THE ORGANIZATION

PAC Resources is a small manufacturing company located in a mid-sized city in the upper Midwest. PAC manufactures high-quality specialty components for the computer industry. The company was founded in 1994 by current CEO, David Dukakis. Dukakis was a talented young engineer in Silicon Valley. When the industry hit the skids in the early 1990s, he found himself out the door with little more than an entrepreneurial spirit and a small severance package. Dukakis left California, moved back to his home state and used his severance package to finance PAC Resources, starting the company in small rented quarters in a nearly vacant strip mall. He brought in Cliff McNamara early on as chief financial officer. Dukakis was smart enough to know that he had no head for figures, but McNamara did. McNamara was an old college buddy, a super accounting wiz, and somebody Dukakis could trust to squeeze as much mileage as possible out of his severance money. It was a good match. McNamara managed the business, and Dukakis was the idea man and designer of the specialty components, patents of which were the backbone of PAC’s success. Today, the low-rent strip mall is a part of company history, and PAC employs 835 full-time workers in its own contemporary facility built in 2002.

So far, PAC has not been significantly affected by the latest downturn in the industry. Its market niche continues to be high-quality, specialized equipment. The company is proud that its products continue to be made in the United States and of its ISO quality certification granted by the International Organization for Standardization. Dukakis believes this is what has kept his company in business while others in the industry shipped jobs offshore or went by the wayside.

PAC sells its own products and has a small customer base scattered throughout the United States and Asia, but this generates only a small percentage of PAC’s revenue. Eighty-three percent of PAC’s sales come from building original specialty components for one manufacturer. This has been a steady income source for PAC, but heavy reliance on one customer is a significant source of worry for PAC’s management team, especially because sales of finished products are down for this customer and cutbacks are expected. If the rumor proves true, PAC will not escape unscathed. Consequently, the push is on for belt-tightening in the organization. PAC instituted a hiring freeze, and marketing and sales budgets were directed to increasing the company customer base. Canadian and European markets are being explored, and while there is some interest, there are no solid contracts. PAC employees are understandably jittery.
Though PAC remains non-union, three years ago the organization went through a difficult period of employee unrest. There were complaints of poor management, inconsistently enforced policies and unfair practices regarding job changes and movement of employees within the organization. Because of the company’s standing as a respected employer in the community, it was a significant public relations black eye when an anonymous employee wrote a scathing letter to the editor of the local paper. This brought in union organizers who distributed leaflets and circulated authorization cards. To address employee concerns, PAC responded with management training and reorganization of lower-level supervisory positions. A companywide “Talk-to-the-Boss” program was implemented, allowing employees to bring issues to any level of management without fear of reprisal. It seemed to help. The authorization cards failed to generate enough interest for an election, and things settled down. Unrest, though, never goes away entirely. Employees became cynical about “Talk-to-the-Boss,” and “the union buzzards”, as Dukakis calls them, never completely went away.

Things have certainly changed for PAC from the old days of the store-front location and a handful of employees. Dukakis remains the CEO, but he no longer manages the day-to-day operations, spending his time instead at his family’s summer retreat on the Maine coast or in the Caribbean during the winter months. Decision-making is primarily in the hands of McNamara, who is now the organization’s senior vice president, and a second vice president, Mark Schilling. Schilling came to PAC eight years ago with an honors degree in human resources and a successful military career.

With a history that has known only growth and strong revenue, it will be a major culture change for PAC to respond to the eroding economy and a possible decline in sales. In addition to the hiring freeze, McNamara directed managers to cut waste and improve productivity across the board. Employees were reminded that every department would be affected and that nothing was sacred.

THE HUMAN RESOURCES DEPARTMENT
Patricia Harris was HR director at PAC for eight years before her departure in 2007. The official word was that she had taken early retirement to spend more time with her family, but what everyone really believed was that Schilling finally got fed up and gave her the boot. Of course, there was the official retirement party where everyone said how much they would miss her, but really, most employees in the department raised a toast to her departure and gave a collective sigh of relief. Her management style—when she managed at all—was divisive. She had her favorites, especially Kathy Davis, PAC’s benefits coordinator, for whom no perks were ever too many. Consequently, the compensation and benefits staff fared well under Harris because it was Davis’s area. Other employees in the HR department found Harris to be unfair and abrasive even on the best of days.

