2 INCIDENT

The Cultural Diversity Training Program

Dr. Jennifer Barnes is an Assistant Professor of Organization Behavior and Human Resource Management of a major state university in the Southeast. Her university is located in a large city which is 61 percent black. In recent years, the university has aggressively recruited black faculty and graduate students. Specifically, the university has funded new faculty positions and graduate fellowships for minorities.

Recently Dr. Barnes read about a new university-sponsored cultural diversity training program that was required for all academic administrators/supervisors and offered to faculty and staff. Since Dr. Barnes teaches two human resource management courses, she decided to enroll in the one-day seminar in anticipation of utilizing the material in her own courses. She expected the program would cover the full range of workforce diversity including age, race, gender, ethnicity, physical abilities, and sexual orientation. She also thought there might be some discussion of the impact of parental status, religious beliefs, and dual-career couples. Finally, she expected to experience a high level of involvement in the process through the use of case studies, sensitivity training, incidents, and role playing.

When Dr. Barnes attended the program, she was quite disappointed. There was a series of lectures by seven different speakers, including one external consultant on cultural diversity and several university administrators. While the seminar coordinator told the participants she wanted their input and involvement, the speakers were scheduled for one-hour blocks and used most or all of their allotted time with their formal presentations. Throughout the day only seven comments or questions were asked by participants. In addition, the only concept of diversity discussed by the presenters was racial diversity.

Other types of workforce diversity were mentioned in passing by one presenter but were otherwise ignored. The emphasis for most of the presentations was on the changing workforce demographics and the consequent necessity for the university to be more open, accommodative, and responsive to black students, employees, or potential employees. One of the speakers noted that while blacks constitute 60 percent of the city's population and 30 percent of the area's population, only 15 percent of the students and 4 percent of the faculty are black. Moreover, only three percent of the academic administrators at the university are black. The unspoken assumption was that the participants (most of whom were white) harbored racial animosity toward blacks. Therefore, they needed to modify their attitudes and behavior in order to better recruit, retain, and relate to black employees or students.

Dr. Barnes felt that both the content and process of the seminar left much to be desired. After the seminar, she discussed her experience with her department chair. The chair agreed to discuss it with the Dean of the School of Business. After doing so, he reported that it had been decided at the highest levels of the university that "in our environment, diversity means black." She interpreted that comment to mean that the political "powers that be" in the university were only interested in the racial aspect of diversity. Consequently, she did not expect to see future changes in the diversity training program.

3 INCIDENT

Facebook Posting: I Hate My Stupid Boss

Shanti Williams, HR manager at a large retailer received a Facebook friend invitation from Marisa Hernandez, a senior clerk in the company's finance department. She and Hernandez had attended the same high school several years ago and had only recently discovered they were employed at the same company. During high school, they had been in several classes together, and Williams readily remembered Hernandez. She had met Hernandez again at one of the retailer's training programs she had launched about three weeks ago. When Williams saw the Facebook request, she quickly accepted it.

A few months later, she saw a Facebook posting from Hernandez to her friends that read: "I hate my stupid boss. My new boss is a total jerk and makes each day a big pain in the xxx. He treats us finance clerks like we are his slaves. I can't wait to leave this job because I would rather eat beans than spend another day working for a moron! Help!"

That evening after reading the posting, Williams did not sleep very well. She wondered what action she should take as HR manager against Hernandez, if any, about what she had read in the Facebook posting.

QUESTIONS

1. What issues does this Facebook incident raise about social media and the workplace: (a) from the perspective of an employee, (2) from the perspective of management/ managers, and (3) from a legal perspective?
2. Should Shanti Williams have accepted the friend invitation? Why or why not?
3. If you were in Williams's position, what would you do now? Why?

