# Human Resource Management for Media and Information Firms


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## 5.1 The HRM Function and Its Organization

### 5.1.1 Introduction

This chapter deals with a major input for media, information and digital activities—people—and the human resource management (HRM) practices to manage them.



Historically, the main sources of value for business companies have been their hard assets, such as machines, assembly lines, buildings and land. The industrial age was characterized by factories built with vast capital investments in machinery and equipment provided by "capitalists" and operated by unskilled or semi-skilled workers who were mostly interchangeable.[1] In the knowledge economy, however, all this is different. Capital is not as scarce as it used to be and there is often a shortage of essential employees. Companies cannot generate profits without the ideas, skills and talent of knowledge workers. The main assets of a firm leave the company every evening to go home and, increasingly, they actually stay at home.

An information-sector firm's productivity greatly depends on the success of managing its human resources. Microsoft earned $173,203 in profit per worker in 2013. In the same year, Google saw $270,626 in profit per employee. In Hollywood, Silicon Valley, Madison Avenue and Wall Street, hard assets matter less than people. The employees—the knowledge workers, content producers and IT geeks—represent the difference between success and failure.

When the main sources of value depend on the talent of the people involved rather than the productivity of the company's hard assets, effective HRM becomes at least as important to a media and information company as the management of financial assets to a bank.

Dealing with the people of the enterprise is the realm of HRM. In general, HRM deals with a multitude of issues: hiring, promoting, training, firing, compensating, supervising, evaluating, protecting, providing benefits, and generally matching firm needs with people and their needs. HRM has a leading role in creating and maintaining morale, developing the skills of employees, controlling labor expenses and applying the company's policies.

Failure to carry out a human resource strategy successfully inevitably leads to problems. The wrong person may be hired for the job, or there is a high turnover of employees, or inefficiencies develop. And if the company fails to comply with the many employment laws and regulations, it opens itself to lawsuits and negative publicity.[2]

#### 5.1.1.1 The Changing Focus of HRM

The traditional style of HRM had been "soft," i.e. people-oriented, and run by personnel specialists who emphasized hiring, training, communicating, motivating and promoting. More recently, a "hard" HRM style has gained a following. This style incorporates a finance-oriented analysis and the implementation of overall company strategy — such as diversification and globalization — into the human resources (HR) environment. But this approach can conflict with the need to manage an increasingly creative workforce, as will be discussed.

#### 5.1.1.2 The HRM Organizational Structure

How are HRM departments organized structurally? It varies, of course. The top officer is titled the Chief Human Resource Officer (CHRO), or has a similar title. This function was formerly known as the VP for Human Resources, and before that, Personnel Director. The upgrade in title reflects the increase in scope and responsibility.

HRM functions can be divided into relatively routine activities, administrative duties and human resource strategists. Standard transactional activities such as payroll, benefits administration and workers' compensation are increasingly being outsourced to external providers. The more administrative functions, such as hiring and promotions, are run by core HR specialists, often at the divisional level. Finally, the strategic direction of employment issues is often guided by a corporate level HR group. In a large

1 Surowiecki, James. "Net Worth." *The New Yorker*. March 14, 2005. Last accessed April 20, 2017. ► http://www.newyorker.com/archive/2005/03/14/050314ta_talk_surowiecki.

2 Dessler, Gary. *Human Resource Management*. 12th ed. New York: Pearson, 2011, 200.

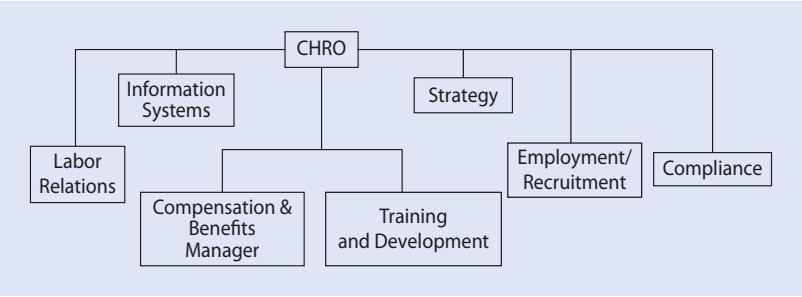


**Fig. 5.1** Example for an HRM Organizational Structure

firm, the HRM function typically looks like the one depicted in Fig. 5.1. Its main components are compensation and benefits, training, employment and recruitment, and labor relations.

HRM is supported by computers and software of increasing complexity and capability—human resource information systems (HRIS)—and is often outsourced. HRIS has mostly been used for administrative applications such as benefits, recruitment, personnel records, skills inventory, performance rating and so on. But it is also a tool for strategic analysis. The vast amount of data generated and stored in HRIS over time can be used for many types of internal HR analyses in support of a more efficient employment system. Which incentives work best? What is the full cost of employee benefits? What recruitment factors work best? What factors are associated with quitting? What educational credentials work out best? For the first time, management has near-real-time tracking tools for its workforce—its cost, performance, productivity, individual and group progress, and the effects of various policies and circumstances.

### 5.1.1.3 Case Discussion

**Disney's HR Management**

Throughout this chapter, we will use the Walt Disney Company as an example for employment and labor issues. Disney is one of the largest media companies in the world. It is comprised of several movie studios, television and cable networks, theme parks, Internet sites, retail stores and branded products.

The company's primary business is to organize and commercialize the output of creative people. In 2014, Disney employed approximately 159,000 people, many of whom are referred to as "cast members." *Business Week* named Disney the "Best Place to Launch a Career" in the United States.[3] It wrote: "Disney's place at the pinnacle is also a testament to its popularity with students, but its desirability goes well beyond the company's instant name recognition." The magazine praised the positive work environment: "Disney rose to No. 1 on its reputation with students. Cynics need not apply: culture stresses creativity, optimism and decency."

At the same time that this praise was given, Disney was under fire from its own employees. Its top management was challenged by dissident directors, including Roy E. Disney, Walt Disney's nephew, in the annual shareholder meeting. A staggering three-quarters of Disney employees, as identified by their classification as 401(k) pension plan participants, voted against their own management in the shareholder meeting.

This raises several questions:

- Why did Disney management lose the confidence of three-quarters of its own employees?
- How can a management such as Disney's keep creative people happy while also maintaining profitability?
- Is Disney's compensation structure well-developed?
- How should Disney deal with its unionized employees?
- How should Disney's HR policies proceed into the next generation of media?

3 Among other media-related companies, General Electric was ranked 8th, Verizon was 11th, Google was 13th, and AT&T was 21st.

### 5.1.2 HRM Characteristics in Media, Information, and Digital Industries?

Media content industries have a strong emphasis on fostering, harvesting, and monetizing creativity. "Creativity" is combining expertise in a specific field with unconventional thinking—resulting in a novel solution to an existing or new problem. The challenge to HRM in the media and media tech sector is to strengthen this creative part of the enterprise.

James Webb Young, a former creative vice president at the J. Walter Thompson advertising agency, wrote:

> » The production of ideas is just as definite a process as the production of Fords; the production of ideas, too, runs an assembly line; in this production, the mind follows an operative technique which can be learned and controlled; and that its effective use is just as much a matter of practice in the techniques as the effective use of any tool.[4]

Young had the advertising world in mind. But the same can be said for Hollywood and its "dream factories," for the "skunk works" of high tech firms, about the "think tanks" of policy ideas, for consultancies and financial innovators, and for technology startups. Creativity is not just an individual's "aha moment" and a cartoon-style flashing light bulb, but just as much an organized process.

## 5.2 HRM By the Numbers: "Hard HRM"

In the traditional "soft" approach of HR, personnel specialists deal with hiring, training, and so on. "Soft HRM" is analytically based on the study of individual and organizational behavior. We will discuss it later. More recently, "hard HRM" research has been introduced, with HRM tools, based on economics and finance, that analyze people as assets.

### 5.2.1 The Rate of Return on Investment in Human Capital

Human capital theory sees human capital not only as an input to production, but also the output of a production process in which the organization invests time and resources.[5] The approach sees HR decisions as *investment* decisions that can be analyzed in the same way that investments in machines and other capital goods are being modeled. Research in this field was advanced by Nobel prize winning economists Gary Becker and Theodore Schultz.[6]

Hard HRM helps establish a causational link between personnel investment and bottom-line business performance. This is important because 60% to 70% of most firms' expenditures are now labor related. And yet, according to a study by the consultancy Accenture,[7] 70% of executives said they rarely measure the impact of HR expenditures such as training initiatives. One reason for this lack of knowledge lies in the difficulty of measuring and assessing the effects of investments in the labor force.

One way to do so may be to determine the impacts of an HR initiative on measurable items such as time savings, quit rates, productivity and customer satisfaction, and then assign a specific monetary value to these gains or losses. Gains are valued at the monetary value of the extra goods produced.

In some cases, one may have to proceed indirectly. For example, a study at a telecom company with 20,000 employees showed that every 1% improvement in employee satisfaction boosted customer satisfaction by 0.5%. Customer satisfaction, in turn, is associated with lower customer churn and greater consumption. Suppose that it can be shown that it would cost the company with 20,000 employees $1000 per year per employee to raise employee satisfaction 1%, that a satisfied employee raises a customer's satisfaction by half as much, and that a 1% customer satisfaction raises average consumption by $5 for its ten million customers. One can then measure the cost of raising employee satisfaction through an HR

4 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*, 9th ed. New York: McGraw-Hill, 2011.

5 Nalbantian, Haig et al. *Play to Your Strengths: Managing Your Company's Internal Labor Markets for Lasting Competitive Advantage*. New York: McGraw-Hill, 2004.

6 Bartel, Ann P. "Productivity Gains from the Implementation of Employee Training Program." *Industrial Relations* 33, (1994): 411–425.

7 Gary, Loren. "The New ROI: Return on Individuals." *Harvard Business School Working Knowledge*. September 1, 2003. Last accessed April 20, 2017. ► http://hbswk.hbs.edu/archive/3648.html.

activity and link it with the estimated value of customer satisfaction in terms of added revenues, and then estimate an ROI.[8] The ROI would be a fairly substantial 25%:

$$\frac{1 \times 0.5 \times \$5 \times 10 \text{ million} - \$20 \text{ million}}{\$20 \text{ million}} = \frac{5}{20} = 0.25$$

In another analysis, *Forbes* magazine calculated movie stars' "payback figure" (in terms of sales of theater tickets and DVDs sold) as a ratio of the actors' salary.

$$\text{ROI} = \frac{\text{Revenue} - \text{Budget}}{\text{Salary}}$$

The study showed that, in 2007, the ROI for Matt Damon was $29 of income generated for every dollar he earned. Jennifer Aniston had the highest payback figure among female actors, with $17 of revenue per dollar of salary. Will Ferrell and Jim Carrey's films produced about $10 for every dollar these actors earned. In contrast, Russell Crowe was the worst investment among top stars, with an ROI averaging $5 of revenue per dollar of salary.[9] Five years later, *Forbes* found Natalie Portman at the top, with a $42.70 return for $1 paid, followed by Shia LaBeouf ($35.80). And, in 2016, Chris Evans' ROI was $135.80 for every dollar paid, and Scarlett Johansson had $88.60.[10]

### 5.2.1.1 Case Discussion

**Disney and the ROI of Retraining Repetitive Employees**

In this hypothetical example, the Walt Disney animation studio is revamping its operations by moving to computer-generated animation (CGA). On the HR side, it has two options: hire new computer animators and fire the existing hand animators, or retrain the latter. A new young CGA hire can hit the ground running, and is also cheaper by $15,000 per year than an existing hand animator. So, this seems a no-brainer. But let's look at the (hypothetical) numbers.

#### Option 1: Hire a New Computer Animator and Fire an Existing Hand Animator

A. Costs of hiring a new computer animator:
   Search for new animator: $9,000
   Selection: $7,500
   Proficiency training: $8,000
   *Subtotal:* *$24,500*
B. Costs of firing a hand animator (compensation, etc.): $31,000
C. The value added of a seasoned hand animator $100,000
D. Initial slowing of productivity due to inexperience of a new hire $17,000. This means that the net value added of a new computer animator is: $100,000 – $17,000 = $83,000
E. The return on investment (ROI) of Option 1 can then be calculated as:

$$\text{ROI} = \frac{\text{Value Added} - (\text{Firing} + \text{Hiring} - \text{Lower Salary})}{(\text{Firing} + \text{Hiring} - \text{Lower Salary})} - 1$$

$$\text{ROI} = \frac{\$83,000 - (\$31,000 + \$24,000 - \$15,000)}{\$40,000} - 1$$

$$\text{ROI} = 7.5\%$$

#### Option 2: Retrain the Hand Animators

The costs associated with this option are:

| A. Costs of retraining an animator | |
|---|---|
| Direct instruction cost | $37,000 |
| Absence cost (Disney still has to pay the animator's salary) | $17,000 |
| Total cost of retraining animators | $54,000 |

One benefit of retraining is greater employee retention. After successfully passing the retraining, the hand animators will be more committed to Disney, as well as trained more specifically for Disney operations, while new hires pose a greater flight risk. Assume that retrained animators stay with the company three years longer than new hires. The NPV of this avoided cost is estimated to be $25,000.

