on that, they create a fund available for incentive awards. The criteria can be factors other than profits, such as quality and customer satisfaction.

12.3.10. Group performance incentives reward group members for meeting or exceeding performance standards, often in all egalitarian manners. (Each person receives the same percentage of payer flat dollar award.) However, this system can result in perceptions by high performers that they are not being recognized for their performance. In addition, it can allow marginal performers to share equally in the award.

12.4. Long-term Incentives (LTIs)

12.4.1. Employee Stock Ownership Plans (ESOPs)

ESOP is a way in which employees of a company can own a share of the company they work for. There are different ways in which employees can receive stocks and shares of their company. Employees can receive them as a bonus, buy them directly from the company, or receive them through an ESOP.

In a non-leveraged ESOP, the employer contributes stock or cash or provides employee discounts to buy stock. The stock is then allocated to accounts of the employees. Non-leveraged ESOPs are intended to provide employees with an ownership stake in the company at a relatively low cost to the company and to help create a market for the employer's stock.

In a leveraged ESOP, the employer borrows money from a financial institution or the plan sponsor to finance the company stock rather than contribute the cash or stock directly. The employer establishes a trust, called an employee stock-ownership trust.

12.4.2. Performance Plan (Performance Share and Performance Unit)

Performance plans typically feature corporate performance objectives for a time frame three years in the future. They are driven by financial earnings or return measures, and pay out for meeting or exceeding specific goals.

12.4.3. Broad-Based Option Plans (BBOP)

BBOPs are stock grants: the company gives employees shares of stock over some time frame. Depending on the way they are distributed to employees, they can either reinforce a strong emphasis on performance or inspire greater commitment and retention of employees.

13. Types of Executive Compensation

There are many different forms of executive compensation that offer a variety of benefits and performance incentives:

13.1. Base Salary

Base salary is usually "guaranteed," while other forms of compensation are "at risk"-dependent on performance factors. Although formalized job evaluation still plays an occasional role in determining executive base pay, other sources are much more important. Particularly important is the opinion of a compensation committee, composed usually of the company's board of directors or a subset of the board.

13.2. Short-term Incentives

Bonus or annual incentives often play a major role in executive compensation and are primarily designed to motivate better performance. Most importantly, annual incentives are only a portion of the executives' total mix of pay (the blend of base salary, annual incentives and long-term incentives). Mix of pay varies from company to company based on the stated compensation philosophy and company culture.

13.3. Long-term Incentives

The most important vehicle necessary to tie executive's (especially for CEO) compensation to the interests of shareholders is long-term incentives. Companies often get into trouble when the annualized bonus opportunity is greater than that of the long-term incentive. For executives, the long-term incentive opportunity should always outweigh the short-term compensation opportunity.

13.3.1. Incentive stock options (ISOs): purchase of stock at a stipulated price, conforming to Internal Revenue Code, it allow deferral of taxation until the stock is sold.

13.3.2. Non-qualified stock options: Purchase of stock at a stipulated price, not conforming to Internal Revenue Code. Restrictions on the ability of a publicly traded company to make loans to officers under the Sarbanes-Oxley Act of 2002 and the accounting consequences of discounted stock sales may limit the desirability and flexibility of these arrangements.

13.3.3. Phantom stock plans: cash or stock award determined by increase in stock price at a fixed future date. Phantom stock arrangements are generally used when a company does not view ownership of real equity by its executives as desirable but seeks to create some of the incentives that go along with having executives feel aligned with the company's owners.

13.3.4. Stock appreciation rights: cash or stock award determined by increase in stock price during any time chosen in the option period.

13.3.5. Restricted stock plans: grant of stock at a reduced price with the condition they may not be sold before a specified date. While stock options have value only if the stock goes up in value, a restricted stock grant has real value even if the stock remains stable, since the stock was essentially a gift.

13.3.6. Performance share/unit plans: Cash or stock award earned through achieving specific goals.

13.4. Executive Benefits

Executive Benefits often receive additional life insurance, exclusion from deductibles for health-related cost, and supplementary pension income exceeding the maximum limits permissible.

13.5. Perquisites

Perquisites, or "perks," are special privileges for executives, such as club memberships, company cars, reserved parking spots, executive dining rooms, box seats for professional athletic events, and similar noncash entitlements.

13.6. Golden Parachutes

Parachutes, or golden parachutes, are clauses written into executive contracts that provide special payments to key executives who might lose their position or be otherwise disadvantaged if another company took control of the organization through a merger or acquisition.

14. Employee Health, Safety and Security

For smooth functioning of an organization, the employer has to ensure health, safety and security of his employees. Thus it form an integral part of work environment.

Health is the general state of wellbeing not only includes physical wellbeing, but also emotional and mental well-being.

Safety refers to protecting facilities and equipment's from unauthorized access and protecting employees while they are on work.

Security refers to the act of protecting the physical wellbeing of an employee. It will include the risk of accidents caused due to machinery, fire or diseases.

14.1. Roles and Responsibilities

In organizations, the responsibility of employee health and safety falls on the supervisors or Human Resources. HR manager helps in coordinating safety programs, making employees aware about the health and safety policy of the company, conduct formal safety training. Supervisors and departmental heads are responsible for maintaining safe working conditions.

14.1.1. Responsibilities of HR manager

- Monitor health and safety of employees
- Coach employees to be safety conscious
- Investigate accidents
- Communicate about safety policy to employees

14.1.2. Responsibilities of supervisors/departmental heads

- Provide technical training regarding prevention of accidents

- Coordinate health and safety programs
- Train employees on handling facilities and equipment
- Develop safety reporting systems
- Maintaining safe working conditions

14.2. Issues in Employee Health & Safety

An organizational approach to safety is effective only when both the work design and employee behavior work in coordination towards it

14.2.1. Physical Work Settings

Physical Work Settings include temperature, noise levels, and proper lighting, size of work area, kinds of materials used, distance between work areas etc. The physical settings of work affect the performance of employees to a great extent.

14.2.2. Sick Building Syndrome

Sick Building Syndrome is a situation in which employees experience acute health problems and discomfort due to the time spent in a building (particularly their workplace). Factors that lead to sick buildings include poor air quality, inadequate ventilation, improper cleanliness, stench of adhesives and glues.

14.2.3. Ergonomics

“Ergonomics” comes from the Greek word *ergon*, which means “work,” and *omics* which means “management of.” Ergonomics is the study of physiological, psychological, and engineering design aspects of a job, including such factors as fatigue, lighting, tools, equipment layout, and placement of controls.

Ergonomics is taken into consideration when designing the workstation for computer operators. Problems of back ache, eye strain and headache arise due to long working hours spent in front of computers.

14.2.4. Engineering of Work Equipment and Materials

Accidents can be prevented in a way by proper placements of dangerous machines. Providing safety guards and covers on equipment, emergency stop buttons and other provisions help in reducing the accidents considerably

14.2.5. Cumulative Trauma and Repetitive Stress

Cumulative trauma disorder occurs when same muscles are used repetitively to perform some task. This results in injuries of musculoskeletal and nervous system. Employees encounter high levels of mental and physical stress also.

14.2.6. Accident Rates and Individuals

An individual approach to safe environment helps in reducing the accident rates. This is generally because more problems are caused by careless employees than by machines or employer negligence.

14.3. Accident investigation

Investigations often find that similar scenarios have occurred previously but, for a variety of reasons, did not result in serious consequences. This is increasingly recognized in high-risk industries where "near misses" are also investigated as well as incidents which actually resulted in loss. A six-step, structured approach to accident investigation helps to ensure that all the causes are uncovered and addressed by appropriate actions.

14.3.1. Step 1 - Immediate action

In the event of an incident, immediate action to be taken may include making the area safe, preserving the scene and notifying relevant parties. The investigation begins even at this early stage, by collecting perishable evidence, e.g. CCTV tapes, samples.

14.3.2. Step 2 - Plan the investigation

Planning ensures that the investigation is systematic and complete. What resources will be required? Who will be involved? How long will the investigation take? For severe or complex incidents, an investigation team will be more effective than a single investigator.

14.3.3. Step 3 - Data collection

Information about the incident is available from numerous sources, not only people involved or witnesses to the event, but also from equipment, documents and the scene of the incident.

14.3.4. Step 4 - Data analysis

Typically, an incident is not just a single event, but a chain of events. The sequence of events needs to be understood before identifying why the incident happened.

When asking why, we need to identify the root and underlying causes, as well as the direct causes. Failures and mistakes don't just happen by themselves; organizations allow error-enforcing environments that encourage direct causes to develop and persist. Such environments, and the basic management failings behind them, are the root causes - the ultimate source of the incident.

While human error plays a part in the majority of incidents, people are not generally stupid, lazy, forgetful or willfully negligent. Human errors occur because of influencing factors associated with the work, the environment, an individual's mental or physical abilities, the organization and its management systems. Any investigation which sets out to find someone to blame is misguided.

14.3.5. Step 5 - Corrective actions

Many investigations make the mistake of raising actions which deal only with the direct causes - a quick fix, putting last-lines-of-defense back in place. By ignoring the root and underlying causes, not only do they miss an opportunity to reduce the risk of recurrence of the incident, but they also leave open the possibility that other,

dissimilar incidents may also occur, arising from the same, common root cause.

14.3.6. Step 6 - Reporting

The investigation is concluded when all outstanding issues have been closed out and the findings have been communicated so that lessons can be shared.

Communication mechanisms include formal incident investigation reports, alerts, presentations and meeting topics.

14.4. Employee Wellness Program

The success of any company depends very heavily on the productivity and work performance of its human resources. The ability to function and perform at a high level consistently is greatly aided by Employee Wellness Programs. The introduction of such programs has been successful in that the results are beneficial for both the employee and the company at large. Wellness Programs focus on the physical wellbeing of employees, looking after medical requirements and ensuring personal health is a priority. Programs offer weight loss regimes, smoking cessation programs, stress management and exercise, diet and fitness advice. Wellness programs often involve financial incentives for employees, such as lower health-insurance premiums or gift cards. Benefits of implementing a wellness program include:

- Attracting talented workers
- Reducing absenteeism and lost time
- Improving on-the-job time utilization, decision making and productivity
- Improving employee morale
- Reduction in turnover
- Improved disease management and prevention, and a healthier workforce in general, both of which contribute to lower health care costs.

14.5. Employee Assistant Program (EAP)

An Employee Assistance Program (EAP) is a voluntary, work-based program that offers free and confidential assessments, short-term counseling, referrals, and follow-up services to employees who have personal and/or work-related problems. EAPs address a broad and complex body of issues affecting mental and emotional well-being, such as alcohol and other substance abuse, stress, grief, family problems, and psychological disorders. Although one facet of EAP services is focused on the individual employee and their family members, another component is the services offered to the organization. This may include prevention, training, consultation, organizational development and crisis response services.