With approval from McNamara and Schilling, Harris and compensation manager, John Culbertson, had established a merit bonus plan early in Harris’s tenure at PAC. Though Harris continued to champion the bonus plan as a success in accomplishing
objectives and controlling costs, it has been a bone of contention across the organization, particularly in the HR department. The bonus plan required everyone to have annual performance goals. Harris allowed Culbertson’s compensation and benefits staff to set their own goals, but for everyone else in the department, Harris alone set the goals with no input from those expected to carry out the activities. The result was hard feelings and perceived inequity that continues today. There is grumbling that even with Harris’s departure, things never changed. Davis still offloads most of her work on others and is never dependable for project completion, yet she and her staff members receive top-tier bonuses year after year. Even Culbertson seems to look the other way. Other HR department employees feel their work is not supported by management and that there is little feedback on progress toward goals. For them, bonuses, if paid at all, are based on unknowns controlled arbitrarily by Culbertson. As a result, the HR department is rife with animosity and there is little cooperation across functional areas. Certainly things couldn’t get worse.

When Harris retired, Schilling promoted Ben Trudeau, manager of safety and security, into the director’s position, even though he had only been with PAC for a year before his promotion. Though Trudeau had reported directly to Harris, his good track record at safety and security kept him below the radar of many of the problems in the HR department. As manager of safety and security, he focused primarily on increasing wellness activities. Establishing an active wellness team across the organization, he became the most visible member of the HR department, and with his positive upbeat attitude, many employees thought of him as the organization’s “cheerleader.” Best of all, his management style was the polar opposite of Harris’s. Where she micromanaged and criticized, Trudeau believed in encouragement and responsibility. Schilling thought Trudeau would bring a breath of fresh air to the HR department, and he gave Trudeau free reign to make the changes necessary to turn the department around.

When Trudeau moved into Harris’s old office, he set a big jar of candy on the desk and invited everyone to stop by and chat with him whenever they wanted. Of course, Davis was first in the door.
HR Director: Ben Trudeau
HRD Manager: Kellie Stephens
Compensation and Benefits Manager: John Culbertson
Benefits Coordinator: Kathy Davis
Staffing Manager: Kim Wong
Safety and Security Manager: Jose Vasquez
Employee Relations Manager: Steve Wilson

HUMAN RESOURCE DEVELOPMENT

The HRD division is managed by training director Kellie Stephens, who supervises two other employees: a trainer and an administrative assistant, who coordinate the logistics of PAC’s training programs. Recognizing the continuous dynamics of the high-tech industry, PAC has been a strong supporter of employee development. With approval of the immediate supervisor, PAC encourages employees to attend training seminars, and tuition reimbursement is available for college-level courses that are related to the employee’s job. In-house training is conducted regularly to ensure all employees are up-to-date on sexual harassment and safety procedures. Other training is made available as the need arises. Whenever possible, training programs are developed and facilitated by in-house staff members. When that is not practicable, a request for proposal is generated and PAC hires outside facilitators.
Since the labor problem a few years back, Stephens aggressively trained management employees with particular emphasis on skills for first-line supervisors. She wants to see improvement in people skills and consistent implementation of PAC policies across department lines. Unfortunately, her efforts are not universally well received. Some managers grumble that HR just gets in the way and ties their hands when dealing with difficult employees. All too often Stephens hears managers say that there is the “classroom way” and the “shop floor way.” She sees training for PAC managers as an ongoing process.

Last year’s strategic planning process identified knowledge management as an area for organizationwide improvement. PAC has a history of employees working in silos, with little communication across functions. Hoping to bridge the gap and encourage collaborative exchange, Stephens established “communities of practice,” where individuals could meet to problem solve and exchange ideas. Her first community-of-practice group consisted of individuals from research and development, engineering, and production. A number of other communities have since been established. More informally, Stephens encourages “snack and chat” meetings on Friday afternoons, where employees can drop by for a snack and talk about their work.

