

Chapter 02

The Financial Impact of Human Resource Management Activities

True / False Questions

1. (p. 41) The firm's strategy and goals must guide the work of each business unit and of that unit's HR management activities.

TRUE

*AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 1*

2. (p. 41) The letters in LAMP stand for logic, assessment, metrics, and potential

FALSE

*AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 2*

3. (p. 44) Opportunity costs are direct costs associated with mismanaged organizational stress.

FALSE

*AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
Learning Objective: 2*

4. (p. 44) Indirect measures of costs cannot be converted to direct measures.

FALSE

AACSB: Reflective thinking

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 2

5. (p.43) Application of the LAMP process creates a powerful tool for educating leaders outside of HR, and for embedding HR measures into mental frameworks that provide the basis for meaningful people related business decisions.

TRUE

AACSB: Analytic

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 2

6. (p. 45) In any area of behavior costing, all types of cost are controllable through prudent HR decisions.

FALSE

AACSB: Reflective thinking

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 2

7. (p. 46) The real payoff from determining the cost of employee behaviors lies in being able to demonstrate a financial gain from the wise application of human resource management methods.

TRUE

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 2

8. (p. 46) Attitudes are internal states that focus on particular aspects of or objects in the environment.

TRUE

*AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 3*

9. (p. 47) Winston is totally dissatisfied with his job as an accounts executive. Martha, his manager, need not worry about his performance because available evidence indicates that there is no correlation between job dissatisfaction and productivity.

FALSE

*AACSB: Reflective thinking
Blooms: Application
Difficulty: Easy
Learning Objective: 3*

10. (p. 47) In retailing, there has not been a link demonstrated between employee behavior, customer behavior, and profits.

FALSE

*AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 3*

11. (p. 47) . The behavior-costing approach to employee attitude valuation is based on the assumption that measures and attitudes are indicators of subsequent employee behaviors.

TRUE

*AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Easy
Learning Objective: 3*

12. (p. 50) From a business standpoint, absenteeism is any failure of an employee to report for or to remain at work as scheduled, regardless of reason.

TRUE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
Learning Objective: 2

13. (p. 51) The most dominant cause of absenteeism in the United States is family-related issues.

FALSE

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

14. (p. 52) Lost supervisory hours must be considered when determining the cost of absenteeism.

TRUE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

15. (p. 53) The purpose of the process component of the LAMP model is to make the insights gained as a result of costing employee absenteeism actionable.

TRUE

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

16. (p. 53) Total pay is synonymous with the fixed costs, variable costs, or opportunity costs of employee time.

FALSE

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 2

17. (p. 54) The objective in costing human resources is not just to measure the relevant costs, but also to develop methods and programs to reduce the costs of human resources by managing the more controllable aspects of those costs.

TRUE

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 2

18. (p. 55) A state bases unemployment tax rates on each company's turnover rate. Companies operating in this state will find that a lower turnover will lead a higher unemployment tax rate.

FALSE

AACSB: Reflective thinking
Blooms: Application
Difficulty: Medium
Learning Objective: 2

19. (p. 55) All activities associated with in-processing new employees is classified under training costs related to turnover.

FALSE

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

20. (p. 56) Informational literature; instruction in a formal training program; and instruction by employee assignment are the three training costs associated with turnover.

TRUE

*AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2*

21. (p. 56) The major cost associated with employee turnover is reduced productivity during the learning period of replacement.

TRUE

*AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2*

22. (p. 57) The purpose of measuring turnover costs is to build a case to present to stockholders.

FALSE

*AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2*

23. (p. 57) The time coworkers spend guiding a new employee does not need to be included when considering the fully loaded cost of turnover.

FALSE

*AACSB: Analytic
Blooms: Comprehension
Difficulty: Easy
Learning Objective: 2*

24. (p. 58) The term Work-Life recognizes the fact that employees at every level in an organization face personal or family issues that can affect their performance on the job.

TRUE

AACSB: Analytic
Blooms: Comprehension
Difficulty: Easy
Learning Objective: 4

25. (p. 61) Despite the popular perception of flexibility as a powerful business tool that can improve important human capital outcomes and boost operational performance, studies have shown that flexibility has to be essentially positioned as a "perk," employee-friendly benefit, or advocacy cause.

FALSE

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 4

26. (p. 65) Break-even values indicate the length of time the observed effect would need to be maintained in order to recover the cost of a training program.

TRUE

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

27. (p. 66) When direct measures of training outcomes are available, standard valuation methods are appropriate.

