SPHRi MODULE 3
HR SERVICE DELIVERY

Senior Professional in Human Resources – International (SPHRi)

Table of Content

Introduction 2
Table of Content 3
Part One: HR Planning and Staffing 8
1. Human Resource Planning (Workforce Planning) 8
1.1. Business Objectives 9
1.2. Workforce Demand Analysis 10
1.3. Workforce Supply Analysis 11
1.4. Workforce Gap 11
1.5. Staffing Plan 12
1.6. Equating Workforce Demand to Supply 13
2. HR Forecasting 14
2.1. Steps One and Two: Classifying Employees and Positions 16
2.2. Step Three: Equating Staffing and Output 16
2.3. Step Four: Forecasting Demands 17
2.4. Step Five: Forecasting Labor Supply 22
2.5. Step Seven: Forecasting HR Needs 25
3. Staffing Plan 26
3.1. Demand Forecast 26
3.2. Supply Forecast 26
3.3. Gap Analysis 27
3.4. Strategy Identification 27
4. Job Analysis 27
4.1. Applications of Job Analyses 28
4.2. Elements of a Job Analysis 33
4.3. Job Specification 37
5. Methods of Job Analysis 38
5.1. Self-Reports 39
5.2. Direct Observations 39
5.3. Interviews 40
5.4. Document Reviews 42
5.5. Questionnaires and Surveys 42
6. Job Design 45
6.1. Comparative Framework 47
6.2. Job Design and Technology 50
6.3. Job Characteristics Enrichment 51
6.4. Sociotechnical Systems 56
7. Contingent Staffing 58
7.1. Type of Alternative Staff 58

7.2. Contingent Workforce Strategy 59
Part Two: Recruitment and Selection 62
1. Recruiting 62
1.1. The Purpose of Recruitment 62
1.2. The Recruitment Process 63
1.3. Recruitment Planning 64
2. Sources of Recruitment 64
2.1. Internal Recruiting 65
2.2. External Recruiting 72
3. Employer Branding 75
3.1. Definition of Employer Branding 76
3.2. Branding Techniques 76
3.3. Employee Value Proposition (EVP) is the Foundation of Employer Branding ... 76
3.4. Employer Brand Framework 77
3.5. Manage the Employer Brand for the Long Term 77
4. Selection Process 78
4.1. Stage One: Initial Screening 79
4.2. Stage Two: Secondary Screening 79
4.3. Stage Three: Candidacy 80
4.4. Stage Four: Verification 80
4.5. Stage Five: Final Decision 80
5. Criteria, Predictors, and Performance 80
5.1. Validity 82
5.2. Reliability 82
5.3. Combining Predictors 82
5.4. Person-Environment Fit 83
6. Initial Screening 84
6.1. Electronic Assessment Screening 85
6.2. Application Forms 86
6.3. Résumés as Applications 87
7. Secondary Screening 87
7.1. Cognitive Aptitude Tests 88
7.2. Psychomotor / Physical Abilities 88
7.3. Job Knowledge Tests 89
7.4. Work Sample Tests 89
7.5. Vocational Interest Tests 89
7.6. Personality Tests 90
7.7. Integrity Test 91

7.8. Substance Abuse Tests 91
7.9. Assessment Center (AC) 91
8. Job Interview 92
8.1. Structured vs. Unstructured Interviews 92
8.2. Situational Interview 93
8.3. Behavioral Interview 93
8.4. STAR technique 94
8.5. Other Types of Interviews 95
8.6. Interview Procedure 96
9. Reference Check 96
9.1. Process of Reference Check 97
9.2. Background Check 98
9.3. Legal Constraints on Background Investigations 99
9.4. Medical Examinations and Inquiries 99
9.5. References 100
9.6. Making the Job Offer 100
10. Onboarding 101
10.1. Recruiting 102
10.2. Orientations 103
10.3. Support Tools and Processes 103
10.4. Coaching and Support 104
10.5. Training 104
10.6. Feedback Tools 104
Part Three: Retention and Separation 106
1. Employee Turnover 106
1.1. Voluntary Turnover 106
1.2. Involuntary Turnover 107
1.3. Causes of Turnover 107
1.4. Functional or Dysfunctional Turnover 107
1.5. Turnover and “Churn” 108
1.6. Measuring Employee Turnover 108
2. Employee Retention 109
2.1. Retention Matrix 110
2.2. Employee Surveys 114
2.3. Exit Interviews 114
2.4. First-Year Turnover Evaluations 115
2.5. Retention Evaluation and Follow-Up 115
2.6. Job Embeddedness 116

3. Reduction in Force (RIF) 116
3.1. Short-range cost adjustments 117
3.2. Medium-range cost adjustments 119
3.3. Long-range cost adjustments 120
4. Employee Termination 121
4.1. Paper Trail 122
4.2. Short, Clear Meeting 122
4.3. Explaining the Severance 122
4.4. Communicating with Staff 123
4.5. Discharge, Layoff, and Resignation 123
5. Outplacement 124
Part Four: Compensation and Benefits 128
1. Compensation Design 128
1.1. Total Reward 128
1.2. Administration and Optimization 129
1.3. Strategic Reward 131
1.4. Individual Differentiation 132
1.5. Market Conformity (Competitiveness) 133
1.6. Internal Consistency (Equity) 134
2. Total Reward Approach 135
2.1. Fixed Pay 136
2.2. Variable Pay 137
2.3. Benefits 138
2.4. Work-Life Balance 140
2.5. Other Elements of Total Rewards 140
3. Compensation Administration 141
4. Job Evaluation 143
4.1. Objectives of Job Evaluation 143
4.2. Aspects of Job Evaluation 144
4.3. Job Evaluation Methods 144
5. Remuneration Surveys 148
5.1. Purposes of Remuneration Surveys 148
5.2. Market Select 149
5.3. Data Collect 149
5.4. Data Analysis 151
6. Pay Structure 152
6.1. Terms and Definitions 152
6.2. Global Salary Grades 155

6.3. Global Pay Structure 155
7. Strategic Rewards 157
8. Individual Differentiation 159
8.1. Entitlement Orientation 160
8.2. Performance Orientation 160
9. Market conformity 161
10. Internal Consistency 161
11. Job vs. Person Based Pay 166
12. Incentive Programs 170
13. Sales Compensation 174
14. Executive Compensation 176
15. Types of Executive Compensation 178
16. Equity Program 179
Reference 184

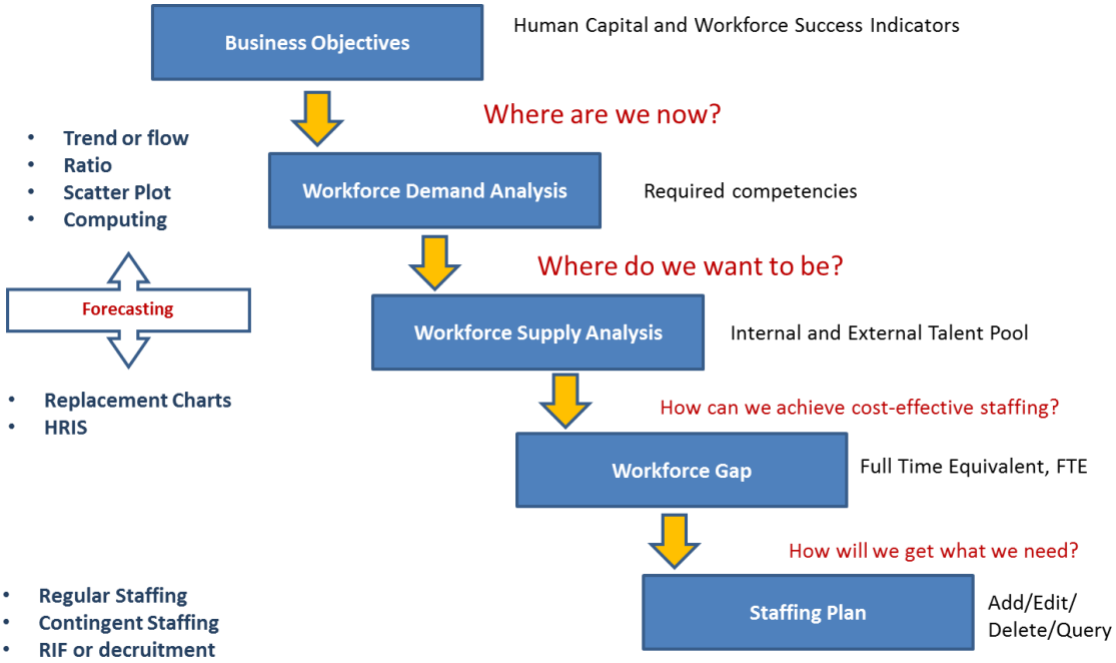
Part One: HR Planning and Staffing

1. Human Resource Planning (Workforce Planning)

Human resource planning (HRP is also called workforce planning) 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 human resource planning 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, Human Resource 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.



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

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.' 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 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.

1.2.1. 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.

1.2.2. 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.

1.2.3. The Scatter Plot

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

1.2.4. 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.

1.3. 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.

1.3.1. 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.

1.3.2. 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.

1.3.3. 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.

1.3.4. Forecasting the Supply of outside Candidates

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

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.

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.

1.5. 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.

1.6. Equating Workforce Demand to Supply

1.6.1. 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.

1.6.2. 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.

1.6.3. 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).

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 specificlevel 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

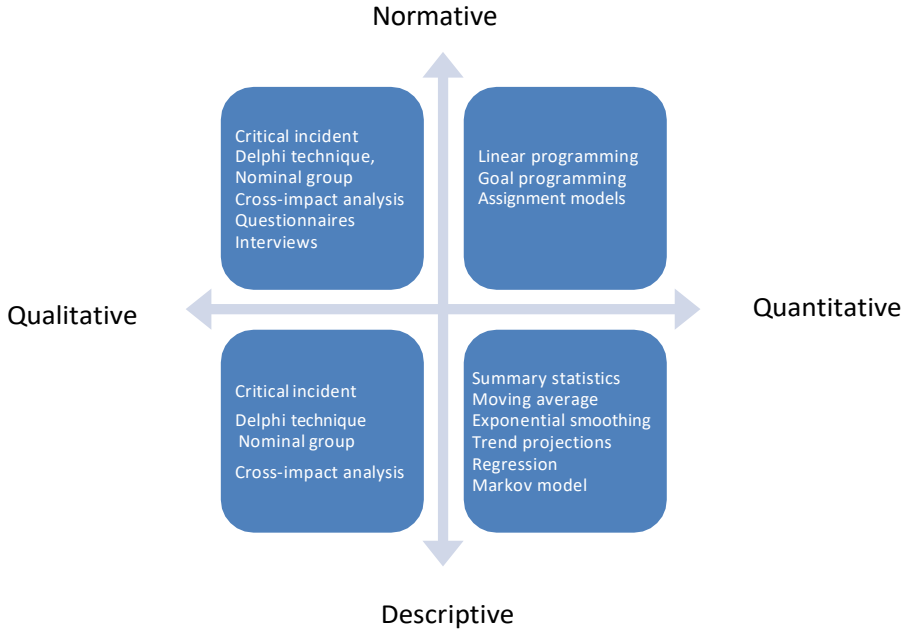
parts of the organization so as to hold down unnecessary costs; (5) prevent shortages of people where and when they are most needed; and (6)monitor compliance with equal employment opportunity goals. Demand forecasting thus helps control costs associated with human resources by ensuring that recruitment, 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 kill 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 than inside 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. Staffing Plan

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.

3.1. Demand Forecast

Identify how many staff are needed to meet deliverables, outputs, and performance measures. The most accurate forecasts are one to three years into the future. Consider:

Staffing Level: How many positions will be needed in ‘core’ job areas?

Regular Turnover: What is the projected turnover rate due to competition?

Retirement Turnover: What is the projected turnover rate due to anticipated retirements?

Knowledge and Skill Loss: What percentage of staff’s knowledge and skills will become outdated without any training or development?

3.2. Supply Forecast

Identify what and how many staff will be available to meet staffing needs. Consider:

Internal Availability: How many employees will be promotable within the target timeframe?

External Availability: How many people are doing similar work in the target recruitment area? How many people are regularly hired away from other employers?.

Future Labor Supply: How many people will be entering the qualified labor pool from schools and training programs in the target recruitment area?

Current Training and Development: What percentage of core knowledge and skill loss is presently being mitigated by training and development efforts?

3.3. Gap Analysis

Subtract the projected supply from the projected demand. A negative result indicates the need for a new strategy.

3.4. Strategy Identification

There are Demand-side and Supply-side staffing strategies. Consider a combination of strategies when addressing staffing gaps.

3.4.1. 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.

3.4.2. 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.

4. Job Analysis

Human capital management in organizations virtually always requires an in-depth understanding of the work that people do in that organization. The process by which this

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understanding is developed is a job analysis; a job description is the documentation of the results of that analysis. While these two terms are often used interchangeably, we strongly recommend against such usage, as job analysis is a process and a job description is a product of that process. Simply put, a job analysis is a systematic process for collecting and analyzing information about a job.

In a more comprehensive and detailed definition, Scholars defined job analysis as ‘‘the collection of data on (a) ‘job-oriented’ behavior, such as job tasks and work procedures; (b) more abstract ‘worker-oriented’ behavior, such as decision making, supervision, and information processing; (c) behaviors involved in interactions with machines, materials, and tools; (d) methods of evaluating performance, such as productivity and error rates; (e) job context, such as working conditions and type of compensation systems; and (f) personnel requirements, such as skills, physical ability, and personality traits’’ This definition of job analysis focuses on the systematic collection of data on the observable job behaviors of employees and what is accomplished by these behaviors and what technologies are required to do so.

Given the importance that job analyses play in the management of human capital, it is surprising that job analyses are not regarded as a more critical tool in the field of human resources. Over three decades ago, a researcher observed, ‘Although job analysis is an essential feature of every activity engaged in by industrial-organizational psychologists, the subject is treated in most textbooks in a manner which suggests that any fool can do it and thus is a task which can be delegated to the lowest level technician’. Unfortunately, the situation has not much changed, and this important function is not given the proper degree of attention and respect either by psychologists or HR professionals.

4.1. Applications of Job Analyses

A variety of important reasons support conducting job analyses in the workplace. These include recruitment, candidate selection, employee training and development, performance management, organizational management and planning, and litigation protection. Each of these will be briefly reviewed.

4.1.1. Recruitment

The first external application of job analysis is in recruitment, when the job description becomes the basis for recruiting applicants. In beginning to fill a vacant job, the recruiter needs to know the job responsibilities as well as the skills and other characteristics required of candidates. Not only is it necessary for the recruiter to know these things, but candidates need to know the kind of job for which they are applying. The need for a job description should be obvious to all.

4.1.2. Candidate Selection

In our experience, candidate selection accounts for most job analyses. Employers need to know in some detail the work activities involved in each job vacancy and, most importantly, the knowledge, skills, and abilities— the competencies— required to fill that job successfully. While most employers maintain files of job descriptions, there is widespread understanding that many, if not most, of these job descriptions are dated and need to be redone, especially for jobs deemed to be critically important.

The work activities of a job change over time, as do the requirements for successfully carrying out those activities. As an example, consider the impact that the computer has had on the work activities both in the office and on the shop floor. Administrative positions that once had a heavy dose of taking shorthand and transcription are now given over to a very different set of activities, ones that require a rather different set of requirements. Similarly, the introduction of the computer onto the shop floor and into the warehouse has produced an equally large impact on the work activities. The tightening of bolts on the assembly line is now done by a computer-driven robot, the contents of the warehouse are all bar coded, and most jobs require computer skills for success. Such changes are ongoing and have enormous impact on the competency requirements for hiring. And these changes can be specified only by a careful job analysis.

Further, it is important to recognize that many skills are specific to a given occupation and that these occupationally specific skills are only be identified by a job analysis.

One use of job analyses is in developing behavioral interviewing protocols for candidate screening. The job description that is the end-product of the job analysis should provide a clear picture of the work and activities and the requirements. These then should provide the basis on which to develop a behavioral interviewing protocol—questions inquiring into a candidate's experience in such work activities and seeking to establish the degree to which the candidate has the necessary requirements to perform the important work activities. This is a method for developing a behavioral interview much preferred to the more generic approach that lacks a specific job-relevant focus.

Another important use of job analyses is as the criteria for validity studies of any pre-employment selection procedure, especially psychological tests. The Standards for Educational and Psychological Testing specify that the job requirements involved in studies of predictor-criteria relationships should be ''determined by a job analysis''. In other words, the validity of a psychological test or any procedure for selecting job candidates must be determined by the correlation of that procedure with an important aspect of job performance as identified by a job analysis.

4.1.3. Employee Training and Development

Once a current job analysis becomes available, the competency of current employees in that job becomes apparent. Employees without a high level of the identified necessary competencies will be less productive than they otherwise should be. For example, if a new applicant tracking system is introduced in the HR function, someone has to be hired to manage that system. But, implicit in that decision, is the question of the competency of the existing HR staff to use that new system. Without knowing the answer to that question, the positive impact of the introduction of this new system will be less than intended. Thus, the job analysis used for the new hire should lead to an analysis of the competencies of the existing staff, and a training and development program should be instituted to produce the necessary competencies.

The job analysis can impact on the individual training and development level as well. It is rare that even those candidates who are the best fit developed through the job analysis are a perfect fit. The selection process should have identified both the

candidate's strengths— those that led to the selection—and weaknesses— those that need to be addressed by some training and development process. This might be part of a supervisory or mentoring process or by some actual training, either on the job or somewhere else. In a somewhat dated example, a very experienced travel agent with an established clientele was hired by a large travel agency. The agent, despite her considerable experience, has little experience using the computer booking system that had been identified as an important requirement in the job analysis. Her experience and list of clients were sufficient to outweigh her lack of skill with the system, a lack that could be remedied by taking a week-long training course, which was an acceptable solution to both parties. Clearly in this case, as in all training decisions, the job analysis is the starting point.

4.1.4. Performance Management

Another important use of job analysis is in performance management. Job analyses play an important role in developing or modifying compensation systems and in performance appraisal. Determining the various levels of performance on a given job is an essential aspect of every job analysis. The knowledge of what constitutes an outstanding level of performance, an average level, and a borderline level is a critical aspect of performance management and should be the basis for setting pay and bonuses, the need for training and development, and for virtually all other aspects of the HR function.

Job analyses have been used not only to set pay levels but also to help determine whether different jobs require different requirements or effort, or involve different working conditions. In either case, such differences merit different pay scales. Jobs that involve equivalent factors, however, should lead to equal pay.

The pay level a job warrants is also important, and the job characteristics as determined by the job analysis are frequently used to determine the level of pay. Among the factors included in such decisions are

- Level of education, training, or experience required
- Degree of creativity involved
- Strength or stamina necessary
- Amount of responsibility
- Degree of independence of action
- Scope of influence
- Intellectual demands, including problem solving
- Risk of death, injury, or sickness

Presumably the level of each of these factors can be identified by a job analysis and then combined in some meaningful way to determine the level of the job among the various jobs in that organization. The job description and the combined evaluation of these various factors provide the basis for establishing a compensation system that is

then priced according to the data produced by a salary survey of similar jobs in the local job market.

Since such comparisons are fraught with uncertainties, they have become the basis of a considerable amount of litigation about the equality of pay for different jobs. As just one example of the ambiguities involved, consider the difficulties inherent in attempting to use job analysis to justify equal pay of elementary school teachers and truck drivers. While there is some evidence that sophisticated statistical analysis of the results of job analyses can be used successfully to predict market compensation rates, this can be done only for blue-collar jobs. Further, it is often argued that such an approach captures only existing discriminatory pay polices and does little to advance the cause of equal pay for equal work. It is safe to conclude that setting compensation systems on the basis of job analysis is a complex and difficult process.

Job analyses are also used in the performance appraisal process. For this process, job analyses should highlight the various work activities involved in performing a job and the relative importance of each activity. A rational performance appraisal system would evaluate the quality of the work performed by the individual being appraised according to the various importance ratings. It should be far more critical for that employee being rated to perform the important tasks more competently than for him or her to perform those of lesser importance competently. Unfortunately, this does not always seem to be the case, and often employees feel that they are downgraded for not attending to rather trivial tasks, ones not critical to fulfilling the organization's mission. This leads to a feeling on the part of employees that the performance appraisal process is an unimportant managerial task, so they often discount the entire process.

4.1.5. Organizational Management and Planning

As we noted above, the appropriateness of job descriptions tends to decay over time. Changes in the marketplace require new behaviors, technology changes jobs with warp speed, and incumbents begin to do their jobs in idiosyncratic ways. As a result of these and other changes, job descriptions become obsolete. Further, mergers and acquisitions lead to a need to integrate different human resources management systems. And a new CEO comes in and decides to rationalize the HR function, to update the job descriptions, create a new compensation system, one based on equal pay for equal work, none of which can be accomplished without starting with a job analysis.

When one of us became the CEO of a large professional association, he quickly learned about employee discontent over what appeared to be favoritism in assigning job titles, compensation, and a variety of other benefits. It appeared that the only way to deal with this unrest was through an organization-wide review and rationalization, beginning with job analyses. To win employee acceptance of the process, the staff was promised that no one would suffer financially or in status.

The organization had almost five hundred employees, and the HR function was inadequate to perform the required work. A national HR consulting firm was engaged to create an organization-wide series of job analyses, draft current job descriptions based on these analyses, create a uniform set of job titles, and recommend a compensation system based on the job content involved and a regional salary survey. This was done over a period of several months and was widely accepted by both

rank-and-file employees and the organization's board of directors. Moreover, this work enabled the organization to identify where additional resources were needed and where redundancy would provide some resources to fill those gaps. But all of this depended on the first step— the job analyses.

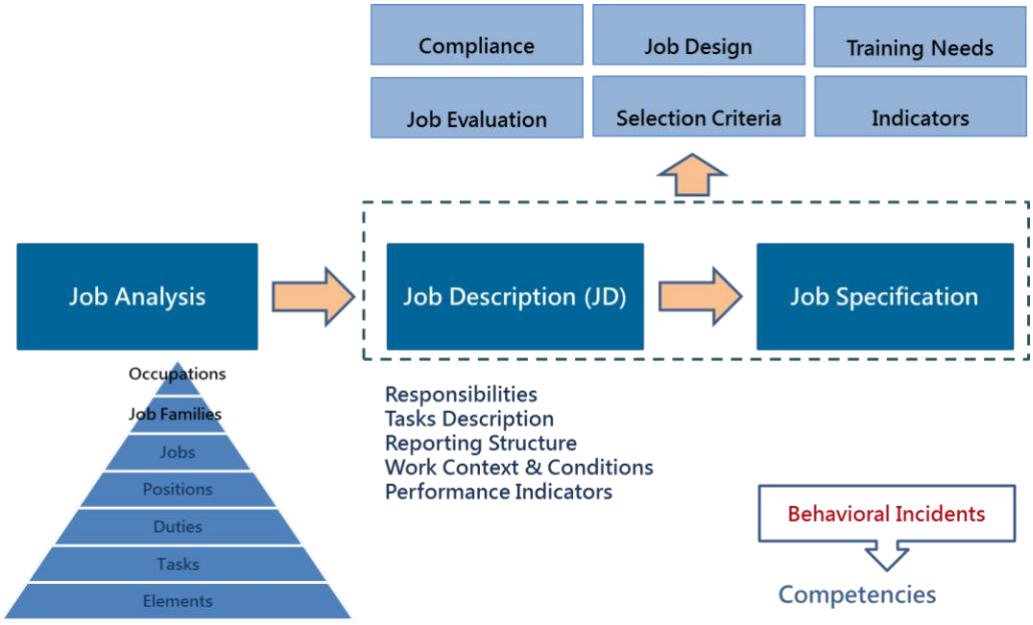
4.1.6. Litigation Protection

Still another use of job analyses is to reduce an organization's exposure to litigation based on allegations of discriminatory hiring practices. In order to ensure that all individuals are treated fairly in the workplace, including in hiring, pay, training, and other conditions of employment, we need to base all of our decisions on job-related qualifications. The only way to be able to do this is through the use of job analyses. For example, if we wish to hire a plumber, we need to ascertain that applicants can run pipe and have a license to do so, requirements based on the job analysis. Simply stated, if we are to hire people based on the qualifications to perform a job, we first must determine what those requirements for doing that job are—and conducting a job analysis is the only legal way to do this.

As we noted above, the Uniform Guidelines are quite explicit in requiring ''an analysis of important work behaviors required for successful performance'' as the basis for any hiring action. Any selection process should begin with such a job analysis that establishes the criteria against which applicants should be compared. Further, the job analysis establishes the criteria for establishing the validity of any assessment measure to be used in the selection process. Scholars provide a more detailed discussion of the use of criteria to establish the validity of psychological tests and a catalogue of commonly used tests.

While there is no absolute or certain shield against litigation, basing selection decisions on a careful, thorough, and current job analysis and using only well-validated selection procedures based on those job analyses will go a long way to deter frivolous filings. One additional point is the critical importance of a careful, contemporaneous record documenting what was done and why it was done. In our experience, one of the major problems that our clients experience in defending themselves in HR litigation is the failure to document properly what was done.

This catalogue of the uses of job analyses is far from complete, as we have not included the use of job analyses in research on the nature of work and how work is changing, studies of the structure of work, and so on. But the focus of this book is on providing useful tools for the practicing HR professional and such conceptually focused research is of little practical use to this audience.



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4.2. Elements of a Job Analysis

4.2.1. Terms and Definition of Job Analysis

Various authors use terms such as job, position, and task to men different things.

Position: The duties and tasks carried out by one person. A position may exist even where no incumbent fills it; it may be an open position. There are at least as many positions in an organization as there are people.

Job: A group of positions with the same major duties or tasks: if the positions are not identical, the similarity is great enough to justify grouping them. A job is a set of tasks within a single organization or organizational unit.

Occupation: An occupation is a class of roughly similar jobs found in many organizations and even in different industries. Examples include attorney, computer programmer. Mechanic, and Gardener.

Job family: A group of jobs similar in specifiable ways, such as patterns of purposes, behaviors, or worker attributes. An example of a job family might he clerical and technical," which could include receptionists, accounting clerks, secretaries, and data entry specialists.

Element: The smallest feasible part of an activity or broader category of behavior or work done. It might be an elemental motion, a part of a task, or a broader behavioral category; there is little consistency in meanings of this term.

Task: A step or component in (lie performance of a duty. A task has a clear beginning and ending; it can usually be described with a brief statement consisting of an action

verb and a further phrase.

Duty: A relatively large part of the work done in a position or job. It consists of several tasks related in time, sequence, outcome, or objective. A clerical duty might be “sorting correspondence.” One task in correspondence sorting might be ‘identify letters requiring immediate response.’

Job Description (JD): A written report of the results of job analysis. JD is a list or form of a job’s duties, responsibilities, reporting relationships, working conditions, performance criteria, and supervisory responsibilities. JD is the result and one product of a job analysis.

Job Specification: A list of a job’s “human requirements”: the requisite education, skills, knowledge, and so on – another product of a job analysis. Job Specification should address what knowledge, skills, abilities, and other characteristics (KSAOs) do job holders need to perform these tasks effectively.