8 Gary, Loren. "The New ROI: Return on Individuals." *Harvard Business School Working Knowledge*. September 1, 2003. Last accessed April 20, 2017. ► http://hbswk.hbs.edu/archive/3648.html.

9 Pomerantz, Dorothy. "Ultimate Star Payback." *Forbes*. August 6, 2007. Last accessed April 20, 2017. ► http://www.forbes.com/2007/08/03/celebrities-hollywood-movies-biz-cz_dp_0806starpayback.html.

10 Robehmed, Natalie. "Chris Evans is Hollywood's Best Actor for the Buck in 2016." *Forbes*. ► https://www.forbes.com/pictures/emjl45efmjk/1-chris-evans/#7b3ba32e70e6.

The total monetary benefit of retraining is, then, as follows:

| | |
|---|---|
| Value of employee retention | $25,000 |
| Value added of computer animator | $100,000 |
| Subtotal | $125,000 |

The ROI of retraining hand animators is thus:

$$\text{ROI} = \frac{\text{Benefits} - \text{Costs}}{\text{Costs}} - 1 = \frac{125,000 - 54,000}{54,000} - 1$$

$$\text{ROI} = 31.5\%$$

The conclusion? The return on retraining is 31.5%, versus only 7.5% for the option of new hires. Thus, based on these hypothesized numbers, and even before reaching considerations of fairness, Disney should retrain its animators instead of hiring new ones to replace the existing ones.

5

### 5.2.1.2 Case Discussion

**Disney's Internal Labor Structure**

Assume in this hypothetical example that Disney needs to decide between hiring two different types of employees: a worker with a fairly certain output (Julia), or a worker with a far riskier output (Max) (Fig. 5.2).

Assume that Julia and Max are both 30-year-old computer animators who are likely to work until they are 65 with a salary of $50,000.[11] The difference is their productivity. Julia's productivity level is at a reliable $150,000. In contrast, it will take one year to determine Max's productivity level to see whether he is a dud with a zero production value, or a star producing $200,000 a year. Julia is the safe choice. Max, in contrast, is a gamble. Who should be hired?

Julia's expected net output, after subtracting her salary, for the first year and every year thereafter is a constant $100,000. Unlike Julia, Max has two potential outcomes. If Max proves to be a disaster, he will be fired. Disney's loss will be the cost of his salary ($50,000). But if Max is a star, his first year output would be $200,000, minus his salary of $50,000, for a net of $150,000. Both possible outcomes must be combined to arrive at a total expected output.

Max's expected net output: (0.5)($150,000) + (0.5)(−$50,000) = $75,000−$25,000 = $50,000. This is half of Julia's net output of $100,000. With Julia's expected net output greater than Max's, should she be the one to be hired? This seems to merit an easy "yes". But it would be incorrect. Because the analysis so far considers only the first year of employment. Instead, the projected net output for both must be calculated for the 35 years they plan to work, we assume, at Disney. In Julia's case, her expected net value (after salary) for the first year and every year thereafter remains constant at $100,000. Her expected net value over 35 years of employment, at a 10% discount rate, yields $578,650.

It is different for Max. If Max turns out to be a disaster in his first year, his output would be –$50,000, and he would then be fired. But should Max turn out to be a star animator, his net output would be $150,000 each year over 35 years of employment. The discounted net present value (NPV) for his activity minus the NPV of his salary if he does not work out would be about $1.4 million.

Thus, Max is almost 2.5 times more valuable than Julia in expected value. As long as Disney has the option to terminate workers who perform poorly, it will be better to hire riskier workers if they have enough of a promising upside potential.

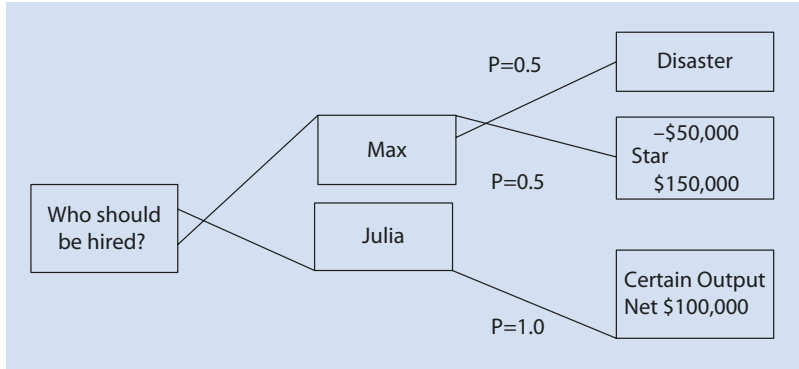


**Fig. 5.2** Risk and Employee Selection

11 One could give them regular raises but this would complicate the calculation.

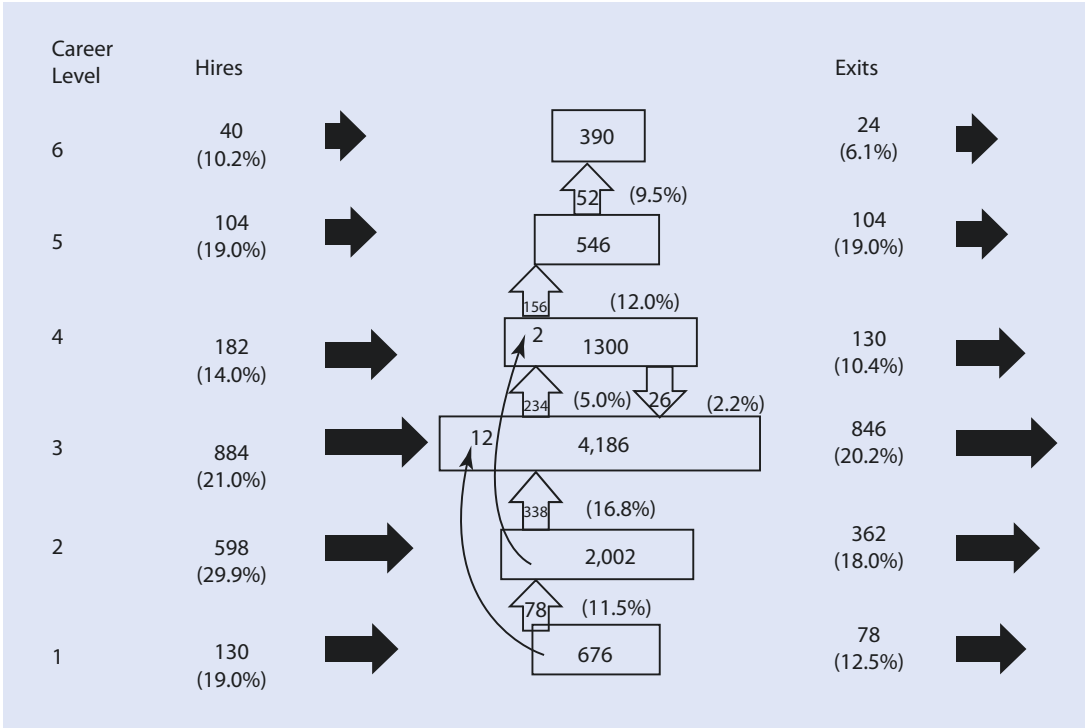


**Fig. 5.3** Techco Internal Labor Market Map

## 5.2.2 The Internal Labor Markets

A second element of hard HR is the analysis of intra-company labor flows. It is based on the observation that most important HR transactions take place inside a company, not in external labor markets.[12]

### 5.2.2.1 Workforce Mobility

An example is the effectiveness of the company's compensation structure. A compensation system is likely to be too low, or a promotion system too slow, if many mid-level and low-level employees leave the firm in order to work elsewhere, especially at comparable organizations.

A tool for such analysis, by the HR consultancy Mercer Human Resources, maps the flow of the workforce of a real company, anonymized as TechCo. Figure. 5.3[13] is such an internal labor market (ILM) map. The horizontal bars show the number of employees at a particular level of the organizational hierarchy. For example, there are 338 employees at the bottom in Level 1. Of these, 39 move up to Level 2. At that level, there are 1001 other people; 181 employees leave from Level 2 to other employment, while 299 are recruited from the outside, and 169 are promoted. The large bulge in the middle levels shows that the largest group, 2093 people, is at mid-level.

Level 3 is a career "choke point," as the probability of moving higher (117 make that promotion) is low at 5.8% per year and even less when demotions (2.2%) are taken into account. One can also observe that a high share of employees at Levels 4 and 5 are new hires from the outside, relative to internal promotions. This indicates that the company is not developing managerial talent internally, but recruiting from outside.

Other ILM maps could be developed to show the proportions and mobility of employees at each level according to gender, race and professional specialization. Similarly, these kinds of maps can be used to afford a statistical analysis of turnover, promotions, pay levels and impacts of individual performance. Companies should strive for an ideal "quit rate" and monitor it closely over time. If it is too low, it could indicate stagnation, inbreeding, complacency and, possibly,

12 Such analysis was begun by Peter Doeringer, Michael Piore, Sherwin Rosen and Richard Freeman.

13 Based on image from Nalbantian, Haig R. and Richard A Guzzo et al., "Play to Your Strengths", McGraw-Hill, 2004.

over-compensation. When a job becomes so good that employees cannot expect a comparable deal elsewhere, it helps morale, but it also generates a risk-averse attitude. On the other hand, if the quit rate is too high it may indicate dissatisfaction, or low commitment, and it will impose a high replacement cost. The ideal number should be somewhere in between.

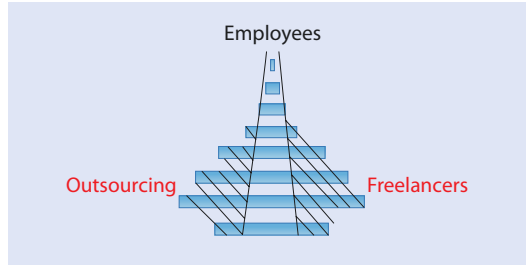


**Fig. 5.4** Company Employment Pyramid



### 5.2.2.2 Organizational Hierarchy

A firm's hierarchy can be a fairly flat triangle with few levels and no strong hierarchy, but also with few promotions. Or, it can be highly hierarchical. It can have bulges at the bottom and the middle. What would be the best shape of the pyramid? Flat or steep? Many people speak admiringly of "flat" organizations, i.e. with only a few levels. This is popular with startups as part of a non-hierarchical peer culture. But it also has disadvantages:

- The higher transaction costs of horizontal consensus building and coordination vs. the top-down orders of a hierarchy.
- People at the higher levels have numerous people to supervise.
- Low chances for promotion.

Given the advantages and disadvantages, there should be an optimal degree of hierarchy.

A firm can shape its organizational pyramid through a variety of policies. They include the outsourcing of certain functions, and the hiring of freelancers (Fig. 5.4).

The following example for Disney shows different types of hierarchy for different divisions of a company.

### 5.2.2.3 Case Discussion

**Disney Internal Labor Markets**

This hypothetical depiction shows the organizational hierarchy of several of Disney's divisions. Disney's radio stations (Unit 1) used to be composed of a very small number of top managers, and many middle-level managers and low-level employees (Fig. 5.5).[14] Most people got promoted from within, but few made it to the top. In contrast, its film and TV production (Unit 2) employ mostly low-level staff, such as production crew, and relatively few middle and top managers. The employment structure is essentially two-tiered—entry level and management level. Early promotion in that structure is easy, but the jump from Level 3 to Level 4 becomes dramatically more difficult. After that barrier, however, internal promotion of employees again becomes easy. The third business segment, theme parks, is closest to a classic pyramid structure.

How would one expect employee relations and culture to look in these three divisions of the company?

*Radio stations*: Small top management, with staff mostly mid-level. The relatively low ratio of hires over promotions means that most people get promoted from within but few people make it to the top levels. At the lower levels, there is very little career stress. But, at the career "choke point," the opposite is true. The transition from one culture to the next is hard on people and on the organization.

*Film & TV*: There are few employees in the positions above the lower levels. Most mid-level employees are project-based temporary hires. The structure is essentially one of two types—entry level, plus thinly staffed management levels. This structure is typical in industrial firms. The culture of such a hierarchy is a sharp divide of higher-level executives (the "suits") from middle managers and blue-collar staff.

*Theme parks*: The pyramid-shaped hierarchy creates a reasonable incentive system and internal promotions. Partly as a result, Disney theme parks experience a rank-and-file turnover that is only one-third that of rival theme parks.[15] This gives Disney an important competitive advantage, even where compensation levels are similar.

