

# Human Resource Management for Media and Information Firms

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## 5.1 The Human Resource Management 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 resources (HR) practices to manage them. Other chapters cover two other major inputs: money (► Chap. 6), and technology (► Chap. 4).

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 semiskilled workers who were mostly interchangeable.<sup>1</sup>

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 HR. 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, Wall Street, hard assets matter less than people. The employees—the knowledge workers, content producers, and information technology (IT) geeks represent the difference between success and failure.

In 2000, Cisco employees earned \$5–8 billion in option profits (i.e. compensation beyond salary and benefits) in a year when the company’s shareholders received \$4.6 billion in dividends. Outside investors in Hollywood film studios have historically earned small returns when compared with star actors and directors. When he was the chairman of Walt Disney Studios, Jeffrey Katzenberg wrote a famous memo about what he termed the “spiraling irrationality” of payments in the movie business.<sup>2</sup> “The talent class has declared war on shareholder capitalists,”<sup>3</sup> he argued. Studios put up all the capital and take all the risks, while movie stars, scriptwriters, and directors (the “talent”) strip off most of the profits.

Was Katzenberg correct? Actually, few careers are riskier in terms of success than that of “talent” in the film business. In contrast, the studios have become adept at reducing risk through diversification and risk-shifting. The same six studios have been dominant worldwide for many decades,

which does not indicate that it is a high-risk activity at the shareholder level, as opposed to the riskiness of a specific project or individual career. Of course there is a tiny percentage of stars who win the lottery and indeed earn high returns. No one, however, forces film producers to hire such stars who will strip the profits.

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 human resource management (HRM) becomes at least as important to a media and information company as the management of financial assets is to a bank.<sup>4</sup>

Dealing with the people of the enterprise is the realm of HRM. In general, this includes 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 successfully carry out an HR strategy 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.<sup>5</sup>

#### 5.1.1.1 The Changing Focus of HRM

HRM has undergone significant changes since its birth in the late industrial era. When the industrial workforce predominated in the past, the HRM approach was shaped by two corporate functions: industrial relations, which focused on the management of blue-collar workers, and personnel management, which focused on white-collar management.

In the first half of the twentieth century, HRM was primarily concerned with hiring, firing, and managing payrolls. Beginning in the 1930s,<sup>6</sup> the focus of HRM broadened to include working with unions. From the 1960s, HRM’s responsibilities were increased considerably by various forms of social legislation (such as anti-discrimination), and in the 1970s, the administration of benefits plans became important.<sup>7</sup> In the 1990s, HRM shifted from solely being an administrator/screener to a change agent that actively shapes and reshapes the corporate culture and employee skill composition and behavior. It increasingly became part of implementing organizational strategy.

The traditional style of HRM had been “soft,” in other words people oriented, and run by personnel specialists who emphasized hiring, training, communicating, motivating,

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](http://www.newyorker.com/archive/2005/03/14/050314ta_talk_surowiecki).

2 Martin, Roger L. and Mihnea C. Moldoveanu. “Capital Versus Talent: The Battle That’s Reshaping Business.” *Harvard Business Review* 81, no. 7 (July 2003): 36–41.

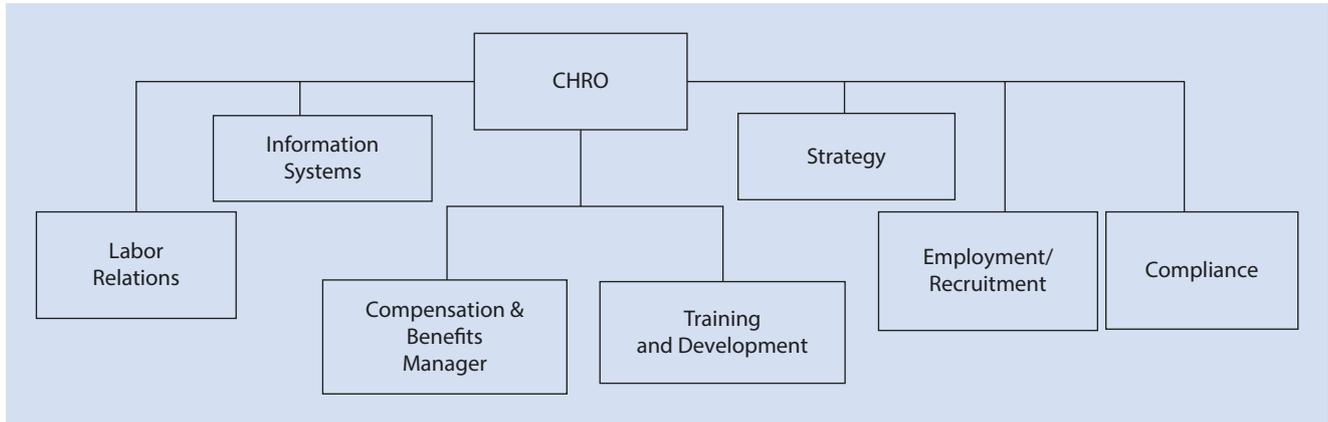
3 Surowiecki, James. “Net Worth.” *The New Yorker*. March 14, 2005. Last accessed April 20, 2017. ► [http://www.newyorker.com/archive/2005/03/14/050314ta\\_talk\\_surowiecki](http://www.newyorker.com/archive/2005/03/14/050314ta_talk_surowiecki).

4 Redmond, James W. “Issues in Human Relations Management.” In *Handbook of Media Management and Economics*. Eds. Alan B. Albarran, Sylvia M. Chan-Olmsted, and Michael O. Wirth. New York: Lawrence Erlbaum Associates, 2006.

5 Dessler, Gary. *Human Resource Management*, 12th edition. (New York: Pearson, 2011), 200.

6 In Western Europe and for some US industries before World War I.

7 Dessler, Gary. *Human Resource Management*, 12th edition. (New York: Pearson, 2011), 200.



■ Fig. 5.1 Example for an HRM organizational structure

and promoting. More recently, a “hard” HRM style has gained a following. This incorporates a finance-oriented analysis and the implementation of overall company strategy—such as diversification and globalization—into the 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 HR 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 HR strategies. 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 on the divisional level.<sup>8</sup> Finally, the strategic direction of employment issues is often guided by a corporate-level HR group.

In a large firm, the HRM function typically looks like ■ Fig. 5.1, with its main components Compensation & Benefits, Training, Employment & Recruitment, and Labor Relations.

HRM is supported by software of increasing complexity and capability—HR Information Systems (HRIS)—and is often outsourced. Software providers include SAP, PeopleSoft,

SABA (learning services), SumTotal (learning services), BrassRing (hiring services), and Intuit (payroll services).<sup>9</sup> HRIS executes various functions:

- payroll;
- benefit administration;
- performance analysis;
- recruiting;
- training of new hires;
- personnel records;
- skills inventory;
- screening of applicants;
- compliance with hiring regulations;
- monitoring time worked by irregular employees;
- qualifying/quantifying employee skills;
- rating individual performance;
- generating income tax reports.

HRIS has mostly been used for administrative applications such as benefits and recruitment, 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. Usage of this data resource is only in the early stages, and, given the huge share of personnel cost in most organizations should be a management priority.

8 An important source for this chapter is Nalbantian, Haig, et al. *Play To Your Strengths: Managing Your Company's Internal Labor Markets for Lasting Competitive Advantage*. New York: McGraw-Hill, 2004.

9 HR.com. “ERM Solutions—Are They Complete?” January 26, 2004. Last accessed April 20, 2017. ► [https://www.hr.com/en/communities/ihr\\_core\\_hr\\_payroll\\_for\\_hr\\_hris/erm-solutions-are-they-complete\\_ead018dl.html](https://www.hr.com/en/communities/ihr_core_hr_payroll_for_hr_hris/erm-solutions-are-they-complete_ead018dl.html).

### 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 comprises 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 USA.<sup>10</sup> 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 pension

plan participants, voted against their own management at 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 like 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?

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

On the content side, media industries such as film, television, and music are notable for:

- high fixed costs;
- an excess supply of creative talent;
- the difficulty of measuring and raising productivity, partly because their intangible nature defies easy measurement;
- a work environment characterized by high risk and unstable employment relations;
- a prevalence of project-oriented, short term employment:
  - the presence of participants with artistic and non-commercial motivation;
  - the incentive for many employees to lower career risk through collective action (unionization).

The telecom industry provides its own set of unique challenges for HRM. Its economic characteristics are those of a "natural monopoly," which in the past led to a public utility (or governmental operation in most countries) industry. The results were:

- reduced incentives to lower cost, high unionization, relatively high compensation, a low job mobility, and a public service culture;
- strong elements of a government regulatory (and often ownership) role.

More recently, there has been a shakeup of this system by the emergence of competition and transition to a globalized

high-tech industry, and a fundamental disruption of established patterns of internal organizational culture and compensation systems.

The information and digital technology field is characterized by

- increasingly offshore and outsourced manufacturing production;
- high job mobility on the engineering and design level;
- a supportive governmental role in white-collar job creation.

The internet industry has the following characteristics:

- a non-hierarchical structure with a great amount of fluidity between management, employees, and owners;
- a high upside opportunity and high downside risk;
- a strong sense of individualism.

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.<sup>11</sup>

<sup>10</sup> Among other media-related companies, General Electric was ranked 8th, Verizon was 11th, Google was 13th, and AT&T was 21st.

<sup>11</sup> Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*, Ninth Edition. New York: McGraw-Hill, 2011.

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 technology start-ups. 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.<sup>12</sup> 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.<sup>13</sup>

Hard HRM helps establish a causal link between personnel investment and bottom-line business performance. This is important because 60–70% of most firms’ expenditures are now labor related. And yet, according to a study by the consultancy Accenture,<sup>14</sup> 70% of executives said they rarely measure the impact of HR expenditures such as training initiatives. Nearly 60% of executives polled never or rarely measured the effect of their HR policies on employee turnover or employee satisfaction. Such companies do not know the return on investment (ROI) on one of their largest investments, HR.<sup>15</sup> Only 10% claim to know it to a great or considerable extent. One reason for this lack of knowledge lies in the difficulty of measuring and assessing the effects of investments in the labor force.

HC-ROI, the return on a specific human capital investment such as a training program, is defined as<sup>16</sup>:

$$\text{HC-ROI} = \frac{\text{Revenue} - (\text{HCCF} + \text{Other expenses})}{\text{HCCF}} - 1$$

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

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

14 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>.

15 Ichniowski, Casey, Katherine Shaw, and Giovanna Prennushi. “The Effect of Human Resource Management Practices on Productivity.” *American Economic Review*, 87 (June 1997): 291–313.

16 Fitz-enz, Jac. *The ROI of Human Capital*. (New York: AMACOM, 2000), 46–49.

HCCF is the human capital cost factor for the project. It is the sum of pay + benefits + contingent labor costs + absenteeism costs + turnover costs, all for the project.

In practice, measuring HRM’s effect on revenues, thus linking an HRM practice to bottom-line results, is difficult. One way to do so might 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. Time savings can be calculated by multiplying the number of hours saved by the workers’ average hourly salary. Production gains are valued at the monetary value of the extra goods produced.

In other 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 10 million customers. One can then measure the cost of raising employee satisfaction through an HR activity and link it with the estimated value of customer satisfaction in terms of added revenues, and then estimate an ROI.<sup>17</sup> The ROI would be a fairly substantial 25%,

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

The ROI approach should ideally also take into account future benefits from an investment. For example, the impact of training programs raises the productivity of an employee for several years. Suppose that the direct cost of the training for an employee  $i$  is  $C$ , that  $J$  is the opportunity cost of that employee’s work time to the company, that  $\Delta P$  is the productivity gain over the employee’s expected work period, and its net present value (NPV) is calculated for  $t$  years, with a discount factor of  $r$ . Then the ROI would be

$$\text{ROI} = \sum_t^T \left[ \frac{\Delta P_j}{(1+r)^t} \right] / (C + J)$$

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 \$1 he earned. Jennifer Anis-

17 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>.