Traditional job analysis has four typical components:

- A description of the work activity (WA) or tasks involved in doing the job;
- The knowledge, skills, and abilities (KSA) or competencies necessary to perform the job;
- Data on the range of job performance; and
- The characteristics of the workplace.

The data contained in these four components provide the basis for drafting the job description, which should provide an integrated narrative picture of the job and what is required to fill that job successfully.

4.2.2. Work Activity (WA)

The process of a job analysis typically begins with a description of the major job functions, the activities in which a job incumbent regularly engages— the reasons why the job exists. One inherent problem in describing work activities is the level at which the activity is described. At the most basic level are the job elements, “the smallest unit into which work can be divided without analyzing separate motions, movement, and mental processes’’.

A more useful approach is that of Functional Job Analysis, which specifies an action verb, which describes the action performed in observable terms; (2) the outcomes or results of that action; (3) the tools or other equipment used; and (4) the amount of discretion allowed the worker in that action. Two examples should serve to clarify some of the issues in this approach to WA. In the first, ‘‘The assembler takes one end of the red wire and one end of the green wire and joins them together with a screw nut.’’ In the second, “The surgeon takes the scalpel and makes a long incision into the chest of the comatose patient.’’ In both examples, the action is described clearly, the tools involved are specified, the outcomes are clear, and the level of discretion is implicit and very different. These examples represent both the approach and content of the approach, sometimes referred to as major job requirements, to describing the

WA that we advocate.

There two aspects to the WA process: one is the importance of the action to the success of performing the job and the other is the frequency with which that action is performed. Obviously, important and frequent actions constitute the bulk of the WA. But important but infrequent actions often need to be included. For example, while most police officers never draw and fire their handguns in the course of their careers, when such action is required it is critical to the success of that job. Thus, descriptions of WA should identify both the importance and frequency of actions, especially when highly important WA occur infrequently.

4.2.3. Knowledge, Skills, and Ability (KSA)

The second question that every job analysis must address concerns the knowledge, skills, and abilities (KSA) or competencies necessary to perform these WA.

Knowledge is defined as an organized body of information, usually of a factual or procedural nature, that, when applied, makes the successful performance of a job action possible. Knowledge is usually not demonstrated in the action itself but rather by prior education, training, or testing. In observing the action, the knowledge base is assumed and inferred rather than directly observed.

In the above example of the assembler, he or she would need to have sufficient knowledge of the English language to follow directions, know the difference between red and green, and know how to use a screw nut to join the two ends together. The knowledge needed by a surgeon is far more complex and would include an intimate understanding of the anatomy and physiology of the human body, how to monitor the patient's vital signs, choosing the correct scalpel for the procedure, and so on. In both cases, however, each set of knowledge forms the basis of the success of executing the job action.

Skill, the second necessary component for the successful execution of the job action, is defined as the proficiency in the manual, verbal, or mental manipulation of people, ideas, or things. A skill is always directly observable and a certain level of skill is typically set as a standard or baseline for the successful performance of the action.

In our continuing example, the assembler must have sufficient eye-hand coordination to pick up the two ends of the wire and the screw nut and adequate finger dexterity to twist the wires together either by hand or mechanically and insert the twisted ends into the wire nut. The skill set of the surgeon includes a high level of eye-hand coordination, sufficient hand steadiness to manipulate the scalpel without untoward injury to the patient, sufficient finger dexterity to suture major bleeding, and so on. Thus, every job action involves an identification of the required skills and the necessary level of those skills.

Ability is defined as the present capacity to execute a job action, to perform a job function by applying an underlying knowledge base and the necessary skills simultaneously. Knowledge, like ability, is not observable directly but rather is an inferred, higher-order construct, such as problem solving, spatial ability, intelligence, and so on. For lower-level jobs, it is relatively easy to describe the KSA required in

terms of just K and S. Abilities are typically invoked in describing higher-level technical, professional, and managerial jobs as the WAs become more conceptual, abstract, and complex, despite the fact that they do not meet the requirements of the Uniform Guidelines of being observable.

Thus, the assembler job could be described readily in terms of the limited knowledge and skill required, while we might invoke such characteristics as systems-orientation, decisiveness, meticulousness, and awareness of the operating room environment as necessary characteristics of a successful surgeon. While most observers would agree that these characteristics are important to surgical success, a number would question whether these characteristics are best understood as abilities.

As a result of such questions, many experts in job analysis add a fourth factor, O for **Other**, to the KSA paradigm, leading to a KSAO approach to job requirements. We believe that both the KSA and the KSAO labels are rather awkward and difficult to apply. Rather, we have chosen to use the term competencies as a substitute for these other labels.

We have further proposed an approach in which we separate the technical requirements necessary for job success from the personal/interpersonal requirements. We insist that the more work-related characteristics can and should be included in the job requirements analysis, while the more basic, underlying personality characteristics should be treated separately. Thus, in the case of the surgeon, being systems-oriented and being aware of the OR environment would be regarded as abilities, while being decisive and meticulous would be categorized as more long-standing personal/interpersonal characteristics, ones that would be evidenced more generally in that person's life.

Until recently it was very difficult to identify the personal/interpersonal requirements of job success. The development of the Big Five approach to describing these psychological factors and its widespread adoption, especially in selection, has made this task much easier. The Big Five, also known as the five-factor approach, is based on over a half-century of empirical research that has conclusively shown that five basic factors describe the spectrum of human behavior, and that these characteristics are quite stable over time and are, in various combinations, predictive of on-the-job performance.

These five factors are: (1) Neuroticism; (2) Extroversion; (3) Openness to New Experience; (4) Agreeableness; and (5) Conscientiousness, typically abbreviated as NEOAC, called "Big Five".

For example, it is difficult to think of a successful accountant who is not highly conscientious or a successful sales representative who is not extroverted. Using the Big Five provides job analysts with a uniform vocabulary for describing these intangible but critically important job requirements.

"*Competence*" is commonly used for describing the job in terms of the measurable, observable, behavioral KSAOs that an employee doing that job must exhibit to do the job well.

4.2.4. Levels of Job Performance

After developing clarity of the WA involved in a job and the necessary competencies, a job analysis must identify the necessary range of adequate job performance. Most job analyses focus on identifying what constitutes a high level of job performance in order to identify the competencies that separate stars from the rest of the pack. When we are trying to understand these factors to meet promotion or training and development requirements, this is an appropriate approach; but what if we intend to use the job analysis for candidate selection?

Here, a very different dynamic is in play. When we examine the job performance of incumbents, we typically learn what an experienced job holder can accomplish. But few, if any, new hires are likely to be as productive or as competent as the typical incumbent. Thus, in establishing the job performance requirements, we must set more modest initial levels for new hires, a process that requires a fair degree of judgment. One additional point, in selecting supervisors and managers from an existing workforce, it is often the case that a top performer is chosen without recognizing that supervisory and managerial tasks require different skills than performing the tasks being supervised do, so such selections often do not work out satisfactorily. From this discussion it should be clear that job performance levels need to be set as a function of the use to which they are to be put, and that there is no substitute for common sense in setting those limits.

4.2.5. Workplace Characteristics

Workplaces vary enormously in their norms, climate, and culture, in the level of discomfort that workers can experience, the inherent risks posed by working there, and other noteworthy factors. A competent and thorough job analysis identifies the important workplace characteristics. Many approaches to job analyses pay scant attention to describing the workplace setting unless it varies significantly from the typical factory, office, or warehouse. We, on the other hand, strongly believe that an in-depth understanding of the characteristics of the workplace should be an integral part of a competent job analysis.

Once the four elements of the job analysis— the work activities (WA), the job competencies (previously KSAs), the range of job performance, and the workplace characteristics— have been identified, they can be combined in a thematic fashion into a job description. We now turn our attention to the various methods of actually conducting a job analysis.

4.3. Job Specification

Job specification is a statement of employee characteristics and qualifications required for satisfactory performance of defined duties and tasks comprising a specific job or function. Job specification is derived from job analysis. In other word, Job specification as a statement of minimum qualification that person must possess to perform a given job successfully.

While the job description describes activities to be done, it is job specifications that list the knowledge, skills, and abilities an individual needs to perform a job satisfactorily. Knowledge, skills, and abilities (KSAs) include education, experience, work skill

requirements, personal abilities, and mental and physical requirements. Job specifications for a data entry operator might include a required educational level, a certain number of months of experience, a typing ability of 60 words per minute, a high degree of visual concentration, and ability to work under time pressure. It is important to note that accurate job specifications identify what KSAs a person needs to do the job, not necessarily what qualifications the current employee possesses.

Usually, the information of a job specification includes

4.3.1. Experience:

Number of years of experience in the job you are seeking to fill. Number of years of work experience required for the selected candidate. Note whether the position requires progressively more complex and responsible experience, and supervisory or managerial experience.

4.3.2. Education:

State what degrees, training, or certifications are required for the position.

4.3.3. Required Knowledge, Skills, Abilities, and Characteristics (KSAOs):

State the skills, knowledge, and personal characteristics of individuals who have successfully performed this job. Or, use the job analysis data to determine the attributes you need from your "ideal" candidate. Your recruiting planning meeting or email participants can also help determine these requirements for the job specification.

Job specifications information must be converted into employee specification information in order to know what kind of person is needed to fill a job. Employee specification is a like a brand name which spells that the candidate with a particular employee specification generally possess the qualities specified under job specification. Employee specification is useful to find out the suitability of particular class of candidates to a particular job. Thus, employee specification is useful to find out prospective employees (target group) whereas job specification is useful to select the right candidate for a job.

5. Methods of Job Analysis

The end-product of a job analysis is a job description, a written statement that describes: (1) the important tasks that need to be performed to successfully hold this job; (2) the requirements necessary to perform these tasks; (3) the levels of job performance that can be expected at various levels of experience and expertise; and (4) those characteristics of the work setting that impact work performance. The job description in all cases must be data-based, and clearly the creation of such a document is a time-consuming and labor-intensive process. This chapter provides a road map for creating such a data-based job description.

Generally speaking, it is possible to collect data on the first three components of the job analysis simultaneously, while data on the characteristics of the work setting requires a separate, independent assessment. Those doing job analyses should always remember the purpose for which the information is to be used, as this purpose provides the context for

both collecting the data and for writing the job description. This is especially true, for example, when collecting job performance data to be used for selection of job applicants. These levels obviously would be different for entry-level or trainee positions than it would be for selecting experienced, high-level operators. There are five different methods of collecting job analysis data. They are (1) self-reports; (2) direct observations; (3) interviews; (4) document reviews: and (5) questionnaires and surveys. Each of these is discussed in some detail below. It should be noted that any of these methods can be used either by internal HR staff members or by external consultants with expertise in conducting job analyses who have been engaged for this specific purpose.

Source: Prien, E.P., Goodstein, L.D., Goodstein, J., & Gamble Jr., L.G. (2009). A Practical Guide to Job Analysis. San Francisco, CA: Pfeiffer.

5.1. Self-Reports

The most obvious and readily available sources of information about a job are the incumbents currently holding that job. All too often, however, incumbent reports are the only source used to analyze a job, because this approach is subject to attempts to inflate the importance of one's job and a variety of other contaminating influences. This is especially the case when incumbents are asked to prepare in writing their own job description with few guidelines and little supervision.

One variation on the self-report approach is to have the job analyst, typically an HR specialist, attempt to fill the job for a brief period and report on his or her experience in filling the job. Obviously, this approach is only appropriate for rather simple jobs that do not require a set of specific skills or much training, and there is always a question of how useful these self-reports are in understanding the job.

5.2. Direct Observations

Many jobs can be studied by observing an incumbent actually performing the job. In order to reduce the ''audience effect'' of having an intrusive observer involved, a video camera can be used to record an incumbent doing the job. Using a camera over a

period of time both eliminates the observer effect and provides an opportunity to observe the job over a longer period of time and to take time samples of job behavior from the recording as the database.

Direct observation, however, is most useful with jobs that involve obvious physical activity, activities that are the core of the job. For jobs that are primarily cognitive in nature, direct observation provides little useful data. Observing a market analyst or a theoretical physicist at work would provide us with little information about the nature of their work. Further, neither self-reports nor direct observations provide much information about the requirements necessary to perform these jobs nor about the level of job performance.

5.3. Interviews

The limitations of self-report and direct observation have led to the use of interviews as the most widely used approach to job analysis. These interviews must be conducted by a skilled, trained interviewer who has both some understanding of the job being analyzed and the nature of work in general, as these provide the necessary background for asking questions and probing answers for more detailed and complete answers from those being interviewed.

5.3.1. Individual Interviews.

There are several sources of information about a job, all of whom can be interviewed, either singly or in small groups. These include current incumbents of the job, supervisors of the job, and others who are often referred to as subject-matter experts (SMEs). SMEs are those individuals, other than incumbents, who have knowledge about the job being analyzed, such as former incumbents, managers with oversight of the job, academic specialists, and anyone in the organization who has any specialized knowledge of the job in question. One useful way of identifying SMEs about a particular job is to ask incumbents, “If you’re stuck with a job problem that you’re having trouble with, who are you most likely to ask for help?’’ These are the true SMEs, the ones who help those on the job get out of trouble.

In the early, exploratory phase of the job analysis, the initial interviews, which usually should be one-on-one, can be rather unstructured and open-ended as the interviewer starts to learn about the job, the tasks involved, the necessary requirements, and the levels of job performance. As the interviewer gains an understanding of the job and its requirements, he or she should develop an interview protocol that provides a structure for the ensuing interviews, one that enables the interviewer to obtain information about specific aspects of the job under scrutiny and compare the data obtained from different sources.

5.3.2. Group Interviews.

These follow-up interviews, usually using the focus group method, are best conducted in a group setting with a mixed group of five or six individuals, incumbents, supervisors, and SMEs. It is imperative that at least two of the group be incumbents—individuals who know the job best—and more than one to ensure surfacing differing points of view. In conducting a focus group, the facilitator should not attempt to push for unanimity of

viewpoints, but rather should understand that jobs, even what appear to be simple jobs, are seen and performed differently and that these differences need to be woven into the final job description.

The way these group interviews are introduced to the organization, the manner in which individuals are invited to participate, and the way in which the interviews are initiated and conducted are critical to the quality of the information collected. It must be made clear that the purpose of these group interview(s) is to gain a better understanding of a particular job or class of jobs, that no one will lose his or her job as a result of this process, and that what is said in the interview is confidential in that no statement will be attributed to a particular participant. The interviewer must be non-judgmental, listen carefully, play back what was heard, ask questions to clarify points, and take notes on a flip chart in the front of the room.

In conducting these groups, the HR professional should initiate the process with a description of its purpose, together with some discussion about how the results will be used when the process is complete. Next, the group should be prompted to begin discussion of the job or job family to define the tasks involved— the content of the job. It is good practice to have either a flip chart on which this data can be recorded, with the HR professional continuing to probe until the content and structure of the job are adequately addressed. In developing an understanding of the work involved, the interviewer can ask incumbents to describe a typical day, what needs to be done on a regular basis, and what the occasional exceptional requirements are. An alternative approach is to focus attention on either the work flow or organization of individual workers and how their tasks overlap and flow to produce work products. These approaches typically are sufficient to produce a description of the content of the job. The intent here is to generate content while the group has its ideas clearly in mind and then go back and edit that content to conform to acceptable standards.

Having developed an in-depth understanding of the various tasks involved in the job, the next step to identify the necessary requirements to perform the work and then to describe the various levels of job performance. To identify the requirements, the interviewer should ask about what people doing this job need to know and when they need to know it; for example, what tools or equipment are ordinarily used on this job and how skillful does the worker need to be in using them. Further, the interview needs to facilitate the group to identify the requirements for success on this job. Similarly, the group needs to establish in fairly concrete terms the various levels of job performance that can be expected in this job. How many widgets should an expert be able to produce in a typical day, and how many should a relative newcomer to the job be expected to produce. At the end of an interview procedure, the interviewers should feel confident that he or she has gained an understanding of the job being analyzed and can now describe the typical tasks involved in the job, the requirements to perform that job, and the various levels of job performance.

One useful technique to use in the group interview is the critical incident technique in which the group is asked to describe critical incidents that have occurred on this job that have involved either highly effective or highly ineffective performance. This process has three parts: (1) describe the circumstances in which the job behavior occurred; (2) describe in detail the job behavior itself; and (3) identify the positive or

negative consequences of that behavior. These reports of critical incidents often highlight instances of poor judgment, of safety hazards, and of outstanding performance, as well as the role of a variety of personal characteristics on job performance. Inquiring about critical incidents is especially useful when the job seems routine and many of the elements of the job seem obscure to others. Our experience has informed us that SMEs and managers are the most useful sources of critical incident data, which is why including them in these interviews is so important.

5.4. Document Reviews

The archives of most organizations contain a variety of documents that are useful in conducting job analyses. These include analyses of output, performance appraisals, reports by both internal auditors and external consultants about workplace issues, and prior job descriptions. Customer complaint records are another highly useful source about employee job behaviors that are of particular importance to customers. Internal memoranda about unusual events, difficulties encountered by workers on a job, or problems in recruiting applicants for a particular job, among many such issues, can provide worthwhile insights into a job. Reports of accidents and medical records are useful in identifying health and safety issues in jobs. Time and attendance records are important sources of information about the importance that workers place on doing that job.

For many years the U.S. military has used a procedure called after-action reports, a process for debriefing participants in any important incident to determine what went well and what went poorly, in order to improve future performance in similar situations. The value of such a process in identifying how to improve performance is obvious and thus has been adopted by many non-military organizations as a way to identify issues that need to be addressed in order to improve the organization's performance. The records of such after-action reports, when they exist, are a unique and extraordinary source of information about important elements of job behavior and their impact on organizational outcomes.

5.5. Questionnaires and Surveys

Using a job analysis questionnaire can substantially reduce the burden on incumbents and SMEs for developing the information needed for a job analysis. Instead of starting from scratch, those involved in providing information about the job answer a series of questions about the job. The job analyst typically asks the respondents individually to rate the importance of a variety of tasks in the job under scrutiny. The next step is to pick out from a list the requirements necessary to perform, and, finally, to identify the range of job performance using a rating scale. Not only does such a procedure simplify the task for those involved in providing job information, but it also simplifies the job analyst's task of collating and synthesizing the information about the job, easing the task of drafting the job description.

Basically, there are two different approaches to using a job analysis questionnaire. The HR specialist can produce a custom designed questionnaire especially for this job or he or she can use a commercially available questionnaire.

5.5.1. Custom-Designed Questionnaires.

In producing a custom designed questionnaire, the HR professional responsible for the job analysis must develop the questionnaire using information typically obtained individually from the job incumbent, his or her supervisor, other SMEs, and whatever other data sets are available to the responsible professional. Then small groups of other SMEs make the judgments required by the questionnaire and a computer analyzes the data and provides the necessary descriptions. While using such a custom-designed questionnaire clearly targets the job under investigation, the savings in time and effort of using a questionnaire rather than conducting individual interviews are modest, and a good deal of skill and understanding are required to produce a high-quality custom-designed, job-analysis questionnaire.

5.5.2. Commercially Available Questionnaires.

The alternative to a custom-designed job-analysis questionnaire is to use one that has been developed by job-analysis experts and is commercially available. These instruments tend to be well-designed, are fairly reliable, and eliminate the need for an HR professional to develop his or her own instrument. These commercially developed instruments can simply be presented to a group of incumbents and SMEs to complete after providing the group with a relatively straightforward set of instructions about how to proceed. Examples of such questionnaires include the Fleishman Job Analysis Survey and the Position Analysis Questionnaire

This approach, however, tends to have one major disadvantage, namely that the developers of these job-analysis questionnaires have chosen to produce a single questionnaire that covers a wide variety of jobs, from entry-level to managerial. As can well be understood, such a one-size-fits-all approach requires that many of the items are scored as ‘‘not part of this job’’ and so the process of answering the wide range of items required quickly becomes a tedious one, losing the interest of the respondents.

There is an alternative approach, one that we have adopted for this workbook. Our approach provides a set of questionnaires from which the most appropriate one can be selected to analysis a particular job. In Appendices B through I are templates for eight different job-analysis questionnaires, ranging from entry-level jobs involving rather simple tasks and requiring only the most basic requirements to managerial/executive jobs that involve quite complex tasks and requiring a high level of requirements. These eight questionnaires have been developed by us based on our many years of experience in working in a wide range of industries and businesses. Each of these questionnaires is directly based on one or more actual job analyses that we have created with one or more of our client systems.

An HR professional, after a relatively brief study, can select and directly utilize one of these questionnaires to identify the tasks involved in the job and the job requirements for that job, a much less time-consuming and labor-intensive job than developing one from scratch. We need to point out that the use of a job-analysis questionnaire does not obviate the need to augment the information from a questionnaire with data obtained from a discussion of the job with incumbents, observing the job, consulting a variety of records, or doing whatever is possible to develop a fuller understanding of a job and all that it entails.

In summary, in this section we have provided an overview of the various approaches to

conducting the critically important HR management tasks of actually doing a job analysis. It should be clear from the above that the process of developing a comprehensive, data-based job analysis is a demanding one, one that requires a high degree of professionalism and competence on the part of the HR professionals who attempt to do job analysis. One of the unfortunate aspects of today's HR management is that this critically important process does not receive the recognition it deserves. We now turn our attention to some of the cautions and caveats that need to be observed in doing job analyses.

There are a variety of inherent problems in using job descriptions and the underlying job analyses on which these descriptions are based that tend to be overlooked but which, if disregarded, seriously reduce their usefulness. These problems are a function of changes in the nature of work and how work is performed and include changes over time, the low accuracy of the data obtained, and the general stability of job performance.

- Changes Over Time

  Job descriptions have a half-life, one that varies from job to job, from employer to employer, and from industry to industry. There are a number of reasons for such changes in the way jobs are performed which, in turn, affect the job analysis. One important reason is the ways in which technology has developed and will continue to modify the ways in which work is done. It is difficult for us to think of any job that has not been altered substantially in the past few years as a function of technology. These are not one-time events but are continuous adjustments that reflect the ever-increasing pace of technological advancement. Jobs change for other reasons, including modifications in supply chain management, the product or service mix offered by the organization, customer requirements, and so on. Some of these changes are by-products of technological change and others are not. But regardless of their origin, such changes mean that job descriptions rapidly become out-of-date and require a new job analysis to make them current.

- Low Accuracy

  There is ample evidence to support the conclusion that the ratings that constitute the core of any job analysis are less than reliable. Incumbents and supervisors may not provide valid ratings and other data about the nature of the job. They may attempt to inflate (or deflate) the importance of the job or of elements of the job, and they often have quite different experience of the job under review. Furthermore, data may be distorted for personal or political reasons, for example, over-emphasizing the similarity of this job to other jobs, rather than its uniqueness. Or the job may not be being performed adequately or may be misunderstood, and so on.

  These factors, among others, simply mean that a competent job analysis must involve multiple raters with a range of backgrounds and experience. The HR professional conducting the job analysis should closely examine the data, particularly the ratings on job analysis inventories, for gross differences and follow up with individual discussions to resolve these differences. Here is yet another reason for professionalism on the part of those engaged in job analysis.

- Lack of Stability

Finally, in many jobs there is an inherent instability in the work performed, such as those jobs that have a seasonal variation in the tasks involved. In the most obvious example, farmers regularly go through the cycle of preparing the fields, planting, fertilizing and weeding, and harvesting. A competent job analysis must involve the entire cycle. But such seasonality influences other jobs as well. The work of accountants is intensified during the tax preparation season, as is that of retail-store clerks during the Christmas rush. Those engaged in conducting job analyses need to be aware of such seasonal trends and factor these in when planning their data collection.

Another reason for the lack of stability of jobs is the tendency over time of incumbents to improve the ways in which tasks are performed, whether or not such improvements are known to supervisors and managers, or even if these modifications really improve either the process or the product. If a job analysis is not current, such changes in how work is accomplished will not be part of the job description.

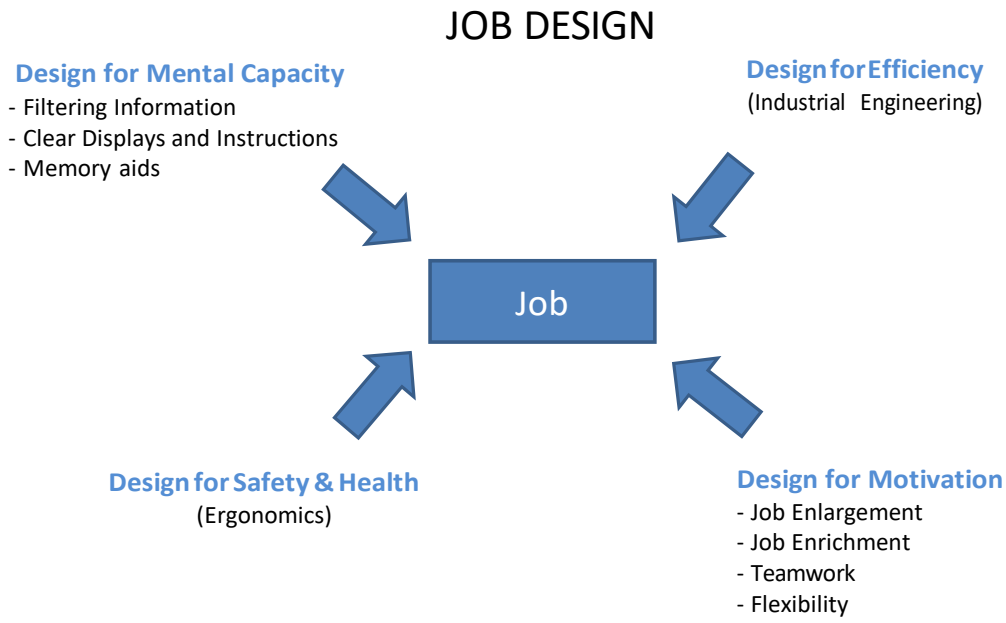
In this section we have focused on why job analyses and job descriptions may not be as accurate as expected. These concerns simply highlight the need for keeping job descriptions very current and for having competent HR professionals conduct job analyses. We now turn our attention to our eight job analysis templates, their development, and how they should be used.

6. Job Design

Although job analysis, as just described, is important for an understanding of existing jobs, organizations also must plan for new jobs and periodically consider whether they should revise existing jobs. When an organization is expanding, supervisors and human resource professionals must help plan for new or growing work units. When an organization is trying to improve quality or efficiency, a review of work units and processes may require a fresh look at how jobs are designed.

Job design is the process of Work arrangement (or rearrangement) aimed at reducing or overcoming job dissatisfaction and employee alienation arising from repetitive and mechanistic tasks. Through job design, organizations try to raise productivity levels by offering non-monetary rewards such as greater satisfaction from a sense of personal achievement in meeting the increased challenge and responsibility of one's work.