14 Hypothetical example, based on Nalbantian, Haig, et al. *Play to Your Strengths: Managing Your Company's Internal Labor Markets for Lasting Competitive Advantage*. New York: McGraw-Hill, 2004.

15 Capodagli, Bill, and Lynn Jackson. *The Disney Way: Harnessing the Management Secrets of Disney in Your Company*. New York: McGraw-Hill, 1999.

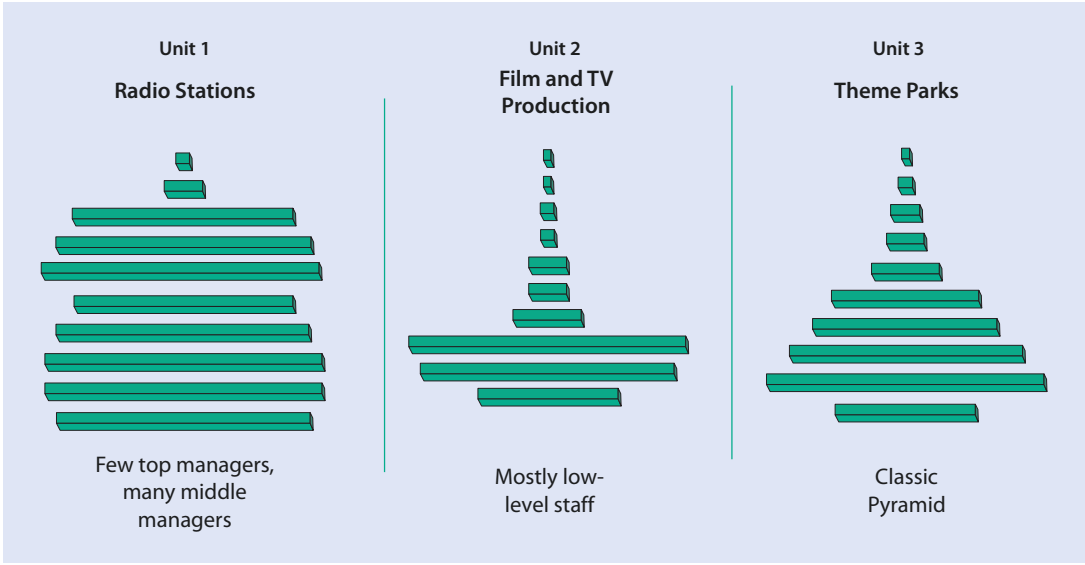


**Fig. 5.5** Disney Internal Labor Market Maps by Division

### 5.2.3 The Use of Finance Theory in Analyzing Compensation

One important question for fashioning a compensation system is how much of it should be performance-based. Many companies reward their managers if the firm does well. Often, the measure is the company's stock price, which is a reflection of its profitability and reputation. In some cases, most of the top managers' compensation is contingent. Is such a compensation system efficient? It all depends. In finance theory, as well as in the practice of stock analysis, the risk of financial securities can generally be decomposed into three components: overall market risk, industry specific risk and firm-specific risk.

Market risks cannot be readily reduced. When the stock market and the overall economy are in general retreat or doing very well, there is little a firm can do about it one way or the other. It rides out the trends. In contrast, the other types of risk—industry and firm-specific risks—can be reduced through, e.g., diversification and effective management. The three components of volatility can be calculated. General market volatility can be measured from an index of stock market performance (e.g. Standard & Poor's 500). Industry volatility can be measured by an index of stock market performance by the peer group of companies in the same sector. And company-specific volatility is then the remaining "residual" volatility.

What is the implication for companies' compensation systems? There is no point in rewarding or punishing employees for company performance that is significantly linked to the overall economy or of the industry, rather than to the performance of the firm itself. Where there are high levels of market risk, the effectiveness of variable rewards will be low. The award of stock or stock options would be costly to shareholders yet would not deliver strong incentives to managers. In contrast, where companies have high levels of firm-specific risk, stock or stock options would provide more effective incentives to employees. The performance of employees at these companies would then have a closer link to the rewards they receive.[16]

16 Nalbantian, Haig et al. *Play to Your Strengths: Managing Your Company's Internal Labor Markets for Lasting Competitive Advantage*. New York: McGraw-Hill, 2004.

### 5.2.3.1 Case Discussion

**Was Disney CEO Michael Eisner's Compensation Package Well-Designed?**

Standard financial software can decompose the price volatility of Disney shares and that of its peers/competitors (Fig. 5.6).[17]

Disney has a relatively low degree of firm-specific volatility, at 22%. Thus, Disney stock's performance is heavily related to developments in the overall market and industry. Therefore, a strong bonus system for managers, based on stock performance, would reward (or punish) uncontrollable developments and, hence, be relatively ineffective as an incentive on managers to perform effectively. In contrast, Viacom at 35% and Time Warner at 31% have higher firm-specific volatility. Their bonus-based pay system would create stronger incentives.

Yet, Disney gave CEO Michael Eisner a compensation package that was extraordinarily heavy on the incentives side. After becoming CEO of the Walt Disney Company, Eisner received a base salary of $750,000 a year, as well as stock options in the company. His contract was later adjusted to a $1 million base salary plus up to $19 million in bonuses based on the company's share price and on growth in earnings beyond 7.5%. He also received stock options that had to be held for several years.

Eisner earned a combined $234 million from 1991 to 1995, which averages out to $46.8 million per year. In 1998, his package hit an extraordinary $570 million, which were mostly due to gains in stock options resulting from an increase in share price since 1989. Yet, during this period, Disney stock barely outperformed the Standard & Poor's index. Since the stock had to be held for several more years, much of the compensation was a paper gain, and when Disney's stock performed poorly in 1999 and 2001, Eisner received no bonus, except his base salary of $1 million. In 2000, he made $9.3 million in addition to stock options, but he experienced a paper loss of $266 million when Disney's stock plummeted in 2001, along with the stock market. He bounced back in 2004 with a $7.3 million bonus and, in 2005, his last year at Disney, got a $9.1 million bonus, both on top of his $1 million base salary.

Most of Eisner's compensation was incentive pay (bonus and stock options). He benefited from rises in overall market and industry stocks. But Eisner's compensation was over 90% in variable awards. This seems grossly sub-optimal for shareholders.

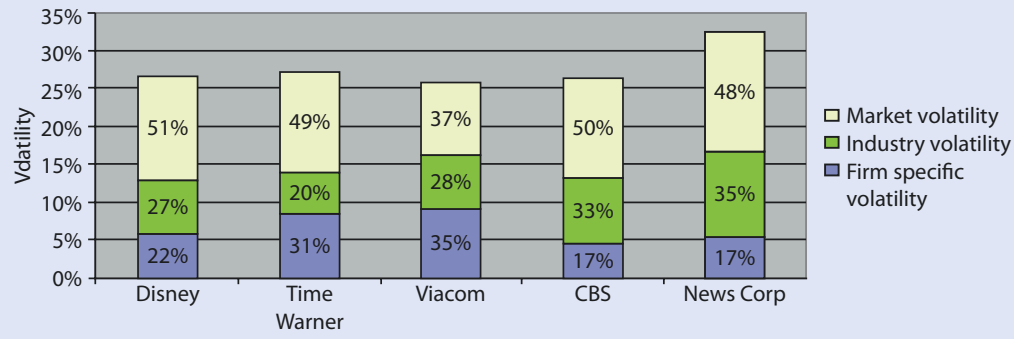


**Fig. 5.6** The Composition of Risk of Disney and its Peers

17 Graph created from data by Yahoo Finance and Factiva. Last accessed on 7 February 7, 2008 at ► http://finance.yahoo.com and ► www.factiva.com.

### 5.2.4 Salary Differentials

Studies of optimal employment compensation look at the effectiveness of fixed wages vs. commissions, and on the relationship between group incentives and individual rewards.[18] They also look at the optimal differences in pay across the levels of a company's hierarchy. How much more should people be paid as they move up in the hierarchy?

*Tournament Theory* is a way to analyze a firm's vertical gradient of compensation. Determining a firm's compensation structure to achieve maximum incentive is much like setting the prize money for the players in a tennis tournament. If, say, the pot is being split up among the top 16, and the extra reward for winners is relatively low, the star players will not join, but more second-tier players will sign on, since they have a chance of taking home some of the prize money. But if the reward for winning is very high ("winner take all"), the participation incentives will be reduced and fewer second-rate players will join. A similar dynamic takes place in companies and industries. Tournament theory analyzes this gradient and the spread of rewards within an organization. That wage spread is typically designed to pay young employees less than they contribute in terms of their productivity, and pays senior employees more than their direct value added to the firm.[19] Figure 5.7[20] shows this wage/age relationship. Workers are paid less than they are worth when young, but expect to be paid more later, after year T.

One reason to overpay senior employees is not for superior performance while they are old but, rather, because this later high compensation was a motivation factor during their early years of their career. But this implicit deal has increasingly been broken by the firing of older employees once the value of their product is lower than

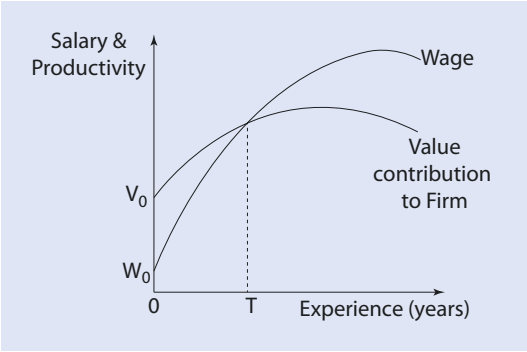


**Fig. 5.7** Compensation of Employees Relative to Contribution

their compensation, i.e. after time T. This results in angry older employees who feel that a promise has been violated. But it also means a greater need to reward younger employees early in order to keep them as motivated as before, if they cannot expect to "cash in" later. This is an extra cost of firing older employees which rarely gets factored in when the firm decides to cut the higher-priced veterans. Yet, it must be included in the calculation.

Firms in risky industries must offer a large spread of rewards in order to motivate employees. If the career risk is low in an industry—for example when employees are being promoted by seniority and are rarely fired—then the wage spread can be small. There is low risk and therefore no need for the incentive to compensate for the risk. But if the career risk is high, such as in a startup, one must create incentives for people to accept the risk either by a high general salary level which is more expensive for the firm in the short term, or by the promise of future high rewards upon promotion. Such a high career risk environment exists in media and digital startup firms, where one therefore finds a wide wage spread. On the other hand, large Japanese firms, which often used to operate in what was, for employees, the less risky environment of "lifetime employment," could operate with a narrower wage spread than American firms.[21]

18 Lazear, Edward P. *Personnel Economics*. Cambridge, MA: MIT Press, 1995; Spence, A. Michael. "Job Market Signaling." *The Quarterly Journal of Economics* 87, no. 3 (August 1973): 355–374; Stiglitz, Joseph E. "Risk, Incentives and Insurance: The Pure Theory of Moral Hazard." *The Geneva Papers on Risk and Insurance* 8 (1983): 4–33; Bartel, Ann P. "Productivity Gains from the Implementation of Employee Training Program." *Industrial Relations* 33 (1994): 411–425; Ichniowski, Casey, Katherine Shaw, and Giovanna Prennushi. "The Effect of Human Resource Management Practices on Productivity." *American Economic Review* 87 (June 1997): 291–313.

19 Lazear, Edward P. *Personnel Economics*. Cambridge, MA: MIT Press, 1995.

20 Dessler, Gary. *Human Resource Management*, 12th ed. New York: Pearson, 2011, 200.

21 OECD. "Growing Unequal? Income Distribution and Poverty in OECD Countries." *Directorate for Employment, Labour, and Social Affairs*. October 21, 2008. Last accessed April 20, 2017. ▶ http://www.oecd.org/dataoecd/45/57/41527303.pdf.

A company's reward structure does not only affect employees' job motivation, it also affects who works for the firm. Rewards shape an organization over time. They reflect the values of the organization and shape the employees' choices. Rewards signal what the firm values. It attracts people with these values. "Over time, an organization becomes what it rewards."[22]

### 5.2.4.1 Case Discussion

**Is Disney's Compensation Structure Efficient?**



We apply the tournament theory analysis to Disney's compensation structure to see whether the company is setting the optimal wage spread. Disney's compensation profile is presented in Fig. 5.8, which shows the compensation for each level, starting with Level 1 (unskilled, minimum wage) and progressing to Level 10 (CEO).

