

# HRM IN CONTEXT

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# 1

## INTRODUCTION TO HUMAN RESOURCE MANAGEMENT

## LEARNING OBJECTIVES

After reading and studying this chapter, you should be able to do the following:

- 1.1 Define human resource management (HRM).
- 1.2 Articulate why HRM matters, giving concrete examples.
- 1.3 Explain the developing role of analytics and technology's impact on the changing context of HRM.
- 1.4 Summarize the HRM profession.

## VALUING EMPLOYEES: THE CASE OF COSTCO WHOLESALE<sup>1</sup>



Costco co-founder (and former CEO) James Sinegal is pictured in one of the company's stores in New York.

Photo by Pat Greenhouse/The Boston Globe via Getty Images

Costco opened in 1976 with one store in San Diego and grew from zero to \$3 billion in sales within six years. It currently operates over 825 locations, boasts over 111 million membership-card holders, and has annual sales over \$196 billion globally. This makes them the fifth largest retailer worldwide. It is not an overstatement to say that Costco transformed the retail world. It credits its success to three key qualities:

1. A commitment to quality
2. An entrepreneurial spirit
3. A strong employee focus

While it's one thing for the company to say it has "created a workplace culture that attracts positive, high-energy, talented employees," it's another to have others note such things. For example, "People matter here" was written by a Costco employee and posted to glassdoor.

com, a website that allows current and former employees to anonymously post kudos and critiques about companies. Costco is known as a desirable employer, in part, because of its strong human resource policies. For example, 50% of U.S.-based Costco employees earn more than \$25 per hour (with a minimum of \$16 per hour), compared to employees in other retail environments, where \$10.50 is closer to the average hourly pay; and 65% higher than their biggest competitor, Sam's Club, which is owned by Walmart. Beyond that, Costco also covers 90% of health insurance expenses for both full-time and part-time employees, which is rare. Costco is also described as having a casual culture with strong job security, having managers who take employee development to heart, and providing many opportunities to learn and grow. Finally, the company is known to take its mission statement seriously and follow its Code of Conduct.

So, why does Costco make these huge investments in its nearly 300,000 people? James Sinegal, former CEO of Costco, is quoted as saying, "When employees are happy, they are your very best ambassadors." Although HR at Costco is not directly run by its CEO, you can imagine how such a strong set of values at the executive level influences all HR practices at Costco. Beyond Costco's stated appreciation of employees, Costco engages in many HR practices that indicate that the organization values its employees. For example, they promote from within. They encourage and listen to employee suggestions. They give managers authority to experiment with activities helpful to increasing sales and/or reducing costs (as long as the products are never marked up more than 15%). The effectiveness of such practices is among the reasons that Sinegal was named one of the 100 Most Influential People in Business Ethics. As a founder and CEO, he made a big profit for the company while putting people first, so it is hard to argue with his success. Although Costco pays considerably more than the industry average, including bonuses and other incentives, its revenues and stock price continue to grow. In fact, the value of Costco stock from 1985 until Sinegal's retirement in 2012 increased by 5,000%. It seems to be an investment that pays off well for the company. For example, estimates are that Costco employees generated twice the revenue of Sam's Club employees; their turnover rate is 5% after employees have worked at Costco for one year, which is extremely low for the retail industry; and their "shrinkage" (an indicator of employee theft) rate is one of the lowest in the industry.

A true test of a company's culture and HR practices rests on its ability to maintain its values even during changes in leadership. Costco has fared well on this dimension. The next CEO, W. Craig Jelinek, has continued this trend since taking over in 2012. Jelinek joined Costco in 1984 (the first club opened in 1983), so he was not a newcomer to the organization. Today, Costco is thriving, its stock price is at a record high, and Jelinek was named CEO of the Year by CNN.

## CASE DISCUSSION QUESTIONS

1. Costco has grown a great deal since its founding in 1976. How do you think growth has influenced its HR practices beyond what is mentioned in this case? Please share specific insights.
2. James Sinegal, Costco co-founder, made a strong case for HR being foundational for organizational success. Do you agree with this position? Why or why not?
3. Why do you think James Sinegal kept his CEO salary at a modest level? Do you think this is a good decision in terms of HR? Does it matter that Craig Jelinek has not followed suit? Why or why not?
4. Do you consider Costco's policy of offering such high pay and employee benefits a waste of money or a wise investment? Why? Be prepared to defend your response.

## INTRODUCTION

This textbook provides an introduction to the field of human resource management (HRM). This includes what HRM is, the evolving context and landscape of HRM, important best practices, and issues and controversies associated with HRM today. The first chapter of this book gives you an overview of what HRM is and why it is important. The world of HRM is changing in new and innovative ways. Much like the Industrial Revolution of the mid-1800s, where machines changed the way manufacturing work was done, we are currently in the midst of a *knowledge revolution*. Never before in history has it been easier to access information, connect globally, and manage a workforce remotely. We discuss the implications of this recent shift in this chapter, and it is integrated throughout the book. Chapter 2 specifically addresses how this knowledge revolution has created exciting opportunities for HRM to become invaluable within organizations in a variety of ways, including informing managers with best practices and data to aid decision making throughout the organization. As valued business partners, HRM specialists and generalists can span the range of activities from following procedures to creating and testing hypotheses regarding the most effective ways to manage employees. There is a lot to learn, so let us get started with addressing the basic question of what HRM is exactly, who is involved, and where HRM is located within organizations.

## WHAT IS HUMAN RESOURCE MANAGEMENT?

### LEARNING OBJECTIVE

- 1.1 Define human resource management (HRM).

**Human resource management (HRM)** is defined as the constellation of decisions and actions associated with managing individuals throughout the employee life cycle to maximize employee and organizational effectiveness. HRM relates to all aspects of organizational life.

HRM is prevalent in the world around us and is a subject you probably have experienced without knowing it. For example, if you have ever filled out a job application or been interviewed for a job, you have been exposed to a major function within HRM called *selection*. Even if you have never applied for a job, you have still interacted with thousands of people who have. Every teacher you have had in the classroom and every customer service interaction you have encountered was the result of HRM in some way or another: Teachers and customer service specialists are hired, trained, paid, and managed via their organization's HRM system. Interactions such as these may have given you some preconceived notions of what HRM is all about. This is a great thing because it means you can jump right in and start participating and discussing the material. But we suspect, as you progress through this book, you will also find yourself seeing the strategic value of HRM practices and why HRM is a key factor in organizational success regardless of the area of business you intend to focus on in your own career. That is why we set out to write this book.

HRM includes functions that range from analyzing and designing jobs; managing diversity and complying with local, national, and global employee laws; recruiting individuals to apply for jobs; selecting individuals to join organizations; training and developing people while they are employed; helping to manage their performance; rewarding and compensating employees for their performance while maintaining healthy labor relations and helping to keep them safe; as well as managing their exit, or departure, from the organization.

HRM is about making decisions about people. This decision-making process involves many questions that those within an organization must ask and answer. Over time, the answers may change as the



If you have ever applied for a job and had an interview, you have experienced HRM in action.

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firm experiences growth or decline, external factors change, or the organizational culture evolves. For example, those involved in HRM need to address questions such as these:

- What type of employees do we need to hire?
- Where will we find the best and most diverse employees?
- How do we manage diversity to maximize its benefits and minimize group conflicts?
- How should we select the people who will join our company?
- How can we help them be safe and experience well-being at work?
- How should we motivate and reward employees to be effective, innovative, and loyal?
- What benefits would our employees find the most attractive?
- What training do our employees need, and how can we further develop them?
- How can we help to ensure employment relations between employees and managers remain healthy and include healthy feedback and voice from both sides?
- What can we do to ensure that employees engage in ethical decision making and behaviors?
- What do we need to do to remain competitive locally and globally?
- Why are employees leaving, and what can we learn from their exits?