To increase information exchange with employees working off-site, an idea blog was added to the company’s intranet, where staff could share information about their successes and failures on various projects. At first, people were reluctant to comment, and it took some time before they were willing to share their knowledge and ideas. Stephens had not anticipated how proprietary some individuals would be about their work methods. Progress has been made; with increasing postings, the blog is becoming a source of ideas and information sharing. To manage the volume of information generated by the blog and to make it easier for more employees to use the system, Stephens submitted in a budget request to add enhanced knowledge software to the intranet.

To capture knowledge that might be leaving the organization, Stephens worked with Steve Wilson to improve the exit interview process. Departing employees are encouraged to talk informally about their career at PAC and to pass on information other employees need to know. There has been some success here, but as expected, not all exit interviews generate a positive exchange.

As part of the recent directives to “tighten up” for increased results, HRD was asked to update and improve the company’s performance management system. In addition, the organization is looking closely at all training expenses, and Stephens was asked to identify the return on investment for all programs. She is worried about her management training program and feels certain that tuition reimbursement will fall under the ax.

**SAFETY AND SECURITY**

With Trudeau’s promotion to HR director, management of safety and security fell to his assistant, Jose Vasquez. Vasquez is a recent college graduate with a degree in ergonomics. He came to PAC as an intern during his senior year of college. Trudeau
was impressed with Vasquez’s attitude and enthusiasm and hired him right after graduation. Vasquez worked with Trudeau on wellness activities and conducted safety training, but his real forte is his ongoing ergonomics audit. PAC has had high instances of workers’ compensation claims, particularly carpal tunnel syndrome claims, and Vasquez expects that his emphasis on ergonomics will help alleviate the problem. His goal is to check every workstation in the organization and either approve or recommend ergonomic changes. He has developed an elaborate database to track the project.

Besides ergonomics, PAC has an active wellness program. In partnership with a local hospital, PAC conducts an annual on-site health fair providing employees with free immunizations and voluntary health-risk assessments. Since maintaining a healthy weight and not smoking are especially important, PAC reimburses employees for 50 percent of the cost of weight loss and smoking cessation programs. PAC also maintains an employee assistance program.

Schilling asked Vasquez to take on a greater role in risk management. Schilling is concerned about the increasing rate of workers’ compensation claims and asked Vasquez to conduct a job-hazards analysis and report the results to him, identifying which jobs, departments and people are most likely to incur a workers’ compensation claim. From that information, it is expected that Vasquez will work with the finance department to develop a cost-saving risk allocation plan.

Unfortunately, the ergonomics audit is so involved that Vasquez is seldom available for anything else. He is either out in production checking workstations or mired in spreadsheet tracking. He created an extensive spreadsheet to track the results of the hazard analysis that Schilling asked for, but so far, little else has been done and the completed analysis was due on Shilling’s desk last Friday.

With his short tenure at PAC and his focus on ergonomics, Vasquez seems ill-prepared to manage the entire safety department. Trudeau knew this when he promoted Vasquez, but with the hiring freeze, he couldn’t go outside the organization, and there was no one else with the safety background needed for the position. Trudeau felt sure that if he worked closely with Vasquez, he could keep safety and security on the right track.

**STAFFING**

Kim Wong has managed staffing at PAC since the early years when the company had less than 100 employees. Wong runs a tight ship and manages the department with only one other recruiter and an administrative assistant, who maintains all job postings, including a telephone employment hotline and the company’s job line web site. Wong is well-respected across the organization for his strict adherence to ensuring equity in hiring and job placement that goes well beyond equal opportunity requirements.

Wong recently completed an aggressive hiring drive at major universities, hiring several new engineers and CAD specialists. These new hires barely squeaked in
before the hiring freeze, but with the downturn in sales, the atmosphere has changed dramatically. The staffing department has known only hiring; they never had to plan for a layoff. Wong worries that a layoff of newly hired employees will seriously harm the company’s reputation in the community and make recruiting difficult when the economy gets better.