An example for a Level 9 senior executive was Tom Staggs, Disney's Chief Financial Officer, who earned $1 million in salary, a $4 million bonus, $790,000 in stock options and $4 million in long-term incentive pay. Another senior Level 9 executive was Alan Braverman, Disney's General Counsel, who earned $850,000 in salary, a $3 million bonus, $420,000 stock options and $4 million in long-term incentive pay.[23] On average, Eisner received an overall compensation of $45 million, almost literally off the chart as depicted in Fig. 5.8.[24]

The salary acceleration at Disney is relatively modest in the lower levels (1–7) where compensation is so low that it cannot be seen in the graph. But it then increases dramatically in Level 8 and above. The multiple between the compensation the Chief Executive Officer (CEO) received and other employees' compensation was 714 times for entry-level blue-collar jobs (Level 2).

How does Disney's compensation compare with other firms? Disney's non-executive pay scale is said to be 10–15% below the market for comparable work elsewhere. In Hollywood, annual compensation is generally not high for most job levels except for those at the top.

Questions for Disney to consider:

- Is this compensation profile excessively accelerating at the top?
- Is the career risk at Disney so high as to make it necessary to incentivize through very high compensation at the top?
- Could the Disney board have purchased the same performance from its chief executive for less incentive?

The salary acceleration from one of the top four levels of executives to the next is about 600%, on average. A simple doubling in salary (100%) at each promotion, which seems generous, rather than the six-tupling would lower the salary cost by $188 million. So, the question is how much do these $188 million at the top buy for the firm in terms of extra productivity incentive for everyone (over the incentive of a mere doubling of compensation at each level)? Disney's annual profits were approximately $1.2 billion in 2003. Its return on investment was about 9%. If we consider the extra salary cost of $188 million an investment, it would have to return (1+.09)$188 = $204 million to meet Disney's normal level of ROI. This amounts to 17% of Disney's overall profits. The question, then, is whether the acceleration of compensation beyond a doubling of salary at each promotion is believed to generate an extra 17% in company profits. If it does not, the money is not well spent. If it has added only 10% to profits, that would be $120 million that year, and the ROI on that incentive (which cost Disney $188 million) would be:

$$\frac{120-188}{188} = \text{negative}$$

But, if the impact of the extra incentive was 20% ($240 million), then the ROI would be:

$$\frac{240-188}{188} = 27.6\%.$$

In other words, if Disney believes that the impact of the added compensation at the top beyond a doubling at each promotion generates 20% of higher profits, then the money is well spent. But it would also raise the question, why stop here? Why not accelerate salaries even more?

A good question is why Disney's top executives, to perform well, would need not just a doubling of salaries at each promotion, but much more than that in order to perform at their peak. Incentives of such magnitude may not be necessary since the reasons to perform highly are not just those of money but also of prestige, power and personal character. The people at the top tend to be type-A personalities who tend to be driven to perform at their personal best.

22 Nalbantian, Haig et al. *Play to Your Strengths: Managing Your Company's Internal Labor Markets for Lasting Competitive Advantage*. New York: McGraw-Hill, 2004.

23 Marr, Merissa. "Disney CEO Iger's Bonus, Salary Total $17 Million." *Wall Street Journal*. January 13, 2007. Last accessed April 20, 2017. ► https://www.wsj.com/articles/SB116864237874675613.

24 Rubis, Leon. "Disney Show & Tell: Disney Institute's Four-Day Seminar on Human Resource Management." *HR Magazine*, April 1998.

This, then, leaves us with another possible explanation for the high salaries: that they are at market-based levels. Since other firms are willing to pay top executives at those levels, Disney must match these firms or lose top managers. The other firms must have also concluded that the huge salary accelerations are economically efficient for them. Because these numbers are much higher than in other countries, there would have to be a particularly high incentive effect on American top managers. Because this is unlikely, one may have to resort to another potential explanation: that of institutional inefficiencies—specifically, that, in many major companies, top management, in effect, sets its own salaries.

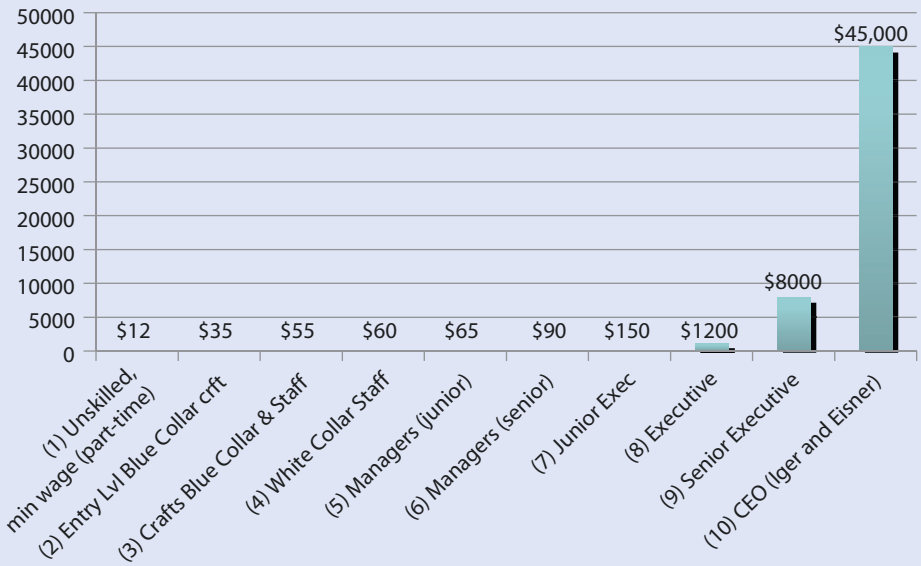


**Fig. 5.8** Disney's Compensation Profile (Wages in $000)

## 5.3 HRM by Negotiation: "Tough Labor"

Thus far, we have discussed elements of the analytical, number-driven approach of hard HRM. We now move to a second dimension of managing media HR: that of dealing with employees collectively.

### 5.3.1 The Industrial Workforce

The industrial information sector workforce often involves manual labor working in a mass production or infrastructure setting. One example of this type of workforce is assembly line work in the IT sector. Labor unions are often active in these industries, such as ver.di in Germany, NWJ in Japan, CWU in Australia and the UK, and CGT-FAPT and F3C-CFDT in France. In the USA, there are three major industrial unions for the telecom, IT, TV and film industries: the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) and the International Alliance of Theatrical and Stage Employees (IATSE).

The strength of unions has declined as the industrial economy has transitioned to a services-based economy. In America, unionization dropped from its peak in the 1940s of roughly 35% of the labor force to about 11% in 2017.[25] For private sector non-agricultural employees, it was

25 Bureau of Labor Statistics. "Union Members Summary." January 19, 2018. Last accessed May 7, 2018. ► https://www.bls.gov/news.release/union2.nr0.htm

not about half that, at 6.5% in 2017. In wired telecommunications, the figure is 17.1% (for other telecom such as mobile, it is 10.2%). For motion pictures, unionization stood at 10.1% and, for newspapers, 9.3%.[26] The steady decline reflects the industry's deregulation and the shrinking workforce at the heavily unionized traditional companies.

Union membership in other industrial nations has decreased, too. In Japan, it fell from 55.9% in 1949 to 18.5% in 2010; in France, from 30% in the 1950s to 8% in 2014, even lower than in the USA. In the French private sector, the figure is 5% (and 14% in the public sector). In the UK, unionization stood at 26% and, in Germany, at 18%. However, unions are often the sole representatives of all employees, including non-members. In some countries, they sit on corporate boards and co-administer benefit plans.[27]

Studies show that unionization has a positive effect on salaries.[28] In the USA, for example, unionized telephone operators earn almost double the wage of non-unionized workers. However, some of the difference reflects a better-quality workforce. Jobs with higher wages and more protections are usually more desirable and generate more applications, thus enabling employers to be more selective in terms of quality. Also, unions upgrade the skills of their members and often are a provider of training. But higher wages also lead to lower labor mobility. Of telecom company technicians, 80% have worked for more than ten years with the same firm. In contrast, the largely non-unionized IT industry experiences much greater labor mobility.

### 5.3.2 The Crafts (Skilled) Media Workforce

The second category of employee is the *crafts* workforce, which consists of skilled technical and artisan workers. Here, the history of labor unions has been stormy. One union activity has been to negotiate work rules, which can be onerous, and also fragment work tasks. This has affected labor costs in the film industry and contributed to "runaway productions," where films move from Hollywood to Canada and other countries, or to less expensive US locations. In response, rules were relaxed so that independent producers could make low budget non-union movies and TV shows, as long as the studio had no creative control.

Newspapers, too, have had a turbulent history of industrial union conflicts. Typesetters were once powerful and regarded as the aristocracy of labor. Eventually, the increase in automated typesetting without hot-metal composing threatened employment. As a result, strikes became frequent. An epic newspaper strike in New York in 1962 shut down eight daily newspapers. After 114 days, the strike ended, but several newspapers never recovered and closed for good.

### 5.3.3 The Creative Workforce

The third category of employees in the media sector is that of the "creatives," often known in the film industry as "above-the-line" (in the budget), as contrasted with the "below-the-line" crafts employees. Actor unions, often known as "guilds," originated in nineteenth-century theater, often to assure the payment of salaries owed if a show closed down.

Creatives' unions also exist for film actors, dancers, musicians, journalists and others. The question is, why is there often such strong unionization in media crafts and among media creatives? There are at least five factors: oversupply, money, political leverage, stress and respect.

**Oversupply** The supply of aspiring artists is large and not particularly price sensitive to entry level pay. W. B. Yeats once opened his address to his fellow poets' Rhymers' Club in London by saying: "The only thing certain about us is that we are too many."[29] The high level of competition for jobs in the creative sector depresses the average compensation. Many creatives are willing to work for free just

26 Hirsch, Barry T., and David A. Macpherson, "Union Membership and Coverage Database." *Unionstats.com*. Last accessed on June 25, 2014. ► http://www.unionstats.com.

27 The Economist. "Why French Trade Unions are So Strong." March 17, 2014. Last accessed April 24, 2017. ► http://www.economist.com/blogs/economist-explains/2014/03/economist-explains-15.

28 Batt, Rose, Harry C. Katz, and Jeffrey H. Keefe. "The Strategic Initiatives of the CWA: Organizing, Politics, and Collective Bargaining." Paper presented at symposium on Changing Employment Relations and New Institutions of Representation, Ithaca, New York, May 25–26, 1999.

29 Giraldi, William. "Creative Destruction." *New Republic*. February 4, 2015. Last accessed April 28, 2017. ► http://www.newrepublic.com/article/120932/scott-timberg-culture-clash-review-americas-creative-destruction.

for the experience, the opportunity to be noticed, to build a résumé, or to express themselves.[30]

As mentioned, American music schools each year graduate about 14,000 students with performance degrees. There is also a significant immigration of talent. But there are only 250–350 job openings a year in symphony orchestras. Live musicians are being replaced by recordings. One of the functions of unions is, therefore, to limit competition and to reduce access by newcomers.

**Money** Those on the inside with a union-protected job can expect fair returns. In 2010, the annual salary of the heavily unionized New York Metropolitan Opera orchestra members was $110,869. In addition, orchestra members also receive compensation for rehearsals at an hourly rate of $80, averaging ten hours per week, can provide lessons to private students, and give their own performances. This level would be rare for non-union creative jobs.

**Political Leverage** Beyond work conditions, labor unions wield broader political power where they are affected financially and ideologically. In 2008, six unions representing 11,000 French TV network staffers and 4000 public radio station employees walked out in protest over President Sarkozy's plan to ban advertising from public TV channels, which would cost these public channels over $1 billion per year in revenue. In 2006, over 1000 Korean film stars, production staffers and local artists rallied to protest the government's change to the screen import quota system, which protects Korean movies from foreign competition.

**Stress** The high level of stress in creative fields is due to several factors, including risk, long periods of unemployment and job search, intense competition, frequent rejection, an often short productive life as an artist (especially in film and dance), and long, irregular work hours.[31]

**Respect** Unions help to reduce the perceived lack of respect from management (the "suits"), and to protect against favoritism, discrimination, and harassment. Writers have often penned biting exposés of the inner workings of Hollywood film studios. Examples include Budd Schulberg's *What Makes Sammy Run*, F. Scott Fitzgerald's *The Last Tycoon*, Nathanael West's *The Day of the Locust* and William Faulkner's *Golden Land*.[32] Unions are, in part, a response by those who feel more talented but less powerful than their management bosses.

### 5.3.4 Freelancers and Unions in the "New Economy"

The image of Silicon Valley culture is egalitarian and democratic, with employees offered ownership in the company and opportunities for advancement. Nevertheless, labor in dot-com companies began to organize.[33] For employees, factors contributing to dissatisfaction include the perception that middle-aged workers are obsolete, disparity in rewards relative to top executives and low job security.[34,35] The growing threat to the labor force in the "new economy" has been outsourcing and off-shoring. Software developers earn $60 per hour in the USA and $6 per hour in India, on average.[36] There is also an immigration of talent. From 2001 to 2003 alone, about 180,000 new skilled workers entered the USA to join the field of computing.[37] The Programmers Guild, a union, therefore attempts to limit foreign competition by resisting a variety of tech visas which would allow foreigners to work in the USA.