15. Employee Return to Work

Managing a return-to-work case is often a complex responsibility. Return-to-work cases present challenges because they involve the careful balancing of an employer's right to manage a productive workplace with a worker's fundamental right to equality, dignity, and

privacy. Employers—and those representing employers, such as directors, supervisors, or human resources officials—may be unsure of how best to approach a return-to-work case, particularly when the employee requests difficult or unexpected accommodation measures. The step-by-step procedures presented below describe the general phases that apply to most return-to-work situations.

15.1. Gather details and assess the situation

15.1.1. Maintain contact with the employee during a prolonged absence

In most cases, but not all, it is a good practice to maintain occasional contact with an employee during their absence. By getting in touch with the employee once in a while, you can find out how they are doing and, in some situations, find out approximately when they might be able to return to work. This will give you time to make arrangements in advance. However, you should not contact the employee so frequently that they feel pressure to return to work before they are able.

15.1.2. Respond when the employee tells you they are ready to return to work

If the employee requests accommodation measures that raise questions or concerns, you should immediately tell them that you'd like to discuss their request further. You should emphasize that you are concerned about the employee's health and need to better understand the situation in order to make a decision and find appropriate solutions.

Supervisors are entitled to ask for additional time to assess an accommodation request if the employee doesn't provide enough notice prior to their expected return to work. For their part, employees have a responsibility to give their supervisors enough time to prepare for their return to work, particularly if they are requesting accommodation for specific needs.

If you need extra time to consider an accommodation request, you should ask the employee if they are able to return to their job (without measures for accommodation) until a decision is made. If the employee is unable to do this, you should arrange for temporary accommodation measures. If that is not possible, the employee will have to remain on leave. If you advise the employee to stay on leave, you should have records on hand to demonstrate that you researched various options for temporary accommodation.

15.1.3. Create a case file

Be sure to create a case file for each return to-work situation you manage. Take detailed notes during all conversations and meetings regarding the situation. Keep copies of these notes in the case file.

15.1.4. Review any medical information submitted by the employee

During the initial stages of managing a return to-work case, you should review any health or medical information that has been submitted by the employee, such as a doctor's note or certificate. Before returning an employee to work, you need to be certain that you have enough information about their capabilities and limitations related to the job duties. The employee is obligated to provide documents that

clarify health restrictions and describe the type of accommodation that would be most effective to facilitate their return to work.

15.1.5. Meet with the employee

In complex cases, you should ask the employee to attend a meeting as soon as possible to verify details of their expected return to work and any associated accommodation requests. In straightforward situations, a discussion over the telephone will suffice. Note that the employee has a legal obligation to actively participate in the accommodation process.

15.1.6. Request employee's consent to obtain further medical or health information (if necessary)

If you feel you don't know enough about the employee's situation, you need their consent to retrieve additional information. If the employee refuses to cooperate, explain to them that you cannot properly assess their needs and cannot proceed with the accommodation process until you get this information. You should also explain that the organization has standard procedures to make certain that the employee's medical information is kept confidential and shared only on a need-to-know basis.

15.2. Consult with health and medical specialists

If—after meeting with the employee and reviewing any medical document they have submitted—you feel you cannot make an informed decision on how to accommodate an employee, you may take steps to learn more about the employee's health status. You may request an exam if you have reason to believe that an employee is not fit to do their job, and that a return to work might endanger their health or the well-being of others. In this circumstance, you must prepare a clear explanation of why you feel the employee's return to work presents a real, immediate, and significant risk to the employee's health. Be sure to document these reasons in the case file. It is NOT acceptable to request a medical exam simply out of worry that the employee's medical condition may come back or get worse.

15.3. Consult with union representatives (when necessary)

A union representative can provide you with valuable advice as you explore various options to accommodate an employee who will be returning to work. Once you have assessed the situation and determined that the union should be involved, arrange to speak with a union representative, either in person or over the phone. Review the case details with the union official, while taking care to respect the confidentiality of any personal information collected from the employee. Remember that personal information must only be shared on a need to-know basis. Be sure to take notes and keep a copy in the case file.

15.4. Review the accommodation options

To ensure that all accommodation options have been explored, and that the option chosen is consistent with medical information obtained and best meets the needs of the employee, the employer, and other stakeholders. After you have consulted with

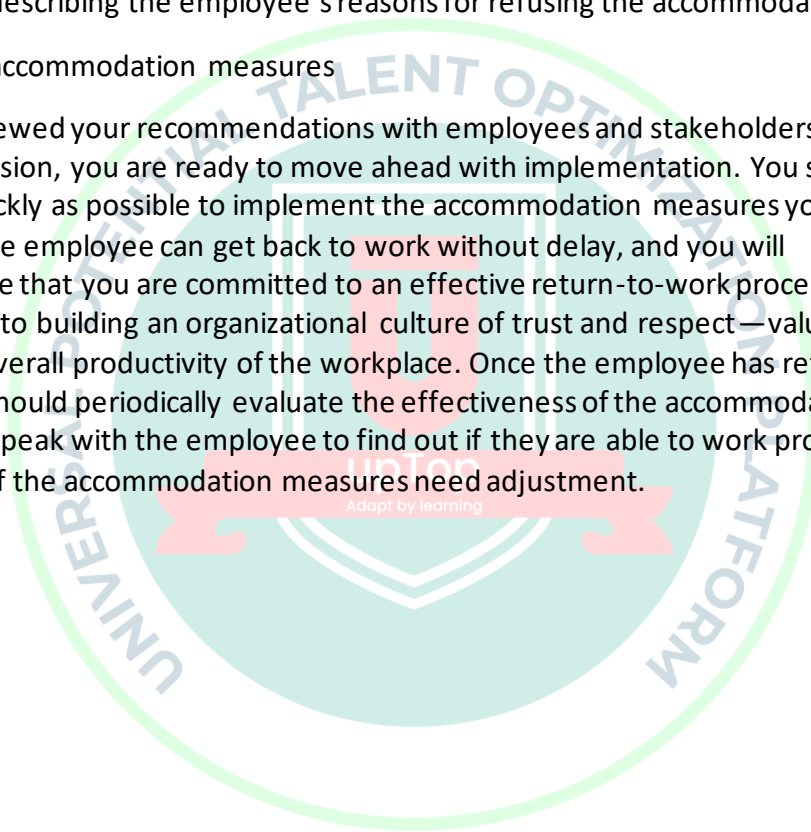
stakeholders and collected the necessary information, you should prepare to present the employee with one or more of your recommended options to accommodate their return to work.

It may also be beneficial to include other stakeholders, such as a representative from your organization's human resources department or union officials, in this discussion. Schedule a time to review your recommended option(s) with the employee and other stakeholders (if necessary). During this meeting, you'll have the opportunity to answer any questions and clarify any points that may be misunderstood. This also gives the employee a chance to respond to your proposed solutions and provide any feedback to help finalize them.

If the employee refuses your proposed accommodation measures, you may decide to explore other options or, as a last resort, deny their request (if you feel you have met your duty by offering them a reasonable accommodation option). Be sure to take notes describing the employee's reasons for refusing the accommodation

15.5. Implement accommodation measures

Having reviewed your recommendations with employees and stakeholders, and made a decision, you are ready to move ahead with implementation. You should work as quickly as possible to implement the accommodation measures you have selected. The employee can get back to work without delay, and you will demonstrate that you are committed to an effective return-to-work process. This contributes to building an organizational culture of trust and respect—values that boost the overall productivity of the workplace. Once the employee has returned to work, you should periodically evaluate the effectiveness of the accommodation measures. Speak with the employee to find out if they are able to work productively, and if any of the accommodation measures need adjustment.



Part Three: HR Technology & Outsourcing

1. Technology and HR Service Delivery

Human resources departments are typically a frenzy of activity, but technology has given HR professionals tools that help reduce administrative tasks so that they can focus on issues that require more hands-on attention. Accordingly, more and more human resources management functions are being performed electronically to improve the administrative efficiency and responsiveness of human resources management to their internal clients, employees and managers. Web-based technology is also being used extensively for almost all key human resource activities.

1.1. HR Activities

HR departments engage in three types of activities as follows:

1.1.1. Transactional HR activities involve day-to-day transactions that have to deal mostly with record keeping—for example, entering payroll information, employee status changes, and the administration of employee benefits - 65% to 75% of the time.

1.1.2. Traditional HR activities involve HR programs such as planning, recruiting, selection, training, compensation, and performance management - 15% to 30% of the time.

1.1.3. Transformational HR activities are those actions of an organization that “add value” to the consumption of the firm’s product or service. An example of a transformational HR activity would be a training program for retail clerks to improve customer service behavior, which has been identified as a strategic goal for the organization— 5% to 15% of the time.

One of the main purposes of HR technology is to reduce the amount of time spent on transactional activities and shift that time for HR professionals to use for traditional and transformational activities.

1.2. A Primer on HRIS

Important to note that a company that does not have a computerized system still has an HRM system; that is, the paper system used to acquire, store, manipulate, analyze, retrieve, and distribute information regarding an organization’s human resources.

An HRIS is not simply computer hardware and associated HR-related software. Although an HRIS includes hardware and software, it also includes people for forms, policies and procedures, and data.

The primary purpose of the HRIS is to provide service, in the form of accurate and timely information, to the “clients” of the system. There are a variety of potential clients, as HR information may be used for strategic, tactical, and operational decision making (e.g., planning for needed employees in a merger); to avoid litigation (e.g.,

identifying discrimination problems in hiring); to evaluate programs, policies, or practices (e.g., evaluating the effectiveness of a training program); and to support daily operations (e.g., helping managers monitor the work time and attendance of their employees).

Because of the complexity and data intensiveness of the HRM function, it is one of the last management functions to be targeted for automation. This fact does not mean that an HRIS is not important; it just indicates the difficulty of developing and implementing it compared with other business functions—for example, the billing and accounting systems. Powered by information systems and the Internet, almost every process in every function of HRM has been computerized today

1.3. Why HRIS?

There are several advantages to firms in using HRIS. They include the following:

- Providing a comprehensive information picture as a single, comprehensive database; this enables organizations to provide structural connectivity across units and activities and increase the speed of information transactions
- Increasing competitiveness by improving HR operations and improving management processes
- Collecting appropriate data and converting them to information and knowledge for improved timeliness and quality of decision making
- Producing a greater number and variety of accurate and real-time HR-related reports
- Streamlining and enhancing the efficiency and effectiveness of HR administrative functions
- Shifting the focus of HR from the processing of transactions to strategic HRM
- Reengineering HR processes and functions
- Improving employee satisfaction by delivering HR services more quickly and accurately to them.

1.4. E-HRM vs. HRIS

Confusion can arise concerning the distinction between electronic human resource management (E-HRM) and HRIS. E-HRM reflects a philosophy for the delivery of HR; it uses information technology, particularly the Web, as the central component of delivering efficient and effective HR services. Conversely, as conceptualized in this book, an HRIS comprises the technology and processes underlying this new way of conducting human resource management. An HRIS can include technologies such as databases, small functional systems focused on a single HR application (e.g., performance management), or a large-scale, integrated enterprise resources planning (ERP) architecture and Web-based applications. In today's environment, it can even be devices such as smart phones and social networking sites that enable employees to

access HR data remotely or to connect with others in the organization.