All of these questions and more are part of managing the HRM system of decisions and actions associated with managing individuals throughout the employee life cycle (see Figure 1.1), from the hiring stage through the exit of an employee (due to voluntary or involuntary turnover) and everything in between.

FIGURE 1.1 ■ The Employee Life Cycle



### HRM Decision Making in Action

Viewing HRM from a decision-making perspective has important implications for the success of employees and organizations. Let's take a look at how decision making with HRM systems can help overcome **biases**—types of favoritism or prejudice—that can be inherent in organizational decisions. Evidence indicates that individuals have biases, often unconscious, when engaging in decision making. Each of these biases represents a shortcut to making decisions. Based on years of experience, each of us has developed the ability to sort through copious amounts of information to arrive at decisions. Some are small, and we hardly ever give them a thought, but those can be dangerous decisions because biases such as availability, anchoring, or confirmation can influence the outcome unconsciously. Other choices, such as whether to hire one of three candidates, also have consequences.

For example, consider the **availability bias**, which is our tendency to rely more on information that is readily available to us, leading us to discount alternative information. To the degree that the information relating to the job candidates is subjective, such as when interviews are used, our past experiences will influence us to a greater degree, and bias can creep into the process. The bias might be subtle, such as your recollection that the last employee you hired from State University has done a great job. This might lead you to lean toward the one candidate on your short list from this same school. But

is this a reasonable thing, given that State University graduates 8,000 students per year and the other two candidates graduated from schools from which your company has employed dozens of successful candidates? It probably is not. To avoid this as well as the other types of biases, take concrete steps, including recognizing that such biases exist; seeing the other side of your argument, including others in the decision making; assigning a devil's advocate (someone who challenges assumptions and ideas); and considering the consequences of an HRM decision. In other words, one of the functions of HRM is to design systems that prevent systemic biases from exerting undue influence over decision making, resulting in better decisions.

**Anchoring bias**, the tendency to rely too much on the first piece of information given, can be just as dangerous, as your decision can be influenced simply by the way others present information.

**Overconfidence bias**, the tendency to seek confirmation of one's own beliefs or expectations, can shortcut the exploration of a full range of options. All of these biases can hurt the quality of decisions made. A critical aspect of HRM is managing key aspects of decision making throughout the entire employee life cycle.

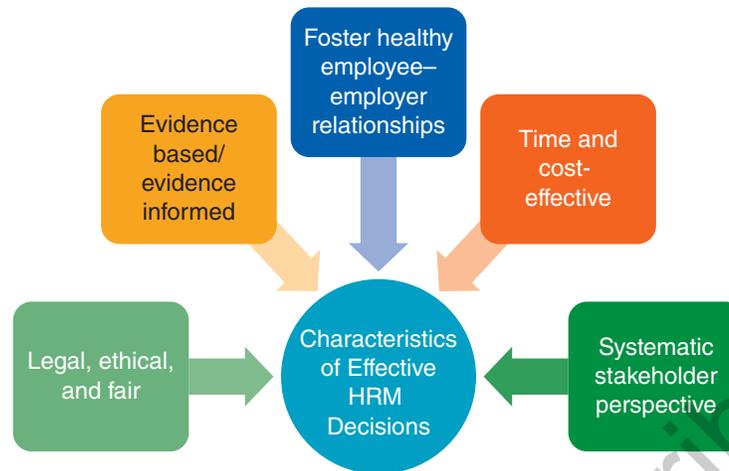
### How Do You Know If You Are Making a Good Decision?

Making big decisions is not easy. Research shows that only about 50% of all decisions made within organizations are successful.<sup>2</sup> However, to help you understand whether a particular decision has the hallmarks of success, it makes sense to consider the following key characteristics. Doing so won't guarantee success, but it can help you develop more robust decision-making criteria that help to meet the needs of the entire organization rather than just solving a problem today that may create a larger problem tomorrow.

Ask yourself these questions:

- *Is this course of action legal? Is it ethical? Is it fair?* Legality is a good first step, but it is not enough. How would you feel if your course of action were shared on a major news outlet? If the answer is “not so great,” that's an indication the course of action you are considering may be legal but may not be ethical or fair.
- *Is this decision based on evidence and data?* While decisions should not be made solely based on prior evidence and relevant data, they should consider both and try to leverage what is possible to know to rule out alternative courses of action.
- *Will pursuing this course of action help to make the organization healthier?* It is easy to make decisions and pursue courses of action in isolation from the larger organization. However, doing so can create problems. Stopping to consider whether you are doing something that is likely to help or hinder positive employee–employer relations is helpful in avoiding problems down the line.
- *Is this course of action time and resource efficient?* If the course of action you are considering is not time or resource efficient, it is not likely to be sustainable over time. This can lead to resource constraints, including employee energy and burnout as well as financial constraints.
- *Does this course of action take a systematic perspective and consider various stakeholders?* You might have all the information necessary to make a good decision. But you might not. And even if you do have the relevant information, including stakeholders in the decision-making process is a helpful way of securing acceptance of a decision. Thus, skipping this step will most likely lead to less effective decisions in the long run.

Another important implication for approaching HRM as a set of decision-making activities is to address the core issue of what makes a good decision. Figure 1.2 details the hallmarks of a good decision.

**FIGURE 1.2** ■ Characteristics of Effective HRM Decisions

## WHY HRM MATTERS

### LEARNING OBJECTIVE

**1.2** Articulate why HRM matters, giving concrete examples.

You might be taking this class because it is required at your school even if you are not an HRM major. Regardless of your major, HR is valuable for you and your career. Knowing about HR policies and practices is important because as a manager or future manager, you will be required to make employee-related decisions. You might be involved in recruiting and hiring employees, and in fact, you will be on the front line of the hiring process. You may play an important role in managing the performance of employees and allocating rewards. You may need to discipline employees or manage their exit. Your decisions, actions, and inactions will be used to assess compliance with the law. Therefore, much of the information included in this book is relevant as you build your managerial skills. For any HR practice to be implemented effectively, HR and line managers need to be partners. This involves each party understanding the rationale behind each practice, line managers remaining true to the spirit of the system in place and giving feedback to HR, and HR departments designing systems that meet the needs of line managers. Moreover, if you end up working in an area outside of HR, such as accounting or marketing, you will still be a consumer of the HR systems and services available at your organization. For example, your department may require a new training program, and thus, it will be essential to partner with the HR department to design and implement the new training program. As such, it is important to understand how HR systems and services work. In short, even if you don't have an interest in working in HR, learning about HRM will be a good investment of your time.

### People Matter

It is well documented that the individuals who work within an organization matter when it comes to what an organization is like as a place to work and what it is able to do. Individuals influence its culture, informal rules, how hard employees work, how they should treat one another, how much risk employees should take, as well as what is considered acceptable in terms of performance and ethics. Influence happens through who is attracted to join the organization, who is selected to join the organization, and who decides to remain or leave the organization. This is called the **A-S-A framework**, standing for attraction-selection-attrition in organizations. In other words, organizations vary in terms of the human capital they have access to based on whom they attract, hire, and retain. *Human capital* refers to the collection of knowledge, skills, and abilities, as well as other characteristics (KSAOs) embodied in the organization's people. Human capital might refer to the KSAOs of a handful of people when a

company is starting out to thousands of employees if the organization grows. Clearly, human capital needs change over time as well. When companies are starting out, they might not have a formal HRM department. However, as they grow, the decision to shift toward less outsourcing of HRM and more in-house HRM functions is a strategic HRM decision that must be made.