## 5.2 · HRM by the Numbers: “HARD HRM”

ton 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 \$1 these actors earned. In contrast, Russell Crowe was the worst investment among top stars, with an ROI averaging \$5 of revenue per \$1 of salary.<sup>18</sup> Five years later, *Forbes* found Natalie Portman at the top, with \$42.70 return for \$1 paid, followed by Shia LaBeouf (\$35.80). And in 2016 Chris Evans’ ROI was \$135.80 for every \$1 paid, and Scarlett Johansson had \$88.60.<sup>19</sup>

This methodology, while taking a useful step toward an analytical approach, is problematic in its execution. It excludes, on the one hand, the income to stars beyond direct salary such as profit participation, which can be considerable. Thus the denominator is too low and the ROI ratio should be lower than the one calculated. Similarly, *Forbes* also attributes the film’s revenues to the star, while the film’s value may have been generated by the script, the director, the marketing, and by other stars who contributed. Therefore the actual numerator, and with it the ROI, should be lower. On the other hand, the film’s revenues in aftermarkets such as pay-TV, network TV, and online video are not counted, which would raise the ROI. Another point to consider is that actors who are very profitable in one year are certain to seek

a much higher compensation in the next year, so that the *Forbes* index identifies stars on the rise, not in some equilibrium. That said, it is useful to compare profit contributions as long as the methodology is kept constant. Note how these high ROI figures generated by the stars to the company clash with the statement by Jeffrey Katzenberg, quoted earlier, that the “talent class . . . strips off most of the profits.”

Managers usually think of labor expenses as a cost; but it is also an investment in human capital, both the firm and the employee. We discussed the employer’s ROI calculus. Employees, too, must decide how much to invest in their own skills. Their calculation, in purely economic terms, is whether costs to them (direct cost plus opportunity costs) are lower than the expected increase in value of the job to them if they use the new skills. This is a particular issue when it comes to specialized skills and capabilities that are worth more inside the company than outside it. Such specialized skills benefit the company but they may well actually reduce the employee’s job mobility by making him too specialized for other firms to consider. The company must therefore create decent-sized incentives for such investments made by an employee. When there is great job insecurity inside the firm, this will reduce such firm-specific employee self-investments, and this reduces company productivity.

### 5.2.1.1 Case Discussion

#### Disney and the ROI of Retraining of 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 hand animators. A new young CGA hire can hit the ground running, and is also cheaper by \$15,000 per year than an old animator. So, this seems like 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:	\$9000
Selection:	\$7500
Proficiency training:	\$8000
<b>Sub-total:</b>	<b>\$24,500</b>

##### B. Costs of firing a hand animator (compensation, etc.): \$31,000.

C. The value added of a seasoned hand animator	\$100,000
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D. Initial slowing of productivity owing 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 ROI of Option 1 can then be calculated as:

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

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

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

#### 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
<b>Total cost of retraining animators:</b>	<b>\$54,000</b>

One benefit of retraining is greater employee retention. After successfully passing the retraining, the hand animators will be more commit-

18 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](http://www.forbes.com/2007/08/03/celebrities-hollywood-movies-biz-cz_dp_0806starpayback.html).

19 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>.

ted 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.

The total monetary benefit of retraining is then as follows:

Value of employee retention	\$25,000
Value added of computer animator	\$100,000
Total benefits	\$125,000

The ROI of retraining hand animators is thus:

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

$$ROI = 31.5\%$$

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

### 5.2.1.2 Applied HR Models

The ROI approach has been extended in a variety of specialized HRM models. For example, the Human Capital Index (HCI),<sup>20</sup> by the HR consultancy Watson Wyatt (now Towers Watson), incorporates measures of HR practices by companies. The HCI identifies 49 specific HR practices, divided into six dimensions. The research then quantifies how much an improvement in each practice could be expected to increase a company’s market value. Thus a company could look at the cost of creating an HR improvement of one standard deviation relative to industry practices, and relate that cost to the gain in market value. For example, suppose that improving on the dimension of “Collegial Flexible Workplace” will cost \$20 million per year in direct expenses, generating a negative NPV for over ten years of \$123 million, using a 10% discount rate. But it would result in a market value rise of 9% (see Table 5.1), which for a firm with a \$2 billion market capitalization, is \$180 million. The ROI is then  $(180 - 123) / 123 = 46.3\%$ , a very high number. Watson Wyatt found the following impacts on the market value associated with a one-standard deviation improvement in an HR practice.

Table 5.1 The contribution of corporate HR practices to shareholder value

Practice	Impact on market value
Total Rewards and Accountability	16.5%
Collegial, Flexible Workplace	9.0%
Recruiting and Retention Excellence	7.9%
Communications Integrity	7.1%
Focused HR Service Technologies	6.5%
Prudent Use of Resources	33.9%

Watson Wyatt. *Human Capital Index: Human Capital as a Lead Indicator of Shareholder Value*. Washington: Wyatt Worldwide, 2002

### 5.2.1.3 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.<sup>21</sup> 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 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 poten-

tial outcomes. If he proves 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 only considers so far 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 NPV (after salary) for the first year and every year after remains constant at \$100,000. Her expected NPV 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 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 poor-performing workers, it will be better to hire riskier workers if they have enough of a decent upside potential.

20 Watson Wyatt. *Human Capital Index: Human Capital as a Lead Indicator of Shareholder Value*. Washington: Wyatt Worldwide, 2002.

21 One could give them regular raises but this would complicate the calculation, though it would strengthen the conclusion.

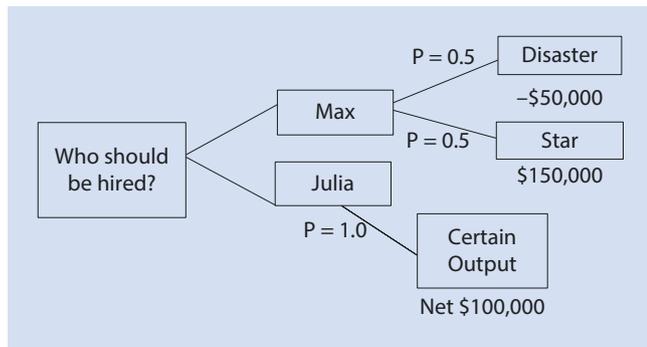


Fig. 5.2 Risk and employee selection

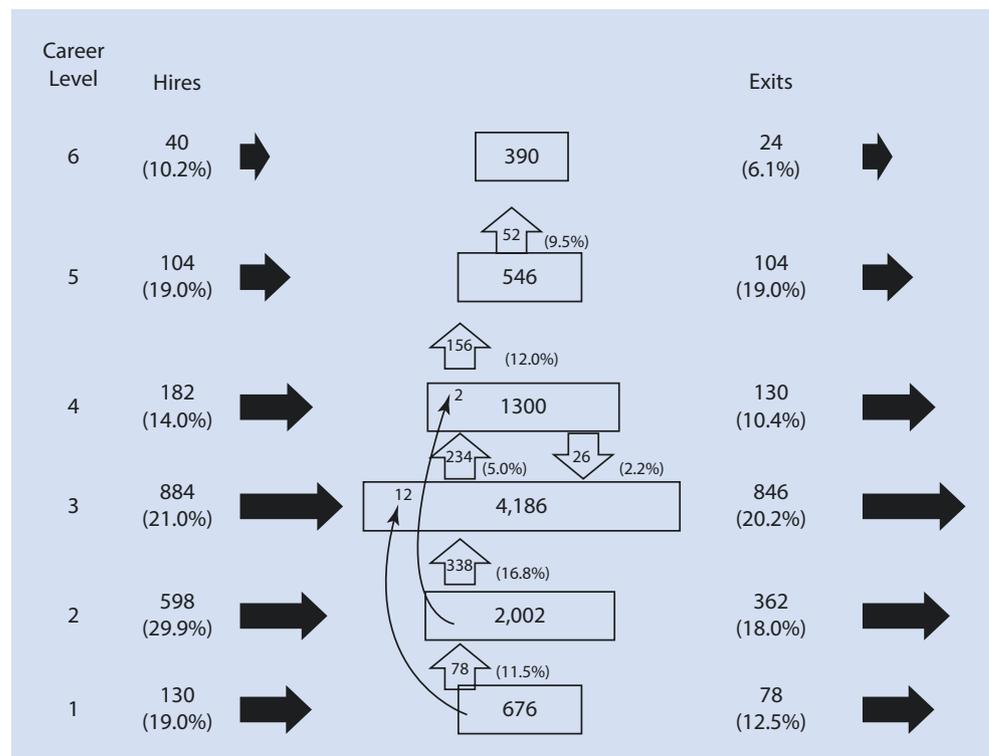
## 5.2.2 Internal Labor Markets

A second element of hard HR is the analysis of intra-company labor flows. This is based on the observation that most important HR transactions take place inside a company, not in external labor markets.<sup>22</sup>

### 5.2.2.1 Workforce Mobility

A company needs to analyze its internal people mobility and draw conclusions from it. 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.

Fig. 5.3 TechCo Internal labor market map



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 (Fig. 5.3).<sup>23</sup>

What does this ILM (internal labor markets) map show? 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 (Level 1). Of these, 39 move up to Level 2. At that level there are 1001 other people. A total of 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 lower 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, maps like this can be used to statistically analyze 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 might indicate stagnation, inbreeding, complacency, and possibly over-compensation. When a job becomes so good that employees cannot

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

23 Based on image from Nalbantian, Haig R. and Richard A Guzzo, et al. “Play to Your Strengths.” New York: McGraw-Hill, 2004.

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 might indicate dissatisfaction, low commitment, and the imposition of a high replacement cost. The ideal number should be somewhere in between.

The potential for promotions must be similarly carefully evaluated. Employees proceed through a “career pyramid.” For software engineers, for example, entry-level positions may be those of programmers, with advancement through a combination of experience and further education.<sup>24</sup> They will be promoted to systems analyst, project manager, researcher, and system designer. And then? Are they promoted to upper management? Good programmers do not always make good managers. But at the same time, software engineering, at its intermediate levels, cannot be a dead-end position with no possibility of advancement. Microsoft’s solution to this problem was to create an internal honor title called “Distinguished Engineer,” given to 16 outstanding engineers.<sup>25</sup> It is a recognition plus pay raise but without management responsibilities.

### 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, with only a few levels. This is popular with start-ups as part of a non-hierarchical peer culture. But it also has disadvantages:

- The higher transaction costs of horizontal consensus building and co-ordination, versus 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. There are multiple factors

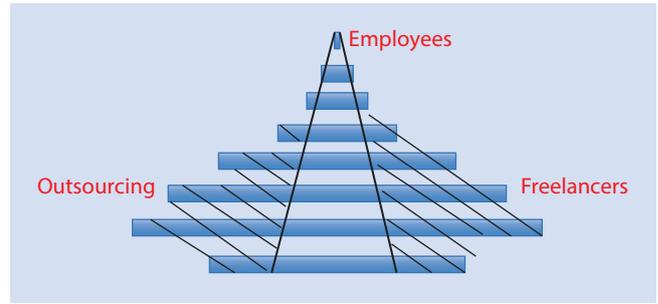


Fig. 5.4 Company Employment Pyramid

to consider, such as the organizational culture, the span of control that a manager can exercise effectively, the desired internal mobility, and the division of permanent employees from project-specific temporary employees.

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). That way, the firm can make a pyramid shape out of a box shape, thereby setting chances of promotion to the desired ratio and raising incentives. (But this also means giving the freelancers a near-zero chance at promotion into regular employee status.)

To evaluate the effectiveness of the company’s compensation structure we can examine its internal labor market patterns. If many of its high-, low-, and mid-level people voluntarily left the organization to work elsewhere, especially for “peer” organizations, we might conclude that the compensation level and/or the acceleration incentive were too low. If such departures are high at the middle and lower-levels, which are the creative and productive contributors to a company’s present and future, it should reevaluate its compensation profile and raise internal promotions.

The following example for Disney shows different types of hierarchies 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 (Fig. 5.5). 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. Most people got promoted from within, but few made it to the top. In

contrast, its film and TV production division (Unit 2) employs 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 dramati-

cally more difficult. After that barrier, however, the 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?

24 Baker, Stephen and Manjeet Kripalani. “Programming jobs are heading overseas by the thousands. Is there a way for the U.S. to stay on top?” *BloombergBusinessWeek*. March 1, 2004. Last Accessed April 20, 2017. ► <https://www.bloomberg.com/news/articles/2004-02-29/software>.

25 Microsoft. “Microsoft Recognizes and Rewards “Distinguished Engineers.” July 3, 2000. Last accessed April 20, 2017. ► <https://news.microsoft.com/2000/07/03/microsoft-recognizes-and-rewards-distinguished-engineers/#RFXDeqeOyOIAy40P97>.