Another way of looking at the differences between E-HRM and HRIS is that E-HRM tends to be more application and HR-function focused (e.g., e-recruitment and e-training), and an HRIS is more focused on the systems and technology underlying the design and acquisition of systems supporting the move to e-HRM.

1.5. HR Service Delivery

Human Resources (HR) provide services to the organization in a variety of models. Services are delivered by people through service centers and through the use of technology. People-based service delivery can be centralized or decentralized. Technology can provide informational services or allow self-service for completing HR processes. Services can be offered internally using company employees or outsourced to third-party providers. These methods are not exclusive of one another and it is common to find a blend of these service delivery methods in one organization.

1.5.1. Centralized HR Services

This is used to refer to services that are delivered by people who are located in one place, which may be called a "Service Center". This delivery model does not allow for an HR representative to be in each company location. Managers and Employees will reach out to HR via phone to speak to a representative to assist them as well as rely on self-service applications. An HR Service Center may be staffed with representatives internal to the company or may be outsourced to a third party. Regardless of staffing, the benefits of having a centralized HR Service center are reduced cost for HR services, consistency of information and common HR processes.

1.5.2. Decentralized HR Services

This is used to refer to services that are delivered by people who are in the locations throughout the organization. This delivery model staffs each separate location with persons who are responsible for delivery of HR Services. Most common would be to have an HR Generalist assigned to these locations to support managers and employees at that specific location. This model offers a high level of personal service and may also be supported with self-service technologies. This model however typically costs more than the centralized model and it is common for HR processes in this model to be location specific and not consistent across the enterprise.

1.5.3. Outsourced HR Services

This refers to the delivery of HR through a third-party contractor, most commonly via a service center. When creating a technology strategy, understand what the HR Strategy service delivery is. If HR currently is outsourced or is planning to outsource some or all of its services, this needs to be taken into consideration in the technology strategy. There are two (2) general categories of outsourced services; Human Resources Outsourcing (HRO) and Business Process Outsourcing (BPO).

HRO is an outsourcer that assumes responsibility for the entire HR function. The vendor will typically take over management of the HR system and all administrative processes in HR.

BPO is an outsourcer that assumes responsibility for a specific process within HR. An example of this would be an outsourcer who assumes responsibility for the management and administration of the benefits programs of a company.

Most of these service centers have advanced technology for self-service, as well as to manage and track calls that are called “cases.” Oftentimes outsourcing a specific process, like benefits administration, will enable a company to deliver online benefits enrollment sooner and more cost effective than if supported internally. The outsourcer has “case management” tools, which allow for accurate recording of calls along with robust reporting for trends that help in continuous improvement of services and identification of potential HR issues. These systems are often too costly for an HR department to purchase and consequently their tracking process is more labor intensive and error prone.

2. Human Resource Information System (HRIS)

Human Resource Information System (HRIS) can be briefly defined as integrated systems used to gather, store, and analyze information regarding an organization’s human resources. But, as is the case with any complex organizational information system, an HRIS is not limited to the computer hardware and software applications that comprise the “technical” part of the system; it also includes the people, policies, procedures, and data required to manage the human resources function. Thus, a functional HRIS must create an information system that enables an assimilation of the policies and procedures used to manage the firm’s human capital as well as the procedures necessary to operate the computer hardware and software applications.

HRIS is an information system (IS) used to acquire, store, manipulate, analyze, retrieve, and distribute information regarding an organization’s human resources. The purpose of the HRIS is to provide service, in the form of accurate and timely information, to the “clients” of the system. As there are a variety of potential users of HR information, it may be used for strategic, tactical, and operational decision making (e.g., to plan for needed employees in a merger); to avoid litigation (e.g., to identify discrimination problems in hiring); to evaluate programs, policies, or practices (e.g., to evaluate the effectiveness of a training program); and/or to support daily operations (e.g., to help managers monitor time and attendance of their employees). All these uses mean that there is a mandatory requirement that data and reports be accurate and timely and that the “client” can understand how to use the information.

Because of the complexity and data intensiveness of the HRM function, it is one of the last management functions to be targeted for automation. This fact does not mean that an HRIS is not important; it just indicates the difficulty of developing and implementing it compared with other business functions—for example, billing and accounting systems. Powered by information systems and the Internet, today almost every process in every function of HRM is being computerized.

HRIS is often to be used for administrative purposes in organizations. This purpose is related to administrative and operational efficiency, which reduces costs and time. Traditionally, HR in any organization faces several challenges such as information storage and retrieval (How to manage large quantities of paper?), hiring & firing (How to deal with applicant tracking, black lists, social security issues, and other reports for the government?), training (How to develop training programs that fit the new digital economy?), performance tracking (How to track employee performance worldwide?), and cost figures (How to lower the business information system costs?).

Organizations vary in the types of information that they consider useful and important to collect. Organizations develop at least two kinds of human resource information systems. The first HRIS replaces many of the administrative functions once performed by people in the organization. Human resource information systems, which perform administrative tasks faster than people and require fewer employees, are designed to produce a wide range of vital information at the lowest cost. Companies, in some instances, have implemented human resource information systems as a tool and approach to downsizing. The second HRIS is based on organizational reengineering. HRIS that reengineer organizational processes are based on optimization of the way in which HR managers use information. HRIS with reengineered processes often include interactive employee information kiosks or Internet-based Web applications. Reengineered HRIS provide employees and managers the opportunity to interact with the organization's databases to apply for jobs, review organizational regulations, and to facilitate communications between employees, managers, and labor unions.

2.1. Benefits of HRIS

The systems and process focus helps organizations keep the customer perspective in mind, since quality is primarily defined and operationalized in terms of total customer satisfaction. Today's competitive environment requires organizations to integrate the activities of each functional department while keeping the customer in mind. An effective HRIS helps by providing the technology to generate accurate and timely employee information to fulfill this objective. There are several advantages to firms in using HRIS. They include the following:

- Providing a comprehensive information picture as a single, comprehensive database; this enables organizations to provide structural connectivity across units and activities and increase the speed of information transactions
- Increasing competitiveness by improving HR operations and improving management processes
- Collecting appropriate data and converting them to information and knowledge for improved timeliness and quality of decision making
- Producing a greater number and variety of accurate and real-time HR-related reports
- Streamlining and enhancing the efficiency and effectiveness of HR administrative functions

- Shifting the focus of HR from the processing of transactions to strategic HRM
- Reengineering HR processes and functions
- Improving employee satisfaction by delivering HR services more quickly and accurately to them

The ability of firms to harness the potential of HRIS depends on a variety of factors, such as:

- the size of the organization, with large firms generally reaping greater benefits;
- the amount of top management support and commitment;
- the availability of resources (time, money, and personnel);
- the HR philosophy of the company as well as its vision, organizational culture, structure, and systems; managerial competence in cross-functional decision making, employee involvement, and coaching; and
- the ability and motivation of employees in adopting change, such as increased automation across and between functions

In assessing the benefits and impact of an HRIS to an organization, typical accounting methods do not work with the HRM function. While there are several tangible benefits in implementing an HRIS, such as payroll efficiencies and reduction in labor costs due to automation, there are several intangible or hidden benefits as well. They include employee satisfaction with streamlined and efficient HR processes and freeing up HR from routine, administrative matters to focus on strategic goals.

Furthermore, HR practices can help organizations untangle the rigidity and inertia associated with the mechanistic, routine nature of enterprise resource planning (ERP). ERP software applications are a set of integrated database applications or modules that carry out the most common business functions, including HR, general ledger, accounts payable, accounts receivable, order management, inventory control, and customer relationship management. Obviously, HRM's emphasis on knowledge management, human capital stewardship, and relationship building can provide considerable assistance in the implementation and use of ERPs. Therefore, active engagement of HR professionals in the introduction and ongoing functioning of an ERP is important so that organizations can realize the strategic benefits associated with these systems.



Human Resource Information System (HRIS)

Source: SAP HCM Solution

2.2. Types of HRIS

There are multiple typologies for the classification of computer-based systems; however, we are going to define the most basic types of systems and then apply them to their development and use within an HRIS. One of the earliest books in the field of computer-based systems placed systems under three basic categories: Electronic Data Processing (EDP), Management Information Systems (MIS), and Decision Support Systems (DSS). EDP is primarily electronic storage of information and was first applied to automate paperwork.

2.2.1. EDP

The EDP category of HRIS was the earliest form introduced in the HR field and fits in with the transactional level of HR activities. The EDP's basic characteristics include:

- A focus on data, storage, processing, and flows at the operational level
- Efficient transaction processing
- Scheduled and optimized computer runs
- Integrated files for related jobs
- Summary reports for management

2.2.2. MIS

The MIS type of HRIS emerged as technology improved over time, and it fits the traditional level of HR activities, such as recruitment, selection, and compensation. The characteristics of MIS include:

- An information focus, aimed at middle managers
- Structured information flows
- Integration of EDP jobs by business function (production MIS, marketing MIS ...)
- Inquiry and report generation (usually with a database- a collection of information that is organized so that it can easily be accessed, managed, and updated. In one view, databases can be classified according to types of content: bibliographic, full-text, numeric, and images.)

2.2.3. DSS

HRIS at DSS level began to emerge in the cost-effectiveness era of HRM development, and it fits the transformational level of HR activities—adding value to organizational processes. DSS are focused still higher in the organization, with an emphasis on the following characteristics:

- Decision focused, aimed at top managers and executive decision makers
- Emphasis on flexibility, adaptability, and quick response
- User initiated and controlled
- Support for the personal decision-making styles of individual managers

There is another type of HRIS which should be used in organizations to maximize the effect of computer-generated knowledge on managerial decision making. There are numerous reports generated on a regular basis from both the EDP and the MIS types of HRIS—for example, overtime and benefits usage. The critical question is: “how many of these reports are used by either line managers or HR professionals in their daily work, particularly in their decision-making capacity?” All HRIS software is designed to generate a standard set of reports, but surveys and reports from both managers and HR professionals indicate that many of these reports are typically discarded. Thus, it is apparent that another type of HRIS exists—the human resources management decision system (HRMDS). This type of system could be described as the ideal system since it provides critical information for decisions involving the human resources of the company, and thus, should be used as a standard for the development and application of any HRIS. This type has the following characteristics:

- Report formation and generation based on identified managerial needs for decision making
- Categorization of reports by management level

- Timing of report generation based on frequency of managerial use: daily, weekly, monthly
- Historical information retained and reported in a timely manner so that managers and HR professionals can see the results of their use of the information in their previous decisions

2.3. Core HR

There are at least thirteen common human resource information subsystems.

2.3.1. Recruitment and Selection

The recruitment and selection system ensures that the list is current all the time and can be viewed by a prospective applicant anytime; generates various statistics like jobs with high turnover and the average time it takes to fill a vacancy; and tests and evaluates candidates' personality, knowledge, and skills at different company locations.