Richard Branson, founder of the Virgin Group, famously said, “Take care of your employees, and they’ll take care of your business.”<sup>3</sup> He argues that creating a great place to work involves a work climate where people are appreciated, engaged in their work, productive, and thriving rather than simply surviving. The numbers are dramatic in terms of the bottom line as organizations with engaged employees have 23% higher profitability, 18% higher productivity, and 43% lower turnover than organizations with less engaged employees. In fact, it is estimated to the global economy loses trillions each year due to low engagement.<sup>4</sup> Organizations increasingly understand that treating individuals isn’t just about “being nice” to them; it’s a win-win, as those employees who feel valued also tend to be more engaged and productive. Reading what employees say about the *Fortune* 100 Best Companies to Work For such as Costco, you start to notice a trend. They really value their people.<sup>5</sup> And we know that organizations that value their employees are more profitable than those that do not.<sup>6</sup>

If employing people who are valued, highly supported, and engaged at work promotes company success, why don’t all organizations create such cultures? That is a great question. The answer is complex, but reasons include not understanding or believing the connection between organizational culture and success and not knowing how to create this connection.

## Organizational Culture Matters

**Organizational culture** refers to shared, “taken-for-granted” assumptions that members of an organization have that affect the way they act, think, and perceive their environment.<sup>7</sup> Because of this, organizational culture influences how decisions are made within organizations, and it is also influenced by those decisions. For example, if being polite is highly valued within an organization, the approach taken when giving performance feedback would be much different than in an organization that values directness. During the Covid-19 pandemic, many organizations were challenged to maintain their organizational cultures as some individuals began working remotely and others faced physical and emotional challenges on the job. Such changes challenged established norms and ways of relating to one another at work. In fact, over 4.5 million Americans quit their jobs in November 2021.<sup>8</sup> This indicates how important cultures can be in creating a sense of stability within organizations.

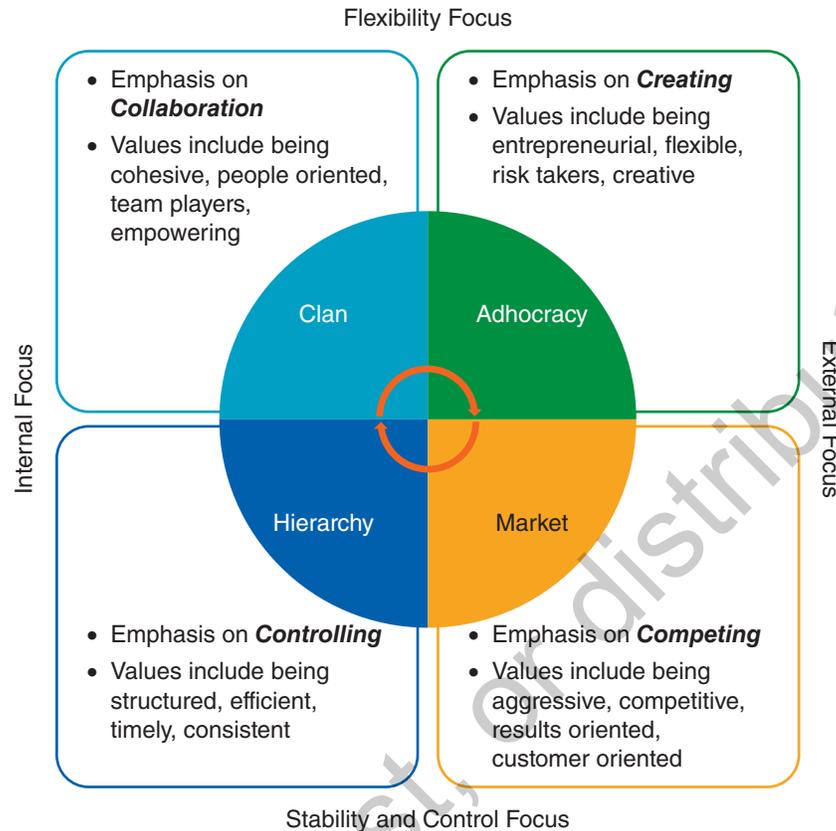
## Types of Organizational Culture

One popular typology of organizational cultures, called the competing values framework, characterizes them by their emphasis on collaboration, creating, controlling, or competing (see Figure 1.3).<sup>9</sup> In the competing values framework, **clan cultures** are collaboration oriented and are characterized by valuing cohesiveness, being people oriented, being team players, and empowering employees. Based on our understanding of Costco from the opening case, it appears to be consistent with a clan culture. Other examples of organizations that can be seen as having clan cultures are Southwest Airlines Company and SAS Institute. **Adhocracy cultures** focus on creating and emphasize being entrepreneurial, being flexible, taking risks, and being creative. Examples of adhocracy cultures are 3M, Google, and Facebook. **Market cultures** are characterized by competition and value being aggressive, competitive, and customer oriented. Examples of companies showing signs of a market culture are Amazon, Intel, and Netflix. **Hierarchy cultures** focus on controlling and value being efficient, timely, and consistent. Organizations such as Walmart and Boeing are examples of this type of culture.

## How HRM Affects Organizational Culture

There is no one type of culture that leads to success and happy employees. The examples given for different cultures are all successful businesses in their industries. However, it is important to remember that there is a close connection between company culture and HR practices adopted, and in turn, the HR practices adopted will influence and shape the culture into the future. Company HR practices are often a reflection of company culture. For example, as an early adopter of gamified recruiting

FIGURE 1.3 ■ Types of Organizational Culture



and selection processes, Marriott developed an online recruiting platform called “My Marriott Hotel.” During this experience candidates manage different areas of the hotel’s operations and lose or gain points for customer satisfaction and profitability. Such a recruitment tool reflects the company’s values, such as being results and customer oriented.<sup>10</sup> You would not expect to see such a system in place in a company that emphasizes efficient and cost-effective hiring to fill specific positions.

Similarly, the HR practices in use will shape a company’s culture. For example, imagine a company that adopts a performance review system that involves ranking employees on a bell curve and distributing rewards accordingly, such as Microsoft did for years. Requiring managers to compare employees with each other will shape the culture of the company toward a market culture, as survival in such a system will require competition among employees. Under new, more collaborative leadership, Microsoft shifted gears in 2013 and the culture has evolved since then.<sup>11</sup> Therefore, effective HR decisions will need to consider the implications of every decision for the culture the company has and the culture the company would like to have.

## THE CHANGING CONTEXT OF HRM

### LEARNING OBJECTIVE

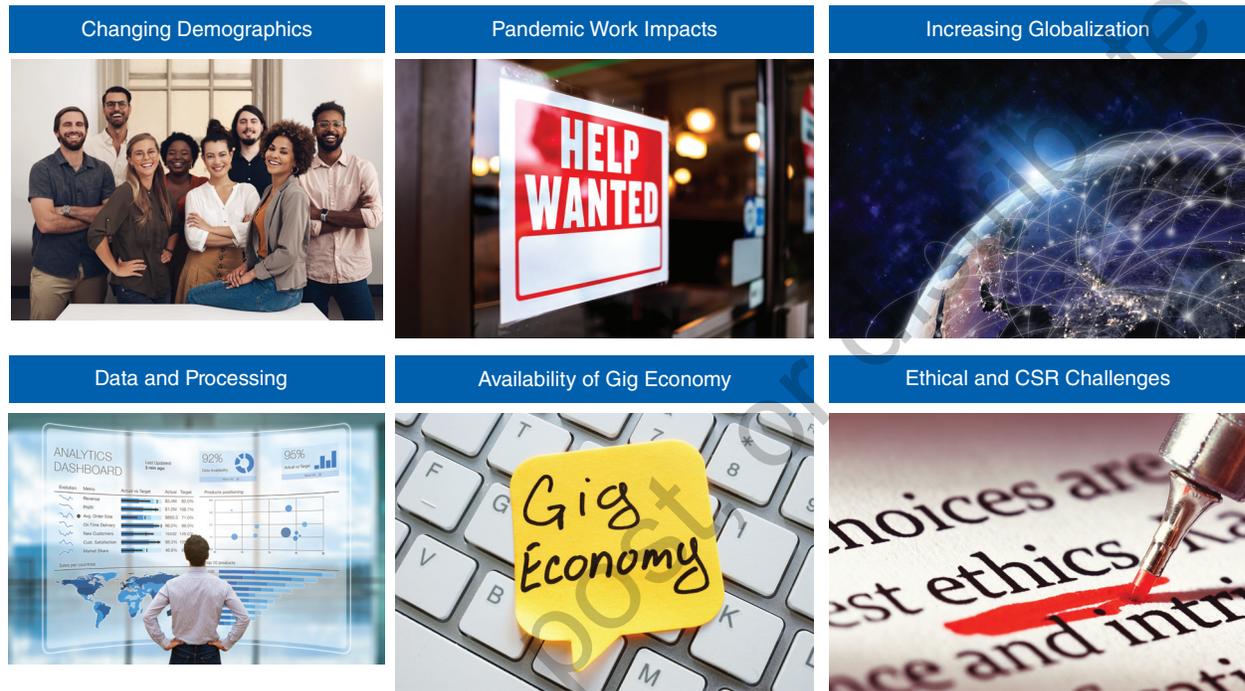
- 1.3** Explain the developing role of analytics and technology’s impact on the changing context of HRM.