1 SKILL BUILDER

Phased Retirement Options

I. OBJECTIVES

A. To give you practice in using the Internet to generate information relevant to solving human resource problems.

B. To familiarize you with the various options to traditional employee retirement.

II. TIME REQUIRED TO COMPLETE: One to two hours

III. INSTRUCTIONS

Read the "Situation" below and then search the Internet for the following: 1) phased retirement options; 2) advantages or benefits of each option for employees and the employer; and 3) disadvantages or costs of each option.

Possible Web sites are:

http://www.magicnet.net/benefits.index.html

http://www.vcn.bc.ca/timework.worksite.htm

http://www.insword.com/newsletter/index.html

Then, fill in Form 2.4 by identifying three phased retirement options and provide at least one advantage and disadvantage for each of the three listed options. Be prepared to present your findings and recommendations to the class.

SITUATION

The Owens Engineering Company provides a full range of engineering services to a wide variety of governmental and private organizations in the Denver metropolitan area. Ron Owens, the company president, has become increasingly concerned about his company's demographics. Two-thirds of their 82 engineers range in age from 50 to 67 years old. The company's current retirement policy is to offer retirement to all employees who reach age 55 or more, with 25 or more years of service.

Within the next few years, Owens has determined that 42 percent of the engineers will be eligible for retirement, and based on past company data, 70 percent will retire within two years of their actual eligibility. This means he expects to lose 29 out of 82 engineers to retirement over the next four years. In addition, the "normal" annual turnover rate among engineers has been 8 percent. This would reduce the company's pool of engineers by another seven per year, or 28 over the next four years.

After discussing the situation with Susan Barber, the human resources manager, Owens concludes that most voluntary turnover is unavoidable. While the company provides competitive salaries and benefits for the Denver area, the local unemployment rate is relatively low (averaging 7.8 percent), and there are few unemployed engineers in the area. Future forecasts are for a continued tight labor market for engineers in Denver.

Owens and Barber determined that the best way to deal with their potential engineer shortage is to retain older engineers as they become eligible for retirement. This decision is not only based on the numbers, but also on the qualities and qualifications the company anticipates losing. For example, when four senior civil engineers retired during the past year, the company lost their contacts and influence, their knowledge of their customers, special requirements in the contract bidding process, and their knowledge about who to see and how to get things done internally.

Barber is a friend of your human resource management instructor this term. Your instructor has assigned your student team the term project of assisting Owens Engineering in assessing its options for retaining its older engineers.

FORM 2.4 *Phased Retirement Options*

Option 1	
Advantages/Benefits to the Company	**Advantages/Benefits to the Employee**
1.	1.
2.	2.
3.	3.
Disadvantages/Costs to the Company	**Disadvantages/Costs to the Employee**
1.	1.
2.	2.
3.	3
Option 2	
Advantages/Benefits to the Company	**Advantages/Benefits to the Employee**
1.	1.
2.	2.
3.	3.
Disadvantages/Costs to the Company	**Disadvantages/Costs to the Employee**
1.	1
2.	2.
3.	3.
Option 3	
Advantages/Benefits to the Company	**Advantages/Benefits to the Employee**
1.	1.
2.	2
3.	3.
Disadvantages/Costs to the Company	**Disadvantages/Costs to the Employee**
1.	1.
2.	2.
3.	3.

3 EXERCISE

Executive Bonuses and Incentives

I. OBJECTIVES

A. To help you understand the complexities involved in designing an executive compensation system that will reward performance in areas which are sustainable and result in long-term organizational success.

B. To demonstrate the necessity to balance financial and non-financial criteria for executive compensation in both the short term and long term.