The main function of job design is to create alterations in the ways in which employees function in the workplace in order to enhance their enthusiasm for the work they perform and increase job satisfaction which in turn, increases productivity. There are 4 main approaches to the creation of job design, the first being, “design for efficiency” or “job engineering.” These terms simply refers to the expected standards of performance and the methods by which these standards are met. Technology is a major aspect of this approach; computers and all other forms of technology must be reliable and up to date and all workers must be proficient in their use and comfortable and confident in their abilities to use them.



Source: Prien, E.P., Goodstein, L.D., Goodstein, J., & Gamble Jr., L.G. (2009). A Practical Guide to Job Analysis. San Francisco, CA: Pfeiffer.

Design for motivation or "job enrichment" involves the designation of more duties to workers. These duties should allow employees to gain a sense of greater responsibility and accountability which in turn increases employee confidence, making tasks and duties more enjoyable so they are completed with interest and enthusiasm. Job enrichment also increases the effort of employees to work together as a team. "It is a vertical restructuring method in that it gives the employee additional authority, autonomy, and control over the way the job is accomplished".

Design for safety and health or ergonomics, refers to products, applications or particular tasks which are designed to lessen fatigue which may occur due to poor lighting, improperly designed work stations, excessive fluctuations in room temperature etc. It is extremely important for business leaders and managers to be aware of any of these unfavorable conditions and to correct them immediately in order to assure his or her employees are comfortable and are not being harmed during their efforts to complete tasks.

Finally, design for mental capacity refers to the need for employers to understand the special needs of individuals who are elderly and/or those who have disabilities, either physical or mental. Special technology need to be available for individuals who may have sight or hearing problems, displays on computer monitors should be adjustable to suit the needs of those who need magnified text and special aids should be accessible to workers who have deficits in hearing. "Managers need to consider carefully each employee's physical capabilities, mental skills, organizational competence and capacity for learning before inviting an employee to take on an enriched job. Forcing more on employees than they are capable of handling will likely hurt the business and frustrate the employees" a researcher said.

The job design approach gives employees the tools they need and uses their competencies to provide high-quality products and efficient services to its customers—closely approaching the ideal. Although the ideal isn't always attainable, substantial improvements in job design that can benefit the customer, employee, and organization usually are possible with the use of one or more of the commonly used job design approaches.

6.1. Comparative Framework

Five of the most common approaches to job design are based on the dimensions.

- The Impact dimension is the degree to which a job design approach is linked to factors beyond the immediate job, such as reward systems, performance appraisal methods, leadership practices of managers, customer needs, organization structure, physical working conditions, and team composition and norms—as well as its likely effect on changes in effectiveness and quality.
- The complexity dimension is the degree to which a job design approach requires (1) changes in many factors, (2) the involvement of individuals with diverse competencies at various organizational levels; and (3) a high level of decision-making competency for successful implementation.

6.1.1. Job Rotation

Job rotation refers to moving employees from job to job to add variety and reduce boredom by allowing them to perform a variety of tasks. As traditionally used, job rotation is low in both impact and complexity because it typically moves employees from one routine job to another. Maids International, a housecleaning service franchise, uses job rotation with its four-person housecleaning teams by, for example, having a maid clean the kitchen in one house and the bedroom in another. However, if all the tasks are similar and routine, job rotation may not have the desired effect of improving employee effectiveness and job satisfaction. For example, rotating automobile assembly-line workers from bolting bumpers on cars to bolting on tire rims isn't likely to reduce their boredom. However, job rotation may be of significant benefit if it is part of a larger redesign effort and/or it is used as a training and development approach to develop various employee competencies and prepare employees for advancement. At times, it may be used to control the problem of repetitive stress injuries by moving people among jobs that require different physical movements.

6.1.2. Job Engineering

A scholar established the foundation for modern industrial engineering late in the nineteenth century. He was concerned with product design, process design, tool design, plant layout, work measurement, and operator methods. Job engineering focuses on the tasks to be performed, methods to be used, workflows among employees, layout of the workplace, performance standards, and interdependencies between people and machines. Analysts often examine these job design factors by means of time-and-motion studies, determining the time required to do each task and the movements needed to perform it efficiently.

A cornerstone of job engineering is specialization of labor with the goal of achieving

greater efficiency. High levels of specialization are intended to (1) allow employees to learn a task rapidly, (2) permit short work cycles so that performance can be almost automatic and involve little or no mental effort, (3) make hiring easier because low-skilled people can be easily trained and paid relatively low wages, and (4) reduce the need for supervision, owing to simplified jobs and standardization.

Although traditional job engineering also can create boring jobs, it remains an important job design approach because the resulting cost savings can be measured immediately and easily. In addition, this approach is concerned with appropriate levels of automation, that is, looking for ways to replace workers with machines to perform the most physically demanding and repetitive tasks. The job engineering approach often continues to be successfully used especially when it is combined with a concern for the social context in which the jobs are performed. One expert who advocates the job engineering approach while involving employees in decisions about their jobs prescribes the following “golden rules of work design.”

- Ensure that the end product/output of the work is clearly defined, unambiguous, and fully understood by the employees.
- Ensure that the steps/tasks to be performed to achieve the required end product/output are clearly defined in the appropriate sequence and are fully understood by the employees.
- Ensure that the employees know and understand where their responsibility starts and finishes in the work process.
- Ensure that the tools, facilities, and information needed to perform the work are readily available to and fully understood by the employees.
- Ensure that there is a process whereby the employees can suggest possible improvements in the work design and exercise initiative in implementing them.
- Ensure that the employees are involved in the work design process.

6.1.3. Job Enlargement

Job enlargement is expansion of the number of different tasks performed by an employee in a single job. For example, one automobile assembly-line worker’s job was enlarged from installing just one taillight to installing both taillights and the trunk. An auto mechanic switched from only changing oil to changing oil, greasing, and changing transmission fluid. Job enlargement attempts to add somewhat similar tasks to the job so that it will have more variety and be more interesting. Job enlargement is also viewed as an extension of job engineering. However, it is more responsive to the higher level needs of employees by providing more variety in their jobs.

The job enlargement approach often has positive effects on employee effectiveness. However, some employees view job enlargement as just adding more routine, repetitive tasks to their already boring job. Other employees may view it as eliminating their ability to perform their jobs almost automatically. These employees may value the opportunity to daydream about a big date that night or think about the upcoming weekend. Others may simply prefer to spend their time socializing with coworkers. If

an enlarged job requires greater attention and concentration than the original job, most employees typically find it more interesting or challenging, but some may view the added demands negatively. The importance of individual differences in attempting to anticipate or understand the reactions of employees to redesigned jobs should not be underestimated.

6.1.4. Job Enrichment

Job enrichment refers to the empowerment of employees to assume more responsibility and accountability for planning, organizing, performing, controlling, and evaluating their own work. The job enrichment approach originated in the 1940s at International Business Machines (IBM). In the 1950s, the number of companies interested in job enrichment grew slowly. However, successful and widely publicized experiments at AT&T, Texas Instruments (TI), and Imperial Chemicals eventually led to an increasing awareness of job enrichment and interest in this approach in the 1960s. The techniques used for enriching jobs often are specific to the job being redesigned.

6.1.5. Sociotechnical Systems

The sociotechnical systems model focuses on organizations as made up of people with various competencies (the social system) who use tools, machines, and techniques (the technical system) to create goods or services valued by customers and other stakeholders. Thus the social and technical systems need to be designed with respect to one another—and to the demands of customers, suppliers, and other stakeholders in the external environment. Because of its scope, sociotechnical systems are complex and have an impact on the way work is performed throughout the organization. Recall the relationship of this model to the other job design approaches. All organizations are sociotechnical systems, but all don't necessarily reflect the principles underlying this approach.

The goal of sociotechnical systems analysis is to find the best possible match between the technology available, the people involved, and the organization's needs. A crucial aspect of this approach is the recognition of task interdependence, which becomes the basis for forming teams. After teams have been formed, the specific tasks to be performed by team members are considered, along with the relationships among all these tasks. This approach has been applied most successfully—as has the job enrichment approach—to industrial organizations.

The sociotechnical systems approach emphasizes the diagnosis of demands by external stakeholders (customers, suppliers, shareholders, regulatory agencies, creditors, and others) and the internal adaptations needed to respond to those demands. From a job design perspective, passage of the Americans with Disabilities Act (ADA) in 1990 created one such demand for many U.S.-based organizations.

6.1.6. Ergonomics

Other than those five approaches described above, another one, Ergonomics focuses on minimizing the physical demands and risks of work. This approach helps ensure that job demands are consistent with people's physical capabilities to perform them without undue risk. It involves the design of aids (ranging from hand tools to computer

software to instruments) used to perform jobs.

Consider the initiative by Dolby Laboratories at its Brisbane, California, manufacturing facility, which employs approximately 50 assembly workers. The plant produces digital cinema processors and sound equipment used in theaters. Although about 90 percent of the electronic assembly is automated, repetitive handwork is still essential for some operations. “There’s some hand insertion of components and some mechanical assembly,” its production manager explained. In addition, technicians do test work and some repairs by hand. Even though Dolby Laboratories historically has had a low rate of reported carpal tunnel disabilities, she looked at ergonomic tools and ergonomic training as part of an overall safety and health plan. She assembled a tool team of assemblers who understood the requirement of using the right tool for the right job to look at tools in the workplace. She also set up ergonomic training and instituted tool audits.

6.2. Job Design and Technology

Technology refers to the techniques, tools, methods, procedures, and machines that are used to transform objects (materials, information, and people). Employees use technology to acquire inputs, transform inputs into outputs, and provide goods or services to clients and customers. Here, our discussion focuses on the concepts of workflow uncertainty, task uncertainty, and task interdependence as they relate to job design. We also present some examples of how various information technologies are being used to implement these concepts. Recall the various ways that the work of individuals and teams is being changed by information technologies, especially through groupware, the Internet, intranets, e-mail, mobile phones, and the like.

6.2.1. Role of Workflow Uncertainty

Workflow uncertainty is the degree of knowledge that an employee has about when inputs will be received and require processing. When there is little workflow uncertainty, an employee may have little discretion (autonomy) to decide which, when, or where tasks will be performed. For the most part, the production workers at an automobile assembly plant experience a low degree of workflow uncertainty. In fact, the application of the job engineering approach in automobile assembly plants is intended to minimize workflow uncertainty.

6.2.2. Role of Task Uncertainty

Task uncertainty is the degree of knowledge that an employee has about how to perform the job and when it needs to be done. When there is little task uncertainty, an employee knows how to produce the desired results. Through extensive training and the standardization of jobs, management typically attempts to minimize task uncertainty in assembly plants. Production workers in a plant experience somewhat more task uncertainty if they work as teams to study problems and refine procedures. At such a plant, teams often are asked to participate in proposing continuous improvements, one of the elements in total quality management.

With high task uncertainty, few (if any) prespecified ways exist for dealing with the job’s tasks. This condition means that experience, judgment, intuition, and

problem-solving ability usually are required of the employee. Recall the Preview Case about the Texas Nameplate Company. Virtually all its employees are engaged in some tasks that involve moderate to high levels of task and workflow uncertainty. For example, all employees are encouraged to submit proposals for new initiatives, and they review progress on initiatives and goals monthly. Employees are given the flexibility to respond quickly to unique customer requirements or complaints and changing business needs. Teams of employees visit customer facilities to identify opportunities for improving products and services.

6.2.3. Role of Task Interdependence

Task interdependence is the degree to which decision making and cooperation between two or more employees is necessary for them to perform their jobs. The construction of the structural steel framework of a high-rise building involves a high degree of task interdependence between the crane operator, ground crew, and assembly crew in moving and joining the steel girders and beams.

The three basic types of interdependent task relations are pooled, sequential, and reciprocal. **Pooled interdependence** is the ability of an employee (or team) to act independently of others in completing a task or tasks. Most real estate agents, who often act as independent contractors within a real estate firm, use pooled interdependence to coordinate their activities.

Sequential interdependence is the need for an employee (or team) to complete certain tasks before other employees (or teams) can perform their tasks. In other words, the outputs from some employees (teams) become the inputs for other employees (teams). The sequence of interdependencies can be a long chain in some mass-production activities.

Reciprocal interdependence means that the outputs from an individual (or team) become the inputs for others and vice versa. Reciprocal interdependencies are common in everyday life. Examples include (1) a family, (2) a basketball team, (3) a surgical team, (4) a decision-making team, and (5) a class project assigned to a small team of students. Reciprocal interdependence usually requires a high degree of collaboration, communication, and team decision making.

6.3. Job Characteristics Enrichment

The job characteristics enrichment model involves increasing the amounts of skill variety, task identity, task significance, autonomy, and feedback in a job. The model proposes that the levels of these job characteristics affect three critical psychological states: (1) experienced meaningfulness of the tasks performed; (2) experienced personal responsibility for task outcomes; and (3) knowledge of the results of task performance. If all three psychological states are positive, a reinforcing cycle of strong work motivation based on self-generated rewards is activated. A job without meaningfulness, responsibility, and feedback is incomplete and doesn't strongly motivate an employee. Because of our previous coverage of motivation, we focus here on the job characteristics and individual differences components of the model.

6.3.1. Job Characteristics

Five job characteristics hold the key to job enrichment efforts in this model. They are defined as follows.

- Skill variety—the extent to which a job requires a variety of employee competencies to carry out the work.
- Task identity—the extent to which a job requires an employee to complete a whole and identifiable piece of work, that is, doing a task from beginning to end with a visible outcome.
- Task significance—the extent to which an employee perceives the job as having a substantial impact on the lives of other people, whether those people are within or outside the organization.
- Autonomy—the extent to which the job provides empowerment and discretion to an employee in scheduling tasks and in determining procedures to be used in carrying out those tasks.
- Job feedback—the extent to which carrying out job-related tasks provides direct and clear information about the effectiveness of an employee's performance.

Skill variety, task identity, and task significance strongly influence the experienced meaningfulness of work. Autonomy usually increases feelings and attitudes of personal responsibility and empowerment for work outcomes. Job feedback gives an employee knowledge about task results. This type of feedback comes from the work itself, not from a manager's performance appraisal.

The job of surgeon can be used to further illustrate these points. This job seems to rate high on all the key job characteristics. It provides a constant opportunity for using highly varied skills, abilities, and talents in diagnosing and treating illnesses. Task identity is high because the surgeon normally diagnoses a problem, performs an operation, and monitors the patient's recovery. Task significance also is high because the surgeon's work can mean life or death to the patient. Autonomy is high because the surgeon often is the final authority on the procedures and techniques used. However, the growing prevalence and threat of malpractice suits may have lowered the surgeon's sense of autonomy in recent years. Finally, the surgeon receives direct feedback from the job, knowing in many cases almost immediately whether an operation is successful.

6.3.2. Individual Differences

The individual differences variable identified in this model influence how employees respond to enriched jobs. They include competencies, strength of growth needs, and satisfaction with contextual factors. These individual differences have an impact on the relationship between job characteristics and personal or work outcomes in several important ways. Managers therefore should consider them when designing or redesigning jobs.

Competencies. Employees with the competencies needed to perform an enriched job effectively are likely to have positive feelings about the tasks they perform. Employees unable to perform an enriched job may experience frustration, stress, and job

dissatisfaction. These feelings and attitudes may be especially intense for employees who desire to do a good job but realize that they are performing poorly because they lack the necessary skills and knowledge. Accordingly, assessing carefully the competencies of employees whose jobs are to be enriched is essential. A training and development program may be needed along with an enrichment program to help such employees attain the needed competencies.

Growth-Need Strength. The extent to which an individual desires the opportunity for self-direction, learning, and personal accomplishment at work is called growth-need strength. This concept is essentially the same as Alderfer's growth needs and Maslow's esteem needs and self-actualization needs concepts. Individuals with high growth needs tend to respond favorably to job enrichment programs. They experience greater satisfaction from work and are more highly motivated than people who have low growth needs. High growth-need individuals are generally absent less and produce better quality work when their jobs are enriched. Employee responses to enriched jobs usually range from indifferent to highly positive.

Satisfaction with Contextual Factors. The extent to which employees are satisfied with contextual factors at work often influence their willingness or ability to respond positively to enriched jobs. Contextual factors include organizational policies and administration, technical supervision, salary and benefit programs, interpersonal relations, travel requirements, and work conditions (lighting, heat, safety hazards, and the like). Employees who are extremely dissatisfied with their superiors, salary levels, and safety measures are less likely to respond favorably to enriched jobs than are employees who are satisfied with these conditions. Other contextual factors (e.g., employee satisfaction with the organizational culture, power and the political process, travel requirements, and team norms) also can affect employee responses to their jobs.

One controversial contextual factor is the growing use of electronic monitoring of work through the use of computers, video cameras, and telephone technologies to "listen in on" or "observe" employees as they perform their tasks. More than 15 million employees in the United States are electronically monitored each day. Such monitoring often occurs without employees being aware that it is taking place. Information technologies are being used to monitor attendance, tardiness, work speed (e.g., recording the number of computer keystrokes an employee performs per minute or hour), break length and frequency, types of messages being transmitted on computer networks, and the nature and quality of conversations with customers or others, among other activities. Such intrusiveness raises serious ethical concerns, which focus on the excessive invasion of privacy of employees while working, at or away from the normal place of business, and a growing concern that "Big Brother is watching."

6.3.3. Job Diagnosis

Various methods are used to diagnose jobs, determine whether job design problems exist, and estimate the potential for job enrichment success. We limit our discussion to two of these methods: structural clues and surveys.

Structural Clues Method. The structural clues method is the process of examining contextual factors often associated with deficiencies in job design. The presence of five specific structural factors often suggests job design problems.

- Inspectors or checkers. Autonomy usually is reduced when inspectors or checkers, rather than employees or teams, examine outputs. Feedback is less direct because it doesn't come from the job itself.

- Troubleshooters. The existence of troubleshooters usually means that the exciting and challenging parts of a job have been taken away from employees or teams. Thus they have less sense of responsibility for work results. Task identity, autonomy, and feedback usually are lessened.

- Communications and customer relations departments. These departments usually cut the link between employees who do the job and customers or clients. They often dilute direct feedback and task identity for those creating the products or services.

- Labor pools. On the surface, pools of word processors, computer programmers, and other employees are appealing because they seem to increase efficiency and the ability to meet workload fluctuations. However, such pools often destroy feelings of task ownership and identity.

- Narrow span of control. A manager with only a few subordinates (say, five to seven) is more likely to become involved in the details of their day-to-day tasks than a manager with a wider span of control. Centralization of decision making and overcontrol may result from too narrow a span of control and seriously reduce autonomy and a sense of empowerment.

Survey Method. Several types of questionnaires, one of which is the job diagnostic survey (JDS), make diagnosing jobs relatively easy and systematic. You can calculate an overall measure of job enrichment, called the motivating potential score (MPS). The MPS formula sums the scores for skill variety, task identity, and task significance and divides the total by 3. Thus the combination of these three job characteristics has the same weight as autonomy and job feedback. The reason is that the job characteristics enrichment model requires that both experienced responsibility and knowledge of results be present for high internal job motivation. This outcome can be achieved only if reasonable degrees of autonomy and job feedback are present.

6.3.4. Implementation Approaches

Any one of five approaches, or a combination of them, may be used to implement a job enrichment program. All need not be used in every job enrichment effort, nor are they mutually exclusive. The two main approaches are vertical loading and the formation of natural work teams. The other three—establishment of customer relationships, employee ownership of the product, and employee receipt of direct feedback—often are used within one of the two principal approaches.

Vertical Loading. Vertical loading is the delegation to employees of responsibilities and tasks that were formerly reserved for management or staff specialists. Vertical loading includes the empowerment of employees to

- set schedules, determine work methods, and decide when and how to check on the quality of the work produced;

- make their own decisions about when to start and stop work, when to take breaks, and how to assign priorities; and
- seek solutions to problems on their own, consulting with others only as necessary, rather than calling immediately for the manager when problems arise.

Employees often schedule their own work after vertical loading, although a manager may set deadlines or goals. Within these guidelines, employees are allowed some freedom in setting their own schedules and pace. Flextime allows employees, within certain limits, to vary their arrival and departure times to suit their individual needs and desires and helps in self-scheduling of work. With the new information technology capabilities (e.g., computer-based networks), an increasing number of jobs can be Skill Variety Task Identity Task Significance performed, at least part of the time, at the employee's residence, in hotels while traveling, and at customer locations.

Natural Teams. The formation of natural teams combines individual jobs into a formally recognized unit (e.g., a section, team, or department). The criteria for the groupings are logical and meaningful to the employee and include the following.

- Geographic: Salespeople or information technology consultants might be given a particular region of the state or country as their territory.
- Types of business: Insurance claims adjusters might be assigned to teams that serve specific types of businesses, such as utilities, manufacturers, or retailers.
- Organizational: Word-processing operators might be given work that originates in a particular department.
- Alphabetic or numeric: File clerks could be made responsible for materials in specified alphabetical groups (A to D, E to H, and so on); library-shelf readers might check books in a certain range of the library's cataloging system.
- Customer groups: Employees of a public utility or consulting firm might be assigned to particular industrial or commercial accounts.

Customer Relationships. One of the most important concepts of job enrichment is putting employees in touch with the users of their output. The establishment of customer relationships often is a logical outcome if natural teams are formed. Employees too often end up working directly for their superiors rather than for customers or clients. Consider the approach used by Home Depot, a large retailer primarily for residential fixer-uppers. Home Depot encourages employees to build long-term relationships with customers. Employees are trained in home repair techniques and can spend as much time as necessary to help customers. There are no high-pressure sales tactics, and employees are on straight salary. In order to satisfy customers consistently, the leadership of Home Depot believes that employees must be committed. Instead of receiving discounts on merchandise, employees get shares in the company's stock. Salespeople are trained not to let customers overspend.

Ownership of Product. Employees who assemble entire television sets or prepare entire reports identify more with the finished products than do employees who perform only parts of the job. Allowing employees to build or service entire products or

complete entire tasks is likely to generate a sense of pride and achievement. The assignment of as much responsibility as possible in serving a certain geographic area also may create the feeling of ownership.

Direct Feedback. The job-enrichment approach stresses information to the employee directly from performance of the task. Reports or computer output may go directly to employees, instead of just to their managers. A common technique is to let people check their own work so that they can catch most of their own errors before others do. This technique also increases employee autonomy. Direct communication with customers or clients also may improve the timeliness and accuracy of feedback, thereby eliminating distortions and delays.

6.4. Sociotechnical Systems

The sociotechnical systems model views organizations as entities with complex relationships within their social systems. This model emphasizes grouping jobs by team when the reciprocal and/or sequential interdependence among jobs can't be reduced. The use of pooled interdependence therefore tends to occur among teams rather than among individual jobs. Use of this model involves vertical job loading to a cluster of jobs within a team as a whole, rather than to each individual job. Management can use the sociotechnical systems model to design work that integrates people and technology and to optimize the relationships between the technological and social systems. When applied to manufacturing, the needed changes in technology sometimes are too difficult and costly to make in an existing plant. Thus the sociotechnical systems model more frequently works best in designing jobs for an entirely new plant.

The sociotechnical systems model has four main parts: environmental forces, the social system, the technological system, and moderators. We don't review environmental forces (e.g., customers, suppliers, and regulatory agencies) further in this model.

6.4.1. Social Systems

The social system of an organization comprises those aspects of its "human side" that can influence how individuals and teams perform tasks and their attitudes toward work and the organization. For example, if employees characterize their organization as one marked by distrust, backstabbing, and infighting, the creation of self-managed work teams is likely to be counterproductive until some degree of trust and cooperation can be established.

6.4.2. Technological Systems

Task uncertainty, workflow uncertainty, and task interdependence need to be diagnosed. These three technological dimensions are likely to vary with the type of production process being used or planned. For example, utilization of an assembly line or, alternatively, small units is an important technological characteristic. Different production processes require different approaches to job design. In a process technology operation, most work is automated. The relatively few workers spend much of their time monitoring dials and performing maintenance tasks. By contrast, small-unit technologies—plumbing, appliance repair, sales, and investment

advice—involve relatively large amounts of labor to achieve the required outputs.

Another technological characteristic is the physical work setting (amount of light, temperature, noise, pollution, geographical isolation, and orderliness). For example, if the workplace is too hot or noisy, employees may have difficulty performing tasks that require intense thought and concentration.

Complexity of the production process also is an important technological characteristic. The more complex the production process, the greater are the degrees of task and workflow uncertainty and the requirements for reciprocal task interdependence.

Other important technological characteristics are the nature of raw materials used in production and the time pressure inherent in the production process.

6.4.3. Moderators

Work roles act as moderators in the sociotechnical systems model, establishing a set of expected employee behaviors. Work roles define the relationships between the people who perform tasks and the technological requirements of those tasks, binding the sociotechnical systems to each other. The vision, goals, and values of an organization also moderate the relationship between the social and technical systems. The sociotechnical systems model is most effective in an organization with a highly competent and educated workforce.

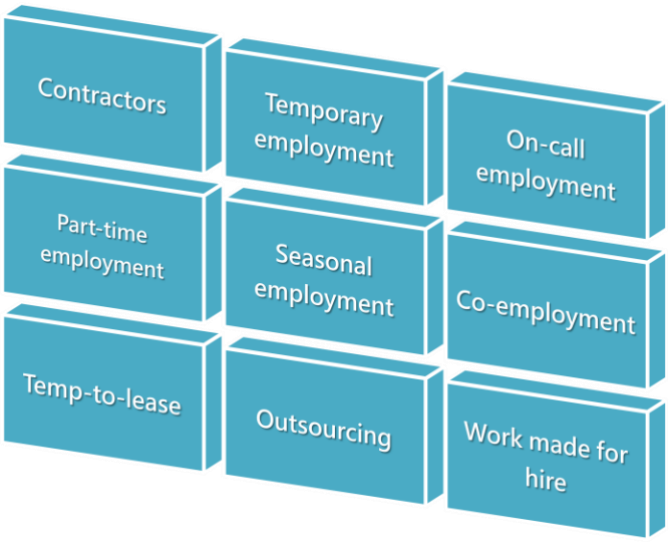
The degree to which an organization operates according to the sociotechnical systems model can be assessed in terms of six core concepts, all of which are reflected in the Preview Case.

- Innovation—Organizational leaders and members maintain a futuristic versus historical orientation, including a propensity for risk taking and provision of rewards for innovation.
- Human resource development—The talents, knowledge, skills, and abilities of organizational members are developed and tapped through job design, supervisory roles, organizational design, and the workflow process.
- Environmental agility—The organization maintains awareness of the environment and responds appropriately to it by recognizing customer importance, proactivity versus reactivity, and product or service flexibility.
- Cooperation—Individuals, teams, and departments work together to accomplish common goals through openness, mutual support, shared values, and common rewards.
- Commitment and energy—Employees are dedicated to accomplishing organizational goals and are prepared to expend energy in doing so.
- Joint optimization—The organization uses both its social and technical resources effectively, including the design of technology to support teamwork and flexibility.

7. 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.



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

7.1. Type of Alternative Staff

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

7.1.2. 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.

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

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

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

7.1.6. 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.

7.1.7. 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).

7.1.8. 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).

7.1.9. 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.

7.1.10. Certain types of employees, who are classified as exempt employees, are not entitled to overtime pay as guaranteed by regulation. If an employee is classified as exempt (vs. non-exempt) their employer is not required to pay them overtime pay.