Human resource management does not exist in a vacuum. Companies have gone from personnel departments exclusively using paper forms and tracking benefits to HR becoming a digitally transformed strategic partner in organizational decisions. Because of this, as the world and the fundamental

characteristics of work continue to evolve, so must human resource management. This section outlines a number of these important changes in the contextual landscape that have major implications for HRM. These include changing demographics, pandemic work impacts, increased globalization, the availability of data and processing power, the emergence of the gig economy, and the ongoing and rising importance of ethics and corporate social responsibility (Figure 1.4).

**FIGURE 1.4** ■ The Changing Context of HRM

Forces shaping human resource management continue to evolve.



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## Changing Demographics

One of the largest impacts on HRM is that of the increasingly changing demographics of individuals in the United States and around the world. Changes include the aging population and increasing diversity. Given how prevalent this topic is, you are probably aware that the American workforce is aging. By 2030, 20% or more of those in the United States are projected to be aged 65 or older, which is more than double the percentage in 1970.<sup>12</sup> This represents a major shift in the working population, as nearly 73 million baby boomers (those born between 1946 and 1964) are expected to retire in the next 20 years, with only 46 million new workers from later generations joining the organizational ranks. The Covid-19 pandemic resulted in early retirements, with more than 3 million workers retiring early, further leading a shortage of qualified workers for many positions.<sup>13</sup>

Whereas the aging workforce is a key demographic shift, increasing diversity in the workplace is also an aspect of the changing demographic landscape, which has implications for HRM. For example, race is an area where we still see challenges with equal pay for equal work. Research finds that ethnic subgroups experience both an earnings gap and a glass ceiling. In 2021, for every dollar a male employee made, women made 92 cents. However, this also varies by industry, organizational level, and race. For example, Asian American women made almost as much as Asian American males did.<sup>14</sup> In 2022, a record number of Black Fortune 500 CEOs were leading six companies (Compass Inc., International Flavors and Fragrances, Lowe's, TIAA, Qurate Retail, and Walgreens).<sup>15</sup>

Such core changes in who is available to work has major implications for how to recruit, select, train, reward, and manage the workforce. Given that HRM is responsible for these functions, being aware of the changes as well as their associated challenges and opportunities is essential for organizations to remain competitive.

### Pandemic Work Impacts

The first confirmed case of Covid-19 emerged in 2019, and the World Health Organization declared Covid-19 a pandemic in March 2020. The pandemic took a heavy toll on the world's citizens, claiming 6 million lives worldwide with nearly 1 million of those lost in the United States alone by 2022.<sup>16</sup> It also had profound effects on what work was needed, the workplace, and how work gets done. For some workers, it was possible (and often required) to shift to remote work. Gallup estimates that nearly 45% of employees in the United States worked remotely at least part of the time in 2021.<sup>17</sup> This allowed them great flexibility in terms of where they could live and afforded time savings from not commuting. It also allowed working parents an opportunity to be at home while their children were attending classes remotely. While the stress related to balancing such work–family challenges was acute for many, the case was made that remote work and remote workers can be effective.<sup>18</sup> And, it is unclear for many industries if remote work will ever go away. Indeed, employers such as Twitter, Facebook, and Shopify allow remote work. In fact, Shopify stated, “Office centrality is over.”<sup>19</sup> Further, Gallup reports that of those workers who were able to work remotely, nearly 90% say they'd like to continue their ability to work at home post-pandemic. However, for other workers, especially frontline workers, the pandemic brought a great deal of additional stress in the form of unreasonable and sometimes violent customers, health and safety concerns, and long hours covering staffing shortages. Inequities among different types of work, as well as unfair and unpleasant work environments, led to what has been termed the “Great Resignation,” where an average of 3.9 million U.S.-based workers quit their jobs in 2021.<sup>20</sup> While the reasons noted differ, there is no denying that the world of work has been altered post-Covid-19 pandemic. In the future, remote work, a focus on the employee experience, and the need to address work inequities will continue to be major issues for organizations and society as a whole.

### Increasing Globalization

U.S.-based businesses recognize the importance of international business and international presence. India and China are the fastest growing economies, each of them being home to around 18% of the world's population. Major U.S. businesses have strategically placed themselves to benefit from a big portion of their revenues coming from overseas. For example, Intel receives 74%–82% of its revenue from overseas in 2021 and 2022.<sup>21</sup> And, several iconic “American,” everyday brands are non–U.S. owned: Budweiser (Belgian-Brazilian-owned), 7-Eleven (Japanese-owned), Holiday Inn (UK-owned), and T-Mobile (German-owned). Globalization of business introduces a number of HRM challenges. Businesses recruit and hire employees from a more diverse pool of applicants given the realities of global mobility of potential employees. Businesses will need to consider the local laws and regulations in the different operations they run. It is also important to consider the role of cultural differences in the use of different HRM practices around the world. It is tempting to transport best practices developed in corporate headquarters, but such efforts, without sensitivity to the local culture, are often doomed to fail. As a result, in companies operating worldwide, effective HRM takes into account local differences in local laws and norms to create an effective global organization.

#### SPOTLIGHT ON GLOBAL ISSUES: LABOR LAWS DIVERGE GLOBALLY

A key aspect to global HRM success is to recognize that beyond cultural differences, different countries have fundamentally different approaches to work that may be instituted into labor laws. For example, France is a country known for having strong protections for workers. Within France, the workweek is limited to 35 hours, and employees have the “right to disconnect,” or have the right to

hours during which they are not required to check or answer e-mail. Further, in 2021, France unan- imously voted for gender quotas for executive leadership. In Sweden, while legislation requires boards of directors to have at least 40% of board seats filled by women, it is strongly encouraged that they strive for gender balance. Another example is the General Data Protection Regulation (GDPR), which took effect in 2018 and mandates that the European Union's (EU's) 500 million citi- zens have specific data privacy rights and that companies with a presence in the EU must adhere to the rules or face stiff fines. These are just a few examples of how fundamental HRM policies may differ in terms of defining the workweek, contact outside of working hours, how data may be col- lected and reported, and the composition of governing entities. Thus, organizations interested in working on a global scale need to pay close attention to HRM and develop their own strategic plan for addressing both organizational and national rules, guidelines, and policies.<sup>22</sup>

## Data and Processing

It may seem like everyone is talking about big data. We discuss this in greater detail in the next two chapters, but for now, it is helpful to know that *big data* refers to data that are large in volume, variety, and velocity. Technology has allowed for greater and greater computing power, and the Internet has generated so much data that during 2020, on average, 1.7MB of data was created every second by every person.<sup>23</sup> Every second, there are over 6,000 tweets, nearly 1,100 Instagram photos uploaded, over 2,000 Tumblr posts, 6,500 Skype calls, over 100,000 Google search queries, 94,000 YouTube videos viewed, and 3.1 million e-mails sent. Most recently, over 300 million Zoom meetings take place each day. These numbers continue to grow over time.<sup>24</sup> That's a lot of data. In addition, companies often gather annual opinion surveys, biometrics, as well as other employment data from millions of workers each year. As more and more transactions, communications, and shopping move online, more information is available each day. Thus, over 70% of business executives are investing, or plan to invest, in analytics related to big data, but most say they have not yet achieved what they called "broad, positive impact."<sup>25</sup>

In the past, vast amounts of data were actually a hindrance to analysis and could overwhelm those trying to see meta-trends. However, with rapidly evolving technology driving down the cost, process- ing power has become increasingly accessible. This increasing rate of processing power has accelerated technology's impact on HRM processes and procedures. As you will see throughout this book—and especially in Chapter 3—technology matters a great deal when it comes to HRM.