2.3.2. Personnel Administration

The personnel administration subsystem warehouses information about employee names, birth dates, service dates, race, sex, salary, department code, job code, location code, and employment status.

2.3.3. Time, Labor, and Knowledge Management

The time, labor, and knowledge management subsystem tracks and identifies work schedule patterns, absenteeism, and tardiness, allocates resources, and determines procedures to administer either time-related or knowledge-related tasks or functions based upon an employee knowledge profile.

2.3.4. Training and Development

The training and development subsystem provides programmed instructions and self-paced training to employees; plans classes, sets up training schedules, organizes training courses' activities, and collects fees; and tracks the developmental plan of each employee within the company and their learning progress.

2.3.5. Pension Administration

The pension administration subsystem streamlines plan set-up, record keeping, pension calculations, and retiree payments and statements.

2.3.6. Compensation and Benefits Administration

The compensation and benefits administration subsystem provides information on flexible and non-flexible healthcare plans, short and long-term disability plans, savings plans, retirement plans, pension plans.

2.3.7. Payroll Interface

The payroll interface subsystem streamlines payroll and accounting by providing data on salary, wages, and benefits.

2.3.8. Performance Evaluation

The performance evaluation subsystem aids management with periodic evaluations of employees. This subsystem performs multiple review functions including auditing and analyzing employee competency; analyzing the congruence between employee performance and organizational objectives; and measuring and monitoring the employer's learning progress and performance.

2.3.9. Outplacement

The outplacement subsystem provides support information for discharged or displaced employees such as links to self-help books, career counselors, and training programs on job search techniques, resume development, interviewing strategies, and negotiating salary.

2.3.10. Labor Relations

The labor relations subsystem includes information about work policies on privacy, sexual harassment, and workforce diversity.

2.3.11. Expense and Travel Administration

The expense and travel administration subsystem facilitates and automates employee reimbursement for business expenditures on travel, entertainment, and supplies.

2.3.12. Organizational Management

The organizational management subsystem provides information about all job positions in a company, their hierarchy, and job descriptions; generates decisions on employee hiring, promoting, transferring, retiring, and firing; and reporting requirements of various employment laws.

2.3.13. Health and Safety

The health and safety subsystem provides information about the federal, state, and local health and safety regulations relevant to the organization or workplace as well as information on the company's safety record, injury/illness prevention plan, safety compliance procedures, and worker compensation.

Numerous organizations have shifted the responsibility of updating employee records from human resource staff to the employees themselves. Self-service systems require less direct management and more technological oversight and support. Web-based HRIS allow for global access for telecommuting and traveling employees. Common self-service web-based HRIS applications include Personal Information, Banking

Information, Benefits Inquiries and Open Enrollment, Time Entry and Time Off, Cross Application Time Entry, Travel Expenses, Electronic Pay-stubs, Organization Directory, Employment and Salary Verification, Training Overview and Enrollment, and Change Password.

2.4. Self-Services

The use of technology to offer services that would be performed by an HR representative. Commonly called Manager Self-Service (MSS) and Employee Self-Service (ESS), these fall into two (2) categories, informational and transactional

2.4.1. Informational Self-Service

Informational Self-Service refers to tools that are offered to provide information to employees. These tools are commonly referred to as “Knowledge Management” systems. They contain information about HR policies, processes and can include benefits and compensation information. They are informational in that employees cannot perform a transaction within these systems; they are used for reference purposes only. These can be present in either centralized or decentralized service delivery models and are almost always found when HR services are outsourced.

2.4.2. Transactional Self Service

These tools are offered for managers and employees to change information captured in HRIS. Employee Self-Service applications include information that the employee changes, which is typically personal in nature. Common changes that occur in an ESS system are employee address, emergency contact, tax withholdings and benefit elections. Manager Self-Service applications include information that a manager changes, which is related to the employees they manage. These most often replace paper-based processes for change of employee information like job changes, promotions, transfers and pay changes. MSS applications can also include processes for supporting performance reviews, compensation events and staff planning.

MSS applications commonly use workflow to automatically manage the approval and the routing of information changes. Workflow is a technology that routes an information change to another person for verification or approval before it records the change in the system of record. ESS/MSS applications can be present in either centralized or decentralized service delivery models and are almost always found when HR services are outsourced.

HR self-service benefits include the accuracy of information, consistency of process and reduction of time HR professionals spend in administrative activities.

2.4.3. HR Portals in Self-Service

A portal is a Web application that resides on the intranet (internally) or Internet (externally) that is designed to aggregate and personalize information for access from a single source. The HR portal in an intranet application is used to perform informational

or transactional self-service. Based on an employee's role in the organization as defined within their security authorizations, the HR portal will present the applications and information the person is allowed to access. Through the use of single sign on technology, an employee can access an HR application through the portal without having to log into that application, thereby simplifying the process for the employee and eliminating the need for multiple passwords. The other benefit of an HR Portal is that information can be distributed throughout the organization while being centrally maintained. Policy information and corporate communications can be accessed by all employees regardless of location even though the actual information is stored centrally.

2.5. Knowledge Management (KM)

Knowledge Management (KM) is the umbrella term for the management of unstructured information - that is, all kinds of documents. KM can be defined as the process of capturing, distributing and using knowledge effectively. In order to effectively share an organization's information assets (think: policies, procedures but also expertise and experiences), that knowledge needs to be identified, captured, evaluated and easily retrieved. There are three main approaches to knowledge management:

- **Technocentric:** Focuses on technology, especially software that boosts knowledge sharing and creation.
- **Organizational:** Looks at how to design an organization to best promote knowledge processes.
- **Ecological:** Encourages a knowledge exchange through collaborative networks, rather than through direct management.

KM with HRIS self-service portal provides an opportunity within your organization to "connect those who know with those who need to know". Its functions may help companies manage all facets of unstructured information - from collaborative authoring and publishing to advanced search and navigation.

Knowledge Management (KM) is a discipline that promotes an integrated approach to identifying, capturing, evaluating, retrieving, and sharing all of an enterprise's information assets. These assets may include databases, documents, policies, procedures, and previously un-captured expertise and experience of individual works.

Researchers suggested that the main ingredient behind successful innovation was not a clever way of thinking or brainstorming. Instead, it was a place where people could share ideas, let them bump into each other, and in so doing, evolve into new, more powerful forms. The coffee-shops of Paris served this purpose during the Enlightenment, allowing for fantastic new scientific and philosophical concepts to be born.

2.6. Talent Management Systems

The systems that support the processes of onboarding, recruiting, performance

management, compensation management, succession planning and learning management are commonly referred to as Talent Management Applications.

2.6.1. ATS

Recruiting Applications, also known as Applicant Tracking Systems (ATS) or talent acquisition systems, support the process of sourcing and selecting candidates for open jobs. They include the creation of requisitions for the recruitment of a particular job and storing and tracking the résumés of applicants and can include screening of candidates via assessments. Recruiters can use search tools and queries to weed through the mountain of applications for a particular job. Hiring managers are presented candidates for their positions electronically.

Recruiting applications provide benefits on the compliance side as well. Tracking for Affirmative action purposes becomes streamlined. The total cost of sourcing and selecting candidates can be reduced with a recruitment management system. HRIS job and organizational information can be interfaced to the recruitment systems for consistency purposes.

2.6.2. Onboarding

Onboarding refers to the process of hiring the employee into the organization. Applications that support this process include online self-service for new hire paperwork, drug screening, background checks, ordering of equipment (workstations, PC's, phone, company credit cards), and integration with security systems to establish an ID and access. Integration with a core HRMS automates setting up of the new hire in that system. Onboarding systems provide benefits to a company by reducing the amount of time that it takes to bring an employee into the company, making them a more productive worker in less time and reducing the total cost of hire. Many recruiting systems include onboarding modules.

2.6.3. Performance Management

Performance Management refers to those applications that manage the process by which employee's performance is evaluated. These applications can support annual, as well as more frequent review cycles, and they typically include a process for the setting of goals for the organization and the individual. As a result the individual's goals are aligned with the organization goals. These systems include the ability for an employee to perform online self-assessments, as well as manager reviews of their employees. Online automated confidential peer reviews (known as 360 assessments) can also be managed through these applications. These applications rely on the job and organizational management data in the HRMS to build goals of various organizational units and to establish workflow for management approval. These systems provide benefits to the company by eliminating paper-based manual processes, providing information for job and pay decisions and ensuring compliance of the performance management processes.

2.6.4. Competency Management

Competency Management provides the ability to create a set of competencies by job. Ideally the integration of the application will allow the sharing of competencies with performance management for the evaluation of an employee based on the competencies, compensation for the evaluation of jobs and to determine appropriateness of pay, career planning for the identification of career paths, and succession planning to identify successors to jobs based on competencies either demonstrated through a performance evaluation or those tied to previous jobs held. Learning management systems also use competencies for linkages to training activities.

2.6.5. Learning Management

Learning Management includes all of the functions around training employees. It includes establishment of courses and curriculum, scheduling of training events, delivering online training courses and tracking the training taken. It also supports the ability to prescribe learning plans based on the jobs a person is performing or career paths for them to pursue. These systems can provide hard dollar benefits to the organization by offering instructor-led training activities as online courses, eliminating the time and travel expenses associated with face-to-face training and the need for instructors. Other benefits of online training include less time away from ones job and greater availability of training.

2.6.6. Succession Planning

Succession Planning features the ability to assess an employee's fit for their current job, readiness to take on a new job and be potential successors for others. In an integrated suite, performance management and compensation data is included to provide a full picture of the employee's fit to current and future jobs. Oftentimes this is done in a graphical way using organizational charts. When integrated with a learning management system, a person can be given learning assignments to better qualify them for new job assignments.

2.6.7. Compensation Management

Compensation Management refers to those applications that support the job and pay processes within the compensation department, as well as employee pay actions. Within the compensation department these applications support the processes surrounding job creation and evaluation. They include features such as online job descriptions, integration with salary survey providers, and establishment of pay ranges/bands for jobs and support of market pricing or point-based evaluation methods. These systems benefit a company by providing accurate and timely information for the compensation professional and management with regards to how to create and establish pay practices.

Employee pay actions are supported for merit pay, incentive pay and bonus payments. Typically these solutions allow for the provisions of salary plans that are tied to jobs. The employee participates in that salary plan by virtue of being assigned to the job.

Pay for performance processes, also known as merit increase, are typically automated

in compensation management systems through manager self-service. Using information found within the core HRMS for job, pay and organizational structure, a manager can make pay actions on their employees. These systems allow for budget management within the merit process for determination and allocation of available budget. These systems eliminate the need for manual spreadsheet based processes, improve accuracy and eliminate the need for manual entry or complex interfaces to the HRMS for the reflecting of these pay actions.

2.7. Workforce Analytics

Workforce analytics refer to strategies for combining data elements into metrics and for examining relationships or changes in metrics. There is a fundamental distinction between “HR metrics” and “workforce analytics”. Metrics are data (numbers) that reflect some detail about given outcomes, e.g., success in recruiting new employees. These metrics reflect characteristics of the organization’s HR programs and activities. Analytics refer to strategies for combining data elements into metrics and for examining relationships or changes in metrics.