7.2. Contingent Workforce Strategy

Contingent workforce offers companies the ability to tap into extensive networks of individuals with hard-to-find skills. The benefits are many but the challenge of finding and managing this diverse and decentralized workforce cannot to be underestimated. Here are 4 key questions organizations must consider when developing their contingent workforce strategy:

7.2.1. How can we PLAN most effectively for a total workforce?

When it comes to a contingent workforce strategy, the planning phase is extremely important. Unfortunately, in many organizations, contingent workers are added in an ad-hoc fashion so that it’s hard, or in many cases totally impossible, to get the total contingent workforce picture. Organizations should start by evaluating the critical skills needed to achieve company goals, determining where the talent gaps are, and then developing a strategy to fill the gaps with both full-time and contingent labor. Those spearheading this planning phase should be prepared to educate others within the company about the high value contingent workers bring to the workplace. Providing

research about the use of contingent workers in your industry and the growth of the contingent workforce nationally and internationally is a good place to start.

7.2.2. How will we MANAGE our contingent workforce?

Most organizations have established processes when sourcing, hiring, on-boarding, compensating, training and reviewing full-time employees. For some reason, when it comes to the contingent workforce, many of these standards seem to go right out the window. This should not be the case. Organizations should think broadly about the range of talent practices used for full-time employees, and consider how they may be applied to the contingent workforce. Companies should also look to standardize the management of contingent workers when possible, making it similar or identical to that of full-time employees. The contingent workforce landscape should not be the Wild West. There should be rules and processes in place to ensure that you are finding the best candidates, hiring them in a timely fashion and at the right price, on-boarding them to meet all compliance requirements, training them so they continue to develop their knowledge of your organization and their own expertise, and providing performance feedback on an ongoing basis. These policies were put in place for full time employees because they enhance performance. They'll have a similar impact on contingent workers.

7.2.3. How will we ENGAGE contingent workers and integrate them into our culture?

As a full-time employee at an organization, you are privy to a lot of information about the company and the culture: emails from the CEO about the financial performance of the company, interactions with co-workers that give you the flavor of how people treat each other, events and town hall meetings where important information is shared. For many contingent workers, this is not the case. If you have contingent workers who work remotely or don't have network access, don't forget to try to share these aspects of your organization with them. Just being part of an active corporate culture energizes your full-time employees, and it will motivate your contingent workers as well. Look for opportunities to share exciting company news to give them a strong sense of the organization they are working for. Be sure to coach your hiring managers on effective strategies to keep this workforce engaged- they are a critical part of the team's success – make sure to treat them as such. You can also look for opportunities to connect your contingent workers to each other providing an additional layer of support. These efforts will ensure that they know your organization and will represent you well when they are out in the world.

7.2.4. What Technology will we use to help us manage our contingent workforce?

Many HR technology solutions are designed exclusively for full-time talent. Within organizations where contingent talent is a significant part of the workforce, this just won't work. These organizations need to leverage a technology solution that provides total visibility into this specialized workforce. A Vendor Management System (VMS) manages contingent labor as well as the wide variety of service categories such as Statement of Work (SOW) projects and indirect services. A VMS can help to make the contingent workforce a strategic component of an organization's overall human capital management strategy by improving operational efficiencies, cost controls, compliance, and invoice controls for staff augmentation and professional services spend.

As the contingent workforce continues to grow, managing this unique population requires innovative thinking and solutions. Organizations must think critically about how they will plan for, manage, engage and integrate this complex workforce into their comprehensive talent strategy and bolster this plan with the required technology support. Organizations who fail to do this will lose a competitive advantage over those who do.

Part Two: Recruitment and Selection

1. 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.

1.1. 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

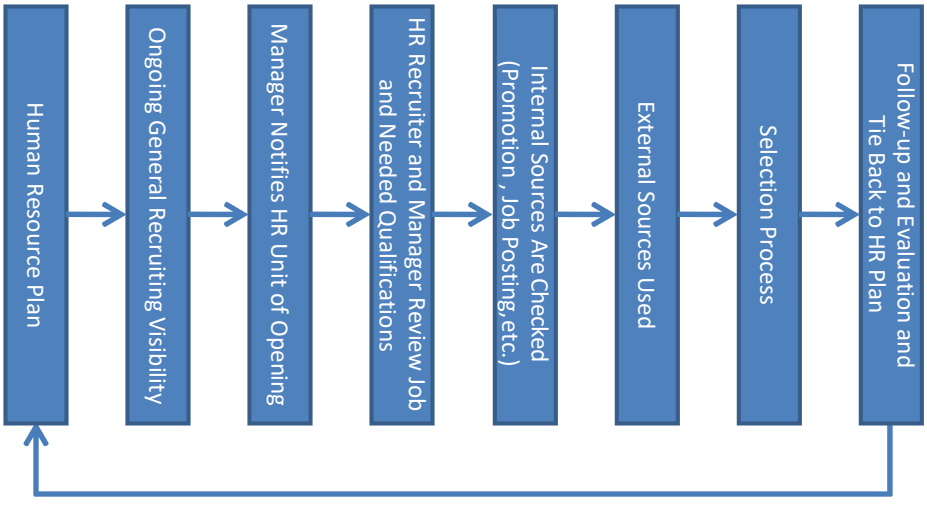
employees? Should recruitment be the preserve of management and the personnel function, or should team members be free to 'choose' their own colleagues? Traditionally, of course, managers and professional staff have performed this function. Yet, there are an increasing number of instances where teams also play an important part in the recruitment process.

1.2. 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 though 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.

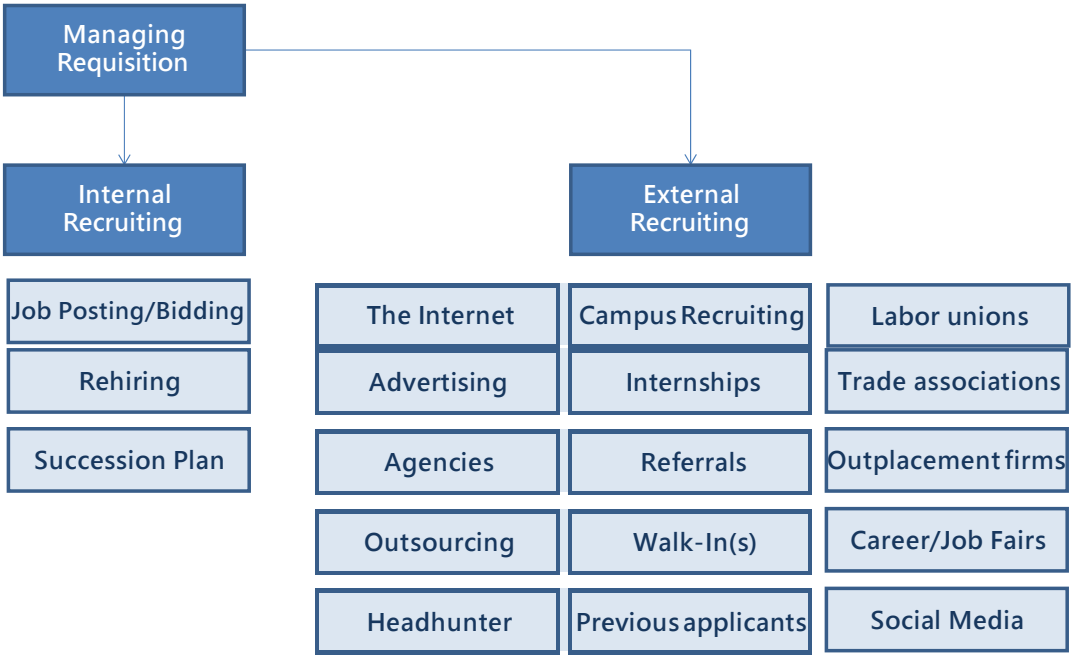
1.3. Recruitment Planning

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'.

2. 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.



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

2.1. Internal Recruiting

The Internet has become the primary means for many employers to search for job candidates and for applicants to look for jobs. The growth in Internet use is a key reason that the following employer actions occur:

- Adjusting general employer recruiting systems to use new approaches
- Identifying new types of recruiting for specific jobs
- Training managers and HR professionals on technical recruiting sources, skills, and responsibilities

2.1.1. E-Recruiting Means

The growth in the Internet has led both employers and employees to use Internet recruiting tools. Internet links, Web 2.0 sites, blogs, twitters, and other types of Internet/Web-based usages have become viable parts of recruiting. One survey of e-recruiting software providers identified numerous firms as e-recruiting clients, and some of them serve more than 1,000 employers. Of the many recruiting sites using special software, the most common ones are Internet job boards, professional/career websites, and employer websites.

Internet Job Boards Numerous Internet job boards, such as Monster and Yahoo! Hot Jobs, provide places for employers to post jobs or search for candidates. Job boards offer access to numerous candidates. Some Internet locations allow recruiters to search one website, such as MyJobHunter.com, to obtain search links to many other major job sites. Applicants can also use these websites to do one match and then send résumés to all jobs in which they are interested. However, a number of the individuals accessing these sites are “job lookers” who are not serious about changing jobs, but are checking out compensation levels and job availability in their areas of interest. Despite such concerns, HR recruiters find general job boards useful for generating applicant responses.

Professional/Career Websites Many professional associations have employment sections at their websites. As illustration, for HR jobs, see the Society for Human Resource Management site, www.shrm.org, or WorldatWork, www.worldatwork.org. The SHRM organization has established a Job Posting Center that numerous recruiters and employers can use to post a wide range of industry openings. A number of private corporations maintain specialized career or industry websites to focus on IT, telecommunications, engineering, medicine, and other areas. Use of these targeted websites may limit somewhat recruiters’ search time and efforts. Also, posting jobs on such websites is likely to target applicants specifically interested in the job field and may reduce the number of applications from less-qualified applicants.

Employer Websites Despite the popularity of job boards and association job sites, many employers have learned that their own websites can be most effective and efficient when recruiting candidates. The most successful of these websites are created by highly prominent firms and take extensive actions to guide job seekers to their firm. Employers include employment and career information on their websites under headings such as “Employment” or “Careers.” This is the place where recruiting (both

internal and external) is often conducted. On many of these sites, job seekers are encouraged to e-mail résumés or complete online applications.

It is important for the recruiting and employment portions of an employer website to be seen as part of the marketing efforts of the firm. The formatting of the employment section of an organizational website must be shaped to market jobs and organizational careers effectively. A company website should market the employer by outlining information on the organization, including its products and services, organizational and industry growth potential, and organizational operations. The attractiveness, usability, and formatting of an employer's website can affect job seekers' view of that organization positively or negatively. See HR On-the-Job for company website recruiting ideas.

2.1.2. Recruiting and Internet Social Networking

The Internet has led to social networking of individuals on blogs, twitters, and a range of websites. Many people initially use the social media more than job board sites. Internet connections often include people who work together as well as past personal contacts and friends.

The informal use of the Web presents some interesting recruiting advantages and disadvantages for both employers and employees. Social networking sites allow job seekers to connect with employees of potential hirers. For instance, some sites include posts on what it is like to work for a boss, and job hunters can contact the posters and ask questions. An example is LinkedIn, which has a job-search engine that allows people to search for contacts who work for employers with posted job openings.

Firms and employers are now engaging in social collaboration by joining and accessing social technology networks such as LinkedIn, Facebook, and many others. Posting job openings on these sites means that millions of website users can see the openings and can make contact online. Often those doing recruiting can send individuals to the company website and then process candidates using electronic résumés or completed online applications.

Job Applicants and Social Network Sites Many individuals see social media and networking websites as a key part of online recruiting. Almost half of surveyed employers indicated that instead of using general job boards, they were changing to social networking and niche job sites for recruiting workers with specific skills. However, employers who use social networking sites for recruiting must have plans and well-defined recruiting tools to take full advantage of these sites.

A majority of LinkedIn members explicitly state that they may be contacted for reasons concerning new career opportunities. Several of these individuals, in their LinkedIn profiles, also include detailed descriptions of present and past work experience, summaries of their areas of expertise, and links to references made available by former supervisors and co-workers. Their stated contact interests, and the detailed résumé-like profiles that often accompany these interests, indicate that the majority of individuals registered with LinkedIn are concerned to locate opportunities that may advance their careers. Moreover, LinkedIn's users can include a photograph, write a short blurb attesting to their expertise, and add media links that share presentations,

digital portfolios, or a list of books they are reading. Personal interests and the LinkedIn groups and associations to which a person belongs are part of the profile, as are the reasons someone may be contacted, such as career opportunities, new ventures, or "getting back in touch." Individuals may enhance their profiles to achieve a desired goal in the same way that a resume can be bolstered to improve the chances of getting an interview.

2.1.3. Recruiting Using Special Technology Means

For a number of years, the Internet has been used by people globally. Several special Internet tools that can be used as part of recruiting efforts are blogs, e-videos, and twitters.

Blogs and Recruiting Both employers and individuals have used blogs as part of recruiting to fill jobs. Firms such as Best Buy, Microsoft, Honeywell, and Manpower have used blogs on which individuals could read and provide content. For instance, describing job openings and recruiting needs on the Best Buy blog has resulted in individuals responding to job areas such as finance, marketing, HR, and other specialties. Numerous other employers have used blogs to generate recruiting results as well.

E-Video and Recruiting With video capabilities of all types available, employers are using videos in several ways. Some firms use videos to describe their company characteristics, job opportunities, and recruiting means. Suppliers such as Monstor.com, CareerTV, and others have worked with employer clients to produce online recruitment videos.

Some of the online videos contain “employment games” for both current and potential employees that focus on creating positive employment images. People who are interested in working for the company can then follow up by using online job application documentation and information. For example, MITRE, a systems engineering firm, developed a “Job of Honor” video game that drew more than 5,000 hits in one year; more than 600 people in the United States and from 25 other countries became registered players in the game. Participation levels like this have led employers to increase job-related recruiting and follow-up activities using Web-based linkages.

Recruiting through Twitter Twitter (Sina Weibo is China's version of Twitter) can be used for many different purposes, including personal, social, legal, and employment-related messages. The Twitter system limits messages to 140 specific characters, but even so tweeting has rapidly become a social network recruiting method. Recruiters send tweet messages to both active and passive job candidates, and then follow up with longer e-mails to computers, personal contacts, and other actions to facilitate recruiting. Since Twitter is such a relatively new service, how exactly it will be best used for recruiting is still evolving.

2.1.4. Legal Issues in Internet Recruiting

With Internet recruiting expanding, new and different concerns have arisen. Several of these issues have ethical and moral as well as legal implications. The following

examples illustrate some of these concerns:

- When companies use screening software to avoid looking at the thousands of résumés they receive, are rejections really based on the qualifications needed for the job?
- How can a person's protected-category and other information be collected and analyzed for reports?
- Are too many individuals in protected categories being excluded from the later phases of the Internet recruiting process?
- Which applicants really want jobs? If someone has accessed a job board and sent an e-mail asking an employer about a job opening, does the person actually want to be an applicant?
- What are the implications of Internet recruiting in terms of confidentiality and privacy?

Loss of privacy is a potential disadvantage with Internet recruiting. Sharing information gleaned from people who apply to job boards or even company websites has become common. As a company receives résumés from applicants, it is required to track those applicants and report to the federal government. But the personal information that can be seen by employers on websites such as MySpace, Facebook, LinkedIn, and others may be inappropriate and can possibly violate legal provisions.

Employment lawyers are issuing warnings to employers about remarks and other characteristics posted on LinkedIn, Facebook, and Twitter. According to one survey of employers, about three-fourths of hiring managers in various-sized companies checked persons' credentials on LinkedIn, about half used Facebook, and approximately one-fourth used Twitter. Some of the concerns raised have included postings of confidential details about an employee's termination, racial/ethnic background, or gender and the making of discriminatory comments. All of these actions could lead to wrongful termination or discrimination lawsuits. Thus, because Internet usage has both advantages and disadvantages for recruiting, legal advice should be obtained, and HR employment-related policies, training, and enforcement should include such advice.

2.1.5. Advantages of Internet Recruiting

Employers have found a number of advantages to using Internet recruiting. A primary one is that many employers have saved money using Internet recruiting versus other recruiting methods such as newspaper advertising, employment agencies, and search firms, all of which can cost substantially more.

Another major advantage is that a very large pool of applicants can be generated using Internet recruiting. Individuals may view an employer more positively and obtain more useful information, which can result in more individual applications. In fact, a large number of candidates may see any given job listing, although exposure depends on which Internet sources are used. One side benefit of Internet recruiting is that jobs literally are posted globally, so potential applicants in other geographic areas and countries can view job openings posted on the Internet. It also improves the ability to

target specific audiences, including more diverse persons, through the use of categories, information, and other variables.

Internet recruiting also can save time. Applicants can respond quickly to job postings by sending electronic responses, rather than using “snail mail.” Recruiters can respond more rapidly to qualified candidates in order to obtain more necessary applicant information, request additional candidate details, and establish times for further communication, including interviews.

A good website and useful Internet resources also can help recruiters reach “passive” job seekers—those who have a good job and are not really looking to change jobs but who might consider it if a better opportunity were presented. These individuals often do not list themselves on job boards, but they might visit a company website for other reasons and check out the careers or employment section. A well-designed corporate website can help stimulate interest in some passive job seekers, as well as other potential candidates.

2.1.6. Disadvantages of Internet Recruiting

The positive things associated with Internet recruiting come with a number of disadvantages. Because of broader exposure, Internet recruiting often creates additional work for HR staff members and others internally. More online job postings must be sent; many more résumés must be reviewed; more e-mails, blogs, and twitters need to be dealt with; and expensive specialized software may be needed to track the increased number of applicants resulting from Internet recruiting efforts.

Another issue with Internet recruiting is that some applicants may have limited Internet access, especially individuals from lower socioeconomic groups and from certain racial/ethnic groups. In addition, many individuals who access Internet recruiting sources are browsers who may submit résumés just to see what happens, but they are not actively looking for new jobs.

Internet recruiting is only one approach to recruiting, but its use has been expanding. Information about how Internet recruiting methods compare with other, more traditional approaches is relevant. Also, how well the Internet recruiting resources perform must be compared to the effectiveness and integration of other external and internal recruiting sources.

2.1.7. Internal Recruiting methods

Filling openings internally may add motivation for employees to stay and grow in the organization rather than pursuing career opportunities elsewhere. The most common internal recruiting methods include: organizational databases, job postings, promotions and transfers, current-employee referrals, and re-recruiting of former employees and applicants.

Internal Recruiting Databases and Internet-Related Sources

HR information technology systems allow HR staff to maintain background and knowledge, skills, and abilities (KSA) information on existing employees. As openings arise, HR can access databases by entering job requirements and then get a listing of

current employees meeting those requirements. Employment software can sort employee data by occupational fields, education, areas of career interests, previous work histories, and other variables. For instance, if a firm has an opening for someone with an MBA and marketing experience, the key words MBA and marketing can be entered in a search field, and the program displays a list of all current employees with these two items identified in their employee profiles.

The advantage of such databases is that they can be linked to other HR activities. Opportunities for career development and advancement are a major reason why individuals stay at or leave their employers. With employee databases, internal opportunities for individuals can be identified. Employee profiles are continually updated to include such items as additional training and education completed, special projects handled, and career plans and desires noted during performance appraisals and career mentoring discussions.

Job Posting

The major means for recruiting current employees for other jobs within the organization is job posting, a system in which the employer provides notices of job openings and employees respond by applying for specific openings. Without some sort of job posting system, it is difficult for many employees to find out what jobs are open elsewhere in the organization. In many unionized organizations, job posting and bidding can be quite formal because the procedures are often spelled out in labor agreements. Seniority lists may be used by organizations that make promotions based strictly on seniority.

Regardless of the means used, the purpose of the job posting system is to provide employees with more opportunities to move within the organization. When establishing and managing a job posting system, a number of questions must be addressed:

- What happens if no qualified candidates respond to postings?
- Must employees inform their supervisors that they are applying for another job?
- Are there restrictions on how long an employee must stay in a job before applying for another internal one?
- What types of or levels of jobs will not be posted?

Internet/Web-Based Job Posting While many employers historically have had some kind of job posting system in place for internal jobs, a number of companies are using proactive efforts to get employees to apply through Web based systems. Kenexa, Oracle, Softscape, LinkedIn, ResumePal, Facebook, and JobFox are just some of the vendors that provide internal recruiting website job posting. The complexity of using such job posting methods varies according to the employer and the technology capabilities and systems available. Employees can log onto a company intranet and create personal profiles, including career objectives, education, skill sets, and pay expectations. They also may attach a résumé. When a job opens, the placement program automatically mines the database for matches. Candidates then are notified by e-mail and go through the regular hiring cycle.

Effective Job Posting For job posting efforts to be effective, especially with better-performing employees, posting wording must be relevant and accurate. Also, the posting should be based on the important characteristics of talented employees. Those people may be most likely to respond because of the organizational reputation, coworkers and bosses, and the possibility of more important and interesting work.

Jobs generally are posted before any external recruiting is done. The organization must allow a reasonable period of time for present employees to check notices of available jobs before it considers external applicants. Employees whose bids are turned down should discuss with their supervisors or someone in the HR area what knowledge, skills, and abilities are needed in order to improve their opportunities in the future.

Promotions and Transfers Many organizations choose to fill vacancies through promotions or transfers from within whenever possible. Firms such as Verizon Communications, Dow Chemical, Microsoft, and IBM have established systems to encourage employees to learn about current and future career needs and opportunities. Some advantages of these programs are reducing employee turnover, enhancing individuals' skills and talent, and improving productivity. The HR Perspective highlights some of the opportunities of these programs.

Although often successful, internal transfer and promotion of employees within the company may have some drawbacks. For instance, a person's performance on one job may not be a good predictor of performance on another, because different skills may be required on the new job. Also, as employees transfer or are promoted to other jobs, individuals must be recruited to fill the vacated jobs. Planning on how to fill those openings should occur before the job transfers or promotions, not afterward.

Employee-Focused Recruiting

One reliable source of potential recruits is suggestions from current or former employees. Because current and former employees are familiar with the employer, most of them will not refer individuals who are likely to be unqualified or who will make them look bad for giving the referral. Also, follow-up with former employers is likely to be done only with persons who were solid employees previously.

Current-Employee Referrals A reliable source of people to fill vacancies is composed of acquaintances, friends, and family members of current employees. The current employees can acquaint potential applicants with the advantages of a job with the company, furnish e-mails and other means of introduction, and encourage candidates to apply. Word-of-mouth referrals and discussions can positively aid organizational attractiveness and lead to more application decisions by those referred.56 However, using only word-of-mouth or current-employee referrals can violate equal employment regulations if protected-class individuals are underrepresented in the current organizational workforce. Therefore, some external recruiting might be necessary to avoid legal problems in this area.

Utilizing this source is usually one of the most effective methods of recruiting because many qualified people can be reached at a relatively low cost. Some firms indicate that more than 60% of new hires are due to employee referrals. In an organization with numerous employees, this approach can develop quite a large pool of potential

employees. As an example, Integris Health Institute in Oklahoma used a referral program to hire more than 500 medical technicians and nurses in relatively difficult-to-fill jobs. One key component of this program was a referral incentive, whereby the individuals giving the referrals received up to $1,000 per difficult-to-fill job.

Employers in many geographic areas and occupational fields have established employee referral incentive programs. Mid-sized and larger employers are more likely to use employee referral bonuses. Some referral programs provide different bonus amounts for hard-to-fill jobs compared with common openings; in these situations, appropriate legal concerns should be met.

Re-recruiting of Former Employees and Applicants Former employees and applicants represent another source for recruitment. Both groups offer a time-saving advantage because something is already known about them. Seeking them out as candidates is known as re-recruiting because they were successfully recruited previously. Former employees are considered an internal source in the sense that they have ties to the employer; sometimes they are called “boomerangers” because they left and came back.

Individuals who have left for other jobs sometimes are willing to return because the other jobs and employers turned out to be less attractive than initially thought. For example, at Qualcomm, a California-based telecommunications firm, about 70% of former Qualcomm individuals who left voluntarily indicated that they would return if requested. The discussion on follow-up of exit interviews in the previous chapter illustrated that re-recruiting can be a key recruiting contribution.

To enhance such efforts, some firms have established “alumni reunions” to keep in contact with individuals who have left, and also to allow the companies to re-recruit individuals as appropriate openings arise. Key issues in the decision to re-recruit someone include the reasons why the individual left originally and whether the individual’s performance and capabilities were good.

Another potential source consists of former applicants. Although they are not entirely an internal source, information about them can be found in the organizational files or an applicant database. Re-contacting those who have previously applied for jobs can be a quick and inexpensive way to fill unexpected openings. For instance, one firm that needed two cost accountants immediately contacted qualified previous applicants and was able to hire two persons who were disenchanted with their current jobs at other companies.

2.2. External Recruiting

Even when the overall unemployment rate increases, numerous jobs and/or employers still face recruiting challenges. External recruiting is part of effective HR staffing. Regardless of the methods used, external recruiting involves some common advantages and disadvantages. Some of the prominent traditional and evolving recruiting methods are highlighted next.

2.2.1. Media Sources

Media sources such as newspapers, magazines, television, radio, and billboards typically have been widely used in external recruiting. Some firms have sent direct mail using purchased lists of individuals in certain fields or industries. Internet usage has led to media sources being available online, including postings, ads, videos, webinars, and many other expanding media services. In some cities and towns, newspaper ads are still very prominent, though they may trigger job searchers to go to an Internet source for more details.

Recruiting differs depending on company and location; for instance, filling jobs at community banks in rural areas might involve different types of recruiting from filling jobs in larger banks in urban areas. Whatever medium is used, it should be tied to the relevant labor market and should provide sufficient information on the company and the job. Thus, one major key is to make the wording of job ads readable and understandable, rather than using extensive abbreviations and omitting appealing details.

Evaluating Media Ads HR recruiters should measure the responses that different media generate in order to evaluate the effectiveness of various sources. The easiest way to track responses to ads is to use different contact names, e-mail addresses, or phone number codes in each ad, so the employer can identify which advertisement has prompted each applicant response that is received.

Although the total number of responses to each ad should be tracked, judging the success of an ad only by this number is a mistake. For example, it is better to have 10 responses with two qualified applicants than 30 responses with only one qualified applicant. Therefore, after individuals are hired, follow-up should be done to see which sources produced the employees who stay longer and perform better.

2.2.2. Competitive Recruiting Sources

Other sources for recruiting include professional and trade associations, trade publications, and competitors. Many professional societies and trade associations publish newsletters or magazines and have websites containing job ads. Such sources may be useful for recruiting the specialized professionals needed in an industry.

Some employers have extended recruiting to customers. Retailers such as Wal-Mart and Best Buy have aggressive programs to recruit customers to become employees in stores. While in the store, customers at these firms can pick up applications, apply online using kiosks, and even schedule interviews with managers or HR staff members. Other firms have included employment announcements when sending out customer bills or newsletters.