This book explicitly focuses on the importance of data in making effective HRM decisions. We offer examples and insights throughout the book as well as special features to help you become more familiar and more effective at thinking about and leveraging the availability of data and effectively uti- lizing processing power. Chapters 2 and 3 include much more depth on data and analytics. But for now, knowing that technology and big data are major trends that affect HRM throughout the world are the key points we want you to take away from this section.

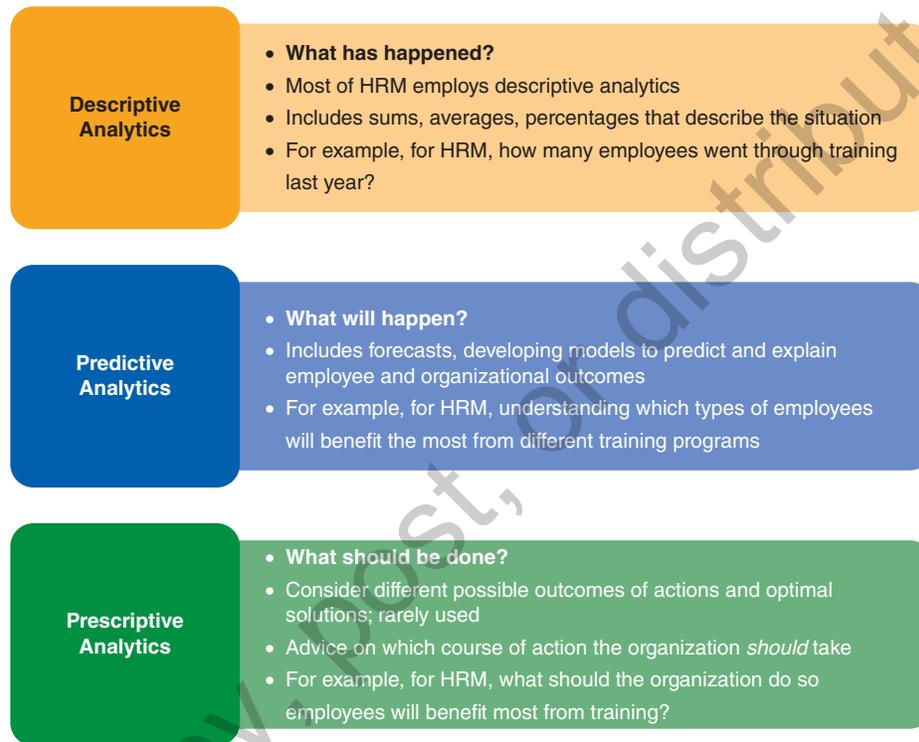
## SPOTLIGHT ON DATA AND ANALYTICS: DESCRIPTIVE, PREDICTIVE, AND PRESCRIPTIVE ANALYTICS

A survey of business leaders conducted by Deloitte found that concerns exist regarding the gap between the perceived need for data-driven approaches to HR and the existing skill base. Of the companies surveyed, 85% reported a belief that HR analytics is important, but just 42% reported a belief that their own organization is strong in this area.<sup>26</sup> A SHRM Foundation report on analytics found that two key skills are lacking: analytics skills and the ability to present findings in a convinc- ing way to senior executives.<sup>27</sup> However, as more organizations such as Pfizer, Adidas, and Netflix continue to focus on analytics, we suspect that other organizations will continue to follow suit.

As you consider how analytics in general and HR analytics in particular may play a role in your future, keep in mind these different levels of analytics: *descriptive*, *predictive*, and *prescriptive* (Figure 1.5). *Descriptive analytics* is focused on understanding what has happened already—a "snap- shot" of the past. Descriptive analytics might include describing an organization's prior monthly turnover rates. In contrast, *predictive analytics* is forward looking, as it focuses on predicting what

is likely to happen given what is already known and evaluating the accuracy of those predictions. For example, an HR analyst might build a statistical model to identify the key drivers of employees' decisions to quit and then estimate the probabilities of specific employees quitting the organization based on their available data on those key drivers. Finally, *prescriptive analytics* extends predictive analytics by focusing on what actions should be taken in the future based on what is known and has been predicted. Prescriptive analytics might focus on what specific manager interventions should be used to retain those high-performing employees who were found to have higher probabilities of quitting.

**FIGURE 1.5** ■ Types of Analytics



### Gig Economy

A gig economy is characterized by the prevalence of temporary employment positions, and individuals are employed as independent workers rather than actual employees of an organization. A gig is defined as a single project or task that a worker is hired to do on demand. Think of Uber drivers or substitute teachers. In 2021, in the United States, an estimated 30 million gig workers were in this category.<sup>28</sup> Freelance employees note scheduling flexibility as a key reason for their attraction to freelance work. Other positives reported are variety and the ability to pursue one's interests. Reported downsides include inconsistency in pay and scheduling and the lack of benefits associated with this type of employment contract. As the U.S. Department of Labor noted about the gig economy, "These workers often get individual gigs using a website or mobile app that helps to match them with customers. Some gigs may be brief. . . . Others are much longer but still of limited duration, such as an 18-month database management project. When one gig is over, workers who earn a steady income this way must find another. And sometimes that means juggling multiple jobs at once."<sup>29</sup> Some occupations are more likely than others to employ contract workers. Arts and design, computer and information technology, construction and extraction, media and communications, as well as transportation and material moving are industry sectors at the top of the list for contract work. The implications of the emerging gig economy are vast. Because this class of employment is so relatively new, the legal environment has not yet kept up, and it remains an area that is unclear.

## Ethical and Corporate Social Responsibility Challenges

**Business ethics** is a system of principles that govern how businesses operate, how decisions are made, and how people are treated. It includes the conduct of individual employees as well as the entire organization. These concepts should look familiar from our earlier discussion of the characteristics of effective HRM decision making. The concept of business ethics arose in the 1960s and 1970s in the United States as values shifted from strict loyalty to the organization to a stronger loyalty toward one's own guiding principles and ideals.<sup>30</sup> This manifested itself through environmental issues, increasing employee-versus-employer tension, human rights issues surrounding unfair and unsafe labor practices, and civil rights issues. Over time, additional issues surfaced, such as bribes and illegal contracting practices, deception in advertising, and lack of transparency in business transactions.

Concerns regarding business scandals such as financial mismanagement, increased corporate liability for personal damage, and fraud are pervasive. Scandals have led to several changes on the global stage, such as the United Nations Global Compact adopting a 10th principle against corruption. The Association of Advanced Collegiate Schools of Business (AACSB) includes ethics as part of an accredited business education, with a key provision on the importance of ethical decision making.<sup>31</sup> Given that HRM is defined as the constellation of decisions and actions associated with managing individuals throughout the employee life cycle, addressing ethical challenges and corporate social responsibility are key aspects of HRM. Thus, you will find a feature called *Spotlight on Ethics* in each chapter of this book. We encourage you to take the time to consider the ethical challenges you have and may encounter at work.

## HRM AS A PROFESSION

### LEARNING OBJECTIVE

- 1.4** Summarize the HRM profession.