2.6.1. Benchmarking

The Saratoga Institute’s benchmarking efforts were the first to develop information on standard HR metrics regarding the use and management of human capital. Benchmarking data is useful in that it provides insights into what is possible.

However, a challenge in using HR metrics as benchmark data is that an organization’s human resource practices and the use of its HR staff reflect current challenges facing that organization. As a result, most organizations have an HR department, but the specific functions performed by these departments vary widely across organizations.

Consequently, direct comparisons of HR benchmarking data from one’s own organization to data from other organizations may not provide realistic guidelines for either goal setting or forecasting the potential effectiveness of remedial actions an organization might undertake.

2.6.2. Data Mining and “Big” data

Interest in data mining human capital information has been on the rise since the implementation of integrated HRIS and digitized HRM processes.

Data mining refers to efforts to identify patterns that exist within data and that may identify unrecognized causal mechanisms that can be used to enhance decision making. To identify these causal mechanisms, data mining uses correlation and multiple regression methods to identify patterns of relationships in extremely large datasets. Data mining has a number of important applications, but the caveat with its use is that it can also uncover spurious and nonsensical relationships (e.g., taller employees make better leaders; older employees have longer tenures).

Current interest in Big Data reflects efforts to analyze the extremely large data sets

created by many transaction systems. Often these datasets can be many terabytes (2^{10} gigabytes) or more. Many web based applications and transaction sites, like those generated by Amazon.com, Google, and many social media sites generate large numbers of transactions. Efforts in Big Data reflect attempts to mine these very large data sets for patterns that can provide addition insight for managers about customer preferences or process characteristics that managers can use to drive greater sales, higher customer satisfaction and reduce costs.

2.6.3. Predictive Analyses

Predictive analysis involves attempts to develop models of organizational systems that can be used to predict future outcomes and understand the consequences of hypothetical changes in organizations. For example, if the organization discovered a correlation between employee job satisfaction and turnover, HR could use this data to suggest modifications to the employees' work situation or their benefits.

Efforts to develop balanced scorecards are examples of elementary predictive systems. They involve identifying leading indicators of important organizational outcomes and the nature of the relationships expected to lead to them. Engaging in efforts to test the assumptions in these models over time can lead to enhancements in the quality of the models' underlying predictive analyses, either by identifying additional leading indicators or better specifying the nature of the relationships between predictors and outcomes.

2.6.4. Operational Experiments

The evidence-based management movement argues that managers should base their decisions on data drawn from the organization and evidence about the actual functioning of its systems rather than using personal philosophies or untested personal models or assumptions about "how things work." One of the most effective methods for developing the evidence on which to base decisions is through operational experiments conducted within the organization.

Google uses operational experiments to test the effectiveness of the ad words used on its Web site. Rather than simply relying on intuition or "expert judgment" about which ad wording is more effective, it creates an experiment. It configures its site to alternate the presentation of competing ad text to visitors to its site and then tracks the number of "click-through" on the ad for a period of time. Given the large number of daily hits, Google can get objective data on the effectiveness of the various ads in a relatively short time and then adopt the ad wording demonstrated to be most effective.

2.6.5. Workforce Modeling

Workforce modeling attempts to understand how an organization's human capital needs would change as a function of some expected change in the organization's environment. This change may be a shift in the demand for the organization's product, entry into a new market, divestiture of one of the organization's businesses, or a pending acquisition of or merger with another organization. This process involves

establishing a human resources planning program.

2.6.6. Strategic Realignment

Strategic realignment involves the set of activities most commonly known today as human resource planning. These planning efforts focus on long-term plans for needed strategic changes in the organization. Strategic realignment also extends the use of HRM analytics to planning for new situations and circumstances, i.e., mergers, acquisitions, divestitures, or entries into new geographic or product markets.

2.6.7. HR Reporting

For individuals conducting metrics and analytics work, paying attention to the capabilities and needs of the targeted audience is critically important. The information reported must be relevant to the issues facing the managers who receive it. Further, simply providing numbers to managers is unlikely to be of much use to them until they can understand the meaning of the information for their decision situations.

HR metrics and analytics information can be reported in a number of ways. Generally, a combination of “push” and “pull” means of communication will work for most organizations. Push systems like email are excellent for getting information to decision makers. Pull systems are ways of making information available to managers so that they can access any of it at a point in time when it will be most useful for their decision making, e.g., posting HR metrics and analytics analyses and reports on internal company Web sites.

Please note that the primary objective of developing capabilities in HR metrics and workforce analytics is to increase organizational effectiveness. It is not simply to generate a static menu of HR metrics reports or dashboards. Dashboards are a component of reporting. Dashboards reflect efforts to align real-time analysis of organizational and HR processes as well as an increased capacity to aggregate organizational data.

3. HR Outsourcing

Once upon a time, most HR departments provided one-stop shopping for employees with questions or concerns about benefits, hiring, training, complaints, colleagues, etc. For leaders, HR was the place to go for recruitment, retention and terminations. HR is a critical function and most companies handled it in-house. That’s all changing very rapidly. More and more companies outsource all or part of their HR needs.

HR outsourcing attracts the interest of business leaders because it is a time-proven strategy for success. As economic pressures have mounted, interest has increased. HR outsourcing does more than cut costs; it provides surprising benefits that extend throughout the enterprise, allowing organizations to access industry best practices -- and the best available technology -- without hiring a single person.

In most cases, companies opt for outsourcing to focus more on their main operational

activities of their business. Outsourcing activities eliminate the extra time that helps companies to focus more on their core competencies and higher value activities.

3.1. Outsourcing

Managing different aspects of employee management processes on a day-to-day basis is a complicated task—one that requires a substantial amount of energy, time, and expertise. By adopting a sound and cost-effective human resources outsourcing solution, HR can transfer this responsibility to a third party and focus solely and completely on what HR do best- managing and growing your business!

Many large and midsized companies turned to outsourcing as a way to realize the future state of HR service delivery. They transferred a large portion of the HR department's processes, technology, and people to outsourcing providers with the expectation that those firms would effectively transform the delivery of HR by providing an outsourced shared services model.

3.2. Offshoring

Outsourcing HR is gaining momentum both locally and overseas. Offshoring is the process by which companies undertake some activities at offshore location instead of in their country or origin. The biggest reasons for outsourcing offshore are lower administrative costs and increased access to a highly skilled workforce. More and more organizations are handing over back office operations and transactions processes, offshoring payroll, paperwork, processing and administration, among other HR functions. Among the factors that often attract companies to offshore outsourcing is the opportunity to access best HR practices, as well as critical mass expertise and technology.

Not surprisingly, global outsourcing is not without controversy – and consequently not without risks. Exchange rates can be volatile so cost advantages often fluctuate along with them. Also, one of the biggest issues companies face is potential backlash from the public and unions, as well as opposition from politicians. People are fearful of job losses and offshoring can sometimes create a publicity nightmare.

And sometimes the day-to-day running of the business can also be difficult from abroad. There can be issues with infrastructure in terms of finding consistent telephones and power and water supplies that are reliable. With offshoring there's a number of key decisions that have to be made, ranging from deciding where best to locate the offshore operation to how best to resource and manage it and how best to operate and deliver the services.

Extensive research, transparency, a solid understanding of the scope of the project, the capabilities of the workers and the global reach and a well-planned transitional approach are keys to making offshore outsourcing run smoothly.

3.3. HR outsourcing services

HR outsourcing services generally fall into four categories: PEOs, BPOs, ASPs, or e-

services. The terms are used loosely, so a big tip is to know exactly what the outsourcing firm you are investigating offers, especially when it comes to employee liability.

3.3.1. Professional Employer Organization (PEOs)

A Professional Employer Organization (PEO) assumes full responsibility of your company's human resources administration. It becomes a co-employer of your company's workers by taking full legal responsibility of your employees, including having the final say in hiring, firing, and the amount of money employees make. The PEO and business owner become partners, essentially, with the PEO handling all the HR aspects and the business handling all other aspects of the company.

By proper definition, a service is only a PEO when it takes legal responsibility of employees. But take note--some HR outsourcing services like to use the recognized term "PEO" when they handle the primary aspects of HR like payroll and benefits, yet they do not take this legal partnership.

3.3.2. Business Process Outsourcing (BPOs)

Business Process Outsourcing is a broad term referring to outsourcing in all fields, not just HR. A BPO differentiates itself by either putting in new technology or applying existing technology in a new way to improve a process. Specifically in HR, a BPO would make sure a company's HR system is supported by the latest technologies, such as self-access and HR data warehousing.

3.3.3. Application service providers (ASPs)

Application service providers host software on the Web and rent it to users--some ASPs host HR software. Some are well-known packaged applications (People Soft) while others are customized HR software developed by the vendor. These software programs can manage payroll, benefits, and more.

There are no clear-cut price ranges with HR outsourcing. The fees range greatly between services, as well as within the services. Aspects like number of employees, the options you choose to use, and even geography, will affect your overall cost. Contracts with HR outsourcing firms will usually run a year. But you should work in a clause in which you can give 30 days' notice to break the contract if you are dissatisfied with the services or don't need the services anymore.

There are some definite drawbacks to not having an HR manager in-house. An in-house HR person handles perks that you can't necessarily count on an outsourcing service to carry out--like looking into group offerings, building employee incentive programs, even taking care of recognition for employees' birthdays. And employees may want someone in-house--an impartial co-worker they can trust and see daily--to turn to if they have a work-related problem or dispute with another co-worker.

Because an in-house HR person interacts daily with your employees, they will likely

have more of an interest in your employees. Also, in the case of using a PEO, giving up the right to hire and fire your employees may not be desirable for your particular business. Most PEOs insist that they have the final right to hire, fire, and discipline employees. While having the extra time and not having to deal with the stress of this may be appealing, you may not want this responsibility out of your hands.

If you have fewer than 100 employees, you should consider outsourcing HR. At this size, you often don't have the resources for an in-house HR staff, so outsourcing is just right for you. You don't have to worry about managing all the details that are so critical to HR in your business, and most small-business owners just don't have the skills and experience to do so. Remember, HR functions must be handled correctly as close to 100 percent of the time as possible; slip-ups can cause your business major problems.