TRUE

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 2

28. (p. 69) The best managers identify the best talents available and then create appropriate positions for the talent.

FALSE

AACSB: Reflective thinking

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 1

29. (p. 69) The best managers establish very clear objectives and define the steps for their employees.

FALSE

AACSB: Reflective thinking

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 1

30. (p. 69) Rather than identifying workers' weaknesses and attempting to fix them, where the gains will be short-lived, the best managers focus on strengths.

TRUE

AACSB: Reflective thinking

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 1

Multiple Choice Questions

31. (p. 41) The LAMP model includes all of the following EXCEPT:

A. logic.

B. analytics.

C. measures.

D. probability.

AACSB: Analytic

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 1

32. (p. 41) Information, design, and statistics pertain to which component of the LAMP model?

- A. Probability
- B.** Analytics
- C. Logic
- D. Measures

*AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 1*

33. (p. 41) Having a rational talent strategy including competitive advantage and talent pivot points pertains to which component of the LAMP measurement system?

- A.** Logic
- B. Process
- C. Measures
- D. Analytics

*AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 1*

34. (p. 42) _____ transform(s) HR logic and measures into rigorous, relevant insights.

- A. Process
- B. Benchmarks
- C.** Analytics
- D. ABC costing

*AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 1*

35. (p. 43) The _____ component of the LAMP model begins with the assumption that employee turnover is not equally important everywhere.

- A. probability
- B. analytics
- C. process
- D.** logic

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

36. (p. 44) Indirect measures are usually expressed in terms of:

- A. replacement value
- B.** time, quantity, or quality
- C. estimated value
- D. standard value

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

37. (p. 44) _____ measures are usually expressed in terms of time, quantity, or quality.

- A.** Indirect
- B. Extrinsic
- C. Direct
- D. Linear

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

38. (p. 44) Which of the following is an example of a direct cost associated with mismanaged organizational stress?

- A. Dissatisfaction
- B. Low motivation
- C. Absenteeism**
- D. Decline in frequency of contact

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

39. (p. 44) Which of the following is an example of an indirect cost associated with mismanaged organizational stress?

- A. Quality of productivity
- B. Grievances
- C. Quantity of productivity
- D. Distortions of messages**

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

40. (p. 44) Inventory shrinkages and accidents pertain to which component of direct costs associated with mismanaged organizational stress?

- A. Participation and membership
- B. Performance on the job**
- C. Loss of vitality
- D. Communication breakdowns

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

41. (p. 44) Distrust, disrespect, and animosity pertain to which component of indirect costs associated with mismanaged organizational stress?

- A.** Quality of work relations
- B. Participation and membership
- C. Performance on the job
- D. Communication breakdowns

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

42. (p. 47) _____ is (are) the emotional engagement that people feel toward and organization.

- A. Values
- B.** Employee engagement
- C. Abilities
- D. Concepts

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 3

43. (p. 47) Engagement fuels which of the following:

- A. identification with the success of the company.
- B. discretionary efforts.
- C. concern for quality.
- D.** all of the above.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 3

44. (p. 46) Which of the following is NOT an element of attitudes?

- A. Satisfaction
- B. Cognition
- C. Action
- D. Emotion

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 3

45. (p. 47) In retailing, there is a chain of cause and effect running from employee behavior to customer behavior to:

- A. manager attitudes.
- B. profits.
- C. job satisfaction.
- D. behavior costing.

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 3

46. (p. 48) SYSCO developed a work climate/employee engagement survey built around the

- A. organizational goals
- B. training and development
- C. 5-STAR principles
- D. organizational mission

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 3

47. (p. 50) What led SYSCO executives to pay attention to the human capital indices?**A.** A correlation between work climate/employee engagement scores, productivity, retention, and pretax earnings.
B. A causation that higher sales lead to higher employee engagement
C. The LAMP model
D. The downturn in the economy

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 3

48. (p. 50) Any failure of an employee to report for or to remain at work as scheduled regardless of reason is:
A. protected under FMLA.
B. absenteeism.
C. turnover.
D. allowed in work-life programs.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Easy
Learning Objective: 2

49. (p. 50) Any failure of an employee to report for or to remain at work as scheduled is called
A. Leveraged worker cost
B. Lost wage metric
C. Absenteeism
D. Presenteeism

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Easy
Learning Objective: 2

50. (p. 50) The leading cause of absenteeism in the United States is:

- A. entitlement mentality.
- B. stress.
- C. family-related issues.
- D.** personal illness.