High-tech unions, however, face considerable resistance. This push-back comes primarily from entrepreneurs who feel that the restrictions promoted by unions threatens the entrepreneurial essence of their companies.[38]

30 Giraldi, William. "Creative Destruction." *New Republic*. February 4, 2015. Last accessed April 28, 2017. ► http://www.newrepublic.com/article/120932/scott-timberg-culture-clash-review-americas-creative-destruction.

31 Bureau of Labor Statistics, US Department of Labor. "Actors, Producers, and Directors." Last modified March 2004. ► http://www.bls.gov/oco/ocos093.htm.

32 Epstein, Edward J. *The Big Picture: The New Logic and Power of Hollywood*. New York: Random House, 2005.

33 Greenhouse, Steven. "The First Unionization Vote by Dot-Com Workers is Set." *New York Times*. January 9, 2001. Last accessed April 28, 2017. ► http://www.nytimes.com/2001/01/09/business/technology-the-first-unionization-vote-by-dot-com-workers-is-set.html.

34 Batt, Rosemary et al. "Work Patterns and Workforce Policies for the New Media Industry." *EPI Book*. Washington, DC: Economic Policy Institute, 2001.

35 Fraser, Jill Andresky. *White-Collar Sweatshop*. New York: W. W. Norton and Co., 2001, 140.

36 Farrell, Diana et al. "Offshoring – Is it a Win-Win Game?" *McKinsey Global Institute*. August 2003. Last accessed April 28, 2017. ► http://www.mckinsey.com/global-themes/employment-and-growth/offshoring-is-it-a-win-win-game.

37 Francis, David R. "Endangered Species: US Programmers." *The Christian Science Monitor*. October 14, 2004. Last accessed April 28, 2017. ► http://www.csmonitor.com/2004/1014/p17s01-coop.html.

38 Girard, Kim. "Unions? Not in this Valley." *Fast Company*. September 1, 2001. Last accessed June 16, 2010. ► http://www.fastcompany.com/magazine/74/unions.html.

The second thrust of unionization is the issue of freelancers. More and more people work from home, or have become independent contractors. The trends move in the direction of independent contractors and freelancers, rather than traditional employees. This is known as the "Gig Economy." Technology accelerates these trends. The number of people in the USA who used some form of telework in 2015 was 35 million (International Association for Telework). Another survey showed that about 58 million people (37% of the US workforce) telecommuted, the average being two days per month.[39] In 2001, 20 million people worked at home as part of their primary job (National Bureau of Labor Statistics). Over 50% of those who worked at home were salaried workers taking work home unpaid; 30% were self-employed.

Freelancers incur substantial transaction costs. One study found that such employees spend only 49% of work time in new media on direct production. The remainder is spent on searching for new work and on client relations, i.e. on developing future employability.[40] The status of freelancers inevitably led to legal and political disputes. One-third of Microsoft's workforce was, in the oxymoronic term, "permatemps." This gave flexibility to Microsoft and other tech firms but led to high levels of employee insecurity.[41] The primary concern of permatemps is that, despite often fair take-home pay, they lack benefits and job security. As their demands expanded, the Washington Alliance of Technical Workers (WashTech) began to unionize these white-collar tech workers. They also went to court. In the case of *Vizcaino v. Microsoft*, a court ruled that the workers Microsoft hired as "independent contractors" were actually de facto employees and were thus entitled to the same pension plans and other benefits.[42] In response, some employers created access arrangements for health insurance. The Health and Welfare Fund in the film industry served as a model for providing benefits in project oriented industries such as software development.[43]

In 2013, taxi drivers in California and Massachusetts brought a class action lawsuit representing 385,000 drivers against the taxi services company Uber, alleging that they should be treated as employees and not as independent contractors. In 2016, Uber settled with the drivers, agreeing to pay $84 million along with working to create better rules and communication with drivers.[44]

### 5.3.5 Building Relationships with Unions

In an environment with significant union presence, it becomes an important management skill to deal constructively with unions. Companies need to build and maintain relationships with labor unions as an investment in good work relationships. These relationships do not form overnight and it takes a long time to establish the necessary credibility.[45] This starts with understanding the other side. Union officials sincerely believe that they provide an invaluable service to their members, including higher wages, greater job security and due process protection against arbitrary decisions.

Advice by other managers on how to build relations with unions includes:

- People want their concerns to be heard and then addressed.
- Stay in touch. Meet regularly with an employee representative to hear about problems.
- Solicit advice.
- Be available.
- Stress partnership and common goals.
- Be open to ideas and suggestions.[46]

39 Jones, Jeffrey M. "In U.S., Telecommuting for Work Climbs to 37%." *Gallup*. August 19, 2015. Last accessed April 28, 2017. ► http://www.gallup.com/poll/184649/telecommuting-work-climbs.aspx.

40 Batt, Rosemary et al. "Work Patterns and Workforce Policies for the New Media Industry." *EPI Book*. Washington, DC: Economic Policy Institute, 2001.

41 Pederson, April. "Should High-Tech White Collar Workers Unionize?" *Speak Out*. June 6, 2000. Last accessed March 25, 2004. ► http://speakout.com/activism/issue_briefs/1284b-1.html.

42 Muhl, Charles J. "What is an Employee? The Answer Depends on the Federal Law." *Monthly Labor Review* 125, no. 1 (January 2002), 3–11.

43 Batt, Rosemary et al. "Work Patterns and Workforce Policies for the New Media Industry." *EPI Book*. Washington, DC: Economic Policy Institute, 2001.

44 Isaac, Mike and Noam Scheiber. "Uber Settles Cases With Concessions, but Drivers Stay Freelancers." *New York Times*. April 21, 2016. Last accessed April 28, 2017. ► http://www.nytimes.com/2016/04/22/technology/uber-settles-cases-with-concessions-but-drivers-stay-freelancers.html.

45 Ajalat, Peter B. "Union Organizing, Negotiations and Contract Administration: Perspectives of a Former Union-Lawyer Now Laboring for Management." *The Metropolitan Corporate Counsel*. November 2004.

46 Haring, Bob. "How to Build Relationships with Labor Unions." *Houston Chronicle*. Last accessed April 28, 2017. ► http://smallbusiness.chron.com/build-relationships-labor-unions-43674.html.

It is important to an employer's success in negotiating with the representatives of employees to have established and maintained solid personal relationships with them. Such relationships take a long time to create.

To be successful, negotiators on both sides should have clear objectives, have patience, be well-prepared with data, be fair, ignore rhetoric, be good listeners and be careful about details. They must understand the other side's motivation, needs, personalities and priorities, and need for face saving.

Management must carefully prepare the data on which to base its negotiations: data on pay and benefits, comparisons with local rates and also with rates paid for similar jobs within the industry.[47] There may be a need to construct a financial model to compute the costs of various benefits and so on.

If negotiations break down, an "industrial action" may take place, such as a strike, a work-by-the-book, or a go-slow work. Employers can engage in a lockout, in which employees cannot work and are unpaid. Strikes are highly regulated through law. In most countries, essential services such as emergency communications are defined and excluded from industrial action.

## 5.4 HRM by Human Touch: "Soft Control"

### 5.4.1 Soft Control

The classic HR approach, augmented by the methodologies of "hard HRM", has been that HR management should be based on clear performance measures of employees. Such standards are based on formalized targets, and performance measurement, with rewards based on an analysis of the difference between the two. Increasingly, however, it is realized that formal procedures can have a cost in stifling creativity and energy, and that "soft controls" based on interpersonal relationships are often more effective in enhancing performance. "Soft" does not mean "unimportant" or "indulgent." Examples of soft controls include:[48]

- Setting tone at the top and leadership;
- Empowerment of initiatives throughout the organization;
- Ethical climate, shared values, and mutual trust up and down the hierarchy;
- Sense of community, shared values and joint accomplishment;
- Physical comfort, safety, respect;
- Vertical and horizontal fairness in compensation and opportunities;
- Personal growth opportunities.[49]

### 5.4.2 Managing and Motivating the Creative Workforce

"Creativity" may be described as a process in which expertise in a specific field is combined with unconventional thinking and results in new solutions, or in new questions. The task of an organization is to create the conditions for such creativity to flourish, within the imperatives of a large organization that is more bureaucratized than a startup. By suppressing creativity, one often loses the most valuable people of an organization. They are also the most mobile of employees.

Similarly, technology "geeks" are resistant to leadership yet may be more in need of it than any other group of employees. Conversely, business managers often find geek values baffling. Conflicts arise in structured organizations where managers seek stability and control. To be an effective leader of geeks, power and authority are a less useful tool for moving a project than creating motivation (◘ Fig. 5.9).[50] In consequence, the management of technical teams by people who understand geek values and patterns has become a specialty unto itself.

### 5.4.3 Models of Motivation

There are three basic perspectives on stimulating employees, those of "extrinsic," "intrinsic," and "situational" motivation.

A major approach to understanding motivation takes into account that a person's motivation is not immutable but, rather, that it depends on circumstance. Motivational attitudes follow a

47 Citeman. "Management and Union Negotiations." July 3, 2008. Last accessed April 28, 2017. ► http://www.citeman.com/3566-management-and-union-negotiations.html.

48 Roth, Jim. "Soft and Strong: A Best-practice Paradox." *Tone at the Top* 50 (March 2011). Last accessed April 28, 2017. ► https://global.theiia.org/knowledge/public%20documents/tat_march_2011.pdf.

49 Hartmann R. C., F.G.H., and Sergeja Slapnicar. "Control Systems: "Hard" and "Soft" Management Controls." *MCA*, no. 2 (March 2007): 26–31.

50 An updated version is Murphy, Chris. "2014 US IT Salary Survey" *InformationWeek Reports* May 2014, 54.

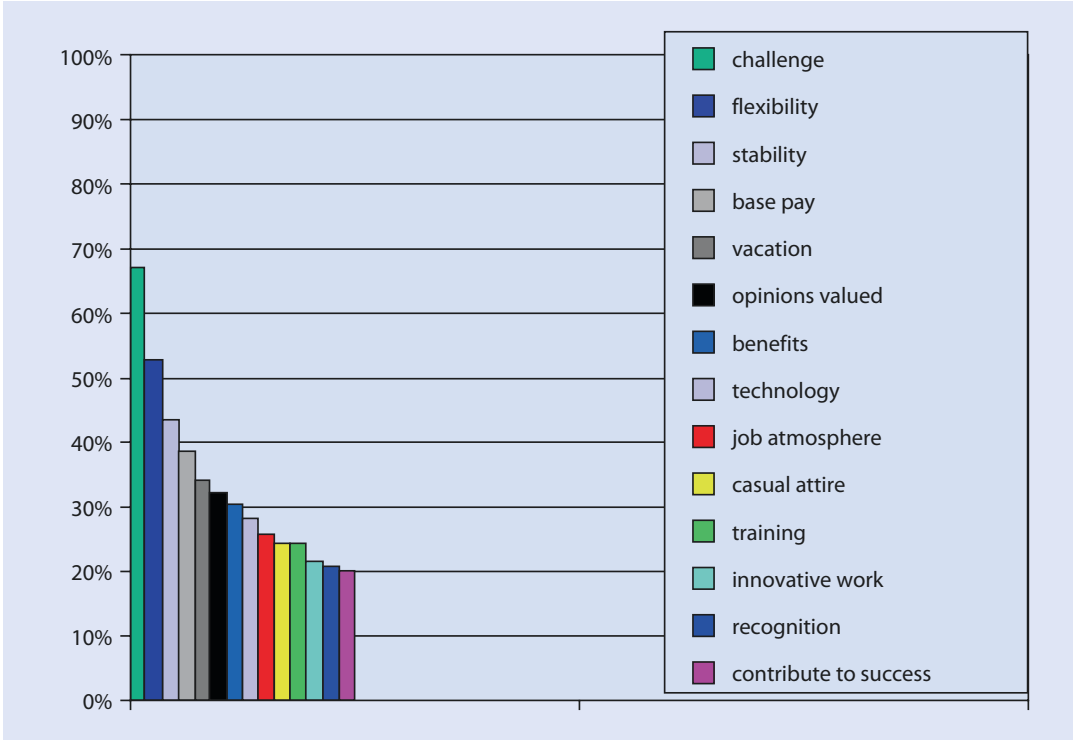


**Fig. 5.9** What Matters Most to IT Technologists

"hierarchy of needs," a concept popularized by Abraham Maslow.[51] Human needs will never be fully satisfied, but they follow a hierarchy of priority. As each level of needs is fulfilled, a person moves up to the next level where needs (and motivation) will different than before and become more important than before (Fig. 5.10).[52,53] In Maslow's hierarchy, each level corresponds to specific needs.