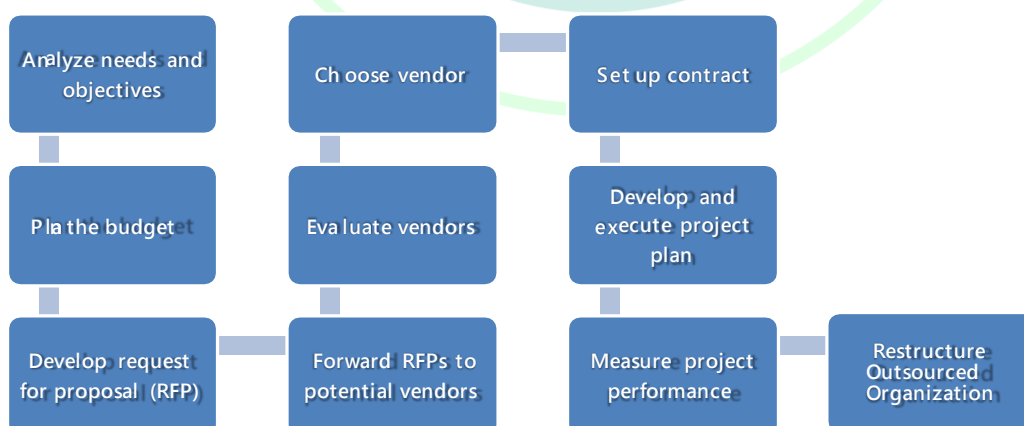
If you're uncertain about outsourcing everything but know you don't have the staff or experience to keep it in-house, try outsourcing only certain parts, such as payroll and benefits. You can also purchase HR software right off the shelf to support any in-house efforts. And if you decide to use an e-service, the same issues you'd have with any ASP remain. When everything is stored and handled online, there are concerns about security as well as potential crashes, both of which can be detrimental to your business.

3.4. Cosourcing and Insourcing

Cosourcing arrangement refers to an enterprise outsources only one part of a function. Co-sourcing is a way of attacking the problem by providing a service without having to be fully outsourced RPO.

Insourcing refers to contracting a function out to another entity that manages and performs the function on-site, transferring a previously outsourced function back in-house, or the hiring of local workers by foreign companies operating subsidiaries locally. Open sourcing is a way of eliciting innovative ideas from nonemployees or contractors.

3.5. Outsourcing Process



Focus on Core Competencies and Outsource the Rest.

3.5.1. Analyze needs and objectives

A thoughtful needs analysis is the most critical stage in which project goals and expectations of the potential third-party contractor are defined.

3.5.2. Plan the budget

Know what can be spent for the outsourced service and what it costs to provide that service in-house. This information provides a look at the expected financial return on investment.

3.5.3. Develop request for proposal (RFP)

An RFP is a written request asking contractors to propose solutions and prices that fit the customer's requirements. The purpose of all RFP is not only to ensure that responses actually meet HR's needs but also to ensure some consistency among responses so that the responses may be more easily compared.

3.5.4. Forward RFPs to potential vendors

Instructions on the manner and date for submission should be included in this request.

3.5.5. Evaluate vendors

These variables differ based on the organization's size, priorities, and industry. For procuring HRIS, their ability to meet specifications, customization options, and price should be considered.

3.5.6. Choose vendor

Get the names of possible contractors, state contractor licensing, ask to see their certificates for insurance, and assess their business longevity.

3.5.7. Set up contract

This written contract will describe not only the key deliverables of the project but will include additional information such as implementation time frames, payment terms, performance standards, training expectations, and upgrade costs and responsibilities.

3.5.8. Develop and execute project plan

Conduct an initial project planning meeting to review and refine implementation targets in the project schedule. Outsourcing may curtail loss of morale, and therefore it is important to have an employee briefing when an outsourcing partner is announced. This enables employee questions to be answered, and it provides the business rationale for the outsourcing decision in a consistent manner for all employees.

3.5.9. Measure project performance

All payment terms are -usually settled and the contractor could ask for an evaluation of its services.

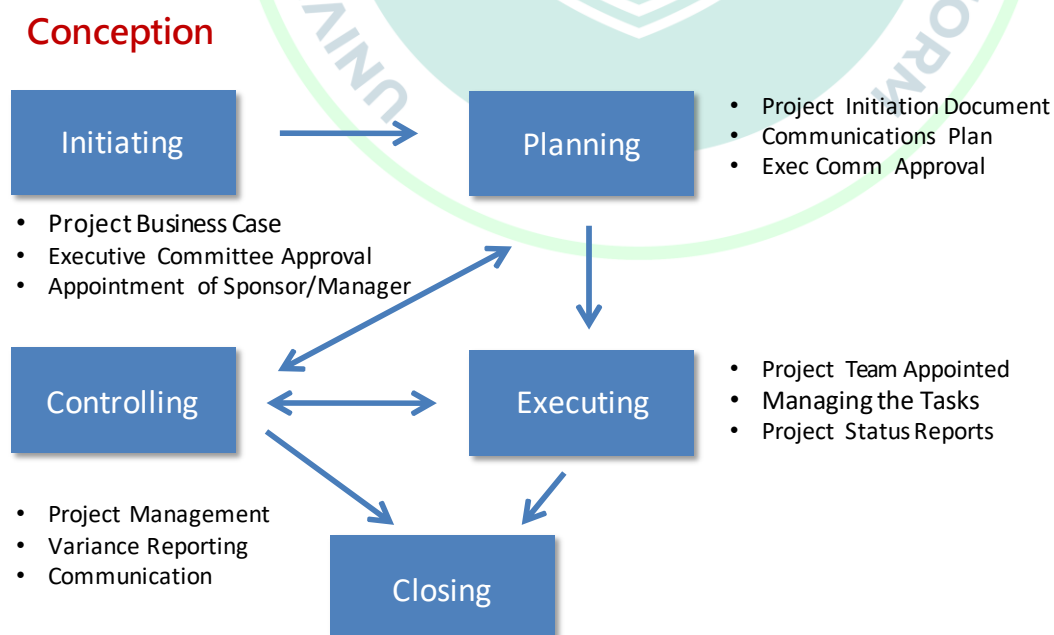
3.5.10. Restructure Outsourced Organization (if applicable)

It challenges management to build a more flexible organization structured around core competencies and long-term relationships.

4. Project Management

Project management is not just for information technology, engineering or construction projects. Organizations have all kinds of projects, and people from all sorts of disciplines can utilize project management – including HR practitioners. And while some people are pure project managers, most organizations tend to prefer project managers who have at least some functional knowledge of the domains in which they manage projects.

Project management is defined by the Project Management Institute (PMI) as “the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements.” A project is really any kind of “temporary endeavor undertaken to create a unique product, service, or result.” In an HR context, any fairly major initiative of a temporary nature related to human resources management would likely count as a project. Examples might include implementing a new human resources information system (HRIS), staffing a new production facility, developing a new competency framework, updating an employee handbook, handling the people side of a merger or acquisition or leading and implementing an organizational change initiative.



4.1. Project Life Cycle

The project management life cycle consists of five phases: Initiation, Planning, Execution, Control, and Closure:

4.1.1. Initiating the Project

An idea for a project will be carefully examined to determine whether or not it benefits the organization. During this phase, a decision making team will identify if the project can realistically be completed.

4.1.2. Planning the Project

A project plan, project charter and/or project scope may be put in writing, outlining the work to be performed. During this phase, a team should prioritize the project, calculate a budget and schedule, and determine what resources are needed.

Gantt chart is a project planning tool that graphically displays activities of a project in sequential order and plots them against time. Program evaluation and review technique (PERT) chart is used to schedule, organize, and coordinate tasks within a project. Using time as the common denominator, PERT analyzes all events that can directly influence the success of a project in terms of time and performance; therefore, it visually outlines the critical path of project tasks.

4.1.3. Executing the Project

Resources' tasks are distributed and teams are informed of responsibilities. This is a good time to bring up important project related information.

4.1.4. Monitoring and Controlling the Project

Project managers will compare project status and progress to the actual plan, as resources perform the scheduled work. During this phase, project managers may need to adjust schedules or do what is necessary to keep the project on track.

4.1.5. Closing the Project

After project tasks are completed and the client has approved the outcome, an evaluation is necessary to highlight project success and/or learn from project history.

4.2. Major roles for a Project Manager

A project manager is the person who has the overall responsibility for the successful initiation, planning, design, execution, monitoring, controlling and closure of a project. The project manager must have a combination of skills including an ability to ask penetrating questions, detect unstated assumptions and resolve conflicts, as well as more general management skills. Key among his or her duties is the recognition that risk directly impacts the likelihood of success and that this risk must be both formally and informally measured throughout the lifetime of the project. There are three major

roles for a project manager:

4.2.1. Interpersonal

The project manager is a leader and a liaison. The top priorities are building team norms and fostering harmony.

4.2.2. Informational

The project manager is a spokesperson who gathers and disseminates information and is responsible for helping team members communicate effectively across all areas of the organization.

4.2.3. Decisional

The project manager allocates resources, negotiates differences, and encourages project progress.

4.3. Project Management Knowledge Areas

There are nine project management knowledge areas identified on Project Management Body of Knowledge (PMBOK Guide) by PMI, which are used throughout the project management processes.

4.3.1. Project Scope

Project Scope is concerned with the work of the project, and again clarifies the boundaries of what is not included. The processes required to ensure that the project includes all the work required, and only the work required, to complete the project successfully.

4.3.2. Project Time Management

This knowledge area includes estimating task schedules, determining the project schedule and project completion date. It will also include monitoring and controlling a project schedule throughout the project. It is closely aligned with Project Cost Management, in particular with the Estimate Activity Resources and the Estimate Activity Durations, since it is these along with their cost implications that must be finalized before the schedule can be developed. The processes required to ensure timely completion of the project.

4.3.3. Project Cost Management

In a similar way, this knowledge area is there to estimate the resources required, and the project budget. Resource costing is not just about people. It should also include other types of resource such as Materials, equipment, facilities, and project related services such as letting contracts. The processes required to ensure that the project is completed within the approved budget.

4.3.4. Project Quality Management

This knowledge area covers two main areas, creating the products to an acceptable quality level, and the quality of the project management process itself. The processes required to ensure that the project will satisfy the needs for which it was undertaken.

Performing Quality Assurance is the act of auditing and comparing the quality requirements against the quality control measurements to check that appropriate quality standards and operational definitions are used.

Compare and contrast this to: Perform Quality Control. This is the monitoring the results of carrying out quality activities which will include the project deliverables/products and project management results such as how the project is performing against schedule and budget.

4.3.5. Project Human Resource Management

This knowledge area is to do with managing people. It includes aspects such as acquiring the team, developing the overall team performance, and then managing that performance such as performance appraisals, leading and coaching, and resolving resource issues and optimizing the project performance. The objective here is to ensure that all human resources are used effectively, and draws upon skills such as leadership, team building, and communication. The processes required to make the most effective use of the people involved with the project. It consists of:

Organizational planning: identifying, documenting, and assigning project roles, responsibilities, and reporting relationships.

Staff acquisition: getting the needed human resources assigned to and working on the project.

Team development: developing individual and group skills to enhance project performance.

4.3.6. Project Communications Management

Communications is not just about the human kind, but includes information such as meeting management and actions, risk actions and assessments, project plans, reviews and walkthroughs, etc. This information must be shared with all of the project stakeholders — both internal and external to the project. The processes required to ensure timely and appropriate generation, collection, dissemination, storage, and ultimate disposition of project information. Communication takes at least 90% of a Project Manager's time!