2.2.3. Employment Agencies

Employment agencies, both public and private, are a recruiting source. Every state in the United States has its own state-sponsored employment agency. These agencies operate branch offices in cities throughout the states and do not charge fees to applicants or employers. They also have websites that potential applicants can use without having to go to the offices.

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.

2.2.4. Labor Unions

Labor unions may be a useful source of certain types of workers. For example, in electrical and construction industries, unions traditionally have supplied workers to employers. A labor pool is generally available through a union, and workers can be dispatched from the hiring hall to particular jobs to meet the needs of employers.

In some instances, labor unions can control or influence recruiting and staffing activity. An organization with a strong union may have less flexibility than a nonunion company in deciding who will be hired and where those people will be placed. Unions can benefit employers through apprenticeship and cooperative staffing programs, as they do in the building and printing industries.

2.2.5. Job Fairs and Creative Recruiting

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.

“Virtual” job fairs with Web-based links have been used by the federal government and others. “Drive-through” job fairs at shopping malls have been used by employers in a number of communities. At one such event, interested persons could drive up to a tent outside the mall, pick up applications from a “menu board” of employers, and then park and interview in the tent with recruiters if time allowed. Such creative recruiting methods sometimes can be used to generate a pool of qualified applicants

so that jobs can be filled in a timely manner.

2.2.6. Educational Institutions and Recruiting

College and university students are a significant source of entry-level professional and technical employees. Most universities maintain career placement offices in which employers and applicants can meet. A number of considerations affect an employer's selection of colleges and universities at which to conduct interviews.

Because college/university recruiting can be expensive and require significant time and effort, employers need to determine whether both current and future jobs require persons with college degrees in specific fields. Despite the economic changes in industries and among employers, a majority of employers who were surveyed still plan to have more than half of their hires be college graduates.

A number of factors determine success in college recruiting. Some employers actively build continuing relationships with individual faculty members and career staff at designated colleges and universities. Maintaining a presence on campus by providing guest speakers to classes and student groups increases the contacts for an employer. Employers with a continuing presence and support on a campus are more likely to see positive college recruiting results.

Desirable Capabilities of College Recruits For many employers, a moderately high grade point average (GPA) is a criterion for considering candidates for jobs during on-campus interviews. Recruiters may use GPA benchmarks to initially screen applicants in college recruiting decisions. Considerations beyond grades include the graduates' leadership potential, interpersonal communication skills, and professional motivation factors. Employers also are more likely to hire college candidates with related experience. That is one reason why internships are very important to employers, candidates, and college/university efforts, as the HR On-the-Job indicates.

Campus Recruiting High schools and vocational/technical schools may be valuable sources of new employees for some organizations. Many schools have a centralized guidance or placement office. Participating in career days and giving company tours to school groups are ways of maintaining good contact with school sources. Cooperative programs in which students work part-time and receive some school credits, also may be useful in generating qualified future applicants for full-time positions.

Employers recognize that they may need to begin attracting students with capabilities while those students are in high school. For example, GE, IBM, and other corporations fund programs to encourage students with science and math skills to participate in engineering internships during summers. Some employers specifically target talented members of racial/ethnic groups in high schools and provide them with career encouragement, summer internships, and mentoring programs as part of aiding workforce diversity efforts.

3. 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”?

3.1. 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.

3.2. 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:

3.2.1. The corporate Web site

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

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

3.2.4. Marketing campaigns

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

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

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

3.3. 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:

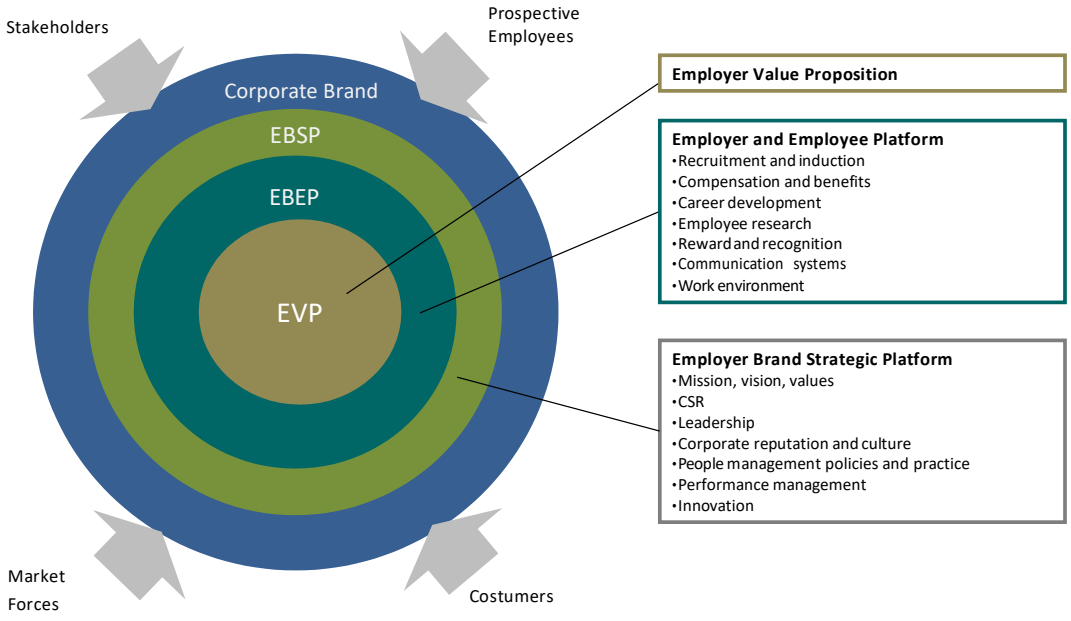
3.3.1. Any different approaches needed to attract and retain different talent segments and what those differences should be.

3.3.2. Priority areas for change in order to maintain and improve engagement of key talent.

3.3.3. The messages to use to attract different talent groups in different countries.

3.4. 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 build from the ground up.

3.5. 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.

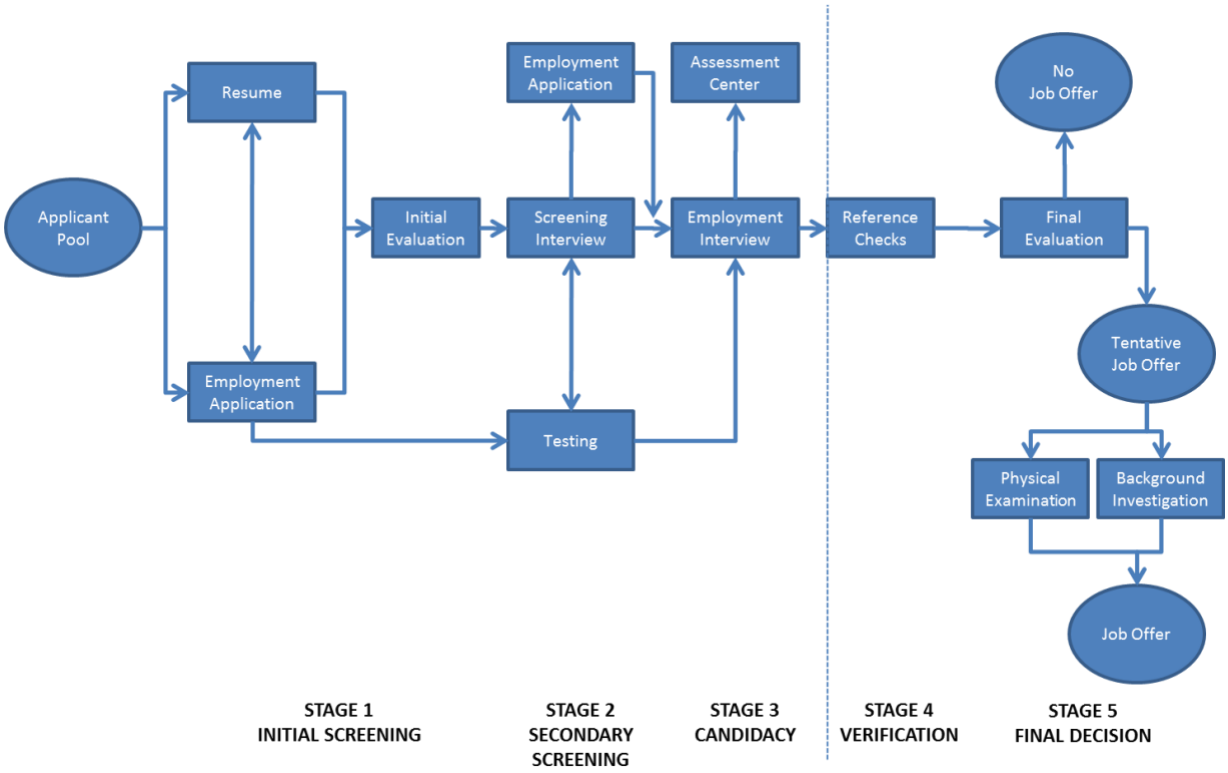
4. Selection Process

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.

4.1. 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.

4.2. 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.

4.3. 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.

4.4. 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.

4.5. 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.

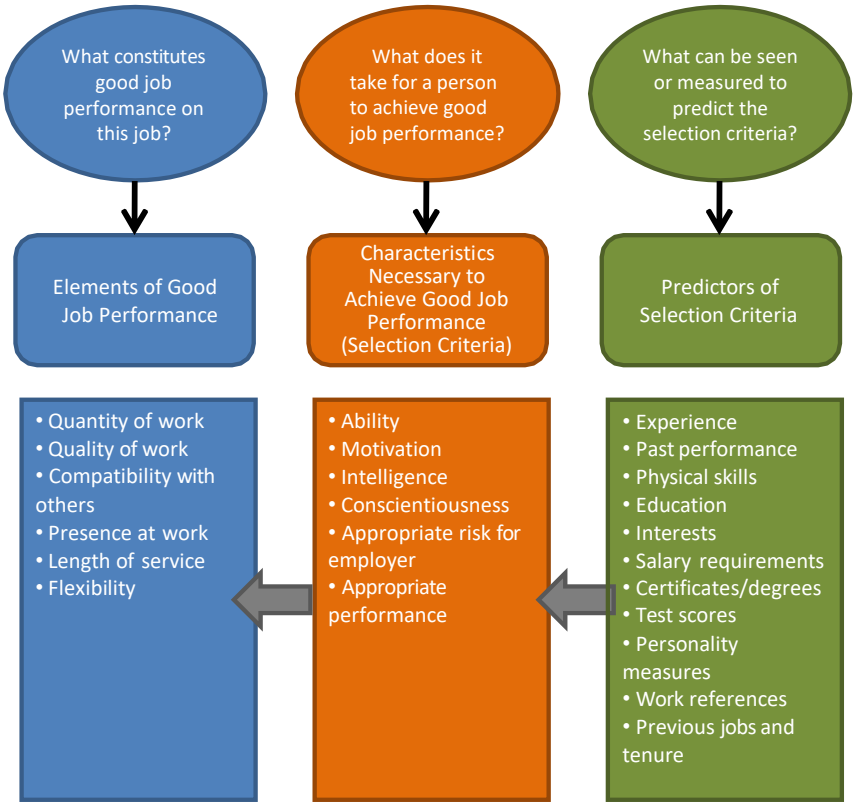
5. Criteria, Predictors, and Performance

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.

5.1. 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.

5.2. 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.

5.3. 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:

5.3.1. 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.

5.3.2. 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.

5.4. 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.

5.4.1. 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.

5.4.2. 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.

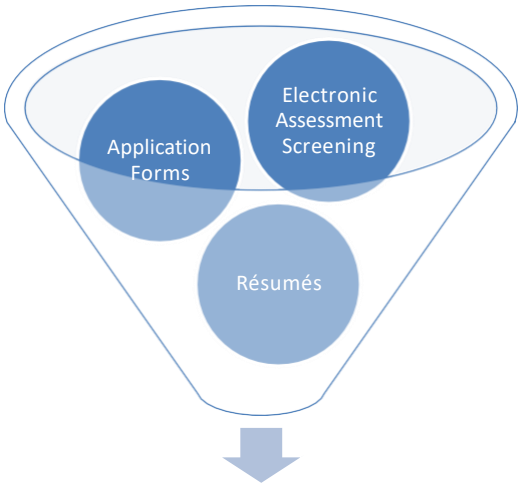
5.4.3. Person-Group Fit

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.

6. Initial Screening

Many employers conduct pre-employment screening to determine if applicants meet the minimum qualifications for open jobs before they have the applicants fill out an

application.



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

6.1. Electronic Assessment Screening

The use of electronic pre-employment screening or assessment has grown. Much of this screening utilizes computer software to review the many résumés and application forms received during the recruiting and selection process. Large companies often use different types of software to receive, evaluate, and track the applications of many potential employees.

When a job posting generates 1,000 or more applications, which is not unusual with large companies or in difficult economic times, responding to each would be a full-time job. Electronic screening can speed up the process, commonly known as Applicant Tracking Systems (ATS).

Applicant tracking systems provide a software interface for companies to manage their hiring process. At a base level, this consists of opening new positions and advertising them online — either on a corporate home page or job boards. Once recruiters open the position and advertise it, the ATS provides an interface for candidates to apply online and for managers and recruiters to view and search though those candidate submissions before moving them through the hiring processing — typically from screening to interview to offer and, of course, hire.

This may take several forms: disqualification questions; screening questions to get at KSAs and experience; valid assessment tests; and background, drug, and financial screening. Some of the assessments might include auditions for the job that are based on simulations of specific job-related tasks. For example, in a call center, candidates are given virtual customers with service problems, and branch manager candidates demonstrate their ability to foster relationships with virtual clients and to make quick

personnel decisions with virtual employees.

A good strategy is to use simple electronic assessment early to cut down the number of applicants before requiring applications or interviews. That leaves a much more qualified list of remaining applicants with which to work.

However, such assessments have a down side as well, as shown in the HR Perspective.

6.2. Application Forms

Some employers do not use pre-employment screening prior to having applicants fill out an application form. Instead, they have every interested individual complete an application first. These completed application forms then become the basis for prescreening information. But collecting, storing, and tracking these forms can create significant work for HR staff members.

Application forms, which are used universally, can take on different formats. Properly prepared, the application form serves four purposes:

- It is a record of the applicant's desire to obtain a position.
- It provides the interviewer with a profile of the applicant that can be used during the interview.
- It is a basic employee record for applicants who are hired.
- It can be used for research on the effectiveness of the selection process.

Many employers use only one application form for all jobs, but others use several different forms depending on the position. For example, a hotel might use one form for management and supervisory staff and another for line employees.

Application forms should contain disclaimers and notices so that appropriate legal protections are clearly stated. These recommended disclosures include:

- Employment-at-will: Indicates the right of the employer or the applicant to terminate employment at any time with or without notice or cause (where applicable by local law)
- Reference contacts: Requests permission to contact previous employers listed by the applicant on the application form or résumé
- Employment testing: Notifies applicants of required drug tests, pencil-and-paper tests, physical exams, or electronic or other tests that will be used in the employment decision
- Application time limit: Indicates how long application forms are active (typically 6 months), and that persons must reapply or reactivate their applications after that period
- Information falsification: Conveys to an applicant that falsification of application information can be grounds for serious reprimand or termination used in hiring decisions.

6.3. Résumés as Applications

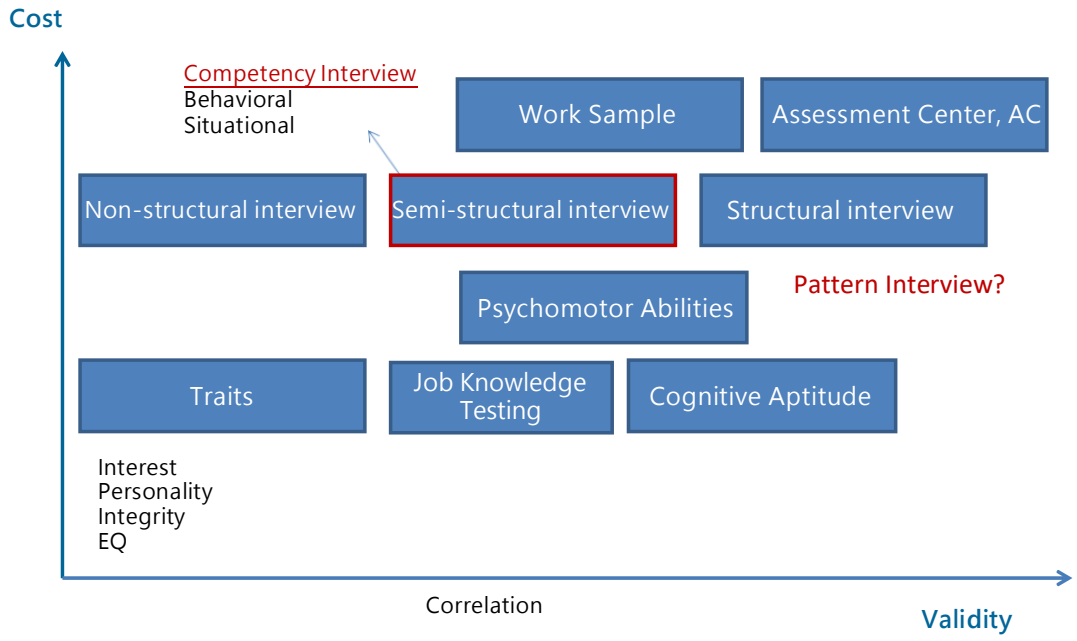
Applicants commonly provide background information through résumés. When the situation arises, some labor law standards require that an employer treats a résumé as an application form. As such, if an applicant's résumé voluntarily furnishes some information that cannot be legally obtained; the employer should not use that information during the selection process. Some employers require those who submit résumés to complete an application form as well.

Regardless of how the background information is collected, companies should be dutiful about checking the truthfulness of the information presented on résumés and application forms. Various accounts suggest that a noteworthy percentage of applicants knowingly distort their past work experiences.

7. Secondary Screening

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.

7.1. 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.

7.2. 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.

7.3. 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.

7.4. 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.

7.5. 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.

7.6. 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.

7.7. 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.

7.8. 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.

7.9. 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. 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.

8.1. 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.

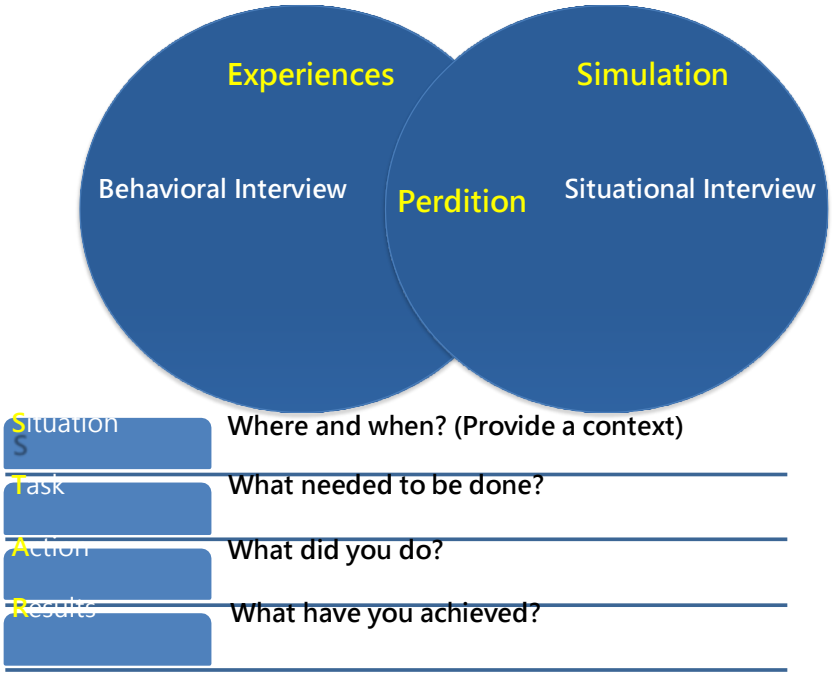
Competency interview (also referred to as situational, behavioral or competency based interview) questions are a style of semi-structured interviewing often used to evaluate a candidate's key competencies. In the following, we would discuss two frequently used types of semi-structured interview.

8.2. 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.

8.3. 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

8.4. 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.

8.4.1. Situation

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

8.4.2. Task

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

8.4.3. 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.

8.4.4. 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?

8.5. Other Types of Interviews

8.5.1. 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.

8.5.2. 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.

8.5.3. 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.

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

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

8.5.6. 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.

8.5.7. 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.

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

8.5.9. 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.

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

8.6. Interview Procedure

8.6.1. Structure Your Interview – a) base questions on job duties; b) use specific job-knowledge, situational, or behaviorally-oriented questions and objective criteria to evaluate the interviewee's responses; c) train interviewers; d) use the same questions with all candidates; e) use rating scales to rate answers; f) use multiple interviewers or panel interviews; g) design questions that reduce subjectivity, inaccurate conclusions, and bias; h) use a structured interview form; i) control the interview; and j) take brief notes.

8.6.2. Prepare for the Interview – The interview should take place in a private room where interruptions can be minimized. Prior to the interview, the interviewer should review the candidate's application and resume, as well as the job duties and required skills and traits.

8.6.3. Establish Rapport – The interviewer should put the interviewee at ease so he/she can find out the necessary information about the interviewee. Studies show that people who feel more self-confident about their interviewing skills perform better in interviews.

8.6.4. Ask Questions – The interviewer should follow the interview guide.

8.6.5. Close the Interview – Leave time to answer any questions the candidate may have and, if appropriate, advocate your firm to the candidate. Try to end the interview on a positive note.

8.6.6. Review the Interview – Once the candidate leaves, and while the interview is fresh on the interviewer's mind, he/she should review his/her notes and fill in the structured interview guide.

9. Reference Check

Job applicants sometimes record inaccurate information on employment applications and resume´s to present a more positive image. The purpose of reference checks is to verify the accuracy of the data furnished. Typically, applicants are required to furnish names of previous supervisors or names of several business references. Checks on these references are then made by letter or telephone. Because of possible legal ramifications, reference information provided by one organization to another organization is usually limited to neutral information such as job title, dates of employment, and possibly pay. When conducted by telephone, other information may be furnished: for example, absentee record, promotions and demotions, compensation, and stated reasons for termination. Even though limited information may be obtained through reference checking, it is essential that an organization make a good faith effort and exercise due diligence in checking all employee references to protect itself against possible lawsuits from employees alleging negligent hiring and negligent referencing.

Employers are very concerned about the legal ramifications of providing information about the performance of former employees, fearing that release of sensitive information could lead (as it often has) to charges of defamation or self-compelled defamation by previous employees who receive a less than satisfactory recommendation. Several countries or states have recognized this employer dilemma and have passed legislation to exempt

employers from liability in providing information as long as they are acting in good faith. Some local governments have passed legislation protecting employers from civil liability in releasing reference information when they act in good faith. Some also have a reference checking law, but will be only limited to hospitals, health care institutions, schools, public health facilities, day care programs, and child care centers.

Because of the possible extension of the law to the private sector, many firms and individuals are now reluctant to provide negative reference information about former employees or business associates. Another problem with references is that the applicant normally provides them. Applicants may selectively choose their references to ensure that only positive information is furnished. It is unlikely, except where the names of previous supervisors are requested, that an applicant would list anyone who might give an unfavorable report. Thus, **references tend to be biased in a positive manner**.

Because some individuals are reluctant to state their opinions about former employees or colleagues in writing, many organizations prefer to use the telephone when checking references. Since there is no written record of the conversation, more information may be collected. However, there is still a potential problem with bias—the individual providing the reference is just as likely to offer a negatively biased as a positively biased opinion.

9.1. Process of Reference Check

The reference check is done as a means of protecting against in another type of liability – that of hiring a poor performer. Reference checking, although an activity that has long been deemed unproductive and ineffective, has recently turned over a new stone. With automated reference checking, firms are able to quickly interact with a candidate's references through an online experience. Some suggestions for improving the reference checking process are:

- Train employment specialists. Telephone interviewing techniques, how to ask questions, and how to probe for information are some of the topics that should be covered.
- Communicate preferences to applicants. Indicate the kind of references preferred, former supervisors or business colleagues. Tell the applicant how references will be contacted.
- Communicate preferences to recruiting sources. Outside parties such as employment agencies can often obtain additional reference information on applicants if they know the kind of information the organization is seeking.
- Provide feedback to references. Thank-you letters build goodwill for the company and help ensure cooperation from those who may be regular suppliers of reference information.

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

Even though we would like to assume that all applicants are completely honest on their resume, most companies cannot afford to run the risk of not knowing if a candidate has any criminal records hiding in their closet. The purpose of a background check is to look up and gather job-relevant criminal, commercial, and financial records of an individual before advancing further in the interview process.

9.2. Background Check

Failure to check the backgrounds of people who are hired can lead to embarrassment and legal liability. Hiring workers who commit violent acts on the job is one example. While laws vary from state to state, for jobs in certain industries, such as those that provide services to children, vulnerable adults, security, in-home services, and financial services, background checks are mandated in some states. Nationally background checks are required for people with commercial drivers' licenses who drive tractor-trailer rigs and buses interstate.

The American Lawyers may say that an employer's liability hinges on how well it investigates an applicant's background. Consequently, details provided on the application form should be investigated extensively, and these efforts should be documented.

Negligent hiring occurs when an employer fails to check an employee's background and the employee later injures someone on the job. There is a potential negligent hiring problem when an employer hires an unfit employee, a background check is insufficient, or an employer does not research potential risk factors that would prevent the positive hire decision. Similarly, **negligent retention** occurs when an employer becomes aware that an employee may be unfit for employment but continues to employ the person, and the person injures someone.

Many organizations use outside vendors that specialize in conducting background checks because such outside firms can provide these services much more efficiently and effectively. Background checks have some concern that the information reported might be inaccurate or outdated. For instance, a woman was denied employment by a company because a background report provided by an outside firm contained adverse information. However, after getting the report corrected, she was hired by the

company. Consequently, the information provided in criminal record checks should be used judiciously and with caution.

A number of companies are using personal Web pages and the Internet to perform background checks on employees. Many believe that websites provide a more "in-depth" snapshot of a job candidate's individual characteristics, regardless of the information that has been submitted to the company through traditional means with the application form or résumé. Online network sites such as Facebook are used to obtain personal information, some of which involves sexual activity, drug use, and other questionable behavior.

Unfortunately, much of the information on personal Web pages appears to be difficult to erase or alter, so some candidates and employees just have to live with less-than-flattering content once it is posted. Also, damaging information can be posted about individuals by anyone on the Internet, further complicating the process of performing fair and legitimate background checks if this information is utilized in job selection.

Background information can be obtained from a number of sources. Some of these sources include past job records, credit history, testing records, educational and certification records, drug tests, Social Security numbers, sex offender lists, motor vehicle records, and military records. Running background checks on every applicant is very expensive. Employers sometimes check only the two or three finalists or the candidate who has received a contingent offer.

The need for background checking can be found in a wide range of positions: pharmacy students, school teachers, janitors, bank tellers, and so on. Consider a car salesman who sexually assaults a young woman while on a test drive. If the salesman failed to tell his employer he was a convicted sex offender, does the employer have the responsibility to do a background check to find out? Probably. Nothing will guarantee that an employee will not commit a violent act at work. But employers can reduce the risk by following a lawful process to screen applicants for signs that a person is not appropriate.