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*Radio stations:* small top management, with staff mostly mid-level. The relatively low ratios of hires over promotions mean that most people get promoted from within but few people make it to top level. 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 and TV:* There are few employees in the positions above lower levels. Most mid-level employees are project-based temporary hires. The structure is one of essentially two types—entry level, plus thinly staffed management levels. This is typical in industrial firms. The culture of such a hierarchy is a sharp divide between higher level executives (the “suits”) and middle managers/blue collar.

*Theme Parks:* The pyramid-shaped hierarchy creates a decent 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.<sup>26</sup> This gives Disney an important competitive advantage even when compensation levels are similar.

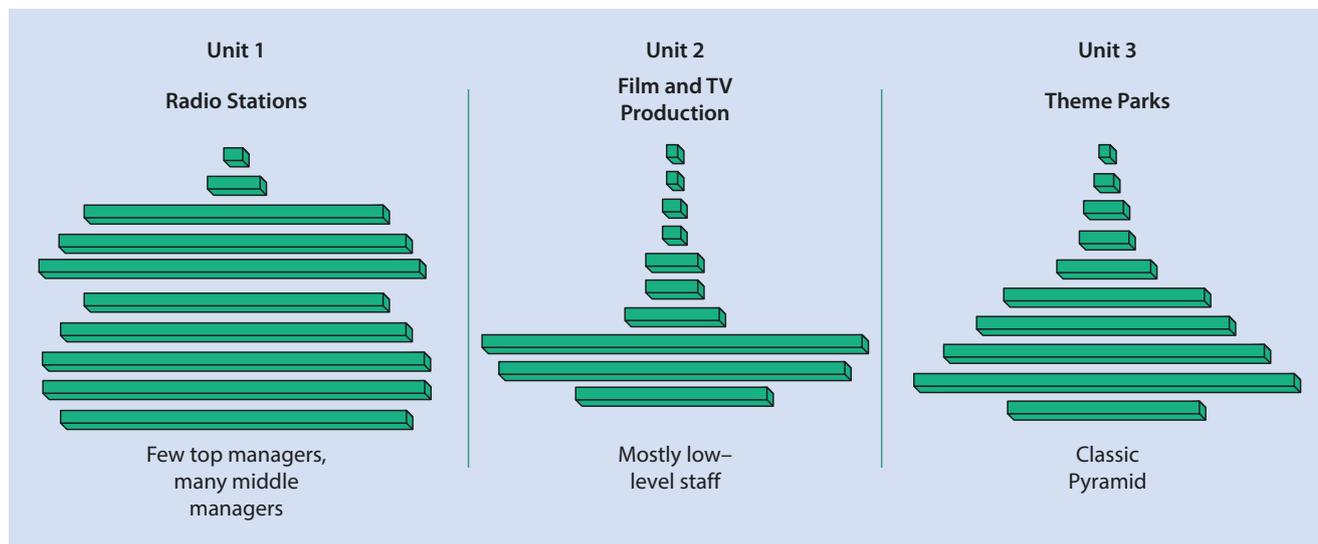


Fig. 5.5 Disney ILM maps by division (schematic)

### 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 by the peer group of companies in the same sector. And company-specific volatility is then the remaining “residual” volatility.

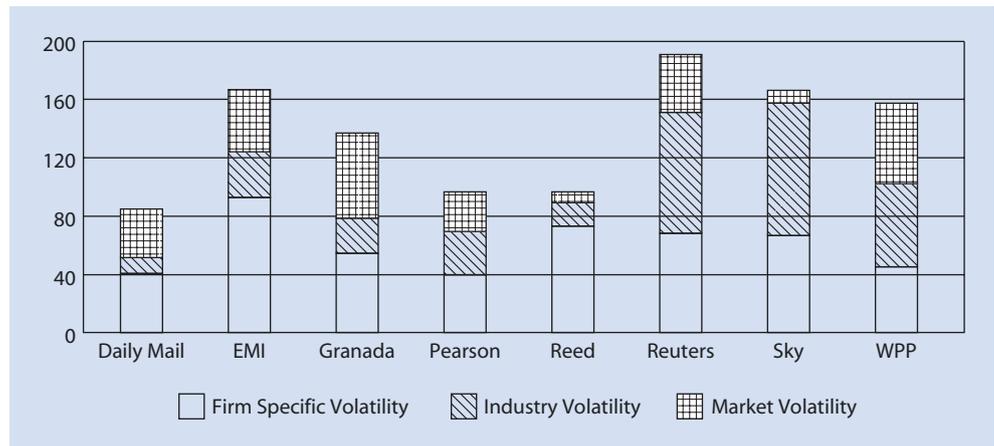
We can use this approach for media companies. Figure 5.6<sup>27</sup> shows the decomposition of risk for media companies in the UK.

This shows that Granada and Reuters exhibit high levels of market and industry risk but relatively low levels of firm-specific volatility. What is the implication for the companies’ compensation system? 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, whose holdings would be diluted—yet

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

27 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.

**Fig. 5.6** Composition of risk of media companies in the UK



would not deliver strong incentives to managers. In contrast, Reed and EMI have high levels of firm-specific risk, and 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. Companies must therefore develop risk-adjusted measures of performance, and performance rewards should be linked to the firm's results relative to peer group performance.<sup>28</sup>

### 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 those of its peers/competitors (Fig. 5.7).<sup>29</sup>

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 Michael Eisner, the chief executive officer (CEO), 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. 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 at \$46.8 million per year. In 1998, his package hit an extraordinary \$570 million, which was 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 S&P 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, along with the general stock market, Eisner received no bonus, just 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. He bounced back in 2004 with a \$7.3 million bonus, and in 2005,

his last year at Disney, he received a \$9.1 million bonus, over 90% his \$1 million base salary.

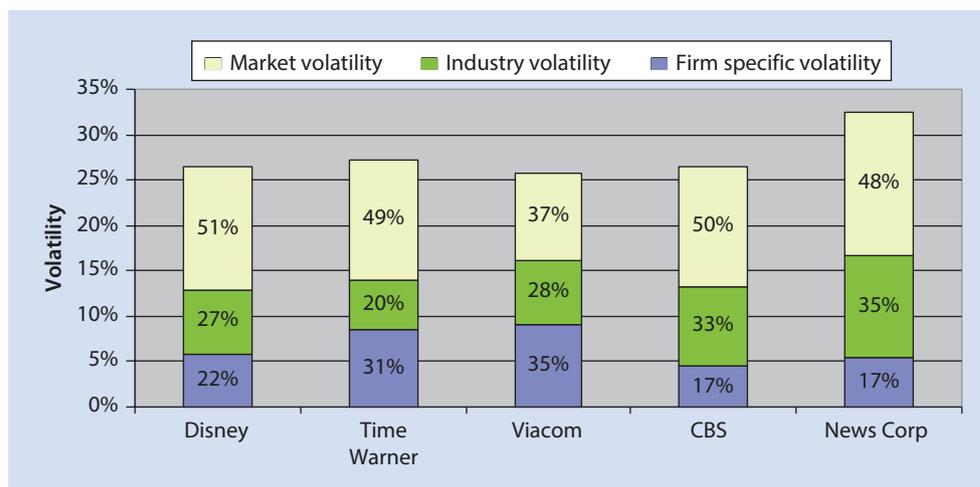
Most of Eisner's compensation was thus incentive pay (bonus and stock options). He benefited from rises in overall market and industry stocks. But Eisner's compensation was over 90% in variable awards. This seems grossly sub-optimal for shareholders. It is an error in the design of the compensation package, and must be distinguished from judgment errors in the compensation level, such as in the case of Michael Ovitz. Ovitz, a long-time Hollywood super-agent and shrewd negotiator, was hired by Eisner in 2006 as Disney's president. But things did not work out and Ovitz was fired just 16 months later. He received, based on his employment contract, a \$140 million severance package, equating to more than \$300,000 per day for each of his 454 days as president.<sup>30</sup> This is an example of a poorly designed employment contract.

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

29 Graph created on the basis of data provided by Yahoo Finance and Factiva. Last accessed February 7, 2008. ▶ <http://de.finance.yahoo.com> and ▶ [www.factiva.com](http://www.factiva.com).

30 Stewart, James B. *Disney War*. New York: Simon & Schuster, 2005.

■ Fig. 5.7 The composition of risk of Disney and its peers



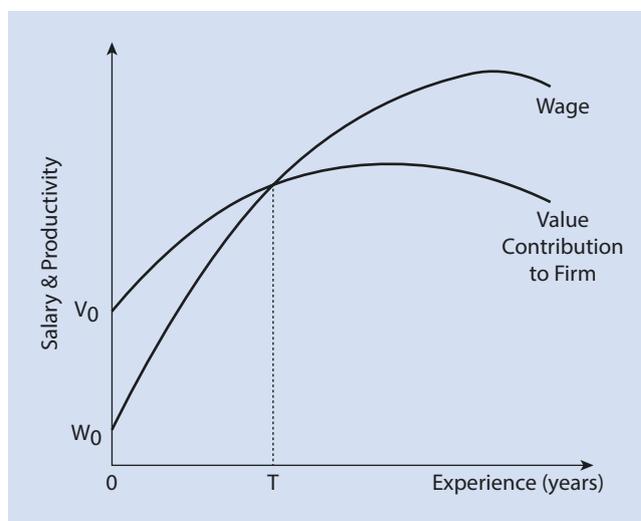
## 5.2.4 Salary Differentials

### 5.2.4.1 Compensation and Tournament Theory

Studies of optimal employment compensation look at the effectiveness of fixed wages versus commissions and at the relationship between group incentives and individual rewards.<sup>31</sup> 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 get 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 takes 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 typically pays young employees less than what they contribute in terms of their productivity and pays senior employees more than their direct value added to the firm.<sup>32</sup> ■ Figure 5.8<sup>33</sup> shows this wage/age relationship. Workers are paid less than what they are worth when young, but expect to be paid more later, after year  $T$ .



■ Fig. 5.8 Compensation of employees relative to contribution (schematic)

The difference between value added and wages in the early stage of a work career is an implicit “loan” that the younger worker provides to the firm. The firm will pay it back later, as seniority rises, through compensation that is then above the worker’s contribution.<sup>34</sup> 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 their compensation, that is, after time  $T$ . This results in angry older employees who feel

31 Lazear, Edward P. *Personnel Economics*. Cambridge, MA: MIT Press, 1995;  
Spence, A. Michael. “Job Market Signaling.” *The Quarterly Journal 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.

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

33 Dessler, Gary. *Human Resource Management*, 12th edition. (New York: Pearson, 2011), 200.

34 Dessler, Gary. *Human Resource Management*, 12th edition. (New York: Pearson, 2011), 200.

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 start-up, 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 start-up firms, where one therefore finds a wide wage spread. On the other hand, large Japanese firms, which often used to operate with a less risky—for employees—environment of “lifetime employment,” could operate with a narrower wage spread than American firms. It is therefore not surprising that Japan has one of the lowest disparities of income.<sup>35</sup>

A company’s reward structure affects not just 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.”<sup>36</sup>

### 5.2.4.2 Case Discussion

#### Is Disney’s Compensation Structure Efficient?

We can apply the tournament theory analysis to Disney’s compensation structure to see if the company is setting the optimal wage spread. Disney’s compensation profile is shown below, showing 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.<sup>37</sup> On average, Eisner received an overall compensation of \$45 million, almost literally off the chart as depicted in  Fig. 5.9.<sup>38</sup>

The salary acceleration at Disney is relatively modest in the lower levels (1–7) where compensation is low that is cannot be seen in the graph. But it then increases dramatically in Level 8 and above. The multiple between the CEO’s compensation 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 compa-

table 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 that it is necessary to incentivize through very high compensation at the top?
  - Could the Disney board have purchased the same performance from its chief executive and president 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 does 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 ROI 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 the company’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  $\frac{120-188}{188} = \text{negative } 36.2\%$

But if the impact of the extra incentive was 20% (\$240 million), then the  $\text{ROI} = \frac{240-188}{188} = 27.6\%$ . 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 then 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, 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 might 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.

This then leaves us with another possible explanation for the high salaries:

35 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>.

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

37 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>.