II. OUT-OF-CLASS PREPARATION TIME: 1 hour

III. IN-CLASS TIME SUGGESTED: 1 hour

IV. PROCEDURES

1. Read the entire exercise including the Background information below before class. After reading the Background information in the case, review information in your text or on the Internet on the topics of "Executive Bonuses" and "Executive Incentives."
2. Then, form groups of three to five students in class and answer the questions on Form 4.1 regarding a possible new design for an executive compensation system at Internet Applications. Once these questions have been discussed by the group and a group consensus (or majority opinion) on each has been reached, write your answers on Form 4.1.
3. The groups should then complete Form 4.2, which is partially completed for you but leaves space for additional short-term and long-term criteria for executive compensation. As you consider your plan, be sure to evaluate incentives that (if goals are accomplished) will make the company and its products sustainable over the long term. Add additional criteria as you see fit. Then, indicate for each criterion you retain what percent of total compensation should be based on each and how each should be divided among short-term bonuses and long-term stock options.
4. After completing Forms 4.1 and 4.2, the group should inform the instructor. When all groups have finished steps two and three, each group should have a spokesperson orally summarize their recommendations, the rationale for them, and their potential downsides for the entire class.

BACKGROUND

Internet Applications is a medium-sized computer software company that has grown rapidly since its inception 20 years ago in a large Texas city. While the company has had its "ups and downs" over the 20-year period, it has grown to be one of the top 1,000 U.S. companies in terms of total revenues. The company is currently doing well financially with revenue and earnings growth per share each up approximately 10 percent over the past year. However, its stock price is still approximately 50 percent below its previous peak price of 48 dollars per share achieved 10 years earlier.

The board of directors consists of some local public officials as well as industry experts and financiers, many of whom are CEOs of other companies in Texas. The current CEO, Donald Tisdale, was appointed to the position three years ago. Recently, the board was shocked to see their company and the CEO highlighted in the annual *BusinessWeek* survey, which listed executives who did the least to earn their pay in the last year. Among the factors sighted was the lagging stock price, earnings that were still below those achieved four years earlier before the "financial crisis," and a board that continued to increase the CEO's total annual compensation despite the lagging earnings and stock price. As a result, the CEO's total compensation was approximately 580x that of the average employee in the company.

The board has based its short-term and long-term CEO compensation on the earnings of other CEOs in the metropolitan area and in the industry. They have also relied on an executive compensation consultant who indicated the CEO's total compensation was well within industry norms. As a result, the board was insulted by the *BusinessWeek* article and felt inclined to write a defense of their pay practices. However, one member suggested they seek some additional information before responding in a formal way.

The board asked their human resource vice president, Henrietta Peach, to make a recommendation concerning this issue. She suggested the director of compensation, Ellen Bennett, should conduct a study of executive compensation and make recommendations to the board. Bennett agreed and has asked your instructor to assist in her research and future recommendations. Your instructor has asked each team in the class for their analysis and recommendations as noted in Forms 4.1 and 4.2 in this case.

Your instructor has also shared with you the following information that he and Bennett have discovered in their research:

- Executive compensation consists of five components with mean percentages in U.S. corporations as follows:

  1. Big salary (35%)
  2. Short-term incentives or bonuses (24%)
  3. Long-term incentives or stock plans (31%)
  4. Benefits (5%)
  5. Perquisites (5%)

- Greater use of both short-term and long-term executive bonuses and stock incentives among top and middle managers is associated with higher subsequent levels of profitability.

- There is a high level of current pressure from the Securities and Exchange Commission (SEC) as well as some large pension programs (TIAA-CREF and CALPERS) to better link pay and performance among executives. Toward that end, they have proposed guidelines for executive compensation. These pension funds have described executive compensations in many of the companies in which they hold stock as "Heads I win, tails we flip again." As a result, they believe that excessive executive compensation dilutes stockholder equity and the returns of those who hold stock in the company. The problem is that in these companies executive pay is higher each year regardless of profitability, stock price, or meeting the needs of employees or customers.

- The late Peter Drucker, 20 years ago, indicated that executive pay was "off the charts" at that time. He recommended that the CEO total compensation should be no more than 20x the pay of the average rank and file employee.

- Current practices for determining executive compensation use competitive benchmarking by a compensation committee within the board of directors that utilizes comparisons with similar companies in terms of size, sales, industry, geographic region, etc. They also tend to use executive compensation consultants who have been recommended by other companies. Some critics have claimed that these consultants may have a conflict of interest in that boards tend to hire and re-hire those who "rubber stamp" their particular compensation preferences.

