

26.8: Reading- Today's HRM Challenges

Containing Costs

All departments within an organization must prove their value and contributions to the overall business strategy, and the same is true with HRM. As companies are becoming more concerned with cutting costs, HRM departments must show the value they add to the organization through alignment with business objectives. Being able to add value starts with understanding some of the challenges of businesses and finding ways to reduce a negative impact on the business. If you were to ask most business owners what their biggest challenges are, they will likely tell you that cost management is a major factor in the success or failure of their business. In most businesses today, the people part of the business is the most likely place for cuts when the economy isn't doing well. Expenses that involve the people part of any business include benefits, hiring process costs, and many more . . .

Benefits

These costs cut into the bottom line of any business. The trick is to figure out how much, how many, or how often benefits should be offered, without sacrificing employee motivation. A company can cut costs by not offering benefits or 401(k) plans, but if its goal is to hire the best people, a hiring package without these items will most certainly not get the best people. Containment of costs, therefore, is a balancing act. An HR manager must offer as much as he or she can to attract and retain employees, but not offer too much, as this can put pressure on the company's bottom line.

Hiring and Turnover

Another consideration is the cost of hiring and turnover. The hiring process and the cost of turnover in an organization can be very expensive. Turnover refers to the number of employees who leave a company in a particular period of time. By creating a recruiting and selection process with cost containment in mind, HR can contribute directly to cost-containment strategies company wide. In fact, the cost of hiring an employee or replacing an old one (turnover) can be as high as \$9,777 for a position that pays \$60,000 (James Del Monte, "[Cost of Hiring and Turnover](#)," JDA Professional Services, Inc., 2010, accessed October 1, 2010). By hiring smart the first time, HR managers can contain costs for their organization.

Offshoring

One cost-containment strategy for U.S. businesses has been offshoring. Offshoring is the process of moving jobs overseas to contain costs. It is estimated that 3.3 million U.S. jobs will be moved overseas by 2015 (Vivek Agrawal and Diana Farrell, "Who Wins in Offshoring?" in "Global Directions," special issue, *McKinsey Quarterly*, 2003, pp 36–41). According to the U.S. Census Bureau, most of these jobs are Information Technology (IT) jobs as well as manufacturing jobs. This issue is unique to HR, as the responsibility for developing training for new workers and laying off domestic workers will often fall under the realm of HRM. Of course, cost containment isn't only up to HRM and managers, but as organizations look at various ways to contain costs, human resources can certainly provide solutions.

Technology

Technology has greatly affected human resources and will continue to do so as new technology is developed. Through use of technology, many companies have virtual workforces that perform tasks from nearly all corners of the world. When employees are not located just down the hall, management of these human resources creates some unique challenges. For example, technology creates an even greater need to have multicultural or diversity understanding. Since many people will work with individuals from across the globe, cultural sensitivity and understanding is the only way to ensure the use of technology results in increased productivity rather than decreased productivity due to miscommunications.

Technology also creates a workforce that expects to be mobile. Because of the ability to work from home or anywhere else, many employees may request and even demand a flexible schedule to meet their own family and personal needs. Productivity can be a concern for all managers in the area of flextime, and another challenge is the fairness to other workers when one person is offered a flexible schedule. Many companies, however, are going a step further and creating virtual organizations, which don't have a physical location (cost containment) and allow all employees to work from home or the location of their choice. As you can imagine, this creates concerns over productivity and communication within the organization.



The use of smartphones and social networking has impacted human resources, as many companies now disseminate information to employees via these methods. Of course, technology changes constantly, so the methods used today will likely be different one year or even six months from now. Of course, the major challenge with technology is its constantly changing nature, which can impact all practices in HRM.

The Economy

Tough economic times in a country usually results in tough times for business, too. High unemployment and layoffs are clearly HRM and managerial issues. If a human resource manager works for a unionized company, union contracts are the guiding source when having to downsize owing to a tough economy. Besides union restrictions, legal restrictions on who is let go and the process followed to let someone go should be on the forefront of any manager's mind when he or she is required to lay off people because of a poor economy. Dealing with performance issues and measuring performance can be considerations when it is necessary to lay off employees.



Likewise, in a growth economy, the HR manager may experience a different kind of stress. Massive hiring to meet demand might occur if the economy is doing well. For example, McDonald's restaurants had to fill six hundred positions throughout Las Vegas and held hiring day events in 2010 ("McDonald's Readies for Massive Hiring Spree," Fox 5 News, Las Vegas, May 2010, accessed October 5, 2010). Imagine the process of hiring this many people in a short period of time. The same recruiting and selection processes used under normal circumstances will be helpful in mass hiring situations.

The Changing and Diverse Workforce

Human resources should be aware that the workforce is constantly changing. It is expected that over the next ten years, more than 40 percent of the workforce will retire, and there will not be enough younger workers to take the jobs once held by the retiring workers (Alvaro Fernandez, "[Training the Aging Workforce](#)," *SharpBrains*, August 10, 2007, accessed October 6, 2010). In fact, the American Society of Training and Development says that in the next twenty years, seventy-six million Americans will retire, and only forty-six million will replace them. First, the retirement of baby boomers results in a loss of a major part of the working

population, and there are not enough people to fill those jobs that are left vacant. Second, the baby boomers' knowledge is lost upon their retirement. Much of this knowledge isn't formalized or written down, but it contributes to the success of business. Third, elderly people are living longer, and this results in higher health-care costs for all currently in the workforce.



KEY TAKEAWAYS

Whether it is changes in health care laws, an aging workforce, changes in technology or an increasingly diverse workforce the fact remains that human resource managers must always be attuned to the changes in the external environment in order to plan for and maintain the workforce necessary for the company to achieve its goals.

- One of the major challenges of HRM is containment of costs. This can be done in several ways, for example, in the way health care and benefits are offered.
- Hiring is a very expensive part of human resources, and therefore HRM should take steps to ensure they are hiring the right people for the job the first time. *Turnover* is a term used to describe the departure of an employee.
- Technology is also a challenge to be met by human resources. For example, employees may request alternative work schedules because they can use technology at home to get their work done.
- The economy is a major factor in human resource management. HR managers, no matter what the state of the economy, must plan effectively to make sure they have the right number of workers at the right time. When we deal with a down economy, the legal and union implications of layoffs must be considered, and in an up economy, hiring of workers to meet the internal demand is necessary.
- The retirement of *baby boomers* is creating a gap in the workplace, related to not only the number of people available but also the skills people have. *Multigenerational* companies, or companies with workers of a variety of ages, must find ways to motivate employees, even though those employees may have different needs. HR must be aware of this and continually plan for the challenge of a changing workforce.

Check Your Understanding

Answer the question(s) below to see how well you understand the topics covered in this section. This short quiz does **not** count toward your grade in the class, and you can retake it an unlimited number of times.

Use this quiz to check your understanding and decide whether to (1) study the previous section further or (2) move on to the next section.

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