38 Rubis, Leon. “Disney Show & Tell: Disney Institute’s Four-Day Seminar on Human Resource Management.” *HR Magazine*. April 1998.

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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 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.

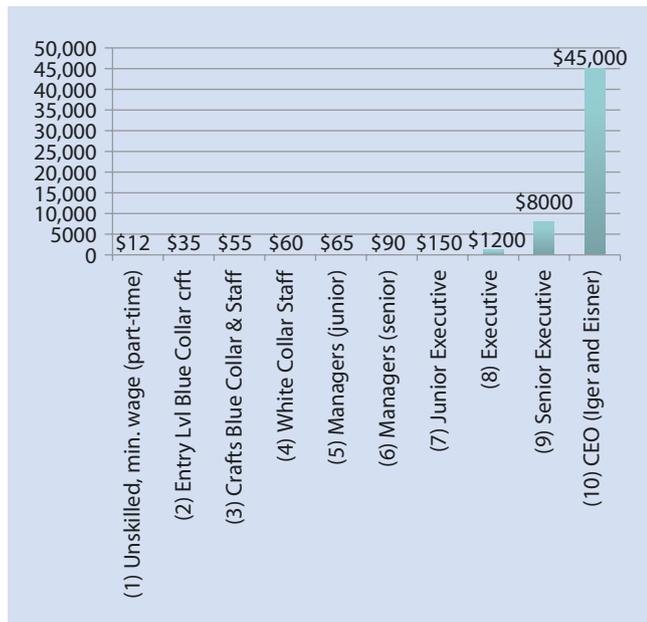


Fig. 5.9 Disney's compensation profile (wages in thousand \$)

### 5.2.4.3 Star Compensation

In accordance with our discussion, creatives' incomes are much more unequally distributed than incomes more generally owing to the risk characteristics of their companies and industries. The tournament profile of compensation for aspiring creatives/struggling performers on one end and “A-list” stars on the other is extraordinarily steep.<sup>39</sup> While countless actors vie for even minuscule roles at minimal pay, top stars such as Tom Cruise could pull in, in the 2011/2012 season, \$75 million, followed by Adam Sandler and Leonardo DiCaprio at \$37 million.<sup>40</sup> Hollywood's top female overall earners for the same year were Kristen Stewart (\$34.5 million), Cameron Diaz (\$34 million), and Sandra Bullock (\$25 million). In 2017, the top paid actors were Mark Wahlberg \$68 million, Dwayne Johnson \$65 million, and Vin Diesel \$54.5 million. For actresses, the top paid were Emma Stone \$26 million and Jennifer Aniston \$25.5 million.<sup>41</sup> In this incentive structure, the few “winners” receive the majority of the reward.

The oversupply of performing talent can be seen in the music field. Each year, about 14,000 students from American music schools graduate with performance degrees, and this number is augmented by immigrant talent and by musicians who do not enroll in formal programs. But there are only 250–350 job openings each year in symphony orchestras.<sup>42</sup> The number of “stars” in each cohort, in terms of earnings profile, is much smaller still. The situation is similar in other countries. Creatives everywhere tend to overestimate the odds for personal success, or they are willing to accept them in return for the large payoff for such success in terms of money and fame. In addition to the hope for financial reward, a high level of personal satisfaction is inherent in artistic careers.

A star system already existed in ancient Rome, and later in European theater and opera. In film, the world's first star was Mary Pickford a century ago. Even so, stars' bargaining strength was limited. For a long time, even famous actors were employees of the studios with a regular base salary, and rarely made more than \$100,000 extra per film.<sup>43</sup> The demise of the “golden age” studio system in the 1950s made stars free agents. They earned much more but at a greater career risk. The average earnings per film by the top ten stars of 2003 (corrected for inflation) was about 30 times that of the top stars in 1948 under the old studio system. Hollywood stars' compensation is based on bargaining strength. John Travolta, for instance, was a major star after *Grease*, with over \$2 million per film plus profit participations.<sup>44</sup> As he outgrew his heartthrob youth, his popularity declined, and he earned only \$140,000 for the film *Pulp Fiction* since he was considered to be “washed up.” That movie catapulted him back into the limelight, and his subsequent average gross per movie rose to a reported \$60.3 million.<sup>45</sup>

An important element of artistic compensation is “profit participation,” first used for Jimmy Stewart in a contract with Universal in 1950. In profit participation, the actor shares the producer's and investors' risk as well as profit. This system then spread. “Name” actors in a film may get shares, perhaps 10% in the aggregate. The director may get a fixed fee plus a participation of 5% or less. Arnold Schwarzenegger, in a very

39 To alleviate this differential on the low end, almost all unionized film professional theater, and music performers are paid the minimum wage negotiated by their unions, called the “scale.” Otherwise, the tournament would be even steeper.

40 Pomerantz, Dorothy. “Tom Cruise Tops Our List Of Hollywood's Highest Paid Actors.” *Forbes*. July 3, 2012. Last accessed April 20, 2017. ► <https://www.forbes.com/sites/dorothypomerantz/2012/07/03/tom-cruise-tops-our-list-of-hollywoods-highest-paid-actors/#40bec2542ae8>.

41 Robehmed, Natalie. “Full List: The World's Highest-Paid Actors And Actresses 2017.” *Forbes*. August 22, 2017. Last accessed June 19, 2018. ► <https://www.forbes.com/sites/natalierobehmed/2017/08/22/full-list-the-worlds-highest-paid-actors-and-actresses-2017/#4c7a33763751>.

42 Caves, Richard E. *Creative Industries: Contracts Between Art and Commerce*. Cambridge: Harvard University Press, 2002.

43 Porter, Eduardo and Geraldine Fabrikant. “A Big Star May Not a Profitable Movie Make.” *New York Times*. August 28, 2006. Last accessed April 20, 2017. ► <http://www.nytimes.com/2006/08/28/business/media/28cast.html>.

44 Solomon, Aubrey. *Twentieth Century Fox: A Corporate and Financial History*. Boston: Scarecrow Press Inc., 2002.

45 By comparison, the top stars in India's Bollywood earn about a tenth of top Hollywood stars, about \$2.5 million for a film.

sweet deal, received a fixed fee of \$29.25 million for *Terminator 3*, \$1.5 million in perks, and 20% of all the worldwide gross revenues produced by the film after it reached its cash break-even point.<sup>46</sup> Since box office revenue was \$433 million and the production budget of \$187 million, that would leave Schwarzenegger with an additional \$75 million, plus 20% of gross revenues from home video, VOD, etc., minus 20% of the marketing budget.

In commercial theater from the 1920s to the 1980s, a standard contract would allow the author a maximum of 10% royalty. For musicals, a 6% royalty was shared among the author, composer, and lyricist. Starting in the 1980s, standard Broadway contracts limited revenue sharing until the investors had recouped. Stars also earn money through the film production companies they own. Other benefits to stars are their contractual power to approve other people who will be picked to work in the production.

Participation contracts encourage an extra effort by the star in the marketing of a film by participating in interviews, TV talk show appearances, and so on. Even so, this effort would be less than optimal. In a profit-sharing deal each party underinvests in its efforts because a dollar invested to yield a dollar to the revenue stream brings only a share to the party that spends it.<sup>47</sup>

The “winner-takes-all” economics of creative activities such as film, music, or sports result in small differences in talent or luck typically leading to extreme differences in rewards.<sup>48</sup> The small differences are rewarded exponentially rather than linearly, and thus the distribution of rewards is highly skewed.<sup>49</sup> Talent is only part of the story. Rarely is a star’s contribution unique. In most cases becoming a star is primarily the result of luck and a subsequent bandwagon effect. A small fan base creates a momentum, and its choices are adopted by other fans.<sup>50</sup> The “skewedness” of a distribution is called its “kurtosis.” Industries can be analyzed based on their distribution of high and low economic success.<sup>51</sup>

Stars help in marketing a media product. But are they worth the money they cost? Statistical studies (and there are several) show that stars (and big production budgets) are associated with higher revenues but not with higher profits.<sup>52</sup> One explanation is that stars add value to a project but they then capture most of that added value in high compensation to themselves, so it is all a wash. An alternative view is that

stars add their credibility to a project and help make it happen, and this is a major contribution.

Many no-star movies did very well: for example, *ET: The Extra-Terrestrial* and the *Star Wars* series are among the highest-grossing movies in history.<sup>53</sup> One study, by Arthur De Vany and W. David Walls, studied a sample of over 2000 movies released between 1985 and 1996 and found only seven actors who positively affected box office performance (Tom Hanks, Michele Pfeiffer, Sandra Bullock, Jodie Foster, Jim Carrey, Barbra Streisand, and Robin Williams). Most other stars lacked any statistically significant effect. Two directors were found to have a positive financial impact: Steven Spielberg and Oliver Stone.

A star’s presence increases the expected revenue of a film but it will not reduce the riskiness to investors (unless the star takes substantial contingent compensation). A study of 600 movie stars and 500 movies concluded that the effect of a star on theatrical revenue was, on average, \$3 million and did not increase the market value of the firm.<sup>54</sup> Casting announcements of a star did not affect the share price of media companies that owned the studio. Even the revenue contribution of a star is difficult to predict. The study notes that several other researchers did not find a relationship between stars and revenues.<sup>55</sup> Other studies found that a movie’s revenues increase

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

47 Caves, Richard E. *Creative Industries: Contracts Between Art and Commerce*. Cambridge: Harvard University Press, 2000.

48 MacDonald, Glenn M. “The Economics of Rising Stars.” *The American Economic Review* 78, no. 1 (March 1988): 155–166.

49 De Vany, Arthur. *Hollywood Economics: How Extreme Uncertainty Shapes the Film Industry*. (New York: Routledge, 2004), 231–254.

50 Caves, Richard E. *Creative Industries: Contracts Between Art and Commerce*. Cambridge: Harvard University Press, 2002.

51 An industry with a low kurtosis may be called a “mediocracy,” where everyone gets treated the same median-typed treatment. But most creative industries are a “kurtocracy,” where only a few individuals reap much wealth. De Vany, Arthur. *Hollywood Economics: How Extreme Uncertainty Shapes the Film Industry*. (New York: Routledge, 2004), 231–254.

52 “Some studies have not detected a relationship between revenues and talent involvement (Austin, Bruce A. *Immediate Seating: A Look at Movie Audiences*. Belmont, CA: Wadsworth, 1989; De Vany, Arthur and W. David Walls. “Uncertainty in the Movie

Industry: Does Star Power Reduce the Terror of the Box Office?” *Journal of Cultural Economics* 23, no. 4 (November 1999): 285–318; Litman, Barry R. “Predicting Success of Theatrical Movies: An Empirical Study.” *Journal of Popular Culture* 16, no. 4 (Spring 1983): 159–175; Litman, Barry R. and Hoekyun Ahn. “Predicting Financial Success of Motion Pictures.” In *The Motion Picture Mega-Industry*. Barry R. Litman, ed. (Needham Heights, MA: Allyn & Bacon 1998), 172–97; Ravid, S. Abraham. “Information, Blockbusters, and Stars: A Study of the Film Industry.” *Journal of Cultural Economics* 72, no. 4 (1999): 217–35; and others have found evidence that a movie’s likely cumulative, weekly, or opening-week revenues increase with the rank of the star talent associated with it (Ainslie, Andrew, Xavier Drèze, and Fred Zufryden. “Modeling Movie Life Cycles and Market Share.” *Marketing Science* 24, no. 3 (August 2005): 508–517; Albert, Steven. “Movie Stars and the Distribution of Financially Successful Films in the Motion Picture Industry.” *Journal of Cultural Economics* 22, no. 4 (December 1998): 249–270; Basuroy, Suman, Subimal Chatterjee, and S. Abraham Ravid. “How Critical Are Critical Reviews? The Box Office Effects of Film Critics, Star Power, and Budgets.” *Journal of Marketing* 64, no. 4 (October 2003): 103–117; Elberse, Anita and Jehoshua Eliashberg. “Demand and Supply Dynamics for Sequentially Released Products in International Markets: The Case of Motion Pictures.” *Marketing Science* 22, no. 3 (August 2003): 329–254; Faulkner, Robert R. and Andy B. Anderson. “Short-Term Projects and Emergent Careers: Evidence from Hollywood.” *American Journal of Sociology* 92, no. 4 (January 1987): 879–909; Litman, Barry R. and Linda S. Kohl. “Predicting Financial Success of Motion Pictures: The ‘80s Experience.” *Journal of Media Economics* 2, no. 2 (Fall 1989): 35–50; Neelamegham, Ramya and Pradeep Chintagunta. “A Bayesian Model to Forecast New Product Performance in Domestic and International Markets.” *Marketing Science* 18, no. 2 (February 1999): 115–136; Prag, Jay and James Casavant. “An Empirical Study of the Determinants of Revenues and Marketing Expenditures in the Motion Picture Industry.” *Journal of Cultural Economics* 18, no. 3 (September 1994): 217–235; Sawhney, Mohanbir S. and Jehoshua Eliashberg. “A Parsimonious Model for Forecasting Gross Box-Office Revenues of Motion Pictures.” *Marketing Science* 15, no. 2 (May 1996): 113–131; Sochay, Scott. “Predicting the Performance of Motion Pictures.” *Journal of Media Economics* 7, no. 4 (October 1994): 1–20; Wallace, W. Timothy, Alan Seigerman, and Morris B. Holbrook. “The Role of Actors and Actresses in the Success of Films: How Much is a Movie Star Worth?” *Journal of Cultural Economics* 17, no. 1 (June 1993): 1–27.”