- CEO compensation among U.S. corporations is approximately 400x that of the average worker in these companies. This ratio is much higher than the same ratio in other developed countries. In fact, U.S. top executives are the highest paid in the world. This has created a "trust gap," or a frame of mind, among employees that leads them to mistrust senior management intentions, doubt their competence, and resent their self-congratulatory pay. This issue has become salient when the same companies simultaneously engage in large-scale layoffs and downsizing. Research indicates that companies with higher pay differentials between executives and rank and file employees have lower levels of employee and customer satisfaction and declining market shares.

- Short-term incentives are usually given annually and may take the form of either cash or stock. Annual bonuses may also be based on achievement of specific objectives. Long-term incentives usually take the form of stock options used to link stockholder and executive incentives.

- Today the goal is to provide executive incentives that address the concerns of stockholders, employees, and customers. Companies that address all three stakeholders in their executive compensation tend to perform better in financial terms over the long run.

- Balanced score cards have been developed to provide a more comprehensive evaluation of the organization's performance, taking into account not only stock price and financial returns but also employee satisfaction, customer satisfaction, market share, measures of product or service quality, innovation and product leadership, and low levels of employee turnover. The alleged benefits of balanced score cards are that they allow executives to focus on not only short-term financial results but also on factors which build future economic and non-economic success.

FORM 4.1 *Questions Regarding Executive Compensation Plans*

1. What short-term (bonuses) and long-term (stock incentive plans) ideas for executive incentives do you suggest? Why?

   Bonuses:

   Stock Incentives:

2. What percentage of total executive compensation should be in the bonus category and what percent should be in the stock incentive category? Why?

   Short-Term Bonuses:

   Long-Term Stock Incentives:

   Why?:

3. How would you address the interest of stockholder, customers, and employees in your executive compensation plan?

   Stockholders:

   Employees:

Customers:

____

____

____

4. Do you approve of the following executive compensation reforms that have been suggested by critics and in Congress? (Yes or No)

- Require stockholder approval for all executive pay packages. _____
- Require a standard ratio between CEO total compensation and that of the average employee in the company. _____
- Require compensation committees of the board of directors to be composed of "public members" (non-CEOs). _____
- Require compensation committees to justify their pay recommendations in terms of some combination of increased employee satisfaction, customer satisfaction, product innovation, and market share. _____

FORM 4.2 *Recommended Criteria and Metrics for Proposed Executive Compensation Plan*

Percentage of Compensation Total (Incentives) (Bonuses) (Company Stock)

Stockholders:

- Earnings Growth per Share
- Stock Price Increase per Share
- Cash Flow per Share
- Growth and Market Share

____
____
____

Employees:

- Employee Retention
- Employee Satisfaction
- Percent of Employees Receiving Training
- and Development

____
____
____

Customers:

- Measured Quality of Products
- Product Innovation
- Customer Satisfaction

____
____
____

Benchmark Ratio of CEO Total Compensation to Average Employee Pay _______: 1

4 EXERCISE

WageSim—A Compensation Administration Exercise

I. OBJECTIVES

A. To familiarize you with some of the problems involved in building and maintaining a compensation system.

B. To provide you with alternative approaches for solving some typical compensation-related problems.

C. To give you practice in writing memos to employees regarding compensation issues.

D. To familiarize you with job evaluation procedures.

II. OUT-OF-CLASS PREPARATION TIME: 20 minutes to read exercise plus one hour to respond to the E-mail Items (either individually or in a group)

III. IN-CLASS TIME SUGGESTED: 45 minutes to discuss all E-mail Items

IV. PROCEDURES

This exercise can be done individually or in groups of three to five members, at the instructor's option. You are to begin by reading all of the material presented in this exercise. Assume that you are responsible for developing and maintaining the Mack Organization's wage and salary system. Assume further that the person who previously had these responsibilities has just quit and left you all of the E-mail Items that follow. First, you (or your team) are (is) to respond in writing to each employee who sent an e-mail. Second, explain on a separate sheet of paper what additional actions you would take with reference to each item. For example, if you believe that you should gather additional information before making a final decision on an item, explain what information you would need. Or, if you believe that additional memos or discussions with someone in the company are needed, explain this. You (or your team) should bring both the memos and the Additional Action sheets to class. Be prepared to present and defend these materials during the class discussion.