Not every person reading this book plans to go into HRM as a profession. Nevertheless, understanding who is involved in HRM, the types of HR careers available, and what the core HRM competencies are should be helpful to all interested in business. We start with an overview of who is involved in HRM.

### Who Is Involved in HRM?

The short answer to this question is everyone within an organization. This is because everyone is responsible for helping the organization be successful. However, some individuals, groups, and departments are more involved in HRM decision making and actions on a day-to-day basis than others. These include CEOs and the associated leadership team, HR managers, line managers, as well as HR specialists and generalists. In addition, other areas of the organization, such as information systems technology, play an important role in making sure the right people have the right information in place to make the most effective decisions possible. The marketing of products influences whether potential applicants know about and are attracted to the organization. The accounting and finance functions are critical to the fiscal health of an organization, and therefore, they also play an important role in keeping the organization's finances supporting human capital. They may be involved in compensation and benefits-related decisions as well. Each one of these departments also has managers who oversee it. Thus, it would be a missed opportunity to *only* focus on what happens within the Department of Human Resource Management within a firm.

Because this book is written with a special focus on best practices and functions of HRM, we focus primarily on the ways in which four important groups affect the culture and functioning of HRM within an organization. These include the top management leadership team, HR managers, and line managers as well as HR specialists and generalists.



Enrique Washington is an executive talent acquisition leader. He has recruited executives at sports organizations such as the ESPN, Portland Trail Blazers, video game maker Electronic Arts, and Nike. A key part of his job is advising hiring leaders on establishing role requirements to identify, assess, select, and integrate new executive leaders in alignment with their business goals.

### Top Management Teams and HRM

The top members of the organizational team, such as the CEO, top management team, and/or owner of the organization, set the tone for HR and how much or how little human capital is valued. They also set the tone for how much HRM is valued as a strategic function to enhance the organization's effectiveness. The organization's chief human resource officer (CHRO) is also critical in this regard. Organizations often use executive recruiting functions within their organizations or hire external search firms to help them find the right talent at this level.

### HR Managers and HRM

An HR manager is someone who oversees the personnel department or HR functions within a group. The degree to which an HR manager is passive versus proactive in terms of asking questions, gathering data, and helping to address the major challenges and opportunities of the organization can influence how effective HRM, and relatedly the organization, ultimately becomes. One of the other major functions of this individual is to partner with other managers across the organization. This is a critical coordination function. The HR manager might hold a variety of job titles such as HR manager/director, which is the most frequently advertised job position in HR.

### Line Managers and HRM

Managers also play a critical role in making people decisions. For example, a hiring manager's opinion can be the difference between a person being hired, promoted, or fired. Managers also play a critical day-to-day role in managing workflows, helping support new employee development, and developing talent for greater responsibilities over time. Managers help to set the tone of a work group or department. Research shows that the climate managers set can influence the level of innovation, safe behaviors, and ethical behaviors within the group.<sup>32</sup> Most position announcements for HR manager require 3 to 5 years of HR-related experience to be considered for the job.

### HR Practitioners and HR Careers

HR practitioners work on HR-related activities and regularly engage in HR-related strategic and process-related people or personnel decisions within the organization. They might be called HR manager, HR partner, or HR specialist. Each of these titles connotes different aspects of the HR practitioner's core job functions. The **HR specialist** attends to all aspects of one specific HRM function, such as recruitment,

compensation, or training. An **HR generalist** spans the multiple HR functions. As you might imagine, the needs for specialists versus generalists is related to the size and scope of the HR function, as well as the industry the organization is in. The larger the organization is, the more likely it is to employ specialists. Thus, you might see job titles such as recruiter, compensation analyst, or HR analysts.

### HR Business Partners and HRM

HR business partner (HRBP) is the second most frequently advertised job position in HR. An **HR business partner** is a more recent term and refers to someone who serves as a consultant to management on HR-related issues. As the Society for Human Resource Management notes, the “HRBP is responsible for aligning business objectives with employees and management in designated business units. . . . The successful HRBP will act as an employee champion and agent of change.” The key aspect of HRBP is that their role is to anticipate HR-related needs, as well as being available to share advice and proactively address small problems before they become big ones.

### What Do Employers Look for in HR Applicants?

The answer to this question depends on the level of the HR position in the organization, as well as the degree to which HR plays a strategic role within the organization. For example, an HR assistant position typically only requires a high school diploma. However, to move up in the organization, a college degree can make a big difference. An analysis of HR position announcements for jobs found that the top requested areas of college study included human resource management, business administration, psychology, and organizational development. Getting the first job and some HRM experience is only the first step. Those in HR need to stay up to date on the latest developments—especially as they relate to the ever-shifting legal environment.

There are organizations that exist in order to help HR practitioners stay informed of best practices and up to date on the latest trends that might affect HR. One such organization is the **Society for Human Resource Management (SHRM)**. SHRM is the world’s largest HRM professional society, representing over 300,000 members in more than 165 countries. Its headquarters are located in Alexandria, Virginia, and it has 575 affiliated local chapters throughout the United States, China, India, and the United Arab Emirates.<sup>33</sup> One of the key benefits of such professional organizations is that they have a wide view of what it takes to be effective in HRM. In fact, SHRM has spent a great deal of time and energy studying just that, as seen in the section on competencies.



Laura Fuentes, current chief HR officer for Hilton Worldwide held several roles across HR functions including Recruiting, Diversity, & Inclusion; People Analytics & Strategy; and Total Rewards.

Photo by Ben Hider/Getty Images for Concordia Summit

## SPOTLIGHT ON ETHICS: HRM CODE OF ETHICS

Ethics is critically important to the effective practice of HRM. Ethical decisions and actions lead to greater trust and engagement within organizations and allow for all types of information to emerge, which is important for effective decision making. Given the importance of ethics to HRM, the Society for Human Resource Management (SHRM), which is the world's largest professional society for human resource management, developed a code of ethics. We encourage you to read this code of ethics whether you are an aspiring manager or HRM professional or one who is seasoned. The core principles noted are easily transferable to different organizational roles, and following them can help you avoid serious problems as you are faced with ethical dilemmas and decisions throughout your career. The six core principles described in the code provisions include the idea that professionals should engage in their work with a focus on professional responsibility, professional development, ethical leadership, fairness and justice, conflicts of interest, and use of information.

### Questions

1. Describe a hypothetical scenario in which you would benefit from applying certain principles from the SHRM Code of Ethics.
2. Choose a business situation from the news or the HR literature where principles from the SHRM Code of Ethics could have made a difference. Specifically, what did the decision makers do right, or what could they have done better?

### Salary and Job Outlook

The U.S. Bureau of Labor Statistics (see Table 1.1) reports that the median pay for an HR manager in 2021 was \$126,230 per year, which is \$60.09 per hour. Moving up to become an HR manager happens, on average, about 5 years after starting out. Overall, HRM is considered to have solid career prospects and to be an attractive job. For example, a 2022 survey by Glassdoor.com found that human resource manager was the 13th best job based on job projections, median base salary, and career opportunity ratings with high job satisfaction ratings of 4.3 out of 5.<sup>34</sup>

**HRM Certifications** The HR Certification Institute (HRCI) began offering certification in HR in 1976 and originally partnered with SHRM. However, SHRM now offers its own certification based on its HR competency model. Thus, the two major certifications in HRM are administered by SHRM (SHRM-CP and SHRM-SCP) and HRCI (SPHR and PHR). (We discuss what a competency model is later in this chapter and in greater depth in Chapter 5.)

One question that those interested in business and HRM practitioners alike ask is the value of HRM certifications. In an analysis of job postings for HRM, 42% noted a preference or requirement for certification. Further, some positions, such as HR business partner, were more likely than not to require certification, which indicates that certification may be beneficial in securing a job.<sup>35</sup> In addition, having a deeper knowledge of HRM should help the individual to master the HRM knowledge domain more fully and signals a deeper interest in HRM than noncertified individuals.