4.3.7. Project Risk Management

Risk management is the systematic process of identifying, analyzing, and responding to project risks. It includes maximizing the probability and consequences of positive

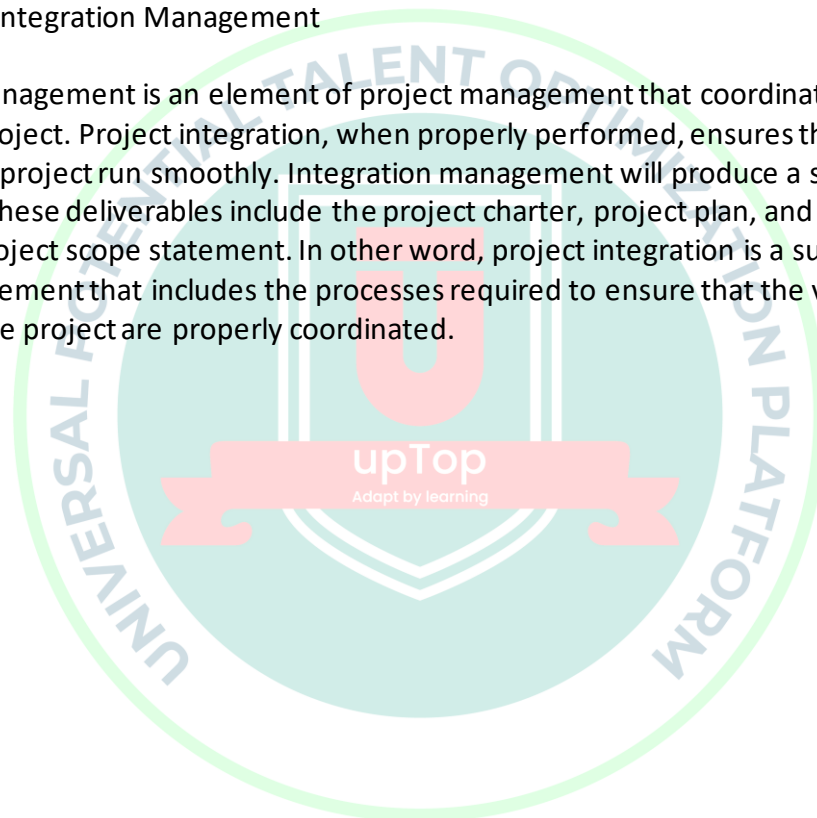
events and minimizing the probability and consequences of adverse events to project objectives. Risk identification is best done during planning, and as many people should be involved as possible, so that the complete picture of risk threats and positive opportunities to the project can be identified.

4.3.8. Project Procurement Management

Most projects work within a customer/supplier environment. Generally the project team is working on behalf of the customer, and suppliers are responsible for the creation of the project deliverables/products — there can be both internal suppliers and external suppliers. Project Procurement is used when it is necessary to purchase or acquire products, services, or results needed from outside the project team. The processes required to acquire goods and services to attain project scope from outside the performing organization.

4.3.9. Project Integration Management

Integration management is an element of project management that coordinates all aspects of a project. Project integration, when properly performed, ensures that all processes in a project run smoothly. Integration management will produce a series of deliverables. These deliverables include the project charter, project plan, and preliminary project scope statement. In other word, project integration is a subset of project management that includes the processes required to ensure that the various elements of the project are properly coordinated.





Part Four: International Assignment

1. Global Workforces

The advent of the era of liberalization and globalization along with the advancements in information technology (IT) has transferred the world around any organizations. Since an international business must procure, motivate, retain, and effectively utilize services of people both at the corporate office and at the foreign plants, therefore, the workforce in an international business context is called global workforce. In General, there are three types of global workforce as Parent-country nationals (PCNs), Host-country nationals (HCNs) and Third-country nationals (TCNs) classified by their source (Where to find).

<i>Parent Country Nationals(PCNs)</i>	<i>Host Country Nationals(HCNs)</i>	<i>Third Country Nationals(TCNs)</i>
Familiarity with home office, goals, practices	Familiarity with the situation in host-country	Salary & benefit requirements lower than that of PCNs
Easy organisational control & coordination	Lower hiring costs	May be better informed about host country environment
Difficulty in adapting to foreign country	Difficulty in exercising effective control over the subsidiary's operations	Host country govt. may resent hiring TCNs
Excessive cost of selecting, training & maintaining expatriates	Communication problems with home office personnel	May not return to their country after assignment

Parent-country nationals (PCNs)

PCNs are employees whose nationality is the same as that of the firm headquarters — for example, a German employee of a German company who is working at a Chinese subsidiary.

1.1. Host-country nationals (HCNs) or local nationals

HCNs are employees who have the same nationality as the local subsidiary. This could be a Chinese employee working at the Chinese subsidiary of the German company.

1.2. Third-country nationals (TCNs)

TCNs are employees whose nationality is different from that of either the headquarters or the subsidiary office. In the above scenario, this might mean an Indian employee working at the Chinese office of the German company.

1.3. Expatriate

The general topics of staffing with international assignments include Expatriation, Repatriation and Inpatriation. Here are three major International Assignment Types:

1.3.1. Expatriation

Expatriation has been historically viewed as the process of moving from the parent company or headquarters to foreign subsidiaries or “overseas” operations. But expatriation might better be viewed as the process of moving from one country to another while staying in the employment of the same firm.

1.3.2. Repatriation

Repatriation is the opposite of expatriation which involves the move of the international assignee back to the parent company and country from the foreign assignment. For many expatriates, the move “back home” is even more difficult than the original move overseas.

1.3.3. Inpatriation

Inpatriation means an employee (HCN or TCN) who is relocated from a foreign subsidiary or joint venture to the parent company. This posting is usually for a relatively short period of time (one to two years) and is for the purpose of teaching the subsidiary or international joint venture employee about the products and culture of the firm from the perspective of headquarters. Or, increasingly it could be to fill a functional or technical need for a limited period of time or to serve on a multinational team for a specified period of time.

2. Purpose of Global Assignment

Researchers have shown that the reasons why expatriates are sent on assignment may have an impact on job performances, adjustment and roles performed although it is important to note that many assignments generally have more than one rationale while there may be few ‘pure’ cases whereby assignments have a singular purpose. Generally, there are three key motives for utilizing international transfers:

Firstly, when qualified local country nationals were not available, particularly in developing countries, expatriates were used to fill positions.

Secondly, organizations use international assignments (IAs) as a means of developing individual employees. This type of assignment is aimed at developing the global competence of the individual manager and indeed organizations utilizing this type of assignee are likely to do so regardless of the competence of employees in the host environment.

Finally, IAs could be utilized as a means of organizational development. In this instance IAs are used to transfer knowledge between subsidiaries and to modify and sustain organizational structure and decision process.

Scholars developed a framework for classifying the duration and purposes of international assignments; this is presented below (see the Figure). This differentiation is important because managerial development reasons for the assignment will foster expatriate personal change and role innovation, whereas control reasons will focus attention on the expatriate making personal changes and on role innovation in the subsidiary.

Thus, in learning-driven assignments, the expatriate changes his/her frame of reference to adapt to the new environment and indeed adapt his/her behavior to meet the requirements of the new environment. While in control-driven assignments, subordinates are expected to absorb the new demands of the expatriate manager and change their frames of reference, and further role requirements are adapted to meet the transferred manager's expectations.

Assignment duration	Long	CORPORATE AGENCY Control/Knowledge transfer	COMPETENCE DEVELOPMENT
	Short	PROBLEM SOLVING	BUILDING EXPERIENCE
		Demand-driven	Learning-driven
Assignment purpose			

Different objectives may require **differentiation** in the way international assignments are managed

The purpose of expatriation

Source: Evans, P., Pucik, P., & Barsoux, J.L. (2002). The global challenge: frameworks for international human resource management. New York: McGraw-Hill.

2.1. Corporate Agency

Traditionally, expatriate assignments were predominately demand-driven. Assignees of this type were considered either position fillers who acted as corporate agents by transferring knowledge or assisting in controlling newly established subsidiaries, or problem solvers. These assignments tend to be longer-term (that is, over three years' duration).

2.2. Problem Solving

Problem-solving expatriates perform similar roles but they are categorized as such by the singular purpose and duration of their assignment, which is determined by the length of time required to complete a specific task. These assignments are generally driven by short-term or startup problems. Demand-driven assignments are usually utilized where there is a lack of suitably qualified host-country national's (HCNs) and are teaching-driven.

2.3. Competence Development

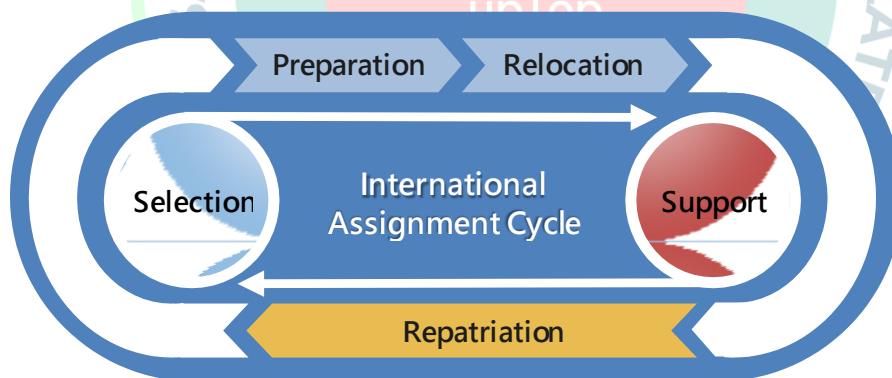
Learning-driven assignments focus on learning rather than teaching. These assignments become more common as subsidiaries develop local managerial and technical capability, and the initial skills gap experienced by the firm reduces. Again learning-driven assignments can be categorized by duration and purpose. Assignments whose purpose is to increase cross-national, organizational coordination capabilities are generally longer-term assignments with the focus on developing a global mindset within the organization.

2.4. Building Experience

Finally organizations are increasingly identifying high potential employees who, as part of fast track career programs, are provided with the opportunity to gain international experience through short-term foreign assignments. These assignments are aimed at enhancing the careers of the employees concerned. In examining the empirical evidence on the utilization of expatriates for demand-driven assignments we can point to a number of key trends.

3. Global Assignment Process

For ensuring every global assignment processed smoothly, we have to confirm all the necessary steps no matter at the stage of before, during and after the Assignment. There are several phases in the international assignment lifecycle, each with different opportunities and challenges. Companies should be aware of each phase so appropriate planning can be implemented. A failed assignment is expensive in many ways as described below:



Source: Heaps, W. (2012). International Human Resource Forum.

3.1. Selection: Identifying Business Need and Selecting Employee

Expatriate selection is a multi-faceted subject and that personality characteristics as well as interpersonal skills are very important. Scholars identified four groups of variables that contribute to success or failure on the job and hence should be used to guide selection:

3.1.1. Technical competence on the job.

As in the selection and placement of personnel in domestic operations, this factor is one of the primary determinants of success. It may be even more important for assignments abroad because the individual is located at some distance from the HQ, often the hub of technical expertise, and cannot consult as readily with his/her peers and superiors on matters related to the job.