SITUATION

The Mack Organization is a large organization headquartered in the midwestern United States. It has offices located throughout the country and employs over 700 individuals. You may assume the organization is a chemical company, a manufacturing company, a bank, a insurance firm, or any large organization with which you are familiar.

The Mack Organization's human resource department includes a compensation administration section that consists of two individuals, one of whom is you (or your team). The company has several different wage structures, including one for executives and one for clerical personnel. For compensation purposes, all clerical employees are divided into five job classifications. The organization's current wage structure for clerical personnel is shown in Exhibit 4.4.

HOW SALARIES ARE DETERMINED

Employee salaries directly relate to the work they do and how well they do it. Two major factors work together to establish the salaries payable for various jobs—job evaluation and salary ranges.

EXHIBIT 4.4 *Mack Organization's Wage Structure for Clerical Personnel*

Job Title	Salary	Number of Employees
Office Services Aide	$25,259 minimum $33,262 maximum	40
Office Services Assistant	$26,588 minimum $35,337 maximum	30
Administrative Assistant	$30,041 minimum $39,604 maximum	20
Senior Assistant	$34,628 minimum $45,083 maximum	40
Executive Assistant	$43,364 minimum $54,794 maximum	20

Job Evaluation

Job evaluation is a method of measuring the relative worth of each job in the organization compared to all the other jobs, based on an objective analysis of the duties and responsibilities of the position. The Mack Organization job evaluation is as follows: A description that defines the function of the job and lists the major duties performed is written for each job. Each description is then evaluated by a standing committee of employees from various areas of the organization who have a broad knowledge of the jobs that exist throughout the organization. Their evaluation is based on "yardsticks," including knowledge required, freedom of action, accountability, contacts with employees and customers, physical effort required, unusual working conditions, research responsibilities, and supervision or management responsibilities. Based on these yardsticks, the job is assigned a point value. By listing all positions according to their point value, the relative worth of each position is established.

Grade Levels and Salary Ranges

Based on the total points received in a job evaluation, jobs are assigned to a grade level. Each grade has an entry or minimum salary and a maximum salary payable for the jobs in that grade; the amounts between the entry and maximum salary comprise the salary range for the grade.

Usually employees begin at the bottom of each salary grade. Employees are considered for a merit increase after six months of satisfactory service. After this, they may receive an annual merit increase upon completion of satisfactory service. There are a total of six possible merit increases. Cost-of-living increases are granted periodically by the organization to all employees.

E-mail Items

Item 1

To: Wage & Salary Division
From: Mary Wallace—Vice President
Re: Request for pay increase/promotion

This is to formally request your endorsement of my intent to promote Susan Anthony, an administrative assistant in my office, to the position of senior assistant. I realize a requirement for senior assistant is proficiency in Adobe InDesign (a desktop publishing program) and that Ms. Anthony is not yet proficient.

However, aside from this, Ms. Anthony possesses the necessary skills to perform all tasks in this office. Ms. Anthony has been with this office for five years and is a loyal and dedicated employee. I wholeheartedly encourage your endorsement of this recommendation and pay increase. A vacant senior assistant position is available in this office. Please advise as soon as possible.