Every person has all of these needs but in varying degrees of intensity and desire. As a lower level is filled, higher levels become more important. For creatives, attaining Level 5 (self-actualization) is particularly important, but the needs of Levels 1 to 4 (food and shelter, security, group companionship, and esteem needs) must be fulfilled first. This hierarchy of needs serves as a framework in understanding how a firm can motivate its employees and generate a "soft" form of control.

#### 5.4.3.1 Level 1: Physical Comfort Needs

For their creatives, many effective companies provide "caring sweatshop" environments that may make work as attractive—or even more so—than their regular life, yet may also be relentlessly demanding, because creatives thrive on challenge. Job perks signify "caring" far beyond their organizational cost.[54] Google provides all-you-can-eat snacks, a massage therapist, and doctors and dentists on site.[55] Apple, Yahoo and Google have organic chefs and on-site masseuses.[56] Employees get access to advanced equipment and resources. The workplace is made visually stimulating. The workspace can be physically organized to encourage collegiality. For example, the building of Pixar (subsequently a Disney subsidiary) was designed by then CEO Steve Jobs to maximize unplanned encounters.[57]

51 Maslow, at one point, postulated his perspective to be "TheoryZ", but that term has been applied more to William Ouchi's views on loyalty and the human workplace.

52 Cairncross, Frances. *The Company of the Future: How the Communications Revolution is Changing Management*. Boston: Harvard Business School Press, 2002.

53 Graph based on https://www.simplypsychology.org/maslow.html.

54 Florida, Richard. *The Rise of the Creative Class*. New York: Basic Books, 2002, 132.

55 Google. "Life at Google," Last accessed June 16, 2010. ► http://www.google.com/jobs/lifeatgoogle/benefits/.

56 *BloombergBusinessWeek*. "Zen and the Art of Corporate Productivity." *Bloomberg*. July 28, 2003. Last accessed April 30, 2017. ► https://www.bloomberg.com/news/articles/2003-07-27/zen-and-the-art-of-corporate-productivity.

57 Catmull, Ed. "How Pixar Fosters Collective Creativity." *Harvard Business Review*. September 2008. Last accessed April 30, 2017. ► https://hbr.org/2008/09/how-pixar-fosters-collective-creativity.

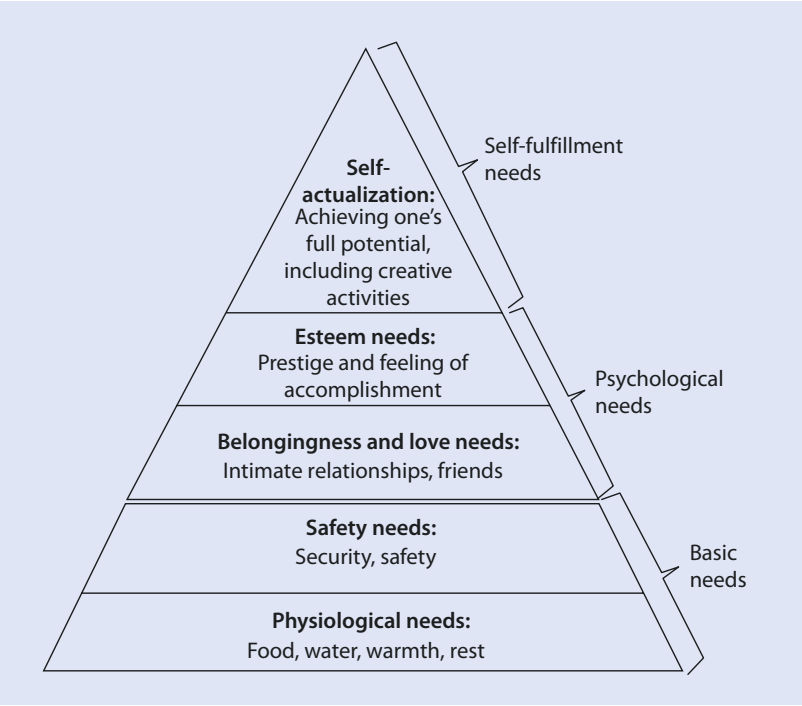


**Fig. 5.10** Maslow's Hierarchy of Needs

### 5.4.3.2 Case Discussion

**Disney and Physical Comfort Needs**

Walt Disney was an early pioneer of the "caring sweatshop" concept back in the 1930s, when he built a new studio in Burbank, California, with an ambience that resembled a college campus. In contrast to virtually all larger companies, there were no set working times or punch-in clocks. There was a relaxed sick day policy in which employees would still receive full pay.[58] Disney's animators in the 1930s made $100–$125 per week, which was generous during the Depression, providing security and peace of mind to enhance creativity. Today, Disney's headquarters and studios are equipped with many amenities including buffets, barbershops and gyms. There are many perks for Disney employees.[59] Thus, on the whole, Disney has done a good job on physical comfort, Level 1 of the Maslow hierarchy of needs.

### 5.4.3.3 Level 2: Safety Needs

Once basic needs of shelter and sustenance are met, the next level on the hierarchy of needs is safety. Safety needs included several elements: job security, retirement security and the security of fair treatment. The media and information sector (aside from traditional telecom) is not a good environment for job or retirement security; in fact, it is hard to think of an industry that offers less security. This is the major reason for the high unionization that was discussed earlier in the chapter.

A fundamental element of security is fairness. Without fairness, an employee is subject to arbitrary treatment in the workplace and, hence, great insecurity. Fairness has many dimensions, among them an objective performance appraisal and non-discrimination.[60] Creatives can lose their motivation if they feel they are being treated inequitably.[61] Creative employees value an unprejudiced workplace treatment, and a compensation structure that is not lopsided.

### 5.4.3.4 Level 3: Social Needs

Humans are social animals and strongly seek to belong to a community. An important element of the "soft control" of creatives is to integrate them into teams with community spirit. One way to accomplish this is by creating an "us" vs. "them"

58 Gabler, Neal. *Walt Disney: The Triumph of the American Imagination*. New York: Alfred A. Knopf, 2006.
59 Rubis, Leon. "Disney Show & Tell." *HR Magazine* 43, no. 5 (April 1998): 110.
60 Glen, Paul. *Leading Geeks*. San Francisco: Jossey-Bass, 2003.
61 Ainsworth Maguire. "Managing Creative People." Last accessed April 30, 2017. ► http://www.ainsmag.co.uk/pr-advice/managing-creative-people/.

identification in the workplace. This encourages competition against other companies, rather than against colleagues. In the telecom industry, morale is highest during peak periods of emergencies such as natural disasters, when the job is objectively at its most difficult. The feeling of service to others motivates people. Managers can spur motivation across groups by creating shared goals and common peer values. In such an effort, team cohesion helps productivity, but also lowers it when things go badly.



In teams, individual performance cannot be easily observed, and only team output can be measured. This has its advantages: a strong incentive to cooperate, rather than compete, with one's colleagues, which creates complementary skills, specialization and the encouragement of knowledge transfer. This is one of the strengths of startups. The disadvantages of teams are a weaker incentive structure, a free-rider effect, and a "group think" mentality which values "getting along." Team members tend to monitor each other's efforts informally in such a way that is often more effective than if done by an outside supervisor, while emphasizing mutual reliance and trustworthiness.[62] The disadvantages of teams are a weaker incentive structure, a free-rider effect, and a "group think" mentality which values "getting along." Methods of group motivation are the communication of a shared goal and a shared reward.

Top managers often view the creatives as having valuable ideas but lacking the broad perspective or the business imperatives. Therefore, they are typically not included in the company's strategic discussions.[63] Others try to include creatives in order to motivate them and create a community of interest. Creatives will be more motivated when they understand the big picture and the relationships between the firm's short-term and long-term objectives.[64]

However, including creatives in corporate management can also generate problems. For example, many newspaper companies have created "cross divisional teams," task forces and committees, with reporters and editors joining circulation and advertising managers to produce marketing and other strategies. This broke the tradition of separating "church and state" —the supposed wall between the editorial and the publishing business sides of the operation. Since the mid-1980s, big newspaper chains such as Gannett in the USA have pushed for an "open newsroom" in which all departments, whether editorial or marketing, are expected to work together in producing and promoting the paper. This development created criticism from news staff of being pressured to report news content of less informational value but helpful to the newspaper's advertising and marketing.

### 5.4.3.5 Case Discussion

**Disney—Promoting Community**

During the company's earlier years, fostering a close-knit leading-edge group made everyone feel needed and was consciously used by Walt. As the company expanded, creatives felt more replaceable and team spirit declined. Disney lost the "us" identity that was so valuable during its beginning. To restore it, Disney tried various techniques, such as calling many of its employees "cast members." But these efforts went only so far. "Us" became the employees, not the company as a whole. "They" became top management, not the competitors. Disney did reasonably well in forging a community. But this community became directed against top management, which they viewed as interlopers into that community.

A marked contrast is another animation studio. Pixar leapfrogged Disney in innovation and creativity. From its early days as a startup, Pixar worked hard to create a peer culture that encourages people to help each other produce their best work. For example, the daily animation work in progress is shown to the whole crew. This helps people get over any embarrassment about sharing unfinished work. It generates peer contributions and inspires all to do their best. To generate community, Pixar freed up communication among personnel, without their having to get permission or having to go through the "proper" channels.

62 Hartmann R. C., F.G.H. and Sergeja Slapnicar. "Control Systems: 'Hard' and 'Soft' Management Controls." *MCA*, no. 2 (March 2007): 26–31.

63 Mumford, Michael. "Managing Creative People: Strategies and Tactics for Innovation." *Human Resource Management Review* 10, no. 3 (September 2000): 313–351.

64 Glen, Paul. *Leading Geeks*. San Francisco: Jossey-Bass, 2003.

These approaches worked for Pixar's animation films, which reaped triumphs. Pixar recreated the spirit of Disney when that company had been a startup itself in the 1920s, full of team spirit, exploration and innovations.

But, by the early 2000s, Disney animation had become a shadow of its former self. Its full-length animation films, which had been its foundation for 50 years, mainly produced flops. Disney was far behind in computer animation.

But it still had deep pockets. It bought the successful upstart Pixar for $7.4 billion and, with it, acquired the creative and technical talent. In buying Pixar, Disney, to its credit, hoped to bring back the spirit of its own youth.

### 5.4.3.6 Level 4: Esteem Needs

Creatives, more than most people, need the reassurance of positive feedback. It is inherent in the subjective nature of such work that its creators seek assurance that they are doing a good job. Recognition ideally comes from people who are familiar with the work, and can make objective and informed judgments.[65] Working with and being recognized by talented peers are among the things that creative employees value most.

Studies show that money does not necessarily increase creativity: 10–15% of employees innovate when recognition is monetary, such as through bonuses or increased salary, but 70–80% of employees innovate more actively in order to garner professional esteem, such as an award or a special title.[66] Tools of peer recognition are award ceremonies and appropriate credit for notable work. The Oscars, Golden Globes, Grammies, Tonys, Pulitzers and numerous other awards are annual platforms to recognize creative excellence by peers.

Encouragement is another motivational element of "soft control." Creativity involves risk, so managers who stress consequences of failure inhibit creativity. Instead, managers should stress rewards for success.[67] "Constraints" should be converted into "challenges."[68] Negativity is an enemy of creativity.

### 5.4.3.7 Case Discussion

**Disney's Recognition System**

Disney awards over 20 service recognition rewards to its employees. Such awards include "Applause-o-Gram" cards for anyone who has done a good deed. There are "Thumbs Up" gift certificates for landscaping staff, "Golden Hanger" gift certificates and Department of the Month awards.[69]

Disney is also actively promoting its films, TV shows and artists for awards such as the Oscars or Emmys. Partly as a result, Disney has produced or distributed films that have garnered over 50 Academy Awards in the first decade of the 21st century, and over 150 TV Emmy awards. Altogether, then, Disney has done a good job of meeting its employees' need for recognition and esteem.

### 5.4.3.8 Level 5: Self-Actualization Needs

Self-actualization is the most defining level of needs for creatives. This has many dimensions. Creatives are motivated and inspired by the prospect of advancing their skill levels—getting better at what they do, achieving mastery, breaking out. Therefore, training, development and stimulating experiences are ways to motivate them.

Companies thus must provide, beyond financial rewards, intrinsic rewards[70] for personal growth.[71] To increase intrinsic motivation, they must give employees responsibility, autonomy, and tasks that promote personal development.