3.1.2. Personal traits or relational abilities

This refers to the ability of the individual to deal effectively with his/her superiors, peers, subordinates, business associates and clients. In assignments abroad, this variable greatly influences the probability of successful performance. This factor is not limited to simple knowledge of another culture. The crucial element is the ability to live and work with people whose value systems, beliefs, customs, manners and ways of conducting business may greatly differ from one's own.

3.1.3. Ability to cope with environmental variables

In domestic operations the ability to identify and cope with environmental constraints, such as governments, unions, competitors and customers, is crucial to effective performance. This same requirement is no less valid in assignments abroad, but the political, legal and socioeconomic structures which constitute the macro-environment in the host country may be very different from the systems with which the expatriate is familiar. This poses problems of adjustment. The expatriate has to understand these systems and operate within them.

3.1.4. Family situation

This refers to the ability of the expatriate's family (the partner in particular) to adjust to living in a foreign environment. Researchers and practitioners are becoming increasingly cognizant of the importance of this factor to effective performance abroad. The situation often becomes even more complex if the partner (male or female) has had to give up a job or even a career to accompany his or her partner abroad.

3.2. Preparation: Pre-assignment Planning

Your expatriate assignment is the start of an exciting and challenging phase of your working life. Along with this excitement, comes a range of important issues and opportunities that need to be carefully considered before you depart. That's why you need to plan for your expatriate assignment in advance. In order to prepare individuals, who have been selected for an international posting, and facilitate their adjustment to the foreign culture, diverse cross-cultural training programs have been developed. The content and focus of these programs are contingent upon factors such as:

3.2.1. Assignment cost projection

International assignments are a significant component of the total cost of your global business strategy. Cost projections and annual accruals or forecasting can increase awareness of the actual, real-time costs incurred and can identify anomalies more quickly, in order to make necessary changes before there's a significant cost overrun. Successfully implementing data analytics requires payroll and expense-management counterparts to work closely together to provide timely total cost reporting that can be segmented by level, department, length of assignment, or however the company needs it sliced and diced to make it meaningful.

3.2.2. Tax planning opportunities

Tax laws may vary greatly between countries. Outside vendors have many opportunities to provide a full spectrum of individual international tax services to international assignees with international operations. These services can include planning, compliance and assistance in mitigating the additional tax costs that employees generally incur during offshore assignments. Such work is tailor-made for an outside qualified practitioner. Companies generally do not have the internal expertise to handle the myriad complex issues. In addition, the tax adviser can serve as a third-party referee or arbitrator between the employer and employee. The globalization of the operations of multinational entities (which is likely to accelerate, rather than recede) represents a unique opportunity for tax practitioners to provide interesting, value-added services to clients (and potential clients).

3.2.3. Selecting global mobility partners

Moving your employees can be a daunting process — you need to know that your relocation services partner understands your business needs as well as it understands the mobility industry. A qualified partner of global mobility services can help both the employer and assignee prepare for international relocation through a single point of contact.

3.2.4. Evaluating employee/family needs

At the phase of pre-assignment planning, employers and their outsourced vendor should listen to the needs of the employee and family so they can get a head start on planning for a smooth and rewarding relocation. Moreover, prior to departure, the employee and accompanying dependents must undergo a complete medical examination.

3.2.5. Visa and Work permit application

Visas and work permits are required by most countries and can be obtained with the Company's assistance in the country of assignment. A business visa is for people who do tasks that can't be considered work or gainful employment. A work permit is meant for services that would be considered a job or labor of some sort. The point is that global work permits are meant for employment, contracted labor, or any activity that the country would interpret of worthy of income or compensation. Each country around the world has different requirements and follows different application

processes to apply for a work permit. Although each country around the world has its own specific business visa and work permit requirements, the general difference between the two should be clear – one involves business inquiry or relations, the other allows foreign nationals to work or earn an income.

3.2.6. Pre-departure training

Pre Departure Training is very important for people who will be sent for the international assignment. To make sure people is already compatible with the company objectives. If it is run well then it will reduce the probability of early return of the expatriates and also keep the employee mindset true (for assignment not for vacation). Pre Departure Training will be conducted by company to train the people who will be sent to the different country and make sure they can adjust with the new environment and perform well. Pre Departure Training will be conducted in the frameworks of cultural awareness (in daily life and work life), but the other factors also will be included to support their performance.

3.3. Relocation

3.3.1. Transition to new location

Moving the expatriates' family, their business, their life to another country is a big challenge. Finding suitable accommodation for the expatriate and their family members will need to be done in advance. The agreement should specify the amount (in addition to salary and other benefits) which will be paid towards rent. The agreement may also specify whether the company is willing to pay for the services of a rent agency to find suitable accommodation. An outsourced agency can provide relocation services directly and manages the process of relocation including arranging necessary documents (visa, long-term stay permissions), finding a new house (accommodation), finding a school for children (education), finding a job for the partner or "trailing spouse", arranging a teacher for the family (language training) and introduce expatriates to the local culture.

3.3.2. Assignment briefings

A pre-assignment briefing on what the employee can expect in their new country will help them settle more quickly. Global HR team should undertake assignment briefings, and explain all compensation and technical elements, and act as first point of contact for assignees/HR/business managers on all assignment related issues.

3.3.3. Implementing pay delivery and reporting changes

An expatriate payroll ensures that the worker's benefits are kept the same as they are back in their country of origin. As well as salary, this can cover such areas as tax and holiday entitlement. A further service can include salary splitting, in which a salary can be paid across two forms of currency.

Moreover, to whom will the seconded employee report? Will they still report to their former manager in Headquarters? Or will they have a line manager in the host country,

with a dotted line to Headquarters? Who will conduct appraisals? Who will performance manage an employee? What if there is a disciplinary issue? All of these things need to be considered and documented in advance of the employee being sent abroad.

Despite many organizations' stated policy aim that on-going career links with home country were encouraged and should be maintained, studies found that only one of the participants actually involved both the home and host country management in the annual performance review process and on-going objective-setting. The remainder all had performance appraisals conducted solely in the host location

3.3.4. Certificates of coverage

It is also important to help expatriates to review the policy benefits (what is covered) and exclusions (what is not covered) about their insurance. Global HR team should be able to obtain a "certificate of coverage" which will provide comprehensive details prior to the purchase. Often, some benefits are limited either by the amount of coverage provided for certain treatments or for a period of time. For example, maternity benefits are typically excluded for the first 12 months of coverage. Benefits may also be limited or excluded for travel to certain countries.

3.4. Support: Assignment Period

3.4.1. Tax reporting and compliance, including tax protection and equalization

In many cases, the expatriate is expected to fully comply with all applicable tax laws and regulations in the home and the host Countries. Additional responsibilities include: filing timely tax returns, filing final tax returns before departing from Host Country, making proper declarations, and providing accurate and timely documentation as required in support of such tax returns. The employers may enter into an agreement with an international tax service for assistance in tax consultation, tax compliance, or tax return preparation.

3.4.2. Equity award vesting

Changes to the taxation of share options and restricted shares held by expatriate should be altered. The expatriate's income arising on vesting or exercise should be outside the scope of home country income tax. Designing and operating shares schemes for expatriates are often fraught with tax risks and practical difficulties. Global HR team should get in touch with their vendor contact for expert advice on getting the most out of the share scheme.

3.4.3. Compensation accumulation

Compensation accumulation as well as preparation of wage statements includes international allocation of compensation and benefits. Global HR team can outsource this work to vendors that can handle the collection and reporting of all direct payments made on behalf of the assignees (ex. housing, utility, and auto payments) as-needed by

your local payroll and/or tax firm.

3.4.4. Employee tracking

For organizations that have employees facing considerable danger, safety is always at the top of the list. There are many ways for companies to increase safety, but one of the simplest is often overlooked. Implementing an employee tracking program is a very effective way to manage risk. An employee tracking program can let you know where each employee is at all times, which could be critical in the event of a natural disaster or political or military upheaval, as well as during a kidnapping incident.

Companies such as International SOS provide comprehensive services based on GPS tracking of employees that can assist organizations in the design and implementation of integrated risk mitigation solutions. These solutions are designed to proactively manage the medical and security risks associated with overseas travel or assignment.

3.5. Support: Post-assignment Planning

Post-assignment— it is as though top management is suffering from international assignments. Management doesn't quite know how to utilize that experience.

3.5.1. Identifying destination

Clarify objectives before the assignment as well as how knowledge can be used and what kind of job will be targeted upon return.

3.5.2. Comparing cost projection

As a liaison between expatriates and the rest of the company, HR must balance two sometimes conflicting aims: achievement of corporate goals versus implementation of reasonable and competitive pay packages. Closely analyzing and monitoring both necessary and discretionary expenditures involved in the assignment can help HR simultaneously satisfy top management and expatriate needs. In addition, reconciling estimated costs against actual expenditures allows the company to create a realistic budget for the years ahead and improve global staffing strategy.

3.5.3. Compensation adjustments

On top of the home-country salary, host-country cost of living adjustments are usually made. In many cases, such adjustments are made using the 'no loss' approach: expatriate compensation is adjusted upward for higher costs of living, but is not adjusted downward if the cost of living in the host country is less than in the home country.

3.6. Repatriation

Most executives who oversee expatriates view their return home as a nonissue. The truth is repatriation is a time of major upheaval, professionally and personally, for two-thirds of expats. Companies that recognize this fact help their returning people by

providing them with career guidance and enabling them to put their international experience to work.

3.6.1. Preparation

Approx. 5-3 month before the expatriate returns to the home country, he or she should be taken through a re-entry phase, followed by actual repatriation. This involves developing plans for the future and collecting information about the new position the expat is likely to occupy after returning home. During the pre re-entry phase, the mentor can play an advisory role in finding the expat a suitable position within the organization. The company may provide a checklist of items to be considered while leaving the host country.

3.6.2. Physical Relocation

This stage involves removal of personal belongings, breaking ties with colleagues and friends and traveling to the next posting, usually the home country. Professional re-entry training should also be given to expat and his or her family that covers social cultural contrast orientation, an updated political and social issues and changes in the home country, job opportunities for the partner, an evaluation of the experiences in the host culture and the psychological aspects of repatriation.

3.6.3. Transition

Phase in which the expatriate and his or her family readjust to their return to the home country. Some companies hire relocation consultants to assist in this phase also. Typical activities include acquiring temporary accommodation, making arrangements for housing and schooling, performing necessary administrative tasks (e.g. renewing driver's license, applying for medical insurance, opening bank accounts)

3.6.4. Readjustment

This phase involves coping with reverse culture shock and the expatriate's career demands on the organization. Generally, the more the host country culture differs from the home country culture, the more difficult the re integration process will be. Likewise, the more successful the expat was in the host culture, the more difficult it is to adjust to the work environment at the home base.

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