Item 2

To: Wage and Salary Section
From: Kelly Actor
Re: Request for pay increase

I have been with this company for ten years. My present position with this company is senior assistant, at the maximum pay level. The Wispette Company has offered me a position that would give me a 9% increase in salary for similar duties. Since I do enjoy my work, I hate to leave. However, my financial obligations to my family leave me with no choice. My husband recently has been disabled, with no hope of employment for three years. As I mentioned, I have enjoyed my ten years with this company. My supervisor and I get along well. I have not missed any work during the ten years except for the two-week vacation during the summer. If you will match the Wispette Company's offer, I would prefer to stay with your company. I understand there is no opening for an executive assistant, which would be a comparable position. I need an answer soon.

Item 3

To: Wage and Salary Section
From: Jane Swenk, Supervisor
Re: Long-term employee wage dispute

M.O. Scott, an administrative assistant, expressed concern that her daughter, also an administrative assistant, was making an equal amount of money. M.O. has been employed for 28 years, her daughter for five. Merit raises are given yearly only for the first five years, and M.O. has not gotten one in 23 years. I don't think this policy is fair. M.O. should get something for her longer service. Please respond so I can explain the situation to her.

Item 4

To: Compensation Administration
From: HR Director
Re: Payroll budget for next month

Please prepare a payroll budget for next month for clerical employees. Make whatever assumptions you feel are necessary in doing your calculation. Just let me know what the assumptions are. Many thanks.

Item 5

To: Wage and Salary Section
From: Bob Franklin, Administrative Aide
Re: Pay inequity question

I was recently hired as an administrative assistant and received the minimum pay for this position. Why do some office service aides make more than I do? My duties and responsibilities are much greater than theirs.

Item 6

To: Compensation Section
From: Betty Dyer, Supervisor
Re: Pay for Tammy Tuff

Tammy Tuff is an excellent administrative assistant in my office. She does an outstanding job with all assignments and performs beyond standards for an administrative assistant in everything she does. She completes her assignments in half the time of other aides and voluntarily assumes extra duties after finishing her assignments. In addition to her outstanding performance, Ms. Tuff has improved morale in the office since she started nine months ago. She always has a smile on her face and brightens the day for co-workers with her pleasant disposition. Best of all, she makes others feel important, and this has carried over to their work. Everyone seems to take pride in their work; consequently, performance and productivity are up. Due to Tammy's influence, the turnover rate is zero, leaving her with no promotion potential in this office. Based on Tammy's excellent performance, skills that exceed the requirements of the job, and attitude that has improved morale, I feel that Tammy deserves to be paid as a senior assistant even though she is not one and there is no senior assistant vacancy.

Item 7

To: Wage & Salary
From: Chris Markley, Supervisor
Re: Pay question

I am relatively new to the position of senior assistant and was told that pay for my job is based on points. I thought it was based on job duties and performance. What do points have to do with it?

Item 8

To: W & S
From: McNamara, Department Manager
Re: Employee problem

Mary White, an office services aide, left two hours early yesterday, without permission, to attend a civil rights rally. Should she be paid for this time?

Item 9

To: Wage & Salary Section
From: Sue L. Ross, Supervisor
Re: Pay for Julie Tate

Julie Tate, senior assistant, has been temporarily assigned some of the duties of an executive assistant position. The position is temporarily vacant due to the executive secretary being gone for four weeks. Julie has been told by me that she may be assigned higher-level duties on occasion, but she is not satisfied. She insists that she deserves financial compensation for absorbing some duties of an executive assistant. None of the additional duties is too difficult for Julie to handle, and she actually does an excellent job on all assignments when she stops complaining about her unfair treatment. I am recommending that Julie be paid at the rate of an executive assistant position so that I can assign her higher-level duties whenever my executive assistant is on vacation or sick leave. This way Julie will not complain about the grade level of her work, and the flow of work in the office will proceed smoothly without disruption. Please respond to this recommendation.

Item 10

To: Wage and Salary Section
From: Doris Pope, Department Head
Re: Frances Brown, Administrative Aide

The administrative assistant in my department, Frances Brown, has decided she would like to work at home four days a week and in the office one day. Given her job duties, this will pose no problem for this office. However, I am not sure how this will affect her pay. Will it increase her pay or decrease it? Please advise.

Thanks.