65 Florida, Richard. *The Rise of the Creative Class*. New York: Basic Books, 2002, 8.
66 Robinson, Alan. G., and Sam Stern. *Corporate Creativity: How Innovation and Improvement Actually Happen*. San Francisco: Berrett-Koehler, 1997.
67 Reitz, Joseph H. *Behavior in Organizations*. 3rd ed. Homewood: Irwin Publishers, 1987.
68 Javitch, David. "Inspiring Creativity in Your Employees." *Entrepreneur*. April 4, 2005. Last accessed April 30, 2017. ► https://www.entrepreneur.com/article/76890.
69 The Disney Institute. *Be Our Guest: Perfecting the Art of Customer Service*. New York: Disney Editions, 2001.
70 Black, J. Stewart, and Richard M. Steers. *Organizational Behavior*. New York: Harper Collins College Publishers, 1994, 218.
71 Bowen, Brayton. "Today's Workforce Requires New Currency." *HR Magazine* 49, no. 3 (March 2004): 101–105.

It is useful for the firm to train individuals in organization-specific skills.[72] The larger the employee's investment in it, the more costly it is for them to leave, both for themselves and for the company which loses them. This fosters mutual loyalty.

It should be noted that the approach of a company investing in its employees skills is not the only way to go. An entirely alternative organizational philosophy has been to leave up-skilling to an employee's own initiative. Intel's motto is "own your own employability." Employees are individually responsible for improving their work skills after receiving periodic reports detailing the status of the firm and changes to skill requirements.[73]

Another element of self-actualization is job "sculpting," which involves, as much as possible, shaping jobs around employees' skills and interests. Workers are allotted more freedom to pursue personal achievements in the industry.[74] Newspapers often employ job sculpting when they allow their journalists to expand and compile stories into a book, which generates visibility (and income).

### 5.4.3.9 Case Discussion

**Disney Training and Development**

"Disney University" was one of the first structured corporate learning facilities and continues to be one of the largest in the world. Beyond the job training program, it also aims to preserve Disney's business culture.[75] Disney also runs a Human Resource Certificate Institute (HRCI), a program designed for its HR professionals.[76] A Disney University is established at each of Disney's theme park locations, providing diverse training in skills, including management protocol, cooking techniques and computer proficiency.[77] Training is flexible and extensive. Disney provides the option of taking self-paced courses in a variety of subjects so that employees are able to study at their own convenience. Disney also pays for employees' college courses through an educational reimbursement plan.

Other activities are Disney's mobile training units, which enable employees to receive computer training at their work site, and training via satellite, where management courses are offered from top business schools to supervisors and managers.

### 5.4.3.10 Corporate Culture

The pre-industrial firm reflected the personality of its leader. The industrial firm, once mature, was impersonal but had distinct characteristics. This character was "hardwired" into the organization and was hard to change or even control. There was much homogenization. IBM expected its employees to wear white shirts. Corporate America in the 1950s was populated by men in quintessential gray flannel suits. Japanese firms had their cadres of dark-suited "salarymen."

But corporate culture goes far beyond dress code. The corporate culture of a firm affects how new information is interpreted. One study looked at why two very similarly situated American telecom companies reached radically different business decisions regarding the cellular telephone. US West decided not to enter the market at all, while BellSouth entered it enthusiastically. The key explanations were found not in information but in the culture. US West was focused on generating short-term results, and thus considered the investment-intensive cellular telephony a poor prospect. On the other hand, BellSouth's culture was one of infrastructure and public service, and it took a long-term perspective. It thus viewed mobile service as a complement to its wireline business.[78] US West's decision to skip mobile communications turned out to be a disastrous decision.

For more than a century, telecom organizations operated with a culture shaped by engineering and civil service value systems and operations: clear and specified procedures; clear

72 Luthans, Fred, and Carolyn M. Youssef. "Investing in People for Competitive Advantage." *Organizational Dynamics* 33, no. 2 (May 2004), 143–160.

73 Pasternack, Bruce, and Albert Viscio. *The Centerless Corporation*. New York: Simon & Shuster, 1998, 67.

74 Butler, Timothy, and James Waldroop. "Job Sculpting: The Art of Retaining Your Best People." *Harvard Business Review*, September–October 1999. Last accessed April 30, 2017. ► https://hbr.org/1999/09/job-sculpting-the-art-of-retaining-your-best-people.

75 Clarke, Thomas and Antoine Hermens. "Corporate Developments and Strategic Alliances in e-Learning." *Education + Training* 43, no. 4 (2001): 265.

76 Disney Institute. "Accredited Programs." Last accessed June 10, 2010. ► http://www.disneyinstitute.com/About_US/Accredited_Programs.aspx.

77 Paton, Scott M. "Service Quality, Disney Style." *Quality Digest*. January 1, 1997. Last accessed April 30, 2017. ► http://www.qualitydigest.com/jan97/disney.html.

78 Barnett, William P., and Robert A. Burgelman. "Evolutionary Perspectives on Strategy." *Strategic Management Journal* 17, no. S1 (Summer 1996): 5–19.

lines of responsibility; long planning horizon; job security; politicized decision making; a public service orientation; a national and social perspective; risk avoidance; and a management that rose slowly inside the organization, having adapted to its values. In America, those that shared the dominant telecom culture were known as the "Bellheads." The Internet culture, in contrast, draws from other wellsprings: entrepreneurialism, individualism, risk taking, rapid product cycles, uncertainty and informality. By analogy, its adherents were sometimes known as "Netheads."[79]

This corporate culture conditions members to respond to certain situations with a certain set of behaviors. This has some efficiency benefits. Members of the team share these values and assumptions, and are hence much easier and faster to work with, and can be reliably sent off to represent the organization. At its widest reach, business culture may vary by country; William Ouchi, in his book *Theory Z* (1981),[80] demonstrated how American culture places a high value on individual achievement, whereas Japanese culture stresses a sense of community.

Inculcating new employees with the values of the organization helps to integrate them. All new hires at the telecom company Verizon must take an orientation program. The program includes computer training, guest speakers, benefits and corporate culture education. For entry-level managers, there are also formal leadership or management development programs that last one year, or longer. The Verizon orientation program includes three "tours." An online virtual tour that includes information such as the code of conduct and benefits; a team tour that helps new employees become comfortable with peers and bosses; and a classroom lecture that highlights company history, mission and values.

Corporate culture is much slower to change than organizational structure, top leadership, or strategy. All of those can be changed rapidly by decision. But the collective values of organization and the way its people operate change much more slowly, because they are the aggregate of behaviors and routines acquired over the organization's lifetime. Corporate "re-education campaigns" are usually either doomed to failure, or produce hypocrisy and obstructionism. It takes major incentives to make employees change the patterns they were told to follow in the past.

Culture conflicts are especially difficult when companies merge. An amalgamated new common culture may emerge or be dictated, but it may not be satisfactory to either partner. For example, a style combining Internet and telecom may be stressful to both parts of the organization and unsuccessful in serving their markets.[81]

Within a corporate culture, companies must evolve. As with individuals, they must learn and adapt. The idea of the firm as a learning organization became popular with Peter Senge's 1990 book *The Fifth Discipline*. Senge argues that the firm is an organism and that change is not simply a matter of retooling. Organizational learning theorists take their cue from studies in biology and mathematics of so-called self-organizing systems. They believe that the firm is self-organizing at all levels and that it is a living organism that cannot be controlled by top-down directives.[82]

The president of the animation firm Pixar describes his company's culture thus: "We think and we share some basic beliefs: lasting relationships matter, talent is rare. Management's job is not to prevent risk but to build the capability to recover when failures occur. It must be safe to tell the truth."[83] These are inspiring words. Many companies articulate equally nice principles. For creatives, a congruence of word and deed is essential. When corporate culture says one thing but management behavior goes another way, trouble follows.

79 Noam, Eli. "The Impact of Accelerating Knowledge on the Business Firm." In Antonio Pilati and Antonio Perrucci. Eds. Economia della conoscenza: profili teorici ed. evidenze empiriche. Bologna: Il Mulino, 2005.

80 Heck, Ronald H., and George A. Marcoulides. "Organizational Culture and Performance: Proposing and Testing a Model." *Organization Science* 4, no. 2 (May 1993): 209–225.

81 Noam, Eli. "The Impact of Accelerating Knowledge on the Business Firm." In Antonio Pilati and Antonio Perrucci. Eds. *Economia della conoscenza: profili teorici ed. evidenze empiriche*. Bologna: Il Mulino, 2005.

82 Noam, Eli. "The Impact of Accelerating Knowledge on the Business Firm." In Antonio Pilati and Antonio Perrucci. Eds. *Economia della conoscenza: profili teorici ed evidenze empiriche*. Bologna: Il Mulino, 2005.

83 Catmull, Ed. "How Pixar Fosters Collective Creativity." *Harvard Business Review*. September 2008. Last accessed April 30, 2017. ► https://hbr.org/2008/09/how-pixar-fosters-collective-creativity.

### 5.4.3.11 Case Discussion

**Disney Cultural Dissonance**

In conclusion, then, Disney did a good HRM job on three levels of the Maslow hierarchy of needs: those of physical comfort, esteem and self-actualization. Where Disney failed was in a perception of fairness—an integral part of the need for security—and a lack of an understanding of the need for community. This generated Disney's main HR problem: an internal dissonance in its corporate culture, which led to an internal "us" vs. "them" climate.

Disney's corporate culture was shaped by Walt Disney and his early animation team. Walt Disney followed a "soft" management style centered on making creatives comfortable and appreciated. The tradition of taking care of the creatives was kept alive by Walt's nephew Roy E. Disney. As the Disney Company grew in the 1980s, management became increasingly rigid. Disney's official culture, emphasizes creativity and family, was at odds with the reality of managing a global corporation responsive to investors.

In 2004, dissatisfied employees voted overwhelmingly against management. They wanted to restore Disney's traditions. This movement was led and encouraged by Roy E. Disney which lent legitimacy to their rebellion.

They opposed a pay hierarchy that had become excessively unequal beyond its incentive needs. They felt no identification with the goals of the leadership because they perceived that leadership to act in its own self-interest. Whereas Walt Disney had spoken in inspirational terms: "You don't work for a dollar—you work to create and have fun,"[84] now the company Chief Operations Officer Jeffrey Katzenberg proclaimed: "I'm not interested in Academy Awards, but in 'Bank of America' Awards!"

Disney's employees did not see themselves as rebels but as the restorers of a proud tradition. To them, CEO Eisner and his financial performance-driven style and strategy were the usurpers.

The questions, then, are how does Disney reconcile its financial objectives with its culture? How can the company modify its corporate culture for the twenty-first century? Could it? Should it?

## 5.5 Employment in the Digital Economy

We end this chapter by looking at the overall impacts of the digital economy on employment, because it is important to understand the big picture. For many years, people have believed and hoped that the Internet—and, more generally, the digital economy—would replace and enhance industrial jobs. This was important to developed countries, as their traditional manufacturing activities were either being automated, or were migrating to developing or emerging countries. It was also important as a way to find a productive space for younger generations who moved from the blue-collar jobs of their parents to knowledge-based occupations where they could utilize society's investment in their higher level of education. Such jobs were also believed to reduce class division and inequality.

The conventional story is one of great success. The Internet is supposed to have caused up to 21% of GDP growth in five years in mature countries.[85] In the USA, the Internet economy has reportedly created 1.2 million jobs directly.[86,87] There were also new types of jobs spawned by various applications. A study found that each Internet job supports approximately 1.54 additional jobs elsewhere in the economy.[88] In France, too, the Internet has supposedly created 1.2 million jobs directly. But what kinds of jobs? In the USA, most of them were in e-commerce, not in anything really creative but, mostly, in order fulfillment, i.e. packaging and shipping, as well as the delivery of physical goods such as through trucking, accounting for more than 500,000 of the 1.2 million jobs.

84 Ford, Robert C., Frank S. McLaughlin, and John W. Newstrom. "Questions and Answers about Fun at Work." *Human Resource Planning* 26, no. 4 (2003): 18.

85 Du Rausas, Matthieu Pélissié et al. "Internet matters: The Net's sweeping impact on growth, jobs, and prosperity." *McKinsey Global Institute*. May 2011. Last accessed April 30, 2017. ► http://www.mckinsey.com/industries/high-tech/our-insights/internet-matters.

86 Thibodeau, Patrick. "Study: Internet economy has created 1.2M jobs." *Computerworld*. June 10, 2009. Last accessed April 30, 2017. ► http://www.computerworld.com/article/2525229/internet/study--internet-economy-has-create-1-2m-jobs.html.

87 Quelch, John. "Quantifying the Economic Impact of the Internet." *HBS Working Knowledge*. August 17, 2009. Last accessed April 30, 2017. ► http://hbswk.hbs.edu/item/6268.html.

88 Quelch, John. "Quantifying the Economic Impact of the Internet." *HBS Working Knowledge*. August 17, 2009. Last accessed April 30, 2017. ► http://hbswk.hbs.edu/item/6268.html.

Internet service providers generated 181,000 jobs. Creative jobs were, in particular, in content-related employment (estimated at 60,000) and in software as a service (31,500).[89] These modest numbers are in contrast to the sometimes breathless hype.