Wong received a confidential memo from Schilling and Trudeau requiring a 10 percent reduction in labor costs by the end of the fiscal year. He wonders if there is some way to cut labor expenses while saving as many jobs as possible. He also worries about the loss of talent and retaining the knowledge of long-time employees. He’s got some cost-saving ideas, but it certainly won’t add up to 10 percent. Wong feels certain there will be a reduction in force. A few managers will be delighted; they all have some bad apples they want to get rid of. Wong wonders how he is going to ensure that the layoffs are equitable and nondiscriminatory. This is not going to be good for morale, and he dreads the backlash when word gets out.

**COMPENSATION AND BENEFITS**

PAC pays at market rate and conducts a salary survey every three years to ensure the company remains competitive. Both practices served PAC well over the years, even with the growth in the number of full-time employees and an increasingly complex compensation system. Two years ago, Culbertson restructured the compensation system by broadbanding 14 salary grade levels into a far simpler system of five levels. Culbertson expected some resistance because there are always people who hate change, but he hadn’t anticipated the outcry from some employees who claimed it was nothing but the loss of promotion levels and a manipulation of the system. He has spent a lot of time since then educating staff on the system, and in the two years that have passed, the outcry quieted a bit, but there are still claims of salary compression. Culbertson knows there are managers who have abused the system, using the higher salary ranges to reward their favored few regardless of performance or longevity. He concedes the new system isn’t perfect, though it is simpler to administer. Now, however, he spends more time worrying about results than he ever did in the past.

The merit bonus plan had been Harris’s baby. She thought it was a good way to link compensation to actual results, and it was a key compensation element in the early years, when Dukakis wanted to encourage innovation and creativity. It may have been effective early on, but Culbertson now sees it as an expensive giveaway that creates employee anxiety. He has complained to Schilling that it’s not working and ought to be scrapped. “Whatever they get,” he says, “it’s never enough. They’re always dissatisfied. I don’t know why we bother.”

Employee benefits are another issue. Benefits became increasingly expensive over time, and every piece of the package is under scrutiny for cost effectiveness. PAC offered fully paid health coverage to all full-time employees from the outset until 2006, when double-digit premium increases necessitated a change. Laying its cards on the table, PAC conducted information sessions with employees to ensure they
understood the costs of insurance and the financial health of the organization. Cost-cutting was a given; the question was what to cut. An employee survey was conducted to determine what cuts would be most acceptable to employees. The focus was to determine if employees would accept less health coverage but continue with insurance fully paid by PAC or if they preferred to pay a portion of their premium and maintain the same benefit coverage as in the past. It was a contentious discussion before the decision was made to maintain coverage with employees paying a part of the premium. The employee-paid share has risen every year since, with complaints that it is nothing but a pay cut.

Despite some grumbling, Culbertson thinks employees do well with PAC’s benefits package. PAC supports retirement savings by matching employee contributions to their 401(k) accounts at 50 percent of the employee contributions up to a maximum contribution of 5 percent of the employee’s annual salary.

Paid time off is available as paid vacation time and sick leave. After one year of full-time employment or the equivalent, employees receive 10 days of paid vacation, and sick leave benefits accrue at the rate of 12 hours (1½ days) per month worked. Both unused vacation time and sick leave time can be carried over from year to year. Vacation time carryover is limited to a maximum of 10 days while accrued sick leave can be carried over from year to year with no ceiling.

Those are just the major benefits. There are some other nice perks as well. Stephens lobbied hard to get McNamara and Dukakis to agree to tuition reimbursement for work-related college courses. Despite having few employees using the program, Culbertson thinks the benefit sends a positive message to employees that PAC supports educational development. Some employees work flexible schedules, and some telecommute a few days a week if it is appropriate to the job. Vasquez manages the wellness activities, and there is also an employee assistance program. Overall, Culbertson thinks it is a good benefits package, but he knows change is coming.

The memo from Schilling said that all compensation practices are on the table for discussion and that some significant changes would be forthcoming. With the bonus system in place, annual base salary adjustments have been kept low, generally at a 2 to 2.5 percent increase. Culbertson suspects a salary freeze is in the offing, and he braces for the repercussions of disgruntled employees and the loss of some of PAC’s best employees as their skills are lured away by higher-paying competition. He wonders if Dukakis and Schilling really understand how important it is to stay competitive in this industry.