9.3. Legal Constraints on Background Investigations

Various country laws protect the rights of individuals whose backgrounds may be investigated during pre-employment screening. An employer's most important action when conducting a background investigation is to obtain from the applicant a signed release giving the employer permission to conduct the investigation.

Safeguards are appropriate in background checks because although employee screening has become a big business, it is not always an accurate one. When a candidate is an internal candidate, blemishes are likely known. But when candidates come from outside the company, problems are more likely to be hidden, at least at first.

9.4. Medical Examinations and Inquiries

Medical information on applicants may be used to determine their physical and mental capabilities for performing jobs. Physical standards for jobs should be realistic,

justifiable, and linked to job requirements. Even though workers with disabilities can competently perform many jobs, they sometimes may be rejected because of their physical or mental limitations.

9.5. References

To improve the odds of receiving candidate honesty, you must create an atmosphere that encourages candidates to be upfront about any aspect of their career history that may worry them, as a simple clarification could keep them in the running. Nevertheless, there is a need for both reference and background checks; the prior ensures candidate fit for the specific job and prevents hiring poor performers, while the latter protects a safe work environment. As a hiring manager, you should always remember that regardless of how good an applicant may look on paper or sound during the interview, you need to check their references and background to guarantee you will get exactly what you will be paying for.

References provided by the candidate are of very limited predictive value. Would someone knowingly pick a reference who would speak poorly of them? Of course not.

Previous supervisors and employers may provide a better prediction. Good questions to ask previous supervisors or employers include:

- Dates of employment
- Position held
- What were the job duties?
- What strengths/weaknesses did you observe?
- Were there any problems?
- Would you rehire?

Work-related references from previous employers and supervisors provide a valuable snapshot of a candidate's background and characteristics. Telephoning references is common. Managers should consider using a form that facilitates the factual verification of information given by the applicant. Some organizations send preprinted reference forms to individuals who are giving references for applicants. These forms often contain a release statement signed by the applicant, so that those providing references can see that they have been released from liability on the information they furnish.

9.6. Making the Job Offer

The final step of the selection process is offering someone employment. Job offers are often extended over the telephone. Many companies then formalize the offer in a letter that is sent to the applicant. It is important that the offer document be reviewed by legal counsel and that the terms and conditions of employment be clearly identified. Care should be taken to avoid vague, general statements and promises about bonuses, work schedules, or other matters that might change later. These documents should also provide for the individual to sign an acceptance of the offer and return it to the employer, who should place it in the individual's personnel files.

10. 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.

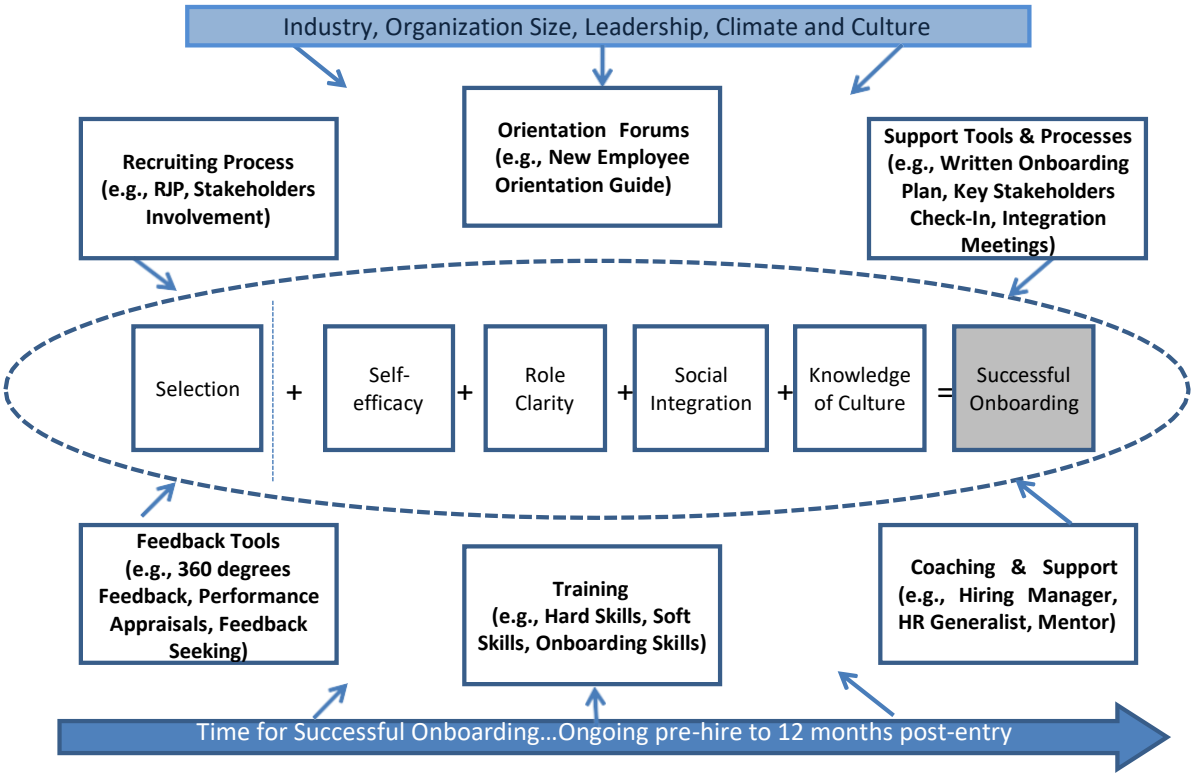
In Fortune 500 companies alone, about 500,000 managers take on new roles each year, and overall, managers begin new jobs every two to four years. Unfortunately, in the midst of all these transitions:

- 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.

10.1. Recruiting

In Passive Oboarding, 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.

10.2. 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.

10.3. 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.

10.4. 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.

10.5. 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.

10.6. 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.

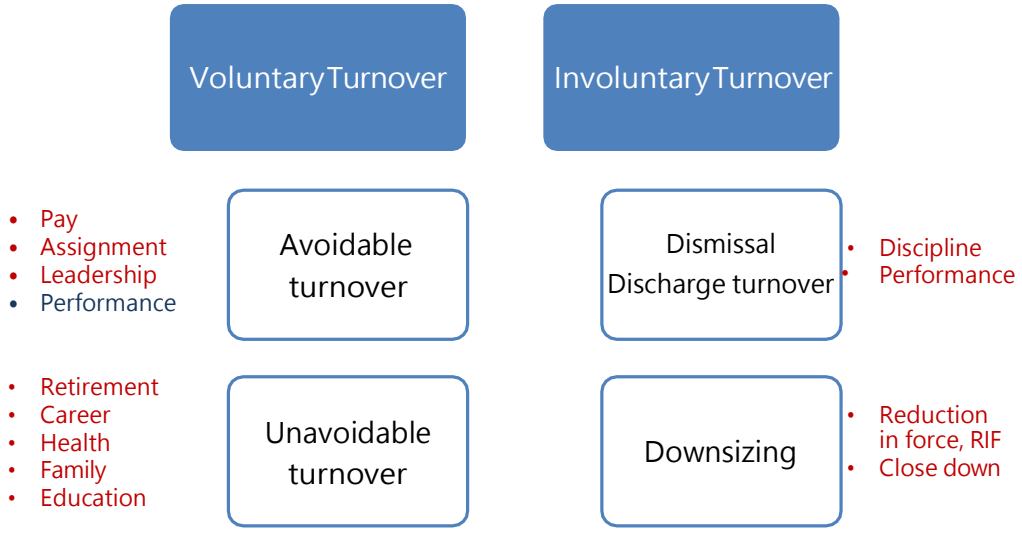
- Employee-initiated information and feedback seeking. Employees can help or hinder their own onboarding. Information-seeking and feedback are proactive new employee behaviors that may help them adjust as they ask questions about different aspects of their jobs, company procedures and priorities—all 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.

Part Three: Retention and Separation

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

1.1. Voluntary Turnover

Voluntary turnover too can be caused by many factors, some of which are not employer controlled. Common voluntary turnover causes include job dissatisfaction, pay and benefits levels, supervision, geography, and personal/family reasons. Career opportunities in other firms, when employees receive unsolicited contacts, may lead to turnover for individuals, especially those in highly specialized jobs such as IT. Voluntary turnover may increase with the size of the organization, most likely because larger firms are less effective in preventing turnover and have more employees who are inclined to move. Voluntary turnover, in turn, is broken down into avoidable and unavoidable turnover.

1.1.1. Avoidable Turnover: Employees leave for reasons that could be influenced by the employer. Avoidable turnover is that which potentially could have been prevented by certain organization actions, such as a pay raise or a new job assignment.

1.1.2. Unavoidable Turnover: Unavoidable turnover represents employee quits that the organization probably could not have prevented, such as people who quit and withdraw from workforce through retirement or returning to school. Other examples of unavoidable turnover are people who quit due to: dual career problems, pursuit of a new and different career, health problems that require taking a different type of job, child care and elder care responsibilities, and leaving the country. Even though some turnover is inevitable, employers recognize that reducing turnover saves money, and that they must address the turnover that is controllable. Organizations are better able to keep employees if they deal with the concerns of those employees that might lead to the controllable turnover.

1.2. Involuntary Turnover

Involuntary turnover is triggered at all levels by employers terminating workers due to organizational policies and work rule violations, excessive absenteeism, performance standards that are not met by employees, and other issues. Involuntary turnover is split into discharge and downsizing types.

1.2.1. Discharge turnover is aimed at the individual employee, due to discipline and/or job performance problem.

1.2.2. Downsizing turnover typically targets groups of employees and is also known as reduction in force (RIF) caused by organizational restructuring or cost-reduction program.

1.3. Causes of Turnover

1.3.1. Voluntary turnover depends on three factors:

- Desirability of leaving: low job satisfaction, shocks to employee, and personal (non-job) reason.
- Ease of leaving: favorable labor market conditions, general & transferable KSAOs, and low cost of leaving.
- Alternatives: internal new job possibilities and external job offers

1.3.2. Discharge turnover is due to extremely poor person/job matches, particularly the mismatch between job requirements and KSAOs. One form of the mismatch involves the employee failing to follow rules and procedures. The other form of discharge turnover involves unacceptable job performance.

1.3.3. Downsizing turnover is a reflection of a staffing level mismatch in which the organization actually is, or is projected to be, overstaffed. In other words, the head count available exceeds the head count required, which may be due to poor workforce planning.

1.4. Functional or Dysfunctional Turnover

Not all turnover is negative for organizations; on the contrary, functional turnover represents a positive change. Some workforce losses are desirable, especially if those who leave are lower-performing, less reliable, and/or disruptive individuals. Of course,

dysfunctional turnover also occurs. That happens when key individuals leave, often at crucial times.

1.4.1. Functional Turnover: Lower-performing or disruptive employees leave

1.4.2. Dysfunctional Turnover: Key individuals and high performers leave at critical times

For example, a software project leader who leaves in the middle of a system upgrade in order to take a promotion at another firm could cause the system upgrade timeline to slip due to the difficulty of replacing the employee and could also lead other software specialists in the firm to seek out and accept jobs at competitive firms.

1.5. Turnover and "Churn"

Hiring new workers while laying off others is called churn. This practice raises a paradox in which employers complain about not being able to find skilled workers while they are laying off others. As organizations face economic and financial problems that result in layoffs, the remaining employees are more likely to consider jobs at other firms. In this situation, turnover is more likely to occur, and efforts are needed to keep existing employees. HR actions such as information sharing, opportunities for more training/learning, and emphasis on job significance can be helpful in lowering turnover intentions of individuals.

1.6. Measuring Employee Turnover

The turnover rate for an organization can be computed as a monthly or yearly cost. The following formula, in which separations means departures from the organization, is widely used:

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

Other areas to be included in calculating detailed turnover costs are also available. Some of the most common areas considered include the following:

1.6.1. Separation costs: HR staff and supervisory time, pay rates to prevent separations, exit interview time, unemployment expenses, legal fees for separations challenged, accrued vacation expenditures, continued health benefits, and others.

1.6.2. Vacancy costs: Temporary help, contract and consulting firm usage, existing employee overtime, and other costs until the person is replaced.

1.6.3. Replacement costs: Recruiting and advertising expenses, search fees, HR interviewer and staff time and salaries, employee referral fees, relocation and moving costs, supervisor and managerial time and salaries, employment testing costs, reference checking fees, preemployment medical expenses, relocation costs, and others.

1.6.4. Training costs: Paid orientation time, training staff time and pay, costs of training materials, supervisor and manager time and salaries, coworker 'coaching' time and pay, and others.

1.6.5. Hidden/indirect costs: Costs that are not obvious, such as reduced productivity,

decreased customer service, additional unexpected employee turnover, missed project deadlines, and others.

Please be noted that not all turnover is negative. Turnover of low performers should be considered positive. There may be an “optimal” amount of useful turnover in order to replace low performers and add part-time or contract workers with special capabilities to enhance workforce performance.HR professionals should take actions to reduce negative turnover and to address the retention of key employees.

2. Employee Retention

Retention of employees as human resources is part of HR staffing and planning efforts. Turnover, as the opposite of retention, often has been seen as a routine HR matter requiring records and reports. However, what was once a bothersome detail has become a substantial HR issue for many employers. Thus, organizations are being forced to study why employees leave and why they stay. Sometimes an individual in the HR area is assigned to specifically focus on retention to ensure that it receives high priority.

Keeping good employees is a challenge that all organizations share and that becomes even more difficult as labor markets change. Unfortunately, some myths have arisen about what it takes to retain employees. Some of the most prevalent myths and realities are as follows:

- Money is the main reason people leave. Money certainly is a vital HR tool, and if people feel they are being paid inadequately, they may be more likely to leave. But if they are paid close to the competitive level they expect, other parts of the job become more important.

- Hiring has little to do with retention. This is not true. Recruiting and selecting the people who fit the jobs and who are less likely to leave in the first place, and then orienting them to the company, can greatly increase retention. It is important to select for retention.

- If you train people, you are only training them for another employer. Developing skills in employees may indeed make them more marketable, but it also tends to improve retention. When an employer provides employees with training and development assistance, job satisfaction may increase and employees are more likely to stay, particularly if they see more future opportunities internally.

- Do not be concerned about retention during organizational change. That is exactly the time to worry about retention. Although some people’s jobs may have to be cut because of economic organizational factors, the remaining employees that the company would like to keep may have the most opportunity and reason to leave voluntarily. For example, during a merger or acquisition, most workers are concerned about job security and their employer’s future. If they do not feel a part of the new organization early on, many may leave or evaluate alternatives.

- If solid performers want to leave, the company cannot hold them. Employees are best viewed as “free agents,” who indeed can leave when they want. The key to keeping solidly performing employees is to create an environment in which they want to stay and grow.

2.1. Retention Matrix

Because both people and jobs are so varied, managers and HR professionals need to realize that individuals may remain or leave their employment for both job-related and personal reasons. For instance, if employees choose to leave an organization for family reasons (e.g., because a spouse is transferring or to raise children), there may be a limited number of actions the employer can take to keep them on the job. However, there are significant actions that an employer can take to retain employees in many other circumstances. The below figure illustrates some of these "drivers" of retention, or areas in which employers can take action to strengthen the possibility of keeping employees.

Phillips, J.J. & Connell, A.O. (2011). Managing Employee Retention. London, UK: Routledge.

The actual reasons that people stay or leave vary according to job groupings, industry and organizational issues, geographical global aspects, and other factors. For instance, a survey of executives by Robert Half International found that the most common factors that caused satisfactory employees to quit their jobs were unhappiness with management, limited career advancements and recognition, insufficient pay and benefits, and job boredom. This survey illustrates that many of the factors involved in retention drivers are organizational and management factors within the employer's control.

2.1.1. Organizational and Management Factors

A number of organizational/management factors influence individuals in their

decisions to stay with or leave their employers. Organizations that have clearly established goals and hold managers and employees accountable for accomplishing results are viewed as better places to work, especially by individuals wishing to progress both financially and career-wise. Further, effective management provides the resources necessary for employees to perform their jobs well. These factors reflect workplace commitment by employees, which leads to more positive organizational views in the industry and communities.

Other organizational components that affect employee retention are related to the management of the organization. Some organizations see external events as threatening, whereas others see changes as challenges requiring responses. The latter approach can be a source of competitive advantage, especially if an organization is in a growing, dynamic industry. Another organizational factor that can affect employee job performance and potential turnover intentions is “organizational politics.” This can include managerial favoritism, having to be involved in undesirable activities, taking credit for what others do, and other actions that occur in many departments and organizational settings.

A final factor affecting how employees view their organizations is the quality of organizational leadership. Often, leaders have an identified strategic plan that guides how the firm responds to changes. If a firm is not effectively managed, then employees may be disappointed by the ineffective responses and inefficiencies they deal with in their jobs. A survey of 700 workers identified that “bad bosses” who do not give employees recognition for accomplishments or who fail to keep promises can lead to almost 40% of the workers being dissatisfied and more likely to look for other jobs.

2.1.2. Work Relationships

Work relationships that affect employee retention include supervisory/management support and coworker relations. A supervisor or manager builds positive relationships and aids retention by being fair and nondiscriminatory, allowing work flexibility and work-family balancing, giving feedback that recognizes employee efforts and performance, and supporting career planning and development.

Additionally, many individuals build close relationships with coworkers. Such work-related friendships do not appear on employee records, but these relationships can be an important signal that a workplace is positive. Overall, what this means is that it is not just where people work, but also with whom they work, that affects employee retention. If individuals are not linked with or do not relate well to their coworkers, there is greater likelihood for turnover to occur.

2.1.3. Job and Work-Life

Many individuals have seen a decline in job security during the past decade. All the downsizings, layoffs, mergers and acquisitions, and organizational restructurings have affected employee loyalty and retention. As coworkers experience layoffs and job reductions, the anxiety levels of the remaining employees rise. Consequently, employees start thinking about leaving before they too get cut. Organizations in which job continuity and security are high tend to have higher retention rates.

Some jobs are considered “good” and others are thought to be “bad,” but not all people agree on which jobs are which. As mentioned previously, the design of jobs and peoples’ preferences can vary significantly. Job design factors that can impact retention include the following:

- A knowledge, skills, and abilities mismatch, either through overqualification or underqualification, can lead to turnover.
- Job accomplishments and workload demands that are dissatisfying or stressful may impact performance and lead to turnover.
- Both timing of work schedules and geographic locations may contribute to burnout of some individuals but not others.
- The ability of employees to balance work and life requirements affects their job performance and retention.

Numerous examples could be given on how each of these items affect retention, but one example comes from a survey of chief financial officers on the impact of these issues in their firms. In this survey, work-life flexibility efforts were seen as creating significant retention, recruitment, and productivity results. This study illustrates that how organizations address jobs can drive retention efforts, including global retention as discussed in the HR Perspective.

2.1.4. Rewards: Compensation, Benefits, and Performance

The tangible rewards that people receive for working come in the form of pay, incentives, and benefits. Employees often cite better pay or benefits as the reason for leaving one employer for another. Employers do best if they offer competitive pay and benefits, which means they must be close to what other employers are providing and what individuals believe to be consistent with their capabilities, experience, and performance. If compensation is not close, often defined as within 10% to 15% of the “market” rate, turnover is likely to be higher.

However, the reality of compensation is a bit more complex than it seems at first glance. For instance, one study of public-sector employees identified that broad reward programs, not just pay and benefits, aided with workforce retention in difficult economic situations. A number of employers have used a wide range of special benefits and perks to attract and retain employees. For example, Student Media Group in Delaware added work-related plasma television screens, videogame players, and free soda and snacks as part of a special rewards package to create more positive views to aid in retaining employees.

Another part of rewards generally is that individuals need to be satisfied with both the actual levels of pay and the processes used to determine pay. That is why the performance management systems and performance appraisal processes in organizations must be designed so they are linked to compensation increases. To strengthen links between organizational and individual performance, an increasing number of fast-growing private-sector firms are using variable pay and incentives programs. Some programs offer cash bonuses or lump-sum payments to reward extra performance, which also aids with retention efforts.

Another rewards aspect that affects retention is employee recognition, which can be both tangible and intangible. Tangible recognition comes in many forms, such as "employee of the month" plaques and perfect-attendance certificates. Intangible and psychological recognition includes feedback from managers and supervisors that acknowledges extra effort and performance, even if monetary rewards are not given. For instance, one firm, Fairmont Hotels and Resorts, is using a "Serviceplus Colleague Recognition Program" to engage its 30,000 employees. Different types of recognitions include "Star of the Month" and "Memory Maker" for significant service. For such recognition, a small amount of money (under $50) and other types of rewards are given. An employee survey has shown significant increases in positive employee views of both their jobs and the Fairmont firm.

2.1.5. Career Training and Development

Many employees in all types of jobs consistently indicate that organizational efforts to aid their career training and development can significantly affect employee retention. Opportunities for personal growth lead the list of reasons why individuals took their current jobs and why they stay there. In one survey, nearly one-third of workers identified the lack of career advancement opportunities to be the most important reason for potentially changing employers.

Training and development efforts can be designed to indicate that employers are committed to keeping employees' knowledge, skills, and abilities current. Also, training and development can help underused employees attain new capabilities. Such a program at Southwest Airlines has been very successful. Recruiters were reassigned to different departments, which resulted in their generating sales and revenues in flight operations and other areas.50

Organizations address training and development in a number of ways. Tuition aid programs, typically offered as a benefit by many employers, allow employees to pursue additional educational and training opportunities. These programs often contribute to higher employee retention rates because the employees' new knowledge and capabilities can aid the employer. Also, through formal career planning efforts, employees discuss with their managers career opportunities within the organization and career development activities that will help them to grow.

Career development and planning efforts may include formal mentoring programs. For instance, information technology (IT) organizations are using career development programs so that IT individuals can expand their skills outside of technical areas. Programs in some firms cover communication and negotiation tactics, which gives the employees additional capabilities that are needed in managerial and other jobs.51 Companies can help reduce attrition by showing employees that they are serious about career advancement opportunities.

2.1.6. Employer Policies and Practices

A final set of factors found to affect retention is based on the employer relations policies that exist. Such areas as the reasonableness of HR policies, the fairness of disciplinary actions, and the means used to decide work assignments and opportunities all affect employee retention. If individuals feel that policies are unreasonably

restrictive or are applied inconsistently, they may be more likely to look at jobs offered by other employers.

To ensure that appropriate actions are taken to enhance retention, management decisions require data and analyses rather than subjective impressions, anecdotes of selected individual situations, or panic reactions to the loss of key people.

The analysis of turnover data is an attempt to get at the cause of retention problems. Analysis should recognize that turnover is a symptom of other factors that may be causing problems. When the causes are treated, the symptoms can go away.

Some of the first areas to consider when analyzing data for retention include the work, pay/benefits, supervision, and management systems. Common methods of obtaining useful perspectives are employee surveys, exit interviews, and first-year turnover evaluations.

2.2. Employee Surveys

Employee surveys can be used to diagnose specific problem areas, identify employee needs or preferences, and reveal areas in which HR activities are well received or viewed negatively. Whether the surveys are on general employee attitudes, job satisfaction, or specific issues, the survey results must be examined as part of retention measurement efforts. For example, a growing number of “mini-surveys” on specific topics are being sent via e-mail questionnaires, blogs, and other means.

Regardless of the topics in a survey, obtaining employee input provides managers and HR professionals with data on the “retention climate” in an organization. By obtaining data on how employees view their jobs, their coworkers, their supervisors, and organizational policies and practices, these surveys can be starting points for reducing turnover and increasing the length of time that employees are retained. Some employers conduct attitude surveys yearly while others do so intermittently.

By asking employees to respond candidly to an attitude survey, management is building employees’ expectations that actions will be taken on the concerns identified. Therefore, a crucial part of conducting an attitude survey is providing feedback to those who participated in it. It is especially important that even negative survey results be communicated to avoid fostering the appearance of hiding the results or placing blame.

2.3. Exit Interviews

One widely used means for assisting retention assessment efforts is the exit interview, in which individuals who are leaving the organization are asked to give their reasons. HR must regularly summarize and analyze the data by category (e.g., reasons for leaving, department, length of service, etc.) to provide managers and supervisors with information for improving company efforts.

In exit interview is an interview conducted when an employee is leaving with a company. Exit interviews can have value not only in terms of assessing and improving corporate culture but also in minimizing an employer's exposure in litigation. The following are suggestions for conducting an appropriate exit interview:

Purposes

- Glean feedback from employees in order to improve organization
- Minimize an employer's exposure in litigation
- Retain high performers or talents

Principle

- Should be a neutral person (HR or a consultant)
- Should provide a sufficient training for the interviewer
- Should be a structure interview format that contains questions about unavoidable and avoidable reasons for leaving
- Should prepare for each exit interview by reviewing the interview format and the interviewee's personnel file
- Should be conducted in a private place, before the employee's last day
- Should confidential and that only will used for retention
- Should be aligned with the organization's business needs

2.4. First-Year Turnover Evaluations

A special type of retention assessment focuses on first-year employees. It is not unusual for turnover to be high among newer employees during their first year. Sometimes the cause of departure is voluntary; for example, individuals may identify a mismatch between what they expected in their jobs and managers and what actually occurs, or between their perceptions of the new job and its reality. Other times individuals are involuntarily removed in the first year. Some causes can be excessive absenteeism and poor performance, mismatches with job requirements, and conflicts with other employees and managers. If these situations occur too often, HR may need to reevaluate its recruiting and selection processes, as well as its job previews to make sure they are realistic.

Overall, focus on first-year retention and turnover is useful because individuals who stay for a year are more likely to extend their employment and have greater retention beyond the first year. Also, effective first-year efforts may lead to future career development, higher performance, and other positive retention factors.

2.5. Retention Evaluation and Follow-Up

Management can take numerous actions to deal with retention issues. The choice of a particular action depends on the analysis of the turnover and retention problems in a particular organization and should be custom tailored for that organization.

Tracking of intervention results and adjustment of intervention efforts should be part of retention evaluation and follow-up. Some firms use pilot programs to see how changes affect retention before extending them to the entire organization. For instance, to test the effect of flextime scheduling on employee turnover, a firm might try flexible scheduling in one department. If the turnover rate in that department drops in comparison to the turnover rates in other departments still working set schedules, the firm might extend the use of flexible scheduling to other departments.

Retention evaluation and follow-up are key facets of the broader organizational HR

planning and staffing. Effective retention management can have major impacts on the integrated HR attraction, recruiting, and selection processes.

2.6. Job Embeddedness

Job embeddedness represents a broad set of influences on an employee's decision to stay on the job. In other word, job embeddedness is the collection of forces that influence employee retention. It can be distinguished from turnover in that its emphasis is on all of the factors that keep an employee on the job, rather than the psychological process one goes through when quitting.

Job embeddedness is a construct developed to explain why people stay in their jobs. Job embeddedness theory suggests that we are held in our jobs and the communities in which we live by ties to other people, groups, organizations, places, and things. Each tie can vary in strength and size; however, it is the 'totality of embedding forces' that results in someone becoming enmeshed in their job. Job embeddedness predicted turnover, over and above job satisfaction and commitment.