53 Porter, Eduardo and Geraldine Fabrikant. “A Big Star May Not a Profitable Movie Make.” *New York Times*. August 28, 2006. Last accessed April 20, 2017. ► <http://www.nytimes.com/2006/08/28/business/media/28cast.html>.

54 Elberse, Anita. “The Power of Stars: Do Star Actors Drive the Success of Movies?” *Journal of Marketing* 71 (October 2007): 102–120.

55 De Vany, Arthur and W. David Walls. “Uncertainty in the Movie Industry: Does Star Power Reduce the Terror of the Box Office?” *Journal of Cultural Economics* 23, no. 4 (November 1999): 285–318; Litman, Barry R. “Predicting Success of Theatrical Movies: An Empirical Study.” *Journal of Popular Culture* 16, no. 4 (Spring 1983): 159–175; Litman, Barry R. and Hoekyun Ahn. “Predicting Financial Success of Motion Pictures.” In *The Motion Picture Mega-Industry*. Barry R. Litman, ed. (Needham Heights, MA: Allyn & Bacon 1998), 172–97; Ravid, S. Abraham. “Information, Blockbusters, and Stars: A Study of the Film Industry.” *Journal of Cultural Economics* 72, no. 4 (1999): 217–35; Austin, Bruce A. *Immediate Seating: A Look at Movie Audiences*. Belmont, CA: Wadsworth, 1989.

with star power but usually not as much as added costs.<sup>56</sup> Leonardo DiCaprio appeared in three films in a single year: *Titanic*, *The Man in the Iron Mask*, and *Celebrity*. DiCaprio was paid \$2.5 million for *Titanic*. Riding on its favorable early publicity, he could command \$20 million for *The Man in the Iron Mask*. But that film grossed only \$80 million, *Titanic* grossed \$900 million worldwide. *Celebrity*, a small film by Woody Allen, sold only a puny \$3 million in tickets.

In the music business, performing artists typically receive most of their compensation as royalties, that is, on a contingent basis. These are typically 7–12% of revenues of records or tracks sold. New artists’ royalties are much lower than those of an established artist. Acquisition of new artists by music companies therefore helps the pivotal to profitability of those companies, because they can keep more of their music’s earnings.

Managing stars is a profession in itself, with specialties of experts surrounding the stars: a lawyer, a business manager, a personal manager, an accountant, a talent agent, and a publicist. Many of these have support staff too. Some of these professionals are paid a straight salary, others get a share of revenues, or they are paid by the hour or by a monthly fee for a routine service, which is called a retainer, with extra services billed separately. When artists go on tour, they need promotional staff, a road crew, and often supporting artists for a performance.

A personal manager screens deals, requests for appearances, and important contacts. Business and personal managers are paid a percentage of the client’s income, typically 5–10% of a music artist’s gross income. Where the artist’s income is very high the percentage is lower or is transformed into a flat retainer.<sup>57</sup> The talent agency’s job is to provide the artist with work or to connect the writer with a publisher. They, too, get about 10–20% of the artist’s income. In the USA, state licensing laws may require that a personal manager cannot also be a booking (talent) agent, in order to reduce conflicts of interest.

#### 5.2.4.4 Productivity and Production Functions

Another element of hard HRM is the use of statistical methods to identify elements of productivity. Rising productivity lowers the cost of a product or improves its quality. According to one study, a 10% gain of productivity leads to a gain in market value, over time, of over 5%.<sup>58</sup> But what is

“productivity”? As mentioned in ► Chap. 3, Productivity is defined as the ratio of output to input.

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}}$$

In practice, it is not easy to solve this simple equation. What measures of output should be taken into account? Physical or content units, e.g. DVDs produced, miles of cable laid, lines of code programmed, words written, music tracks recorded, minutes of film? Or, units sold? Or the value of the units sold?

One newspaper, the *Winston-Salem Journal*, quantified “newsroom productivity.”<sup>59</sup> Reporters were expected to produce 40 stories per week based on press releases, or 15 stories per week based on meetings or police activities. Journalists’ productivity was then tabulated and reviewed in a weekly “grid report.” But this by-the-numbers approach created resentment, especially when it came to quality dimensions. Another way to measure productivity is by defining it by intermediary outputs that are inputs to the final product—keystrokes, or customer contacts, or phone calls made by a reporter.<sup>60</sup>

Another way to measure media productivity is by the ratio of employees to the final product count, such as magazine circulation. In newspaper newsrooms, a long-time rule of thumb has been one full-time employee (FTE) per 1000 circulation. But according to a 2001 survey (by the Poynter Institute) the ratio had become 1.2–1.3 FTEs per 1000. This suggests a decline in productivity thus measured. (Or, an increase in the quality of the product.) Ratios were still higher for papers with low circulation, which shows a productivity advantage for the largest papers. More recently, with shrinking newsrooms, these ratios have been dropping again.

Measuring output by physical units does not account for the quality of the product. A computer could be a basic model or a high performance one, yet they would be counted equally if the definition of outputs is “units shipped.” Similarly, a computer today is much more powerful than ten years ago. This suggests the use of price (value) as the output measure.<sup>61</sup> But price is affected by market conditions and may reflect other factors such as the nature of competition of demand or the marketing effort by the company.

Inputs are still more complex. Is labor counted in terms of hours or by the wage bill? Does the latter include bonuses, profit participation, stock purchase discounts? And for the capital inputs that are engaged, does one include intangibles? And, if so, how to value them? Moreover, how many inputs does one include? A single-factor productivity measure, such as the contribution of labor, would omit the contribution of

56 Basuroy, Suman, Subimal Chatterjee, and S. Abraham Ravid. “How Critical Are Critical Reviews? The Box Office Effect of Film Critics, Star Power, and Budgets.” *Journal of Marketing* 67, no. 4 (October 2003): 103–117; Eliashberg, Jehoshas, Anita Elberse, and Mark Landers. “The Motion Picture Industry: Critical Issues in Practice. Current Research and New Research Directions.” *Marketing Science* 25, no. 6 (November–December 2006): 638–661; Faulkner, Robert R. and Any B. Anderson. “Short-Term Projects and Emergent Careers: Evidence from Hollywood.” *American Journal of Sociology* 92, no. 4 (January 1987): 879–909; Litman, Barry R. and Linda S. Kohl. “Predicting Financial Success of Motion Pictures: The ‘80s Experience.” *Journal of Media Economics* 2, no. 2 (Fall 1989): 35–50.

57 Fink, Michael. *Inside the Music Industry*. (New York: Schirmer Books, 1996), 81–101.

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

59 Underwood, Doug. “Assembly-line Journalism.” *Columbia Journalism Review* 37, no. 2 (July/August 1998): 43.

60 Picard, Robert G. “Measuring and Interpreting Productivity of Journalists.” *Newspaper Research Journal* 19, no. 4 (Fall 1998): 71–84.

61 Owyong, David T. “Productivity Growth: Theory and Measurement.” *APO Productivity Journal* (2000): 19–29.

capital, energy, intermediate materials, and purchased services.

Another measure to define productivity is value-added per employee (total revenues minus cost of materials divided by the number of employees).

A production function measures a firm's output relative to input factors such as capital, labor, and materials. The analyst chooses from among several forms ("specifications") of the production equation to be measured and uses the techniques of regression analysis in order to estimate the parameters. This is discussed in greater detail in ► Chap. 3.

Several models are used for the statistical estimation of productivity. Perhaps most frequently used is the Cobb-Douglas production function. The output level  $Q$  is the result of capital  $K$  and labor  $L$  inputs.

$$Q = AK^\alpha L^\beta$$

The exponential parameters  $\alpha$  and  $\beta$  are also known as the elasticities of the output with respect to capital or labor.

Also used often is "total factor productivity," a measure of the production growth that is not explained by the growth in inputs of capital and labor.<sup>62</sup>

Productivity measures work best for blue-collar industrial activities. It is much harder to measure the productivity of managers or mid-level white-collar jobs. The productivity of creative "black-collar" jobs is still harder to measure. Outputs are hard to define and to measure—quality differences can also be drastic; products are non-homogeneous and are hard to compare.

Several studies of media productivity have been conducted. For example, in the network services sector, Nadiri, Schankerman, Denny, and Fuss studied the productivity of the telecom industry.<sup>63</sup> Noam conducted a study on cable industry productivity.<sup>64</sup> Picard studied the productivity of the newspaper industry.<sup>65</sup>

US labor statistics show that labor productivity growth has been high in activities that are capital intensive. In effect, labor has been substituted by capital and the remaining workers' productivity has risen in consequence.<sup>66</sup> Conversely, productivity growth has been slow in labor intensive activities. For some labor intensive media activities, such as the theater, there has even been a productivity decline. Yet one has to pay more for this work than before. The cause of this is the overall rise in the productivity in the general economy.

The effect is known as the "cost disease."<sup>67</sup> One must often pay low productivity occupations, such as some creatives in media, more than before, because they now have better-paying alternative opportunities. These increases in the cost of production may offset the modest cost savings from any technical progress in those creative activities. The labor intensive performing arts thus become relatively costlier to produce, showing negative productivity yet being better paid than before.<sup>68</sup>

Companies have employed many methods in the quest to raise productivity. Approaches include the introduction of more efficient technology, improvements in the process of productivity or training, and motivation of workers. Various methodologies have also been introduced to manage productivity. For example, the Six Sigma productivity growth process aims to identify company weaknesses through statistical methods and apply statistics to improvements.<sup>69</sup> Such statistical studies can decompose the various factors that contribute to productivity improvements.<sup>70</sup>

For example, factors in raising productivity of software creations were found to be:

- working faster: 8%;
- working smarter: 17%;
- work education (avoiding repetitions): 47%.<sup>71</sup>

The Six Sigma strategy trains employees to be "black belts," or experts, in the art of the productivity process. These black belts then train other employees. General Electric implemented Six Sigma, and claims that, within the first few years, it reduced production cost by more than \$300 million.<sup>72</sup>

Enabling some of these techniques of hard HRM are HRIS that collect the data, which is then analyzed. One can track overall labor cost. One can look at teams or individuals, their performance, and their progress. One can identify skills and candidates for advancement. But even more importantly, one can identify trends that go beyond an individual; and one can create HR auditing systems for needs and resources, for moving and training people, and for creating a pipeline for talent and management succession. It can help in recruiting by identifying past success factors. It can prescreen large applicant pools.<sup>73</sup> (On the other hand, this can be a problem, too, by creating a relatively uniform workforce.)

62 Picard, Robert G. "Measuring and Interpreting Productivity of Journalists." *Newspaper Research Journal* 19, no. 4 (Fall 1998): 71–84.

63 Nadiri, M. Ishaq and M.A. Schankerman. "Technical Change, Returns to Scale, and Productivity Slowdown." *The American Economic Review* 71, no. 2 (May 1981): 314–319.

64 Noam, Eli. "Cable Productivity Likely to Slow," in *Cable TV and New Media* (March 1986), 8.

65 Picard, Robert. "Journal Articles by Robert G. Picard." Last accessed April 20, 2017. ► <http://www.robertpicard.net/journalarticles.html>.