EMPLOYEE RELATIONS

Steve Wilson has his hands full managing employee relations. There is always the union issue, and Wilson’s belief that “once employee dissent sets in, it never goes away” seems to be well founded. He knows there is still an undercurrent for unionization, and he fears any cost-cutting will turn the undercurrent into a landslide.
Wilson continues to send out the message that PAC wants to remain non-union and is willing to listen to employees and address their concerns. A comprehensive employee survey was conducted by an outside firm shortly after the unionization attempt. It asked employees to comment on a variety of issues, including their perception of management, PAC’s compensation policies, career opportunities and equity, and, of course, overall job satisfaction. Some changes were made as a result of the survey, mostly enhanced communication efforts and not actual policy changes. Since compensation was an issue, more information was made available to employees regarding the compensation system. Specifically, employees received a comprehensive chart identifying salary grades and corresponding job titles. The compensation staff answered questions, the idea being that if people understood the compensable factors and the logic behind the system, they would perceive less inequity. Things quieted down a bit, but Steve knows compensation equity is always a bone of contention.

A second issue that emerged from the employee survey was the use of skip-level interviews where employees could raise issues to managers two levels up. In other words, employees can discuss things with their boss’s boss. Most managers did not fully support the idea, and Wilson suspects some feel threatened by the thought of their subordinates going around them to talk to the boss. He has heard some grumbling, but he doesn’t think it is of too much concern because few employees actually take the initiative to talk with management.

The survey also pointed out some specific criticism of the HR department for lack of communication with employees. Employees said that when they brought problems to HR, HR did not listen and did not respond. It really hit close to home when HR was called on the carpet. One employee response was particularly troubling to Wilson because the employee said she reported sexual harassment to HR twice; the first time HR didn’t respond at all, and the second time HR’s response was that the employee should “focus on work and stop complaining.” Wilson couldn’t imagine anyone in HR responding with such a statement, but he could not ignore the allegation. He felt they had dodged a bullet because there had been no other harassment complaints. He knew he had to do something. He started a hotline to HR that was available 24/7 either online or by phone for employees to ask questions and report anything of concern, not just harassment. He called it “HR Answers” and subscribed to a call center in India to answer and track the calls so the service could be available to employees at all times.

Wilson recently developed employee involvement teams. It was a hard sell because Schilling was against the process, claiming it gave employees too much latitude. The teams worked well for a while. Employees had a forum to be heard, and some good suggestions were generated for productivity improvements. Wilson monitors the teams closely. He knows it’s a precarious situation between management and staff, and he thinks he’ll never be comfortable enough to let them run on their own.

Wilson worked with Stevens to plan and facilitate training programs for all managers. They concentrated on discrimination and harassment. He hopes the
training will forge a closer link between line management practices and HR. All too often he finds himself untangling a mess created by a manager who inappropriately disciplines an employee without regard to policy and with no input from HR. He wants supervisory employees to understand the complex responsibility imposed by their position between management and staff, and he wants to see consistent implementation of policies across departments. So far, understanding and consistency are a long way off. Sometimes he thinks managers are just not paying attention.

Wilson knows things are about to change, and he is worried about the end outcome. He’s been told to work closely with Wong to develop a plan for a reduction in force, and he wants to ensure that all decisions are appropriate and nondiscriminatory. He knows some managers are looking for any excuse to get rid of their union agitators.

He is meeting tomorrow morning with team leaders. He’s received word from Schilling that all actions arising from the employee involvement teams must be passed by Schilling for approval.

CURRENT SITUATION

Three months ago, Ben Trudeau, director of HR, resigned unexpectedly because a family emergency. Despite the hiring freeze, a quick but thorough selection process was conducted, and you were hired as the new director of human resources. You’ve come to PAC with an HR degree from a respected university and with several years of experience as an HR generalist in a large organization. This is an outstanding career opportunity for you. You will be a member of the management team, and this is a chance for you to make a real difference in the organization. Congratulations on your new position and welcome to PAC Resources.

It’s your first day on the job. You hang your diploma on the wall, arrange a few personal mementos on your desk and settle into Trudeau’s old chair. You notice his in-basket is overflowing. You reach for the top file, open the bulging folder and start to read the stack of e-mails Trudeau printed out before he left.