### HR Competencies

You probably know what it means to be competent. A person who is competent is perceived to be able to perform specific functions reasonably well. A **competency** is a cluster of knowledge, skills, abilities, and other characteristics (KSAOs) necessary to be effective at one's job.<sup>36</sup>

SHRM developed its competency model based on 111 focus groups consisting of 1,200 participants and completed surveys from over 32,000 HR professionals (see Figure 1.6). Its goal was to create a model that is applicable to all HR professionals regardless of characteristics such as job function or career level, organization size, industry, or location. This was updated and expanded in 2022 based on extensive consideration. What emerged in 2022 was a set of core competencies. In addition, it identified technical competencies that reflect the knowledge specific to the HR profession and

**TABLE 1.1 ■ HRM Careers by the Numbers****HR Specialists**

Human resources specialists recruit, screen, interview, and place workers. They often handle other human resources work, such as those related to employee relations, compensation and benefits, and training.

2021 Median Pay	\$62,290 per year (\$29.95 per hour)
Typical Entry-Level Education	Bachelor's degree
Work Experience in a Related Occupation	None
Number of Jobs, 2021	782,800
Job Outlook, 2021–2031	8% (faster than average)
Employment Change, 2021–2031	58,800 new jobs

**HR Managers**

Human resources managers plan, direct, and coordinate the administrative functions of an organization. They oversee the recruiting, interviewing, and hiring of new staff; consult with top executives on strategic planning; and serve as a link between an organization's management and its employees.

2021 Median Pay	\$126,230 per year (\$60.09 per hour)
Typical Entry-Level Education	Bachelor's degree
Work Experience in a Related Occupation	5+ years
Number of Jobs, 2021	174,200
Job Outlook, 2021–2031	8% (as fast as average)
Employment Change, 2021–2031	12,600 new jobs

Source: Bureau of Labor Statistics, U.S. Department of Labor (2021). Occupational employment and wages: <https://www.bls.gov/ooh/management/human-resources-managers.htm>; <https://www.bls.gov/ooh/business-and-financial/human-resources-specialists.htm>.

nine behavioral competencies that form three clusters of competencies with *interpersonal competencies*, including relationship management, communication, and global mindset; *business competencies*, including business acumen, consultation, and analytical aptitude; and *leadership competencies*, including leadership and navigation, ethical practice, and diversity, equity, and inclusion. As you will see throughout this book, we aligned our emphasis on people, data, and analytics in HRM to capture these competencies.

### Staying Up to Date: Evidence-Based Management

We have seen how important learning the functions of HRM is. It is also important to stay abreast of changes in the field as they evolve by taking workshops and education courses (and continuing education) separately or as part of being certified. Another important way that managers, HRM practitioners, consultants, and researchers stay up to date on the latest findings and changes in the field is by learning about research findings conducted by others. In this way, practitioners can learn best practices to give their organization a competitive advantage by saving time by learning from others' mistakes and considering their successes.

Information regarding HRM comes from three main places. First, organizations often engage in benchmarking. **Benchmarking** refers to a measurement of the quality of an organization's practices in comparison with those of a peer organization. The best benchmarking follows the standards of good decision making and includes identifying the goal and parameters of the benchmarking, gathering data, analyzing data, and communicating the results. Benchmarking might occur within a specific

**FIGURE 1.6 ■ SHRM Body of Applied Skills and Knowledge**

A competency is a group of highly inter-related knowledge, skills, abilities, and other characteristics (KSAOs) that have been determined to relate to job success. The colored hexagons reflect HR knowledge, and the white hexagons are the identified HR skills and behaviors of the SHRM competency model.



Source: Reprinted from *SHRM Competency Model* with permission of the Society for Human Resource Management. © SHRM. All rights reserved.

industry sector or across functions such as HRM benchmarking. Benchmarking is often done at different levels as well, with Fortune 500 organizations often benchmarking against one another. For example, asking what the top 10 best companies in your industry do in terms of surveys with departing employees could be useful information if you are planning to make changes to your own exit process. One thing to keep in mind is that simply meeting benchmarks is not an advantage, but understanding them and moving beyond them can be.

Second, reports are written based on surveys and trends by HR organizations such as SHRM, the Conference Board, or the Association for Talent Development, and HR consulting firms such as PwC, Deloitte, SAP/SuccessFactors, and Aberdeen Group. These findings might be shared at industry conferences or in practitioner outlets such as *HR Focus*, *HR Magazine*, *Harvard Business Review*, *People Management*, *Workforce*, and *T+D* as well as via blogs or newsletters. These outlets may be reviewed but do not undergo the same scrutiny as peer-reviewed research articles.

Third, researchers within universities and in industry in the fields of HRM and industrial-organizational psychology (I-O) psychology generate new knowledge about best practices through their research streams. The findings are published in academic journals, which are peer reviewed by experts in that research area who evaluate the rigor of the studies and their contribution to the research and practice of HRM. Research findings are also presented at annual conferences such as the Academy of Management and Society for Industrial and Organizational Psychology.<sup>37</sup> Papers presented at these particular conferences are also peer reviewed but with less detailed peer review than for a journal, and attending sessions at

conferences allows HRM practitioners and researchers to learn what some of the most current research is on a given topic. And of course, books on HRM topics are also important ways to stay up to date.

Given how important we feel evidence-based practice is, we include research findings throughout the book. When we can, we focus on key findings from meta-analyses in each chapter. Although we base much of this textbook on findings across many individual studies, a meta-analysis is unique in that it summarizes and synthesizes everything that researchers have found on a given topic up to that point using a statistical process. Another way to think about staying up to date is to follow the scientific process in gathering information within your own organization. Chapter 2 covers what this scientific process includes and how helpful it can be to HRM best practices.

## SPOTLIGHT ON LEGAL ISSUES: U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

The U.S. Equal Employment Opportunity Commission (EEOC) is the primary federal agency responsible for handling workplace discrimination claims. In 2021, the agency received over 67,448 individual filings.<sup>38</sup> In the United States, federal law prohibits discrimination in employment decisions based on protected characteristics. These laws are referred to as equal employment opportunity (EEO) laws. Most EEO laws pertaining to private, government, and state institutions are monitored and enforced by the EEOC, which is an independent federal agency. The EEOC ensures compliance with the law, in addition to providing outreach activities and preventing discrimination from occurring in the first place. EEO laws typically apply to organizations with 15 or more employees and cover business, private employers, government agencies, employment agencies, and labor unions and aim to prevent discrimination against employees, job applicants, and participants in training and apprenticeship programs. You will learn more about the laws that the EEOC covers in Chapter 4, but for now, the key point is to understand that this agency exists

## CHAPTER SUMMARY

The case of Costco illustrates how HRM influences a company's success from its beginning as a start-up through years of expansion, including successes and setbacks. At this point, you know a great deal about what HRM is, why it matters, and different types of organizational cultures. We also covered an overview of six key aspects of the changing context of HRM, including changing demographics, the emergence of a gig economy, globalization, technology, availability of data, and ethical challenges and corporate social responsibility. The overview of HRM as a profession included understanding who is involved in HRM, different aspects of HRM careers, and HRM competencies. Finally, chapter Spotlights on global issues, data and analytics, ethics, and legal issues highlighted key points and examples.

## KEY TERMS

Adhocracy culture	HR generalist
Anchoring bias	HR specialist
A-S-A framework	Human resource management (HRM)
Availability bias	Magnitude
Benchmarking	Market culture
Biases	Organizational culture
Business ethics	Overconfidence bias
Clan cultures	Sign
Competency	Society for Human Resource Management (SHRM)
Hierarchy culture	Spurious correlation
HR business partner	

## HR REASONING AND DECISION-MAKING EXERCISES

### Mini-Case Analysis Exercise: Information Seeking as a New Employee

You have started work at a small company, Johnson Natural Shoes, which designs and produces children's shoes. The company has an innovative approach and uses all-natural materials. Its product has been increasing in demand in the few short years since it began. The company was founded by Shannon McKenzie. You found out about the position because you are friends with Shannon's daughter, who is an old friend of yours from high school. You were hired after you met with the founder, who remembered you from soccer games and birthday parties.