66 US Department of Labor, Bureau of Labor Statistics. "Industry Productivity and Costs." Last accessed June 6, 2006. ► <http://data.bls.gov/PDQ/servlet/SurveyOutputServlet>.

67 The term was coined and explained by William J. Baumol and William G. Bowen, and is discussed below.

68 Caves, Richard E. *Creative Industries: Contracts Between Art and Commerce*. Cambridge, MA: Harvard University Press, 2002.

69 Hahn, Gerald J. et al. "The Impact of Six Sigma Improvement – A Glimpse into the Future of Statistics." *The American Statistician* 53, no. 3 (August 1999): 208–215.

70 The Six Sigma method is based on sigma— $\sigma$ —the symbol for a standard deviation that shows how much variation there is from the expected result. iSixSigma. "The History of Six Sigma." Last accessed April 20, 2017. ► [http://www.isixsigma.com/index.php?option=com\\_k2&view=item&id=1505:the-history-of-six-sigma&Itemid=156](http://www.isixsigma.com/index.php?option=com_k2&view=item&id=1505:the-history-of-six-sigma&Itemid=156).

71 Boehm, Barry. "Managing Software Productivity and Reuse." *Computer* 32, no. 9 (September 1999): 111–113.

72 Breyfogle III, Forrest W., James M. Cupello and Becki Meadows. *Managing Six Sigma: A Practical Guide to Understanding, Assessing, and Implementing the Strategy That Yields Bottom-Line Success*. (New York: John Wiley & Sons, 2001), 32–33.

73 Williams, David. "Hiring Management Systems." *PeopleClick*. Last accessed August 15, 2007. ► [http://www.peopleclick.com/knowledge/ind\\_williams2.asp](http://www.peopleclick.com/knowledge/ind_williams2.asp).

### 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.

The media and media-tech workforce includes five basic types of employees, apart from top management:

- industrial workforce;
- crafts workforce;
- creatives;
- freelancers;
- middle managers.

Employees are often represented and organized by labor (trade) unions. There are three broad types of such associations:

- Crafts-based unions represent workers with particular skills, regardless of their employer.
- Industry-based labor unions representing the employees of many companies within an industry, such as the telecom sector. They often negotiate standard contracts with employer associations representing many companies.
- Company-based unions represent employees at a particular employer.

In all cases, local unions are usually affiliated with nationwide umbrella unions that deal with government relations and with organizing non-union workers into new locals.<sup>74</sup> Inside a company, union shop stewards, function as members’ representatives to management.<sup>75</sup>

#### 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. In the USA, there are three major industrial unions for the telecom, IT, TV, and film industries:

- The Communications Workers of America (CWA), which includes the National Association of Broadcast Employees and Technicians (NABET) as well as the Newspaper Guild and many airline and health care employees. NABET is the exclusive bargaining agent for personnel at TV networks and many local TV stations.<sup>76</sup>

CWA represented over 700,000 members in 1200 local unions in North America, many in the telecom sector.<sup>77</sup>

- The International Brotherhood of Electrical Workers (IBEW) represents 100,000 telecom workers. IBEW is also the bargaining agent for 300,000 employees at CBS, Disney, HBO, and several independent TV stations.
- The International Alliance of Theatrical and Stage Employees (IATSE). IATSE has 500 local chapters, mainly on the West Coast.
- In the UK, the Communication Workers Union (CWU) bargains for contracts in more than 40 companies, including British Telecom, Openreach, teleticity, and NewGrid. BECTU, the Broadcasting Entertainment Cinematograph and Theatre Union, with 24,000 members, is the UK’s major media and entertainment trade union.
- In Japan, the NTT Workers Union of Japan (NWX) represents over 175,000 members of the world’s largest telecom group NTT. The Japanese Mass Communications Information Culture Labor Union (MIC) represents media.
- In Australia, the Communication Workers Union (CWU) represents employees in the communications, IT, and postal industries, including 22,000 telecommunications employees.
- In Germany, the Ver.di trade union covers, among several industries, the media sector. It is the bargaining agent for about 12,600 TV employees. Ver.di represents 2.1 million retail, finance, postal, telecommunications, media sector, and other employees.
- In France, the Federation Board of Communication Culture (F3C-CFDT) is the union affiliated with the French Democratic Confederation of Labor. CFDT is a politically social democratic union federation with 60,000 members in the telecommunication industry and 18 professional branches. Le Syndicat national des médias is a media union affiliated with CFDT with a focus on TV, film, and other media-related fields.<sup>78</sup> Another union, the National Federation of Employees in the sector of postal activities and telecommunications (CGT-FAPT), has 32,000 members. It is a sub-division of the powerful General Confederation of Labor (CGT), politically a more leftist labor organization.

The strength of unions, however, has declined as the industrial economy has transitioned to a services-based one. In America, unionization dropped from its peak in the 1940s of roughly 35% of the labor force to about 11% in 2017.<sup>79</sup> For private sector non-agricultural employees, it was not half

74 Sayles, Leonard R. and George Strauss. *Managing Human Resources*. (Englewood Cliffs: Prentice Hall, 1977), 81.

75 Biz/ed. “What do Trade Unions Do?” TUC Company Facts. Last updated April 5, 2006. ► <http://www.bized.ac.uk/compact/tuc/tuc16.htm>.

76 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.

77 CWA. “About Communication Workers of America.” Last accessed April 24, 2017. ► <https://www.cwa-union.org/about>.

78 CFDT Médias. “Le Syndicat national des médias cfdt: Agir et proposer au cœur des médias.” Last accessed April 24, 2017. ► <http://www.cfdt-medias.org/index.html>.

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

that, at 6.5% in 2017. In wired telecommunications it is 17.1% (for other telecoms such as mobile it is 10.2%). For motion pictures it is 10.1% and for newspapers 9.3%.<sup>80</sup> 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 it is 5% (and 14% in the public sector). In the UK it is 26% and in Germany 18%. However, often the unions are the sole representatives of all employees, including non-members. In some countries they sit on corporate boards and co-administer benefit plans.<sup>81</sup>

Studies show that unionization has a positive effect on salaries.<sup>82</sup> In the USA, for example, unionized telephone operators earn almost double the wages 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, and thus enable employers to be more selective in terms of quality. Furthermore, unions upgrade the skills of their members and are often a provider of training. The IBEW in the USA, for example, offers training programs for certification for various qualifications. But higher wages also lead to lower labor mobility: 80% of telecom company technicians have worked more than ten years with the same firm. In contrast, the largely non-unionized IT industry experiences a much greater labor mobility. An *Information Week* survey indicates that the majority of IT workers had been with their then-employer for less than four years and expected to change jobs within three years. More than 40% of employees considered themselves “on the market” for new employment.<sup>83</sup> Unions have also been weakened as many jobs were eliminated owing to advances in technology, or through outsourcing and off-shoring. Competition—domestic and global—increased the pressure on labor costs. The number of employees in the US telecoms network sector peaked in 2001 at 1.3 million. It dropped by 115,000 in 2001 and 105,000 in 2002. Since then, the annual drop has averaged over 50,000.

The boom–bust cycle and the shrinking of wages and employment that goes with it often results in union unrest and strikes. For instance, Verizon employees struck in 1989,

1998, 2000, and 2016, and came close to it in 2003 and 2008. Employees of France Telecom went on strike in 2009, charging that stressful work conditions had led dozens of employees to take their own lives. The company then made concessions.

### 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 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: Hearst's *New York Mirror*, the *New York Herald Tribune*, the *New York World Telegram & Sun*, and the *New York Journal-American*.<sup>84</sup> To protect its members, the same union in 1973 negotiated a new contract, in which the printers agreed to let their jobs be phased out by automation in exchange for a lifetime job guarantee for each present employee.

In the UK, newspaper strikes have been frequent. The key battle was the “Wapping dispute” in 1986, when 6000 workers went on strike against Rupert Murdoch's News International and its newspapers. The 6000 union workers who stopped working were immediately fired. Murdoch could do so because the entire production operations of his major papers had been transferred overnight from Fleet Street in London to a new plant at Wapping (East of London), which had been secretly built with the pretense of being the site of a new newspaper, using members of another union (GG&PU).<sup>85</sup> The original unions continued to strike for a year but lost. The confrontation broke the power of UK print unions.

Another long and bitter strike was that of the Broadway stagehands in 2007, the longest on Broadway in a generation. Most shows closed down during the peak Christmas

80 Hirsch, Barry T. and David A. Macpherson “Union Membership and Coverage Database.” [Unionstats.com](http://www.unionstats.com). Last accessed June 25, 2014. <http://www.unionstats.com>.

81 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>.

82 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.

83 Florida, Richard. *The Rise of the Creative Class and How It's Transforming Work, Leisure, Community and Everyday Life*. (New York: Basic Books, 2002), 104.

84 Shafer, Jack. “Life After Newspapers.” *Slate*. May 11, 2009. Last accessed June 1, 2011. <http://www.slate.com/id/2218104/>.

85 Pilger, John. *Hidden Agendas*. (London: Vintage, 1998), 459.

season. On the other side of the negotiating table was the League of American Theatres and Producers, which bargains for employers with 17 craft unions, guilds, and other associations. The strike ended with the union agreeing to greater flexibility in the ability to dismiss stagehands, but wages were raised to an undisclosed amount that was significantly higher than the 3.5% increase the theater had initially offered.

### 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. The distinction, however, is a fluid and overlapping one. Actor unions, often known as “guilds,” originated in nineteenth-century theater, often to assure the payment of salaries owed, even if a show closed down. Previously, actors in a traveling show were regularly stranded in distant towns when a show closed down.<sup>86</sup>

In the USA, the Actors’ Equity Association is a union founded in 1913 that established requirements to deal with its actor members: arbitration of contract disputes, two weeks’ notice or salary for dismissals after a probation period, a time limit on unpaid rehearsals, bonds for salaries, and paid travel costs for road shows.

There are also several other theater unions in the USA, and they often do not support one other’s strikes.<sup>87,88</sup> In the UK, Equity represents professional performers across multiple media. In 2008, the union was able to raise the minimum wage of actors to \$730. In Australia, over 22,000 employees are members of the Media, Entertainment and Arts Alliance. Live Performance Australia represents a variety of the live entertainment sector.

Just as in theater, in the early days of film working conditions were harsh. Many actors worked up to 16 h a day without overtime payments, retirement pensions, health insurance, or safety regulations. Creatives unions also exist for film actors, dancers, musicians, journalists, and others. They were subject to firing without recourse, and artists were traded among different studios. Labor unions emerged. They negotiate contracts with the studios’ bargaining organization, the Alliance of Motion Picture and Television Producers (AMPTP).

One of the best-known artist’s unions is the Screen Actors Guild (SAG), established in 1933. SAG negotiates with studios over long-term engagement contracts, compensation for new digital distribution, and work rules.<sup>89</sup> In 2008, motion picture and television actors with speaking parts were guaranteed by SAG rules to earn at least \$678 per day on big-budget films and \$504 per day on low budget (i.e. less than \$2 million) films.<sup>90</sup> Extras earned \$110 per day. For instance, if an actor worked on two films in a year for five days each at “scale,” she would earn \$6780 before deductions, per year. This is not enough to live on.

Hollywood film directors are also unionized, and guaranteed at least eight weeks of work per low-budget film and ten weeks on each big-budget film. A small-budget film director will earn at least \$69,000, but top directors can earn several million dollars, in addition to a percentage of the revenue.<sup>91</sup>

According to US Labor Department figures, the median annual earnings of salaried producers and directors were \$46,240 in 2002 (\$56,090 in motion picture and video industries and \$38,480 in radio and television broadcasting).<sup>92</sup> (The median is a more useful measure than the average, which is skewed by a few highly paid superstar directors.)

In Japan, film actors’ earnings are calculated by labor contract, according to three elements: the actors’ basic rank, which is based on popularity, years of experience, skills, and so on; the length of the employment arrangement; and the purpose of the work, (film, video, etc.) Average actors in Japanese films receive about \$40,000. However, a star such as Ken Watanabe, who performed in *The Last Samurai* (2003), received \$130,000.

There is even a Producers Guild of America, a union representing upper and middle managers.