But one must also consider the downsides. In the USA, industrial blue-collar jobs disappeared at the rate of 350,000 industrial jobs each year after 2000. (There is also the multiplier effect of jobs, about 1.6 per industrial worker and 2.5 per skilled industrial worker.) Of course, many of these jobs would have disappeared anyway, but more slowly. Transition time is important. People need time to adjust, retrain and relocate. The Internet has accelerated the outmigration of jobs.

Following the blue-collar jobs, the "pink collar" jobs in retailing and clerical staff began to shrink as retailing moved online. Similarly, service support jobs such as telemarketing or editorial work have been moving offshore. Levels of middle management have been cut as ICT made supervision and information exchange easier, thus reducing the need for intermediate levels of management.

Retailing is not the only service industry to be squeezed. A short list of some of the major industries affected by the Internet[90] includes newspapers, travel agencies, stock brokers, and universities. Thus, we can observe not only a de-industrialization but also a "de-servicization."

The problem is not just the loss of traditional employment at a pace that is hard to counteract by digital employment, but that the losses are distributed unequally. In the United States, Europe and Japan, half the jobs lost during the Great Recession were in industries that pay middle-class wages. But most jobs gained since then have been in low-pay industries, or in professional jobs that pay well.[91,92] Many middle-level jobs are easier to automatize with smart software programs, or to outsource and offshore, than low-level jobs. One can automatize travel agents and bank tellers, but it is harder to do it for road construction or cleaning crews. This "hollowing out" of the middle-class workforce will continue. This creates a bottleneck: menial jobs at the bottom, professional jobs at the top, and a weakening in the middle. It means that the job mobility from lower to middle class, which had been the historic route to individual progress, is becoming more difficult.

Is the creative sector going to be the substitute for all of those industrial and service sector jobs that are being lost? This claim, often heard, is unrealistic if one looks at the numbers. In America, including the multiplier effects, seven million industrial and clerical jobs have been lost in the period 2008–2017.[93] In contrast, the total number of people with jobs in journalism, books, TV, film, theater and music is less than one million.[94] So, if creative jobs alone should be the compensation, one would have to expand that sector by a factor of 7. Demand for the output will not grow as fast. Plus, many more people produce content as volunteers, not as a job. The globalization of media means that every other country's content is also available and, by the same logic, is also expanding.

Managers and entrepreneurs in the digital economy create value and wealth, but are also part of "creative destruction" and disruption. They must understand the environment in order to function in it. Every time there is a technology shift, there are doubts and fears. Throughout history, technology has been a net job creator.[95] But that did not help those that were dislocated. In the Industrial Revolution, which proceeded at a much slower pace, millions of Europeans ended up destitute and had to migrate to sprawling city slums or to distant shores. Social and political revolutions and upheavals abounded. Now, the pace of dislocation is even faster.

89 Thibodeau, Patrick. "Study: Internet economy has created 1.2M jobs." *Computerworld*. June 10, 2009. Last accessed April 30, 2017. ► http://www.computerworld.com/article/2525229/internet/study--internet-economy-has-create-1-2m-jobs.html.

90 *Briefing Investor*. "Industries Destroyed by the Internet – A Reflection." July 26, 2012. Last accessed April 30, 2017. ► http://www.briefing.com/investor/our-view/ahead-of-the-curve/industries-destroyed-by-the-internet--a-reflection.htm.

91 Condon, Bernard, and Paul Wiseman. "Millions of Middle-Class Jobs Killed by Machines in Great Recession's Wake." *Huffington Post*. Last updated January 23, 2013. ► http://www.huffingtonpost.com/2013/01/23/middle-class-jobs-machines_n_2532639.html.

92 Condon, Bernard, and Paul Wiseman. "Millions of Middle-Class Jobs Killed by Machines in Great Recession's Wake." *Huffington Post*. Last updated January 23, 2013. ► http://www.huffingtonpost.com/2013/01/23/middle-class-jobs-machines_n_2532639.html.

93 Kurtzleben, Danielle. "Report: America Lost 2.7 Million Jobs to China in 10 Years." *US News & World Report*. August 24, 2012. Last accessed April 30, 2017. ► http://www.usnews.com/news/articles/2012/08/24/report-america-lost-27-million-jobs-to-china-in-10-years.

94 Bureau of Labor Statistics, US Department of Labor. "Occupational Outlook Handbook: Reporters, Correspondents, and Broadcast News Analysts." December 17, 2015. Last accessed April 30, 2017. ► http://www.bls.gov/ooh/media-and-communication/reporters-correspondents-and-broadcast-news-analysts.htm.

95 Smith, Aaron, and Janna Anderson. "AI, Robotics, and the Future of Jobs." *Pew Research Center*. August 6, 2014. ► http://www.pewinternet.org/2014/08/06/future-of-jobs/.

## 5.6 Conclusion and Outlook

Why is it important to understand the HRM of media companies?

Creative workers have a distinctive set of individualistic work styles, meritocratic values and unconventional social behaviors that pose unique challenges to a company's HRM.

Management guru Peter Drucker noted, "Knowledge workers and their skills may well be a firm's main asset and can, unlike manual workers in manufacturing, own the means of production: they carry that knowledge in their heads and can therefore take it with them." The long-term survival of firms in the future depends on creating and replenishing those creative resources.[96] Managers must be able to handle creative talent, or at least handle the handlers of talent.

Managers of creatives need to consider both the creative and profit aspects of the firm. They must balance their need for operational control with assuring creative freedom.[97] The most successful companies will be those where management provides equal attention and respect to both the "suits" and the "pony tails." They must maintain hard HRM and "soft control" simultaneously.

## 5.7 Review Materials

**Issues Covered**

We have covered the following issues in this chapter:

- How the focus of HRM has changed;
- How HRM is organized in a company;
- How the importance of creativity influences HRM in the media, information and digital industry;
- How to analyze intra-company labor flows;
- How to shape the optimal organizational hierarchy;
- What implications finance theory has for companies' compensation systems;
- How the power of unions shifted;
- What factors define the creative workforce;
- How the increase in freelancing affects labor relations;
- What the special HR factors are for middle managers and freelancers;
- How soft control based on interpersonal relationships can be more effective;
- What the explanations are for employee unionization in media industries;
- How firms can leverage motivation theory to motivate their employees;
- What the significance of corporate culture is;
- What the impact of the digital economy is on employment.

**Tools Covered**

We used these tools to address HRM issues:

- Rate of return on investment in human capital;
- Productivity measurement;
- HRIS;
- Hiring of risky employees;
- Outsourcing/offshoring;
- Internal labor market analysis;
- Organizational pyramids;
- Fixed vs. variable pay;
- Optimal compensation gradient;
- Incentive scheme design and promotion;
- Union negotiations;
- Elements of soft control;
- Leading and motivating geeks.

### 5.7.1 Questions for Discussion

1. How do producers assess how much to compensate a star or superstar for their services?
2. Discuss whether the typical compensation structure utilized in the film and telecom industry is an effective method to promote productivity and creativity.
3. Are individuals motivated by their enthusiasm for their craft and profession

96 Lampel, Josh et al. "Cultural Industries: Learning from Evolving Organizational Practices." *Organizational Science* 11, no. 3 (June 2000): 263–269.

97 The Economist. "Special Report: How to Manage a Dream Factory – The Entertainment Industry." January 16, 2003. Last accessed April 24, 2017. ► http://www.economist.com/node/1534766.

rather than by hope for financial gain more valuable to the overall success of a media company than those seeking mostly money and power?

4. What is the reason for strong unionization in many media industries? Should one expect similar trends in new creative industries such as games development?

5. How can a TV network company measure return on investments in human capital, such as a training program in respect for diversity?

6. How should an e-commerce company determine its compensation mix of fixed salary and contingent compensation? What factors should the company consider?

7. Discuss where the creative workforce is going. Will it continue to keep growing, or will it peak and decline, as agricultural or industrial workers have in the past?

8. How should a startup proceed in motivating its employees?

9. How can a firm use the concepts of tournament theory to design a compensation gradient for the firm's employees?

10. Discuss how a company could use an internal labor market map to improve its performance.

## 5.7.2 Quiz

1. What is the best way to judge a creative's output?
   1. Comments from senior creatives;
   2. Comments from his/her peers;
   3. Number of usable product ideas created.
      A. 1 and 3.
      B. 2 and 3.
      C. 2 only.
      D. All of the above.

2. What is the most cost-effective/best way of increasing a firm's creativity?
   A. Hire outside talent.
   B. Train current employees.
   C. Redesign organizational the environment.

3. According to studies, to have a project team maximize its total creative output, how many people should usually be in it?
   A. 20.
   B. 5.
   C. 10.

4. Which best describes the actor compensation practices used in Hollywood right now?
   A. Producers and studios often end up paying stars way more than they are actually worth.
   B. Studios and producers end up paying actors much less than they are actually worth.
   C. Producers and studios pay a pretty accurate amount to actors—giving them about as much as their presence in a film adds to its value.

5. A company's internal labor market map is broadly pyramid shaped. What can we conclude from this?
   A. This firm prefers to build rather than buy its workforce talent.
   B. The firm likes to buy rather than develop its workforce talent.
   C. It is difficult to reach any significant conclusion from this bit of information.

6. Of Company X's employees, 80% are at or below hierarchy Level 5 out of a possible seven levels. The company tends to hire Level 6 and 7 employees from outside the firm. What kind of employee turnover can this company expect at Levels 5 and below?
   A. High: employees see they are not likely to be promoted past Level 5.
   B. Low: employees see that, although they will not reach upper management, they have very high job stability.
   C. Average.

7. When a company hires aggressively in tight labor markets, what does it run the risk of doing?
   A. Undervaluing its current employees by underpaying.
   B. Attracting top talent to work for it, only to have them leave after a short time.
   C. Not providing incentive for employees to perform at their capability level.
   D. All of the above.

8. Company ABC has been calculated to have 20% market risk, 35% industry risk, and 45% firm-specific risk. For this company, would it be wise to base employee compensation on stock options?
   A. No.
   B. Yes.
   C. More information required.
   D. No possible answer.

9. Which of the following is not a direct reason for unionization in crafts and among media creatives?
   A. Scarcity of talent.
   B. Oversupply of talent.
   C. Stress.
   D. Need for respect.

10. What are factors for the low unionization in high tech startups?
    A. Founder-centric culture.
    B. Subjective pay practices.
    C. High turnover.
    D. Egalitarian culture of managers and employees.

11. How should managers design a company's wage spread when it faces a riskier environment?
    A. The wage spread should be smaller.
    B. The wage spread should stay the same.
    C. The wage spread should be larger.
    D. The wage spread should be indexed to the inflation rate.

12. What main effect does the firing of older employees have, besides causing anger in these employees?
    A. Rewards for young employees should be lowered.
    B. Need to better reward younger employees.
    C. Younger employees are not affected.
    D. Younger employees want to stay with the company.

13. When should a manager hire Person A over Person B even though A's expected NPV for the first year is lower?
    A. When the upside potential for A is higher than for B.
    B. When A is more experienced than B.
    C. When B is younger than A.
    D. When A has better personal relations with the management.

14. What level of Maslow's hierarchy is the most defining one for creative employees?
    A. Esteem needs.
    B. Safety needs.
    C. Social needs.
    D. Self-actualization.

15. What is not a reason for difficulties in measuring productivity for black-collar creative jobs?
    A. Outputs are hard to define and measure.
    B. Differences in quality.
    C. Production is difficult to measure.
    D. Non-homogeneous products.

16. Why is it difficult to manage geeks?
    A. They are judgmental about the company's strategy.
    B. Their values are peer driven rather than hierarchy driven.
    C. Geeks are structured and do not need guidance.
    D. They can be energized by actions.

17. Which of the following statements about labor unions is incorrect?
    A. Strongly unionized industries experience great labor mobility.
    B. Unionization has a positive effect on compensation.
    C. Unions often upgrade the skills of their members.
    D. The membership of unions has declined as the industrial economy is transitioning to a services-based economy.

18. Why is there often such a strong unionization in media crafts and among media creatives?
    A. Oversupply.
    B. Money.
    C. Political leverage.
    D. Stress.
    E. Declining rate of newcomers.
    F. Need for respect.

19. Which of the following statements about motivation & needs is incorrect?
    A. Motivational attitudes follow a hierarchy of needs.
    B. Motivation depends on circumstance.
    C. Humans are social animals and strongly seek to belong to a community.
    D. Psychological needs precede safety needs.

20. Which of the following elements do not describe the Internet culture?
    A. Clear lines of responsibility.
    B. Individualism.
    C. Rapid product cycles.
    D. Uncertainty.
    E. Entrepreneurialism.

## Quiz Answers

1. D
2. C
3. C
4. A
5. A
6. A
7. D
8. B
9. A
10. D
11. C
12. B
13. A
14. D
15. C
16. B
17. A
18. E
19. D
20. A