2.6.1. Implications

Being embedded in an organization and one's community is associated with reduced intent to leave and actual leaving. Thus, enhancing job embeddedness could be an effective retention tool. Organizations that offer flexible scheduling and family friendly programs may further enhance employee embeddedness by strengthening employees' social bonds to others within the community. Family perception of fit to the organization could be improved by educating families on the value of the employees' work to the organization and creating a sense of pride in the organization.

2.6.2. Pros and Cons

Job embeddedness may actually strengthen employees' motivation to generate, spread, and implement innovative ideas in organizations for individuals in the mid- and late stages of their careers than for those in the early stage of their careers.

One potential downside of job embeddedness that warrants consideration is that people who feel stuck in an unfavorable job may lose motivation, experience frustration, and even engage in counterproductive workplace behaviors.

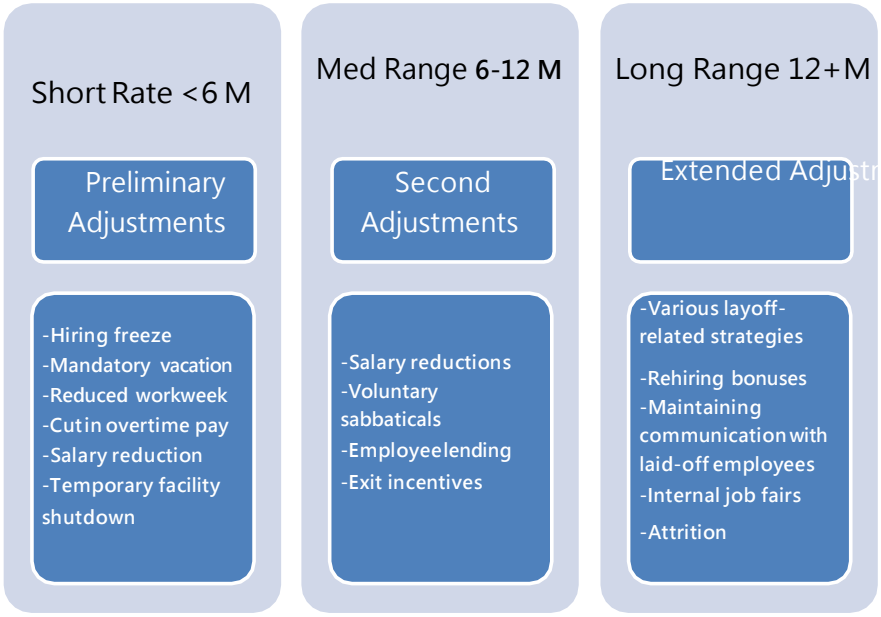
3. Reduction in Force (RIF)

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.

3.1. 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:

3.1.1. 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.

3.1.2. 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..

3.1.3. 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.

3.1.4. 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.).

3.1.5. 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.

3.1.6. 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.

3.1.7. 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.

3.2. 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.

3.2.1. 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.

3.2.2. 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.

3.2.3. 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 loose a critical knowledge base.

3.2.4. 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.

3.3. 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 .

3.3.1. 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.

3.3.2. 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.

3.3.3. 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.

3.3.4. 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.

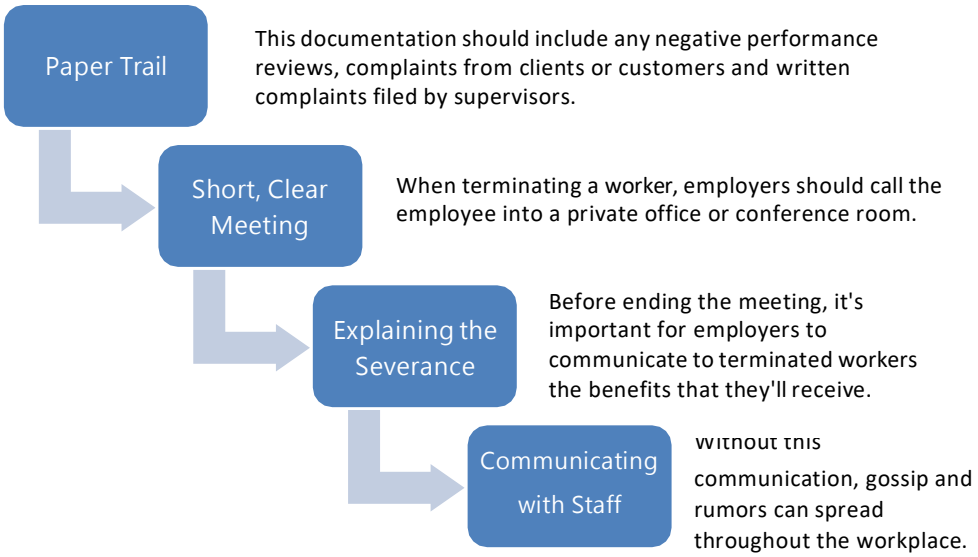
Attrition occurs when an individual leaves the employment, either through retirement, termination or resignation. Rather than hire new staffers to assume the vacated positions, employer simply reabsorb the responsibilities of those roles by assigning the jobs to different departments or individuals or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

4. 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.

4.1. 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.

4.2. 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.

4.3. 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.

4.4. 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.

4.5. 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.

4.5.1. 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.

4.5.2. 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.

4.5.3. 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.

4.5.4. 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.

5. Outplacement

When an organization makes the tough economic decision to terminate employees, any assistance the company provides is appreciated. A severance package that covers two weeks, or more, of pay for each year that an employee worked and continuation of benefits for a period of time are the most common severance package components.

Outplacement services	• Helping dismissed workers deal with the psychological aspects of losing a job, • Retraining workers to develop skills that are in demand • Conducting personal assessments or vocational tests to determine workers' abilities and job preferences • Helping workers with job searches
Benefits to the employer	• Ensures that future reductions will be less stressful and traumatic • Enhances the morale of those who remain • Enables employees to find jobs faster than might otherwise be possible • Reduces the threat of litigation • Underscores the organization's moral and ethical responsibility toward its employees

Source: Heathfield, S.M. (2015). Outplacement Is a Service for Laid Off Employees. Available on humanresources.about.com.

Outplacement is a systematic process by which a laid-off or terminated employee is counseled in the techniques of career self-appraisal and in securing a new job that is appropriate to his or her talents and needs. It is frequently offered as part of a severance package; benefit packages may vary in length between three months to one year or, in some instances, until a suitable job is accepted.

Outplacement is a rapidly growing component of a severance agreement. Whether outplacement is effective in helping employees find jobs more quickly is up for debate. Experiences of former employees vary and employers appear to do very little vetting or measuring of the results of the outplacement firms they use.

5.1. Outplacement Services

Outplacement is a service that is supplied by companies that specialize in helping employees job search following a layoff, discharge, or job loss. Outplacement services are contracted for by the employer who is laying off employees to help employees make a swift transition to a new job.

People can pay for outplacement themselves but it is a bonus when provided by the employer as part of a severance agreement.

Outplacement normally consists of individual or group career counseling and advising. Since many laid off employees are unfamiliar with current job searching techniques, training in job searching is provided.

Outplacement firms help develop resumes and cover letters and even apply for jobs for individuals. Outplacement firms also provide job leads and follow-up counseling and advice.

Outplacement firms supply offices for job searching employees in some agreements and group training in all aspects of job searching and career transition.

Increasingly, interactive outplacement services are becoming available online, so an employee does not need to travel to see his or her career coach. Additional outplacement services are provided over the phone, by instant message (IM) and even texting.

Outplacement assistance generally includes:

- Helping dismissed workers deal with the psychological aspects of losing a job,
- Retraining workers to develop skills that are in demand,
- Conducting personal assessments or vocational tests to determine workers' abilities and job preferences, and
- Helping workers with job searches.

5.2. Benefits to the employer

The success of outplacement draws mixed reviews. Participants claim that too many people are served by too few career coaches. Others claim that the advice they receive is trivial and not very helpful in a serious job search.

Others are unhappy with the resumes and cover letters that outplacement firms develop and claim that they are boilerplate and embarrassing, especially when a candidate is competing with other clients of the same outplacement firm for the same job.

Otherwise, outplacement is still beneficial to the employer:

- Ensures that future reductions will be less stressful and traumatic
- Enhances the morale of those who remain
- Enables employees to find jobs faster than might otherwise be possible
- Reduces the threat of litigation
- Underscores the organization's moral and ethical responsibility toward its employees

In general, employers provide outplacement services to assist employees to transition to a new job. They are also constantly aware of the impact of their actions, how they treat laid off employees, on the minds and hearts of their remaining employees.

Pragmatically, employers offer outplacement to protect their reputations as desirable employers, to head off potential lawsuits and, in the instance where a lawsuit is filed, look like good guys, and to minimize their liability for unemployment compensation payments.

Employers can use outplacement effectively to help employees bridge the gap between unemployment and a new job. The key is to utilize an outplacement firm that provides effective services for former employees.

Employers are advised to measure and track the effectiveness of the outplacement firm they use and to gather the opinions and experience of former employees who utilized the outplacement service.

There is a reason, according to the WSJ, why around 40% of employees, who receive outplacement as part of their severance, never show up to partake of the services.

Some of these employees ask for cash instead of outplacement. But, the percentage of laid off employees who don't use the outplacement services, or quit quickly, is not really a wonder when you consider that outplacement firms, on average, don't even track the percentage of clients who find work before their outplacement programs end.

5.3. Adjust to Retrenches' Needs

A study suggested that outplacement needs to adjust how it assists retrenches (people receiving the outplacement), as it could offer assistance to further ameliorate the defined effects of retrenchment such as grief and loss of self efficacy. There is a concern that those who experience outplacement are continually exposed to the patterns and norms of their previous organization if mass retrenchments are enacted and result in whole departments or organizations utilizing the same outplacement provider. This may maintain their former organizational identity. Where an organization retrenches a number of people at one time and uses the same outplacement firm, the retrenchee may feel as though the 'organization' has just moved offices. The retrenchees can still be referred to by their previous organizational name and interact on a daily basis with their colleagues and friends as if nothing has changed. In reality, these retrenchees become kindred spirits, previously working together, then

retrenched together and now job searching together. Outplacement providers should be aware of this phenomenon and assist these retrenchees to shift their corporate identity.

Further, outplacement professionals need to offer more than a standard model. The people providing the advice need to be able to adapt as required which could be difficult within the fixed price model that is offered for organizations to be able to purchase such a service. As outplacement providers are paid an all inclusive up front fee there would appear to be a business need to get retrenchees into the system as quickly as possible and then to move retrenches through the system as expediently as possible. Additionally, quick employment of retrenchees makes the outplacement provider appear successful on the current success criteria. In order for the outplacement provider to provide such a service at profit, it needs to be able to process retrenchees as effectively as possible and that is with the conclusion of the retrenchee gaining employment or no longer considering themselves unemployed, such as starting a business. What the retrenchee is looking for appears to be support, individual assistance and time to transition into the next stage of their life with or without employment.

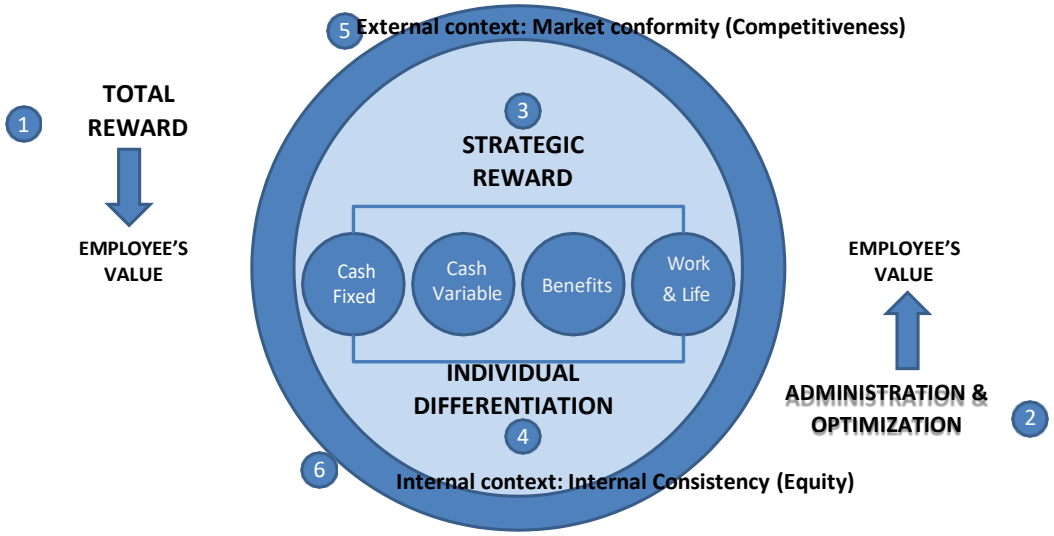
Outplacement providers are in a precarious position, given that the retrenching organization pays for the service. Outplacement providers could be confused about who the customer truly is. If the ultimate customer is the person receiving the outplacement, then the program needs to consider the retrenchees' needs. However, as there are two customers with competing and, in some instances, conflicting needs, outplacement providers appear to be driven by the payer rather than the receiver of the program.

Part Four: Compensation and Benefits

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 paycosts. 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

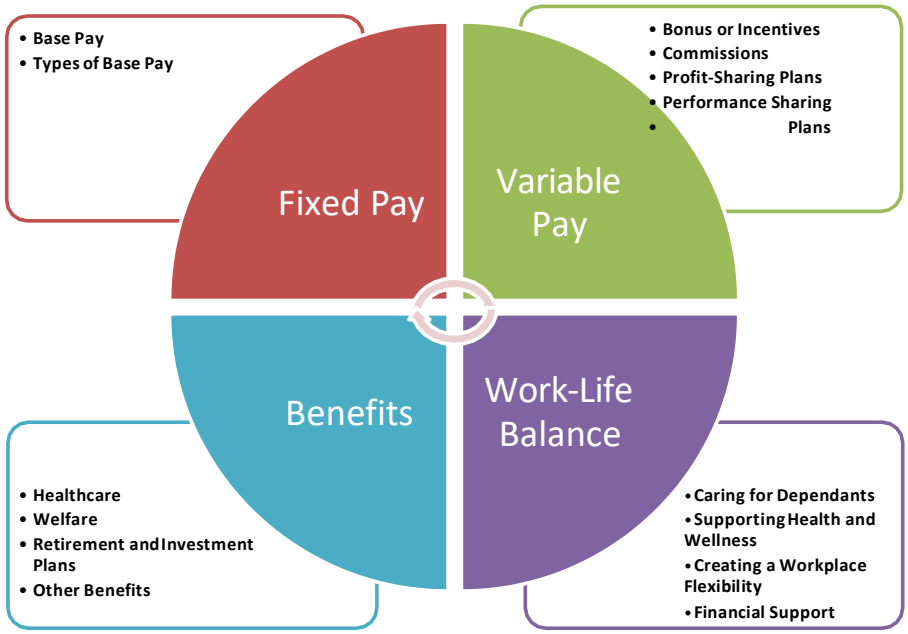
Likewise, employees bring different levels of skills and knowledge to companies and hence they are qualified to work at different levels of a company hierarchy and receive different rates of pay as a result.

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

Defined Benefit Plan	*Defined Contribution Plan*
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

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 depends

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.

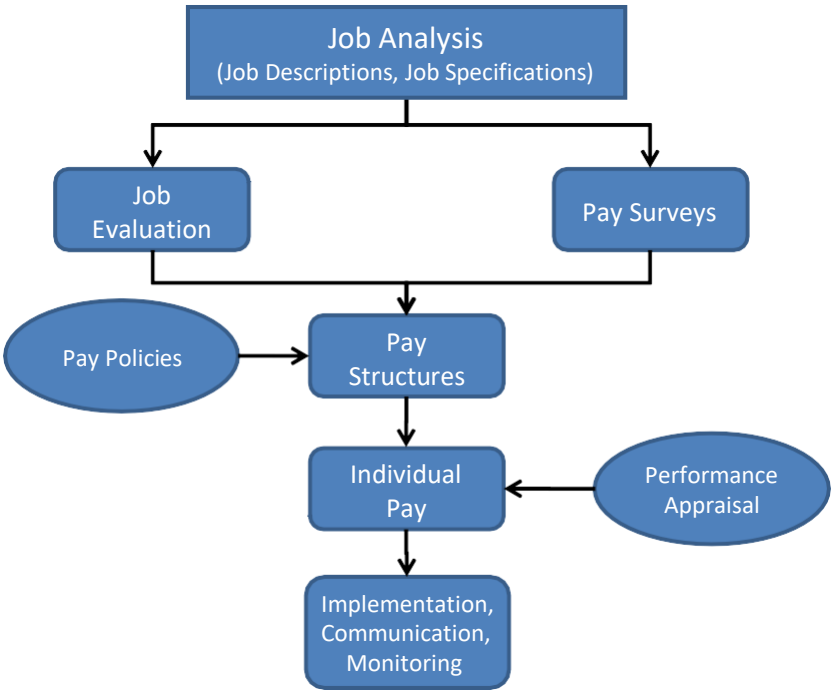
3. Compensation Administration

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

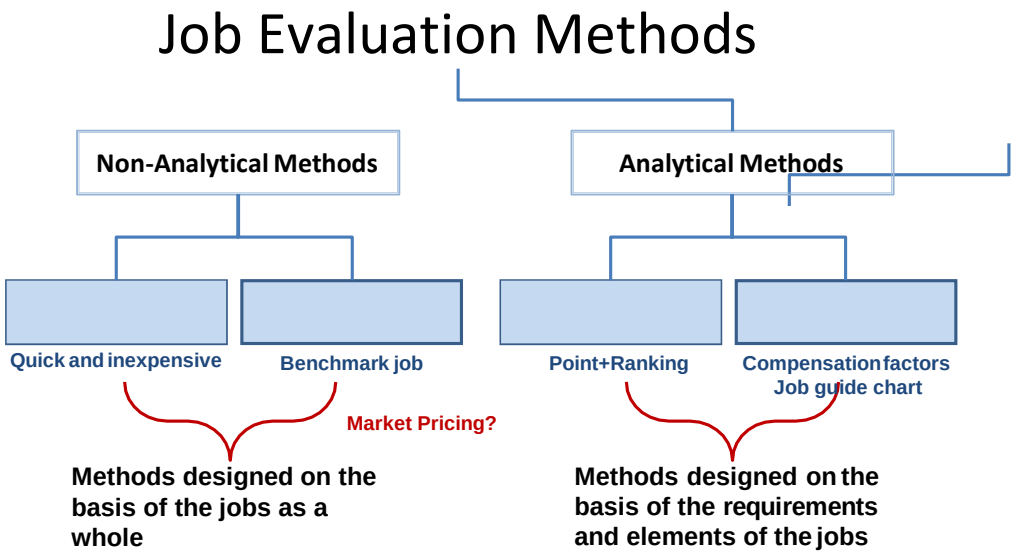
Generally, job evaluations methods are of two types, analytical and non-analytical, where in analytical schemes are designed on the basis of the requirements and elements of a job and non-analytical schemes are designed on the basis of jobs as a whole. Analytical and non-analytical methods are further 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.



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 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.

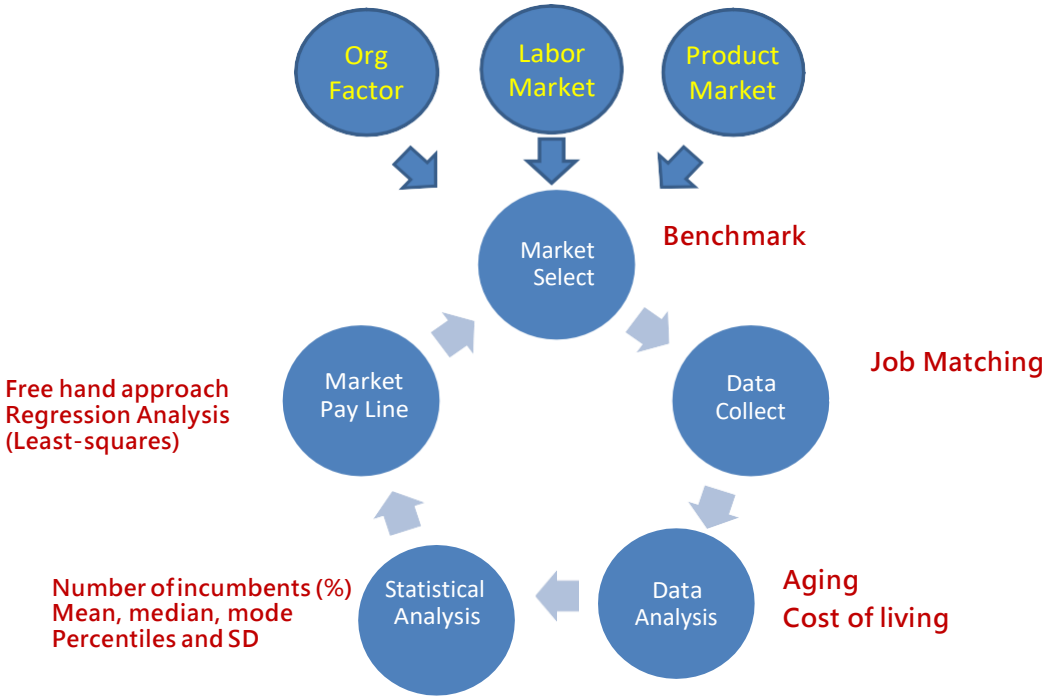
Market pricing approach emphasizes external competitiveness and de-emphasizes internal consistency. “Rank to market”, it involves first determining the competitive rates for positions for which external market data are available and then blending the remaining (non-benchmark) jobs into the pay hierarchy.

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 n 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 mil1imumand 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=(max rate of lower grade – min rate of higher grade)/(max rate of higher grade-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 (salary/midpoint or market rate = 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.

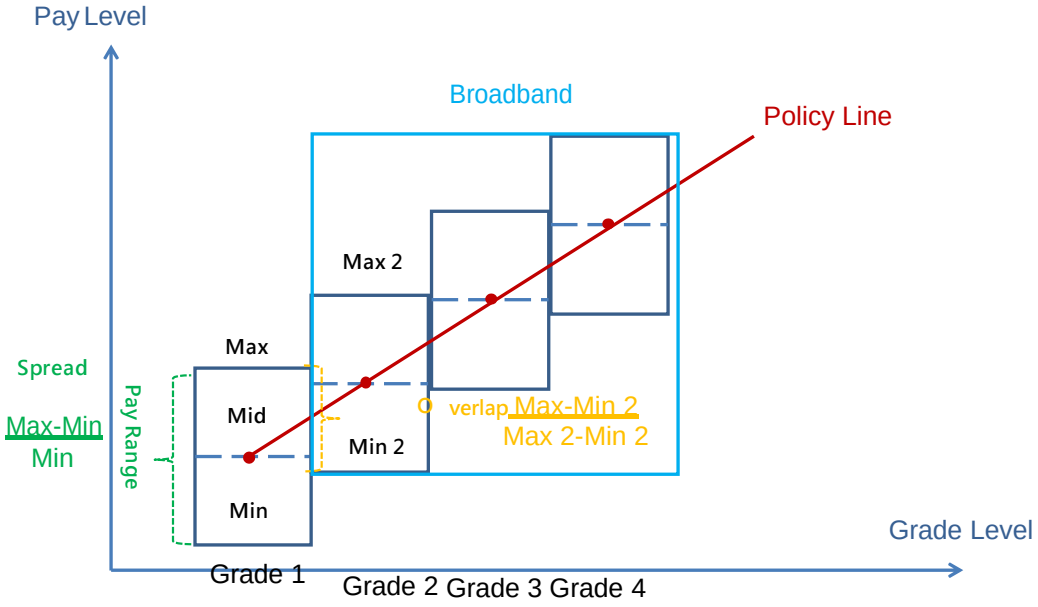
The most important difference between grades and broad banding is where the controls are located. There are several reasons why it is beneficial to reduce the number of pay grades and broaden pay ranges. First and foremost, broadbanding is more consistent with the flattening of organizational levels 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.



Pay Structure

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 it's 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!