You do not have a job description or formal job title. But you are the only person in the organization with a degree in business, and Shannon McKenzie mentioned to you that you were hired in the hopes you could help the company manage its rapid growth. At this point, the company is on track to double in size this year compared with last year, when it only had 28 employees.

You notice from the first days on the job that employees enjoy collaborating and making decisions together, and you feel welcomed right away. You see great things in the company's future and want to help make Johnson Natural Shoes an international brand. You can't wait to start making a contribution.

Now it is your turn to decide how to help:

1. Given that you are still new to the company, how would you approach learning more about the company and its employees?
2. What are specific key questions you might want to ask employees about the company?
3. Based on your knowledge of business, what would you advise Shannon McKenzie to consider as HR priorities as the organization experiences high growth?

### HR Decision Analysis Exercise: Unlimited Vacation?

In this chapter, we presented a lot of information regarding HRM and approaches to business in general. Given how many different things you have considered, we would like you to take some time to focus on some key aspects of making effective HRM decisions. Read on about some different HRM decisions that have been made.

Your company is considering giving everyone in the organization unlimited vacation time regardless of how long they have been with the company or how much they currently make. This is following the popularity of this approach at several major organizations such as Netflix, General Electric, and the Virgin Group. Your boss has asked you to take the perspective of wanting to ensure that HRM decisions are effective, and using Figure 1.7 as a guide, determine what questions should be asked to address how wise this policy change might be from a variety of angles.

*Please generate questions and provide the rationale for them around each of the following characteristics. In other words, what questions do you need to have answered to determine if this is an effective HRM decision?*

**Legal, ethical, and fair**

**Evidence based/evidence informed**

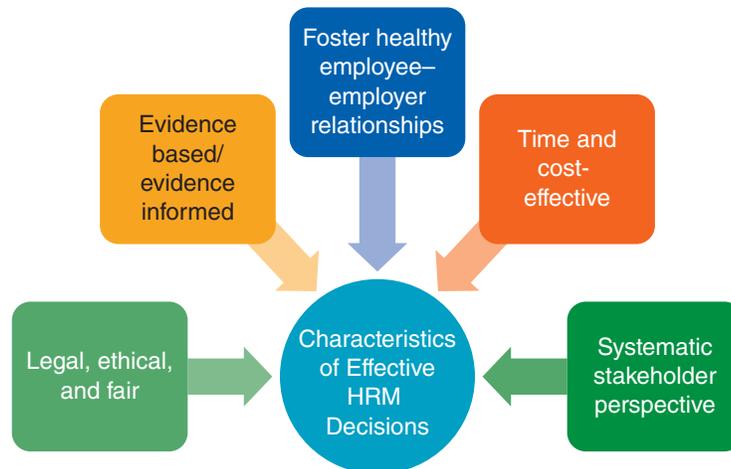
**Fosters healthy employee–employer relationships**

**Time- and cost-effective**

**Takes a systematic stakeholder perspective**

*Considering your analysis, overall, is this an effective decision? Why or why not?*

*What, if anything, do you think should be taken into consideration to help make this decision most effective?*

**FIGURE 1.7** ■ Characteristics of Effective HRM Decisions

Source: Reprinted from *SHRM Competency Model* with permission of the Society for Human Resource Management. © SHRM. All rights reserved.

### HR Decision-Making Exercise: The Changing Context of HRM

Making HRM decisions is often a group activity, as seldom does one person have all the required information, context, and expertise to tackle every HR issue. Working in a group, review the six trends we identified as impacting HRM today and into the future (changing demographics, the emerging gig economy, increasing globalization, technology, availability of data, and ethical and corporate social responsibility challenges).

1. Form your group.
2. Decide if there are additional trends your group believes might be as important or more important than these six.
3. As a group, decide which trend your group collectively feels is the *most* important factor that will influence HRM. It is as important to justify your answer in terms of your selection of the most important factor as it is to defend why the others are not seen as equally important.

### DATA AND ANALYTICS EXERCISE: CORRELATION DOES NOT EQUAL CAUSATION

Given how important data and analytics are for understanding HRM, we wanted to give you an opportunity to explore a key concept in basic social science research. This is the fact that two things may be correlated but not necessarily causally. For example, if you notice a truck moving down the street with three people inside the truck pushing against the cab, you have enough basic physics knowledge to realize that the people are not causing the truck to move. But, their behavior is happening at the same time so it might seem logical to assume that they were making a difference because those two things are both happening at the same time. When it comes to understanding HRM, correlation is an important statistical tool, and it is utilized in different ways. A correlation coefficient is a number that conveys two important pieces of information: sign and magnitude. The **sign** (positive or negative) refers to the direction of a relationship, and the size of that relationship is its **magnitude**.

A correlation coefficient can range from  $-1.00$  to  $+1.00$  (i.e., its greatest possible magnitude is  $1.00$ , and its sign can be either positive or negative). A correlation coefficient of  $-1.00$  indicates that two variables are “perfectly” correlated and share a negative (inverse) relationship such that as scores on one variable get larger, scores on the other variable get smaller. Conversely, a correlation of  $+1.00$  indicates that two variables are perfectly correlated and share a positive relationship such that as scores on one variable get larger, scores on the other variable also get larger. Specifically, the absolute value of a

correlation coefficient indicates how strong the relationship is, where an absolute value of 1.00 indicates a perfect relationship and a value of 0.00 indicates no relationship. In HRM, we often describe the size of a correlation using qualitative descriptors. For instance, we might describe a correlation coefficient of 0.10 as *small*, 0.30 as *medium*, and 0.50 as *large*. Thus, a correlation coefficient provides a very efficient description of how much two variables are related in terms of the sign and magnitude of their relationship.

With all that said, remember that *correlation does not mean causation*. That is, two variables may covary with one another without being directly related. When a correlation is found between two variables that are not directly related, we refer to this as a **spurious correlation**, which may be the result of two variables that are not directly related but that share a common cause. For example, imagine that you find a large positive correlation (e.g.,  $r = .52$ ) between construction workers' self-reported annual consumption of ice cream and their level of self-reported job satisfaction. That is, as the amount of ice cream consumed by construction workers increases, their level of job satisfaction tends to increase as well. At first glance, we might look at this finding and conclude that ice cream consumption causes job satisfaction. Taking a closer look, we might think, "Well, this relationship doesn't make much sense given what we know about job satisfaction."

What, then, is a possible explanation for this potentially spurious correlation? The finding could be due to a third variable that causes both increases in ice cream consumption and increases in job satisfaction. Perhaps construction workers in this sample work in multiple locations around the United States. Accordingly, those who work in warmer climates consume more ice cream per year to cool off. In addition, those who work in warmer climates feel more satisfied with their job because they work outdoors in more pleasant temperatures. In this scenario, ice cream consumption does not cause job satisfaction, and job satisfaction does not cause ice cream consumption; rather, warmer climate is the common cause that leads to more ice cream consumption and higher job satisfaction, thereby resulting in the spurious correlation.

In sum, we should remain cautious when interpreting correlations and remind ourselves that *correlation does not equal causation*. To avoid making this mistake, we should evaluate each correlation coefficient through the lens of existing theory to make better decisions and draw more appropriate conclusions.

#### Excel Extension: Now You Try!

- On [edge.sagepub.com/bauer2e](http://edge.sagepub.com/bauer2e), you will find an Excel tutorial that shows how to compute a correlation coefficient.
- Using Excel, answer the following questions:
  - What is the correlation between employee engagement and sales revenue?
  - Consider the sign and the magnitude of the correlation. How would you describe the nature of the relation between engagement and sales revenue to a manager who does not know what a correlation coefficient means?
  - What is the correlation between job satisfaction and customer satisfaction?