AACSB: Reflective thinking

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 2

51. (p. 52) In the context of absenteeism, _____ refers to formulas and to comparisons to industry averages and adjustments for seasonality.

- A. measures
- B.** analytics
- C. logic
- D. process

AACSB: Analytic

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 2

52. (p. 53) What is the purpose of the process component of the LAMP model?

- A.** To make the insights gained as a result of costing employee absenteeism actionable.
- B. To measure the effectiveness of the HR department.
- C. To show how to assess the costs and benefits of people-related business activities.
- D. To improve management decision-making.

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 2

53. (p. 53) Costs of employee absenteeism vary depending on the type of firm, the industry, and the:

- A. distribution of corporate resources.
- B. state unemployment tax rate.
- C. established absenteeism baseline.
- D.** level of employee that is absent.

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 2

54. (p. 53) The average employee in the United States has about _____ unscheduled absences per year.

- A. 1.8
- B. 3.2
- C.** 5.5
- D. 10

AACSB: Reflective thinking

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 2

55. (p. 54) _____ occurs when an employee leaves an organization permanently.

- A. Transfer
- B.** Turnover
- C. Temporary layoff
- D. Downsizing

AACSB: Analytic

Blooms: Knowledge

Difficulty: Easy

Learning Objective: 2

56. (p. 54) What is the numerator used in the formula used to calculate turnover over any period?

- A. Average workforce size for the period
- B. Number of turnover incidents per period**
- C. Previous period's turnover
- D. Percentage of new employees

AACSB: Reflective thinking

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 2

57. (p. 54) High performers who are difficult to replace represent _____ turnovers.

- A. functional
- B. voluntary
- C. involuntary
- D. dysfunctional**

AACSB: Analytic

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 2

58. (p. 54) What is the crucial issue in analyzing turnover?

- A. The number of transfers within an organization.
- B. The number of employees that leave the organization.
- C. The performance and replaceability of employees who leave versus those who stay, and the criticality of their skills.**
- D. Determining the total cost of all turnovers and estimating the percentage of that amount that represents controllable turnover.

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 2

59. (p. 54) Which of the following is NOT one of the broad categories of costs in the basic costing turnover model?

- A. Benefit costs
- B. Separation costs
- C. Training costs
- D. Replacement costs

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

60. (p. 55) In the costing of employee turnover, the category of _____ costs includes the cost of the interviewer's time and the cost of the terminating employee's time.

- A. training
- B. separation
- C. replacement
- D. vacancy

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

61. (p. 56) Which of the following is NOT a cost element associated with replacing employees?

- A. Medical examinations
- B. Communicating job availability
- C. Informational literature
- D. Travel and moving expenses

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

62. (p. 55) Activities associated with in-processing new employees pertain to which of the following replacement cost elements?

- A. Travel and moving expenses
- B. Communicating job availability
- C. Pre-employment administrative functions
- D.** Postemployment acquisition and dissemination of information

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 2

63. (p. 62) The three pronged strategy for obtaining buy in from managers on work-life programs includes:

- A. Instruction in on-line benefits
- B.** Making decisions based on research, data, and evidence
- C. Instruction by employee assignment
- D. Staff meetings

AACSB: Analytic

Blooms: Knowledge

Difficulty: Medium

Learning Objective: 2

64. (p. 56) According to the text, the major cost associated with employee turnover is probably:

- A.** reduced productivity during the learning period.
- B. the per-person costs associated with replacements for those who left.
- C. the total cost of a formal orientation program.
- D. reaching final hiring decisions.

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 2

65. (p. 57) What is the purpose of measuring turnover costs?
- A. To show how to measure the effectiveness of the HR department.
 - B. To realize the financial impact of human resource management activities.
 - C. To improve management decision-making.**
 - D. To show how to assess the costs and benefits of people-related business activities.

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 2

66. (p. 57) The purpose of measuring turnover costs is to improve
- A. employee orientation.
 - B. work-life programs.
 - C. management decision making**
 - D. training outcomes.

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

67. (p. 57) The combined effect of all costs associated with turnover can easily cost _____ percent or more of the departing person's salary.
- A. 25
 - B. 50
 - C. 80
 - D. 150**

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

68. (p. 58) (Blank)_____ issues address the fact that employees at every organizational level face personal or family issues that can affect their performance on the job.