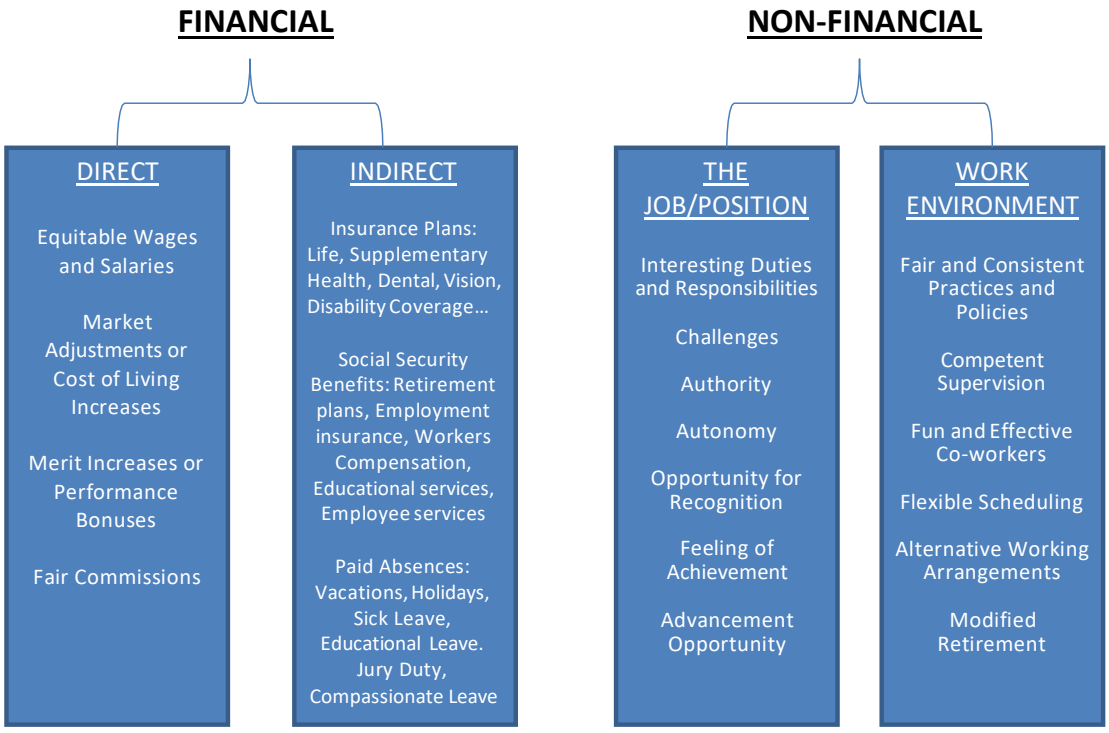
7. Strategic Rewards

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:

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

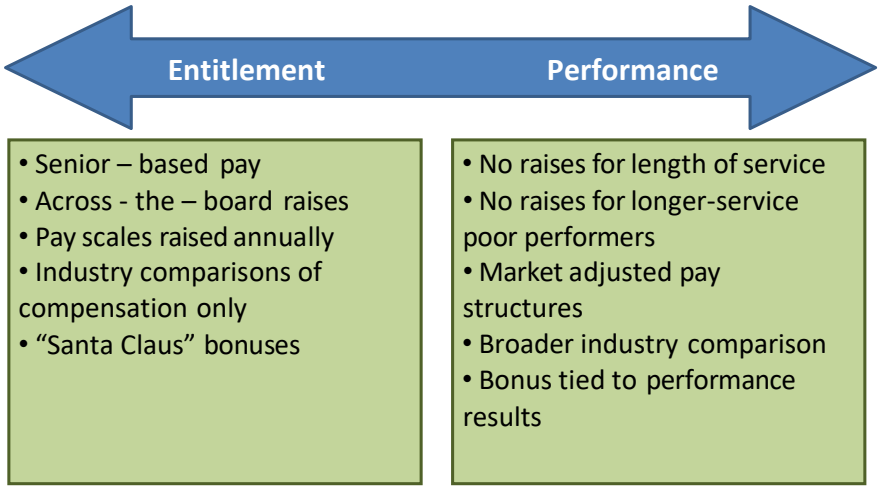
An employer using a first-quartile (P25) approach is choosing to pay below market compensation. This may be done for several reasons. One is because of a shortage of funds and the inability to pay more and still meet strategic objectives. Also, if there is an abundance of workers, particularly those 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

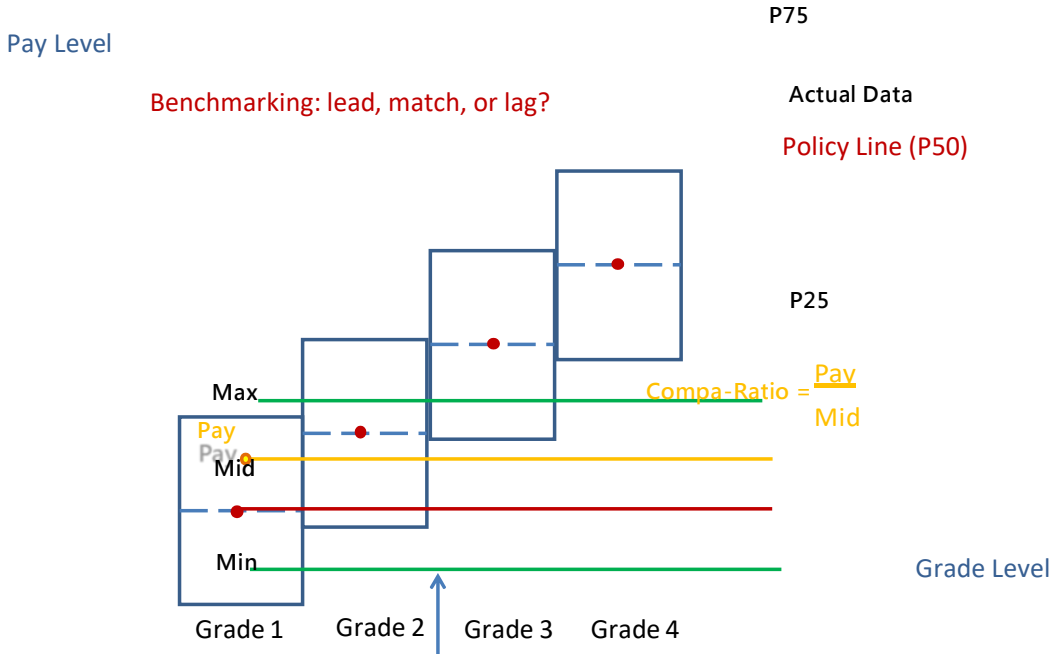
compensation practices. However, breaking the entitlement mode is increasingly occurring in the organizational restructuring common throughout many industries. A study of public-sector HR managers found that there is a desire and need to shift toward more performance-oriented compensation practices in many public-sector organizations. How fast that occurs, given the historical traditions and the strength of public-sector unions, remains to be seen.

9. Market conformity

An organization may choose to match the market and pay approximately the same wages and offer a benefits package similar to that of the competition.

Some organizations strive to lead the market and recruit and retain the most desirable talent from the labor pool by offering higher salaries and/or better benefits. When using salary survey data, leading the market typically equates to the 75th percentile of the market.

Other organizations deliberately, out of economic necessity or to control labor costs, lag the market and establish their pay rates or benefits levels below those offered by other employers. Reduced labor rates may enable the organization to offset other higher costs such as purchasing, distribution, or sales expenses. When using salary survey data, lagging the market typically equates to the 25th percentile of the market.



Source: 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. Internal Consistency

Once managers have determined pay ranges, they can set the specific pay for individuals.

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.

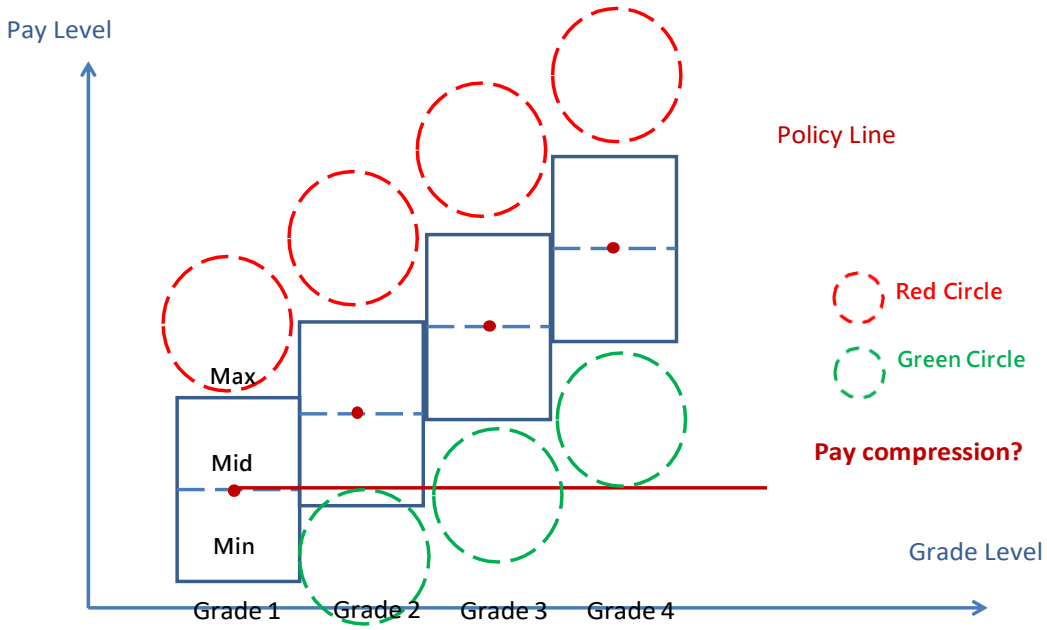
10.2. Green-Circled Employees

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:

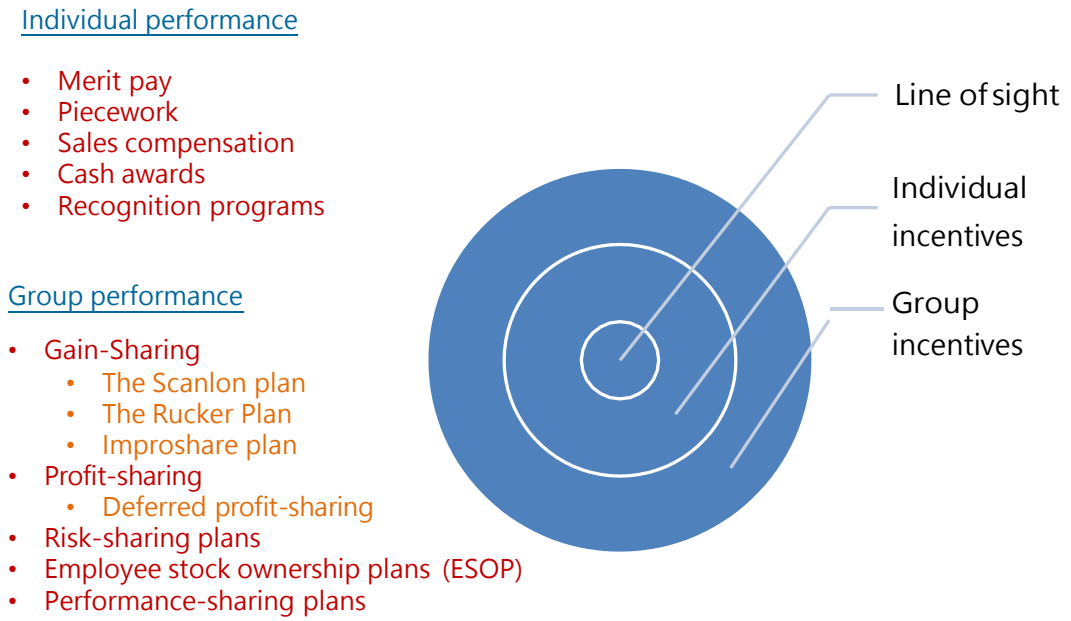
- It produces high pay rates. As staff become more valuable to the practice and their tenure increases, individual salaries will increase. This doesn't necessarily mean that total payroll costs will rise. In fact, they can be lower than those generated in a traditional model, if the practice can use 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:



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 payor 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 compal1y 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)

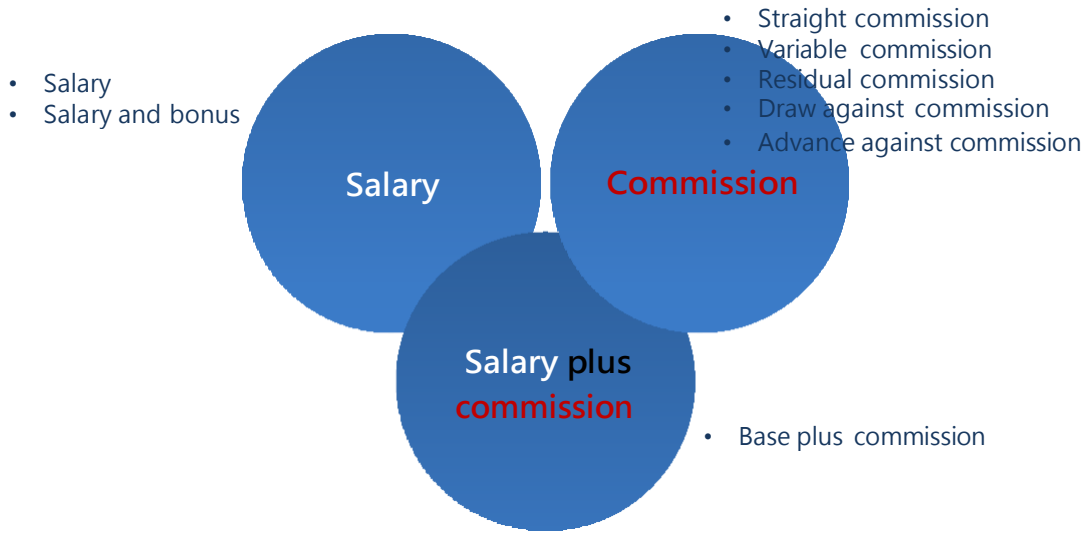
BBOPs are stock grants: the company gives employees shares of stock over some time frame. Depending on the way they are distributed to employees, they can either reinforce a strong emphasis on performance or inspire greater commitment and retention of employees.

13. Sales Compensation

If the initial offer isn't big enough and we're in sales, instead of negotiating more salary, we can negotiate a bigger salary package. Here are some of the more common combinations:

- Straight commission
- Variable commission
- Draw against commission
- Advance against commission
- Base plus commission
- Salary
- Salary and bonus
- Residual commission

We will define them here and discuss the rationale behind each package:



13.1. Straight commission

Sometimes straight-commission jobs are the bottom of the sales barrel – the company isn't willing to invest anything in you. Sink or swim. Good luck. On the other hand, a straight commission puts your income in your control. On straight commission, your compensation is strictly a percentage of your sales. To many people that arrangement seems like the most risky, but it's actually the purist compensation. If you sell well, you're safe; no one will fire you. If you sell great, you're not only secure, you can practically write your own ticket.

Bottom line, every job is "straight commission" of a sort. If you don't bring in more

than they're paying you – you're fired. Draws and advances are not gifts; they come out of your sales. They simply represent payment ahead of time of a portion of your future earnings. If you don't sell, you're no more secure on salary than on commission.

The best salespeople love straight commission because they know they get every dollar that's coming to them and that their income is entirely in their control. However, straight commission is not practical if you can't make sales right away. When the sales cycle is lengthy, straight commission is ordinarily not workable.

13.2. Variable commission

Same as straight commission, but the rate goes up or down depending on sales circumstances. You might be paid a higher commission on new accounts, on larger sales or on total volume over a certain amount.

13.3. Draw against commission

Also straight commission, except the employer lets you draw a certain amount of money each pay period to help you get started. So if you have a $3,000 draw and you make only $2,000 in commissions, you would get a check for $3,000 and pay the company $1,000 back out of future earnings. Most draws are "forgivable," which means that if the job isn't working out you could quit and not have to pay back any money you owed the company. Draws may last indefinitely or for a specified number of weeks or months, and the draw itself may be reduced or increased over time.

13.4. Advance against commission

It is like a draw, but it is normally an occasional, rather than a continual, event. It usually will not exceed the amount of commissions already earned.

13.5. Base plus commission

This is the same as 'salary plus commission.' Here the company pays you a certain salary, called your base. That's yours to keep and rely on. Above that, the company gives you a commission according to a mutually agreed-upon formula. Most sales groups use this combination. The longer the sales cycle, the higher the base needs to be.

13.6. Salary

Some sales jobs pay a straight salary; no commission. These jobs almost always come with bonuses. If not, you can try to negotiate one. Some companies like to advertise "no pressure – our sales people are not on commission, they are there to help you." As referenced above, all sales jobs – all jobs for that matter – are ultimately straight commission. So a salary may take the pressure off any individual sale, but rest assured you have to earn your keep.

13.7. Salary and bonus

A bonus is a one-time payment of a fixed amount of money for achieving a certain volume of sales. It could be a weekly, monthly, quarterly or even annual bonus -- or a

bonus that automatically kicks in when you reach your goal.

13.8. Residual commission

This is a type of commission that keeps on paying even if you quit the company. In insurance sales, for instance, after you've been with the company for a certain length of time, you're entitled, for a period of time, to a commission on the payments clients make to the policies you sold them whether or not you work for the company any longer.

When your sales work involves a lot of new-account generation, you would be wise to negotiate a residual commission on those new accounts. The justification here is that the reward for selling the account belongs to you; after you leave and the account is maintained, a portion of the income should still be yours for a while.

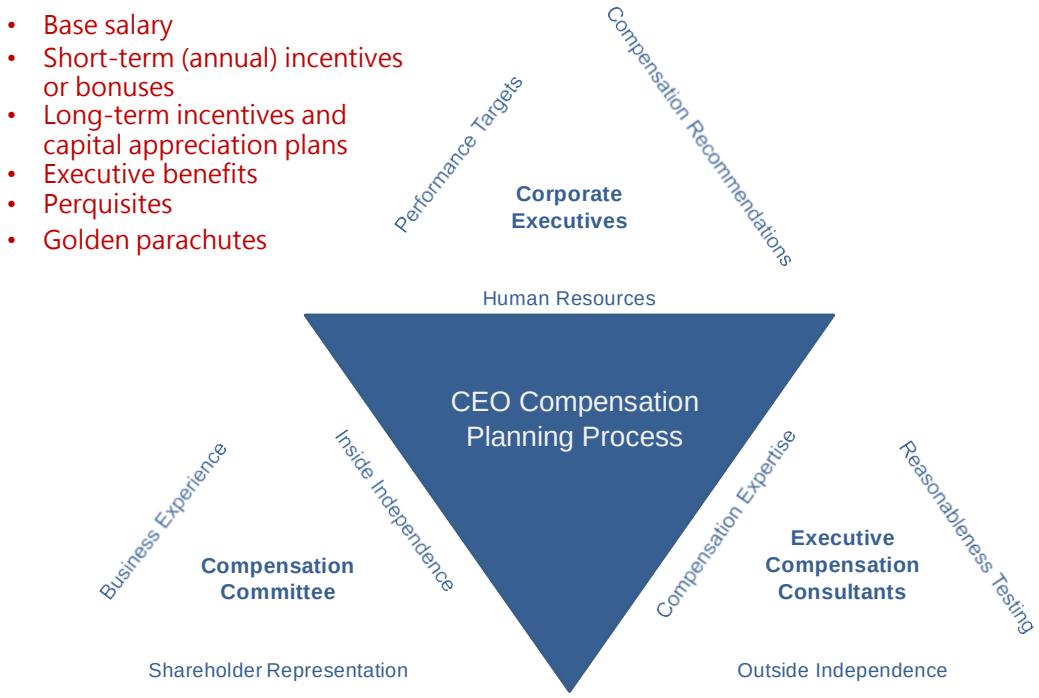
14. Executive Compensation

There is some evidence of convergence of executive compensation philosophies amongst global corporations. Executive compensation is a very important thing to consider when evaluating an investment opportunity. Executives who are improperly compensated may not have the incentive to perform in the best interest of shareholders, which can be costly for those shareholders.

Pay for performance has taken on new meaning for many shareholders and boards of directors. When attacks on Wall Street banks ensued after large bonuses were paid post-bailout, quite a few shareholders felt cheated because taxpayer monies were directed toward senior executives' pocketbooks rather than their own. The banks' poor form also led to a resurgence of a true pay-for-performance mentality in corporate boardrooms. Never before have boards purposed to demonstrate credible oversight with respect to pay.

Given the increased attention to pay for performance, it is important for companies to understand that the key to successful compensation plans is not the amount of compensation. Rather, it is intent and design. Simply put: CEO pay should be designed to drive a company's business strategy and create shareholder value.

A public company's leadership structure — corporate executives, the board of directors (specifically, the compensation committee) and outside advisors (executive compensation consultants) — provides proper checks and balances on compensation through oversight. Key roles and responsibilities of these three players are as follows:



Executive Compensation Planning Process

Source: Longnecker, B. & Henke, J. (2010). The Importance of CEO Compensation Plan Design. Longnecker & Associates.

14.1. Corporate Executives

To set company and individual performance targets, provide the compensation committee with recommendations on compensation levels for Executives, incorporate the HR team into the compensation planning process.

14.2. Board of directors

To supply corporate governance oversight and business experience, be shareholder representatives to the company, providing inside independence from management. The "Compensation Committee" of the Board of Directors of a company shall be to discharge the board's responsibilities relating to compensation of the company's executive officers. A compensation committee has overall responsibility for:

14.2.1. Overseeing the Company's compensation and benefits policies generally;

14.2.2. Overseeing, evaluating and approving executive officer compensation plans, policies and programs; and

14.2.3. Preparing the report on executive compensation that is required by the local regulations.

14.3. Outside advisers

To present independent third party compensation expertise, provide opinions on reasonableness through an independent analysis and process.

In conjunction with HR leadership, management should work together to marry company performance forecasts, long-term objectives, budgets and remuneration recommendations for the compensation committee's consideration. Compensation committees are responsible for setting CEO pay that is fair to shareholders and employees, ensuring appropriate performance hurdles are in place and providing payouts that are clearly aligned with actual performance. Executive compensation consultants, meanwhile, provide an independent, third-party perspective based on market data and experience, presenting recommendations independent of management's and the committee's suggestions.

15. Types of Executive Compensation

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

15.1. 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.

15.2. 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.

15.3. 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.

15.3.1. 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.

15.3.2. 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 2002and the accounting consequences of discounted stock sales may limitthe desirability and flexibility of these arrangements.

15.3.3. 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.

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

15.3.5. 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.

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

15.4. 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.

15.5. 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.

15.6. 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.

16. Equity Program

In today's global business environment, more and more companies with operations overseas use equity-based compensation to attract, motivate, and reward employees worldwide. The benefits are great for both the employer and the employee, but many difficult issues are raised.

Many multinational firms are seeking ways to provide equity ownership in their firms for their employees around the world. The concept of employee ownership is not new, nor is it a concept limited to a few countries. Now, newly democratizing and newly industrializing countries are looking afresh at the idea of employee ownership as one approach to converting their state-owned enterprises to privately owned firms. Multinational firms with an interest in providing employee ownership can try to follow the patterns that have evolved in the countries of their foreign subsidiaries or they can export concepts from their home countries, to the extent that local laws allow such innovations.

However, the design of such programs is not easy. Every country has its own laws and regulations related to the use of such practices and their tax treatment. And not all

foreign employees understand the concept of firm ownership or necessarily agree with it when they do. Global HR professionals must be vigilant in its monitoring of the use of these programs. But even though there are many difficulties in establishing these stock sharing schemes, at least one international consulting firm has found how great the welcome has been by local management in a number of countries for ability to participate in a share option or share scheme providing parent company shares.

Equity Program is frequently used for companies which need to attract high quality employees to build their businesses but lack the financial resources to offer their employees competitive salaries (Start-up companies or subsidiaries of foreign companies). In the following, we would discuss more about this kind of compensation.

Equity compensation is non-cash compensation that represents an ownership interest in the company. The two most common forms of equity compensation are stock options and restricted stock. Due to the variety of legal, accounting, and tax issues that are involved with equity compensation, proper planning is critical. Therefore, a company should seek legal and accounting advice before implementing an equity compensation plan.

The two most common forms of equity compensation, stock options and restricted stock, serve similar, yet different, purposes in structuring a company's compensation plan. Proper use of equity compensation is important in building a start-up company as it helps ensure the hiring, motivation, and retention of quality employees.

The Basics of Equity Compensation

Source: Doyle, et al. (2008). Equity-Based Compensation for Multinational Corporations (Tenth Edition). The National Center for Employee Ownership.

16.1. Stock Option

A stock option is a right to purchase shares of a company's stock at a predetermined price, which is referred to as the exercise price. The right to exercise the option and purchase shares of a company's stock generally accrues, or "vests," over a period of time. The vesting of options over time creates an incentive for the employee to remain with the company to build its value. Option holders are not stockholders and thus are not entitled to vote their option shares or otherwise exercise any other rights of stockholders. All or a portion of the vesting of options often accelerates upon the sale of the company, unless the buyer assumes the options under its plan. Conversely, if an employee leaves the company, the vesting of stock options ceases, and the employee usually has a limited period of time to exercise the options that were vested on the employment termination date.

There are two types of stock options: incentive stock options ("ISOs") and non-qualified stock options ("NQSOs"). In the case of ISOs, and generally in the case of NQSOs, there is no tax to the option holder when the option is granted or when the option vests. The crucial distinction between ISOs and NQSOs is when the option is exercised. Generally, there is no tax to the option holder when ISOs are exercised. (However, the option holder may be subject to alternative minimum tax when ISOs are exercised.)

When NQSOs are exercised, the option holder is subject to ordinary income tax on the difference between the exercise price and the fair market value of the stock on the date of exercise. The option holder is subject to capital gains tax on the sale of the stock that was purchased upon the exercise of ISOs and NQSOs. This tax is on the difference between the sales price and, in the case of ISOs the exercise price, and in the case of NQSOs the fair market value of the stock on the date of exercise.

Sometimes, a stock option must satisfy several criteria to qualify as an ISO. Principal among these is that ISOs may be granted to employees only, and the exercise price of ISOs must be equal to or greater than the stock's fair market value on the grant date. NQSOs may be granted to non-employees, such as outside directors or advisors. The exercise price of NQSOs may also be less than the stock's fair market value on the grant date.

16.2. Restricted Stock

While stock options are appropriate for most employees, a company's founders generally demand the voting and other rights of stockholders. However, the founders may desire to ensure that the stock owned by all of the founders is at risk and thus subject to forfeiture if a founder leaves the company. This motivates all the founders to work hard to build the company's value, and if the stock of a departing founder is forfeited, it can be used to hire a replacement thus minimizing the dilution to the remaining founders. In addition, investors may wish to ensure that the founders are motivated to remain with the company to build its value. Restricted stock fulfills these objectives and is often used as a form of equity compensation for founders.

Unlike the grant of stock options, the grant of restricted stock is the issuance of shares of the company's stock. A holder of restricted stock can vote the shares at stockholder meetings and has all of the other rights of a stockholder under applicable corporate law.

Restricted stock is generally subject to a repurchase right that allows the company to repurchase a portion of the founder's stock if his or her employment is terminated by the company for cause, or if the founder voluntarily resigns within a certain period of time. This repurchases right lapses over time, freeing the stock of the restrictions in much the same way that stock options are subject to a vesting schedule.

16.3. Implementation of Global Equity Compensation

Researchers found that successful implementation of global equity programs requires constant attention and a full understanding of the cultural and legal climate of each country and region in which they are offered.

We summarize the tax, regulatory, and employment compliance requirements that multinational companies need to address when "going global" with employee equity programs:

16.3.1. Income Tax and Social Insurance

The taxation of equity-based compensation is always a concern for issuing companies, local subsidiaries, and employees. In several countries, the standard income tax and social insurance charges can be so high that the equity award does not provide a real incentive or retention tool for the employees. In many countries, companies may set up tax-advantaged alternatives that allow the company and its employees preferential tax treatment (such as reduced or deferred tax obligations).

16.3.2. Tax Withholding and Reporting

Tax withholding and reporting is one of the most complicated and regulated areas for employee equity awards. The withholding and reporting requirements vary greatly by country. In addition, the type of award offered and the company's local corporate structure impacts the company's obligations. Because the collection of tax generates revenue for the country, the withholding and reporting process set up by the issuing company and the local subsidiary are audited regularly by the local tax authorities.

16.3.3. Local Tax Deductions

The availability of a tax deduction for the local subsidiary is important when determining how to implement the employee equity programs. If structured appropriately, the local subsidiary should be able to deduct the costs of the employee equity programs from its local tax obligations and reimburse the issuing company for the expenses.

16.3.4. Securities Compliance

Offers of equity awards may be subject to securities registration and disclosure requirements in the countries where the offers are made. These requirements may include registering the equity programs, drafting prospectuses, publishing offer

information, and/or compliance with filing requirements. In many countries, exemptions or exclusions from these requirements are available if the offer is structured properly.

16.3.5. Currency Exchange Controls

Companies must address the intricacies of currency exchange restrictions that affect the conversion and transfer of funds across borders between the issuing company, the local subsidiary, and employees. Compliance with currency exchange restrictions will likely require obtaining exemptions or approvals from the regulatory authorities.

16.3.6. Data Privacy

Data privacy is an important and often confusing area of the law. Because employee information is always collected, stored, and transferred in the administration of the equity award programs, the local data privacy laws must be addressed. Companies must structure the administration of these programs so that they comply with the local data privacy laws and, where necessary, obtain the appropriate approvals from the local data privacy authorities.

16.3.7. Employment Issues

Employment issues are becoming more problematic for companies that offer equity award programs. Employment issues include employee acquired rights to plan benefits, works council co-determination rights, and discrimination. These issues, if not addressed properly, can result in fines or judgments against both the issuing company and the local subsidiary.

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