The Writer’s Guild of America (WGA) is another prominent and powerful “above the line” guild, with separate East and West Coast organizations. WGA represents between 9000 and 12,000 movie and TV writers. Of these, only several hundred make serious money. A top screenwriter may earn as much as \$2 million per movie in addition to a percentage of the profits. About 2500 writers earn enough to support themselves solely from writing. But most writers are part-timers with small incomes.<sup>93</sup>

In the USA, some journalists are represented by the Newspaper Guild, founded in 1933 when journalists observed

86 Caves, Richard E. *Creative Industries: Contracts Between Art and Commerce*. Cambridge: Harvard University Press, 2002.

87 For example, many national tours of Broadway shows do not operate under contracts with Actors’ Equity or the American Federation of Musicians, and instead are associated with rival unions, the Stage Directors and Choreographers Society and the International Alliance of Theatrical Stage Employees.

88 Brown et al. *Wonderful Town: The Future of Theater in New York*. New York: National Arts Journalism Program, 2001.

89 Baskerville, David and Tim Baskerville. *Music Business Handbook & Career Guide*. 8th ed. (Thousand Oaks: SAGE Publications Inc., 2006), 181–190.

90 Screen Actors Guild. “SAG Low Budget Contract Signatory Process.” SAGINDIE. Last accessed May 21, 2014. ► [http://www.sagfoundation.org/files/SAG\\_LB.pdf](http://www.sagfoundation.org/files/SAG_LB.pdf).

91 Susman, Gary. “We Call it Martian Accounting.” *The Guardian*. August 30, 2001. ► <https://www.theguardian.com/film/2001/aug/31/artsfeatures>.

92 Bureau of Labor Statistics, US Department of Labor. “Actors, Producers, and Directors.” Last modified March 2004. ► <http://www.bls.gov/oco/ocos093.htm>.

93 Lazarus, Paul N. *The Movie Producer: An Industry Veteran Reveals What It Takes To Be a Producer in Today’s Hollywood*. New York: Barnes and Noble Books, 1985.

that unionized truck drivers made much more money than they did. In 1987, the union had 34,828 members. The union's presence was not welcome among publishers. The American Newspaper Publishers Association went on record in the 1980s as being committed to "wherever applicable, a union-free environment."<sup>94</sup> Union membership declined, and in 1995 it merged into the CWA.

Even with unionization, journalist salaries are low. Average starting salaries in 2012 for journalism school graduates were \$40,900. For editors, in other words seasoned journalists, the average salary was \$60,490 (in New York City \$80,200)<sup>95</sup>; and for reporters/correspondents it was \$43,640. At the unionized *Washington Post*, a highly desirable place for a journalist to be, the negotiated minimum salary after five years on the job was \$52,000. Smaller papers paid less. Jobs were under pressure as circulation and ad revenues declined and publishers cut costs. Journalism outsourcing became a trend. Thomson Reuters offshored some of its Wall Street news reporting to India. The company planned to move about 10% of its workforce (1800 workers) to Bangalore and several production departments to Singapore, which included the editing, writing, and data extraction departments.

The American Federation of Musicians represents professional instrumentalists. It was established in 1896 to prevent the hiring of out-of-town musicians who would then compete with the local talent. Recording technology began displacing live musicians in the 1920s, and over the years musicians have been facing increasing substitution by electronic instruments that enable a "virtual pit orchestra."<sup>96</sup> For Broadway productions, union rules required a minimum of 25 "pit musicians" for musicals, lowered in 2003 to about 19. Each of them cost a minimum of \$1700 per week, accounting together for about 6% of a ticket price.

Large orchestras, with the cream of classical musicians performing, are often unionized. A near-strike of the New York Philharmonic Orchestra resulted in a 13% raise in the minimum salary of orchestra members. The annual basic salary of a New York Metropolitan Opera orchestra member was \$110,869 in 2011, before payments for extras such as overtime.

The question is, why is there often such strong unionization in media crafts and among media creatives? There are at least five factors:

**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."<sup>97</sup> The high level of competition for jobs in the cre-

ative sector depresses the average compensation. Many creatives are willing to work for nothing just for the experience, the opportunity to be noticed, to build a résumé, or to express themselves. But when everyone is an artist yet no one needs to spend money on art, markets fail, and there is no economic foundation for artists.<sup>98</sup>

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. Pay is low. In 2008, a professional full-time dancer was often paid \$15,000 per year. In many creative industries, jobs are shrinking. Musicians are being replaced by recordings. In publishing and journalism, 260,000 jobs were cut between 2007 and 2009 alone. Since 2000, around 80% of cultural critics writing for newspapers have lost their jobs. There are only two full-time dance critics in the USA.

One of the functions of unions is therefore protectionist: to limit competition and to reduce access by newcomers. Those on the inside with a union-protected job can expect decent returns. As an example, in addition to their \$110,869-plus salaries, New York Metropolitan Opera orchestra members receive compensation for rehearsals at an hourly rate of \$80, averaging ten hours per week, and they can provide lessons to private students and give their own performances. This level would be rare for non-union creative jobs.

**Money** Do unions raise income? They do for those who have a job, but have a negative impact on those who seek employment. They have a smaller impact on the compensation of creatives than for craft and industrial employees. The talent unions have less bargaining power and less cohesion. Top stars negotiate their own deals rather than letting unions represent them.

**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 those public channels over \$1 billion a 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),

94 Herrick, Dennis F. *Media Management in the Age of Giants: Business Dynamics of Journalism*. (Ames: Wiley-Blackwell, 2003), 74.

95 Beaujor, Andrew. "Why an 'average' journalism grad's salary might not be and average salary where you work." *Poynter*. January 29, 2013. Last accessed April 28, 2017. ► <https://www.poynter.org/2013/why-an-average-journalism-grads-salary-might-not-be-an-average-salary-where-you-work/202172/>.

96 Glasel, John. "Automation Drains Musical Gene Pool." *Billboard*. New York: October 15, 1988.

97 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>.

98 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>.

### 5.3 · HRM by Negotiation: “Tough Labor”

and long, irregular work hours. Musicians and actors experience higher stress levels owing to their grueling schedules. They typically rehearse during the day, perform at night and at weekends, engage in a search for their next engagement, and spend time away from home.<sup>99</sup>

A study of work stress in a group of freelancers ( $N = 290$ ) working in the German media industry shows significant effects of high effort in combination with low reward (money, esteem, promotion prospects, job security) on subjective health in men and women, with the effects being higher in men. Journalists are in the same situation. They face the constant pressure of deadlines and a competitive work environment, at times under dangerous conditions.

Around the world more than 1000 journalists and media personnel have been killed in a decade.<sup>100</sup>

**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*.<sup>101</sup> Unions are, in part, a response by those who feel more talented but less powerful than their management bosses.

#### 5.3.3.1 Case Discussion

##### Disney and the Cartoonist Union

In 1941, Disney animators went on strike for six weeks until a federal mediator ruled in the union’s favor. This event, despite occurring many years ago, has shaped labor-management relations at Disney ever since.

Walt Disney founded the company with his brother Roy when he was only 24 years old. He was informal and approachable,<sup>102</sup> and the company’s management style reflected his characteristics. A former Disney employee reminisced about the “good old days when we had a big happy family all packed into a small building ... In those days every man in the organization had the good old ‘do or die for Disney’ spirit.” Disney artists considered themselves the creative elite, working under an admired boss.

But by 1941 the animators had become angry over profit sharing they felt had been promised but not provided, as well as unfavorable work conditions. They organized and went on strike.<sup>103</sup> The strike lasted for five weeks and forever changed employee relationships at Disney. Fearing the loss of government contracts and the recall of bank loans, Walt eventually capitulated. The Screen Cartoonists Guild was recognized as the bargaining agent, wages increased, and fired workers were reinstated. Walt called the strike a catas-

trophe that destroyed the studio’s spirit.<sup>104</sup> As a result, the Disney Company changed. Employment dropped from 1200 to 694 as work was outsourced to freelancers. Walt distanced himself from the workforce. The strike left him a changed man. Once politically on the left, he now moved to the far right and blamed Communists for the trouble.

The strike, though long in the past, still motivates animators today. They view their strike as their War of Independence. Today, the Animation Guild Local 839 IATSE represents most Hollywood animation writers and artists who work for Disney and DreamWorks Animation. In 1979, Local 839 went on strike, winning a “runaway clause” that guaranteed local employment before work could be subcontracted out of Los Angeles. In 1982, however, the studios regrouped and defeated the union after a ten-week strike. Virtually all TV animation work was subsequently sent overseas.<sup>105</sup> In 1999, Disney’s animation department still had 2200 employees, but by 2004, the numbers had shrunk to only 600. With such pressure, there was another strike that year. As a result, the union minimum wage for a computer-generated image (CGI) animator was set at \$1375 per week. Union CGI animators also receive health and pension plan benefits.

More generally, Disney’s employees are represented by 30 unions under eight contracts<sup>106</sup>; 14 unions negotiated under two Trade Council agreements. The Service Trades Council representing more than 20,000 Disney employees went through tough negotiations with Disney in 2004. The main disagreement was over management’s effort to drop the existing pension plan and replace it with a 401(k) plan that would match employee’s contributions up to 2% of salary. Disney’s plan did not require low-wage workers to contribute.

Disney also has to deal with unions in other countries. In its Disneyland Paris theme park, it dealt with the protests by many French unions, including CFTC and Force Ouvrière, which strongly protested working conditions they believed led to the death of an employee in 2010.<sup>107</sup>

One may shrug away these conflicts as part of the usual tough bargaining of industrial relations. Disney’s management did just that. But when that same management was challenged by dissident shareholders, most employees got even and voted to oust management. Soon thereafter, the board retired CEO Michael Eisner and his team.

Given this history, what should Disney do today, if anything, to improve its relationship with labor unions?

99 Bureau of Labor Statistics, US Department of Labor. “Actors, Producers, and Directors.” Last modified March 2004. ► <http://www.bls.gov/ocos093.htm>.

100 Giga, Sabir I., Helge Hoel, and Cary L. Cooper. “Violence and Stress at Work in the Performing Arts and in Journalism.” *Sectoral Activities Programme*. University of Manchester Institute of Science and Technology, June 2003.

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

102 Gabler, Neal. *Walt Disney: The Triumph of the American Imagination*. New York: Alfred A. Knopf, 2006.

103 Sito, Tom. “The Disney Strike, 1941.” *The Animation Guild.org*. Last accessed April 28, 2017. ► <https://animationguild.org/about-the-guild/disney-strike-1941>.

104 Gabler, Neal. *Walt Disney: The Triumph of the American Imagination*. New York: Alfred A. Knopf, 2006.

105 “The ‘50s Through the ‘90s.” *The Animation Guild*. 2010. *The Animation Guild*. Last accessed April 28, 2017. ► <http://animationguild.org/the50s-the90s/>.

106 Rubis, Leon. “Disney Show & Tell.” *HR Magazine*, April 1998.

107 Lichfield, John. “The Dark Side of Disneyland Paris.” *The Independent*. May 6, 2010. Last accessed June 13, 2011. ► <http://www.independent.co.uk/news/world/europe/the-dark-side-of-disneyland-paris-1964505.html>.

### 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.<sup>108</sup> For employees, factors contributing to dissatisfaction include the perception that middle-aged workers are obsolete, the disparity in rewards relative to top executives, and low job security.<sup>109</sup> 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.<sup>110</sup> There is also an immigration of talent. From 2001 to 2003 alone, about 180,000 new skilled workers entered the USA to join the computer field.<sup>111</sup> The Programmers Guild attempts to combat foreign competition by resisting a variety of tech visas which would allow foreign workers 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.<sup>112</sup>

The second thrust of unionization is the issue of freelancers. More and more people work from home or have become independent contractors. In 2010, according to US labor statistics,<sup>113</sup> 6.6% of all workers were fully home workers (up from 4.8% in 1997), and 3.8% of workers with college education were mixed workers (working at least one day a week at home).