- A Pay and benefit
- B. Work-Life**
- C. Training and development
- D. Family-life

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 4

69. (p. 59) U. S. employers lose an estimated _____ annually to absenteeism related to child care

- A. \$4 million
- B. \$4 billion**
- C. \$10 million
- D. \$10-30 million

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 4

70. (p. 64) Indirect measures of training outcomes can often be converted into estimates of the dollar impact of training by using a method known as:

- A. work-life initiative.
- B. value creation.
- C. behavior costing.
- D. utility analysis.**

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

Essay Questions

71. (p. 41-43) Explain the four critical components of the LAMP model.

The letters in LAMP stand for logic, analytics, measures, and process, four critical components of a measurement system that drives strategic change and organizational effectiveness. Without a compelling logic, it is just not clear where to look for insights about what the numbers mean. Conversely, with well-grounded logic, it is easier to help leaders outside of HR to understand and use the measurement systems to enhance the talent-related decisions they make. Analytics transforms HR logic and measures into rigorous, relevant insights. While statistics and research design are analytical strategies for drawing correct conclusions from data, measures comprise the numbers that populate the statistical formulas. Process is the final element of the LAMP framework. Measurement affects decisions and behavior, but decisions and behavior unfold within a complex social system. Hence effective measurement systems must fit within a change-management process that begins by influencing key decision makers.

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Hard

Learning Objective: 1

72. (p. 44-45) Differentiate between controllable and uncontrollable costs and the direct and indirect measures of these costs with examples.

In any area of behavior costing, some types of costs are controllable through prudent HR decisions, while other costs are simply beyond the control of the organization. Consider employee turnover as an example. To the extent that people leave for reasons of "better salary," "more opportunity for promotion and career development," or "greater job challenge," the costs associated with turnover are somewhat controllable. That is, the firm can alter its HR management practices to reduce the voluntary turnover. However, if the turnover is due to such factors as death, poor health, or spouse transfer, the costs are uncontrollable. Direct measures refer to actual costs, such as the accumulated, direct cost of recruiting. Indirect measures do not deal directly with cost; they are usually expressed in terms of time, quantity, or quality. In many cases, indirect measures can be converted to direct measures.

AACSB: Application

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 2

73. (p. 46) Define employee attitudes and describe the elements that make up an individual's attitude.

Attitudes are internal states that focus on particular aspects of or objects in the environment. They include three elements: cognition, the knowledge an individual has about the focal object of the attitude; the emotion an individual feels toward the focal object; and an action tendency, a readiness to respond in a predetermined manner to the focal object.

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 3

74. (p. 54) What are three broad categories of costs in the basic turnover costing model?

The three categories are: separation costs, replacement costs, and training costs.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

75. (p. 69) The very best managers seem to share four key behaviors that help to trigger the 12 worker beliefs that underlie a profitable, productive workplace. Identify the four behaviors.

Select for talent: The best managers identify talents that are needed for a particular position and then find people who fit the role.

Define the right outcomes: Managers who do this best establish very clear objectives; they make sure that employees have the resources to do their jobs well; and then they allow employees to pave their own paths.

Focus on strengths: Rather than identifying workers' weaknesses and attempting to fix them, where the gains will be short-lived, the best managers focus on strengths.

Find the right fit: The best managers continually encourage their employees to look in the mirror and assess themselves in order to find the kind of work that will bring out their best talents.

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Hard
Learning Objective: 2
Learning Objective: 5

Short Answer Questions

76. (p. 47) Describe the benefits of employee engagement.

Engagement is a positive, fulfilling, work related state of mind that creates dedication and allows engages employees in positive, discretionary efforts and an increased concern for quality. It prompts the employee to identify with the success of their company, and the follow through to make sure problems get identified and solved.

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium
Learning Objective: 2

77. (p. 47) Describe the concept of behavior costing.

Behavior costing is based on the assumption that measures of attitudes are indicators of subsequent employee behaviors. These behaviors can be assessed using cost-accounting behaviors.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Hard
Learning Objective: 3

78. (p. 55) Name at least two of the four elements in separation costs.

1) Exit interview, 2) administrative functions related to termination, 3) separation pay, if applicable, and 4) increased unemployment tax.

AACSB: Reflective thinking
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 2

79. (p. 57) What is the primary purpose of measuring turnover costs?

The purpose of measuring turnover costs is to improve management decision-making. Once turnover figures are known, particularly among segments of the workforce deemed "pivotal," managers have a sound basis for choosing between current turnover costs and instituting some type of turnover-reduction strategy.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 4

80. (p. 58) What is a work-life program?

A work-life program includes any employer-sponsored benefit or working condition that helps an employee to balance work and non-work demands.

AACSB: Analytic
Blooms: Knowledge
Difficulty: Medium
Learning Objective: 4