Microsoft was involved in labor disputes in 1999 over freelancers. A third of Microsoft's workforce were, in the oxymoronic term, "permatemps." This gave Microsoft and other tech firms flexibility, but led to high levels of employee insecurity.<sup>114</sup> The primary concern of permatemps is that despite often decent take-home pay, they lack benefits and job security. As their demands expanded, the Washington Alliance of Technical Workers began to unionize these white-collar tech workers. They also went to court. In the case *Vizcaino v. Microsoft*, an appellate court ruled that the workers Microsoft hired as "independent contractors" were actually common

law employees and were thus entitled to the same access to pension plans and other benefits that formal employees enjoyed.<sup>115</sup> 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.<sup>116</sup>

The trends are moving in the direction of independent contractors and freelancers rather than traditional employees. Technology is accelerating these trends. The number of people in the USA who use some form of telework in 2015 has been 35 million (International Association for Telework). Another survey, in a 2015 Gallup Poll, showed that about 58 million people (37% of the US workforce) telecommuted, with the average being two days a month.<sup>117</sup> In total, 20 million people worked at home as part of their primary job in 2001 (National Bureau of Labor Statistics). Over half of those who worked at home were salary workers taking work home unpaid; 30% were self-employed. Only 17% had a formal telework arrangement with their employers.

One reason for telecommuting is that people are spending more time than ever getting to work. During 1990s, a typical West Virginia commute rose from 21 to 26.2 minutes. Every extra minute of commute adds up to eight hours of lost time per year per person and 450,000 years of lost time for the entire USA. Traffic congestion costs the USA an estimated \$78 billion in lost productivity and wasted fuel every year.<sup>118</sup>

It is claimed that employers can save 63% of absenteeism costs per teleworker, and telework can cut corporate real estate costs by 40–90%.

At AT&T, 33% of managers telecommute at least once a week, and the company claims that it saves over \$150 million per year: \$100 million in productivity gain, \$35 million in office space reductions, and \$15 million in lower employee turnover.<sup>119</sup>

Telecommuting studies report consistently positive productivity changes. Yet people resist a full telecommute. Management concerns are about lower direct control and supervision, less efficient transmission of tacit knowledge/norms, and larger security issues. On the employee side, telecommuting leaves those choosing it feeling isolated, out of the loop, and less likely to get promoted. They are also likely to be replaced more readily, since it may be just as easy (but cheaper) to hire a telecommuter in India.

108 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>.

109 Batt, Rosemary et al. "Work Patterns and Workforce Policies for the New Media Industry." *EPI Book*. Washington, DC: Economic Policy Institute, 2001; Fraser, Jill Andresky. *White-Collar Sweatshop*. (New York: W.W. Norton and Co, 2001), 140.

110 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>.

111 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>.

112 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>.

113 Mateyka, Peter J., Melanie A. Rapino, and Liana Christin Landivar. "Home-Based Workers in the United States: 2010." *U.S. Census Bureau*. October 2012. Last accessed April 28, 2017. ► <http://www.census.gov/hhes/commuting/files/2012/Home-based%20Workers%20in%20the%20United%20States-Paper.pdf>.

114 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](http://speakout.com/activism/issue_briefs/1284b-1.html).

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

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

117 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>.

118 Belsie, Laurent. "Commuters Get Longer, More Rural." *Christian Science Monitor*. May 31, 2002. Last accessed April 28, 2017. ► <http://www.csmonitor.com/2002/0531/p01s01-ussc.html>.

119 YouCanWorkFromAnywhere.com. "Telework America 2001 Study." Last accessed April 13, 2004. ► <http://www.youcanworkfromanywhere.com/infocenter/facts.htm>.

The freelancers themselves 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, that is on developing future employability.<sup>120</sup>

In 2013, taxi drivers in California and Massachusetts brought a class action lawsuit representing 385,000 drivers against the taxi company Uber, alleged that they should be treated as employees and not as independent contractors. Specifically at issue was the fact that Uber was classifying drivers as independent contractors but was exerting control over them in the form of firing and penalizing for not consistently accepting trip requests. In 2016 Uber settled with the drivers, agreeing to pay \$84 million along with working to create better rules and communication with drivers. The settlement preserved the status of Uber drivers as independent contractors in California and Massachusetts.<sup>121</sup>

More generally, as the so-called “gig economy” has risen, so too has the number of independent contractors, causing the Bureau of Labor Statistics in 2017 to begin collecting data on the number of such independent contractor workers.

### 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.<sup>122</sup> 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 employee representatives to hear about problems; solicit advice; be available; stress partnership and common goals; be open to ideas and suggestions.<sup>123</sup> 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.

Management must carefully prepare the data on which to base its negotiations: data on pay and benefits, comparisons

with local rates, and with rates paid for similar jobs within the industry.<sup>124</sup> There may be a need to construct a financial model to compute the costs of various benefits.

Labor laws vary in different countries, but generally set out categories of issues that are subject to bargaining. Subjects over which bargaining is usually legally mandatory include wages, hours, rest periods, layoffs, transfers, benefits and severance pay. Bargaining tends to go through several stages. First each side presents its demands. Second, demands are reduced and traded off. Third, the parties form joint subcommittees to try to work out difficult issues. An informal settlement is reached, and each group goes back to its constituency. Finally, the agreement is finalized and signed.

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, priorities, and need for face saving.

In negotiations, parties usually take a “positional” bargaining technique, where each party takes a position and argues vigorously for it. This technique, while common, often creates problems. Instead, it is often more effective if the parties employ “principled bargaining,” which focuses of their fundamental interests and identities, not on declared positions. They should generate a variety of options for the other side rather than on a “take-it-or-leave-it” basis.<sup>125</sup>

If negotiations break down, an “industrial action” may take place, such as a strike, a work-by-the-book, or a go-slow. 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 excluded from industrial action.

Management should also consider mediation before it comes to a strike or lockout. Such mediation is cheaper than strikes. It must be based on confidential discussions by both sides with the mediator in order to identify issues, explore options for agreement, and to uncover unspoken causes of conflict.

### 5.3.6 Middle Managers

Top leaders get all the attention. Corporate CEOs have developed an aura in which they somehow combine the talents of a visionary, penny pincher, master of technology, global strategist, problem solver, motivator of people, autocrat, specialist, generalist, bureaucrat, politician, VIP gladiator, coach, public spokesperson, lobbyist, workaholic, social worker, slave driver, legal eagle, information processor, numbers cruncher, Wall Street insider, and marketing

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

121 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>.

122 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.

123 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>.

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

125 Morphis, Jillian N. “Negotiations Between the WGA and AMPTP: How to Avoid Strikes and Still Promote Members’ Needs.” *Pepperdine Dispute Resolution Law Journal* 12, no. 525 (2012): 525–50.

whiz. Yet most of an organization's work is managed not at the top but in the middle. Middle managers are the layer of supervision and co-ordination between the top leadership and the main workforce. Middle managers transact vertically (up and down the hierarchy) as well as horizontally with other departments.<sup>126</sup> They are the glue that holds the companies together and upholds corporate culture.<sup>127</sup>

There was not much middle management in the pre-industrial firm, which usually consisted of only one or two organizational levels, with foremen or masters' filling the intermediate functions. The industrial firm added many more middle managers for relay and supervisory functions. Middle managers sent decisions down the hierarchy and information back up to the top. This was not a particularly efficient way to handle communication flows. Much was lost in the process. Hence, when the technological tools of IT emerged they were seized with eagerness. Top management obtained greater powers to monitor and observe from a distance, and middle management lost its influence.<sup>128</sup>

With information technology systems able to relay information, firms found several layers of management redundant. According to some estimates, many large companies cut the number of management layers by half. For example, in one reorganization GM decreased its number of management layers from 28 to about 19, and Toyota from over 20 to 11. Bill Gates, as CEO, stated that he wants there to be “no more than six levels of management between me and anyone in [Microsoft].”<sup>129</sup>

Owing to consolidation, restructuring, and communication technology that connects top management directly to lower level activity, the number of middle managers has declined while their responsibilities have grown. It has been observed that middle managers are often the unhappiest people in the organization—overworked and undervalued. A 2007 Accenture survey of middle managers around the world found that 20% reported significant dissatisfaction with their current organization and another 20% reported that they were looking for another job. A major reason was lack of prospects for advancement. Yet the direct and indirect cost of turnover of middle managers is very high for companies.

Everett Rogers, who studied the diffusion of innovation inside media companies, concluded that only approximately 10% of all innovative diffusion succeeds, often owing to

internal resistance.<sup>130</sup> One study looked at middle level newspaper professionals in Denmark.<sup>131</sup> It found that they often did not buy into innovation. In the absence of such engagement, initiatives for change by top management went nowhere.

In a good number of media organizations middle managers exhibit more solidarity with the “floor” than with top management. Part of the problem of managing change in media is related to professional principles of journalistic independence, and the notion that creativity is better than control. This makes it difficult to manage change in newspapers. The culture of journalism—skepticism, confrontation, and ideals of independence—adds to the barriers for organizational change. The Danish study concluded that the process of change occurred in spite of the organizational culture, not because of it. Middle media managers, it was observed, rarely pursued change to increase economic performance. Therefore change must be advocated as a necessary method for achieving higher content quality and better working conditions rather than being based on economic reasons.

To engage middle managers one must keep them in the loop, inform them, and share the broad direction in which the firm is going. This is followed by two-way discussions that include potential adjustments of top management's plans, description of clear goals, and clear arguments about individual roles in meeting the goals.

To increase middle managers' productivity, it is helpful to create a development and training program that includes communication skills, change management, and project management skills. Supervisors need to be trained to properly communicate with employees and treat them well, to administer policies fairly, to motivate employees, to create positive morale, and to improve performance.<sup>132</sup> It helps to encourage middle managers to link up with middle managers from other companies or divisions. There is a role for middle management in horizontal knowledge transfer. It has been observed that in traditional firms with several product divisions, amazingly little information is often transferred horizontally. One important role for middle management today is therefore to serve as interdivisional knowledge connectors.<sup>133</sup> Similarly, middle managers carry in their heads and transfer across time the “institutional memory” (knowledge of a company, and its culture, methodology, etc.).<sup>134</sup> For continuity, companies therefore need a certain number of such long-time employees.

126 Knowledge@Wharton. “Caught in the Middle: Why Developing and Retaining Middle Managers Can Be So Challenging.” May 28, 2008. Last accessed April 28, 2017. ► <http://knowledge.wharton.upenn.edu/article/caught-in-the-middle-why-developing-and-retaining-middle-managers-can-be-so-challenging/>.

127 Hodes, B. “3 Strategies to Develop Middle Management.” September 16, 2012. Last accessed April 28, 2017. ► <http://www.traininmag.com/content/3-strategies-develop-middle-management>.

128 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.

129 Gates, Bill, Nathan Myhrvold, and Peter Rinearson. *The Road Ahead*. New York: Penguin, 1995.

130 Rogers, Everett M. *Diffusion of Innovation*, 5th edition. New York: The Free Press, 1995.

131 Lund, Anker Birk. “Diffusion of Innovation in News Organizations: Action Research of Middle Managers in Danish Mass Media.” In *Management and Innovation in the Media Industry*, editors Cinzia Dal Zotto and Hans Van Kraoenburg. Northampton, MA: Edward Elgar Publishing, 2008.

132 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.

133 Bartlett, C.A. & S. Ghoshal. “Beyond the M-form: Toward a managerial theory of the firm” *Strategic Management Journal* 14, Special Issue (Winter 1993): 23–46.

134 Cairncross, Frances. *The Company of the Future*. (Cambridge, MA: Harvard Business School Press, 2002), 70–90.

## 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 such 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<sup>135</sup>:

- 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.<sup>136</sup>

### 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 that results in either new solutions or new questions. The creative process operates as a five-step process. The first step, immersion, is the *assembly* of information. The second step is *digestion*, in which the information gets embedded in the mind. The third step, *incubation*, is moving the problem out of the conscious mind and into the sub-conscious to do the work. It is then the fourth step, *illumination*, in which a new idea is born. This is followed by a fifth step, *verification*, when the idea gets a reality check and is moved into practice.<sup>137</sup>

The task of an organization is to create the conditions for such creativity to flourish, within the imperatives of an often large organization that is more bureaucratized than a startup. By suppressing creativity, one often loses some of the most valuable people of an organization who are at the core of innovation and new products. They are also the most mobile of employees.

The “creative class” includes people working in the cultural industries such as art, theater, film, publishing, music, photography, fashion, advertising, design and journalism.<sup>138</sup> Around that core are people in finance, law, business, health care, and counseling.<sup>139</sup> Within this category, the people working in science and engineering, computer and mathematics, education, art, design, and entertainment constitute the “super-creative core” of the creative class, accounting for 12% of the entire workforce, according to Richard Florida. It made up only 2.5% of the workforce in 1900, 5% in 1960, 8% in 1980, 9% in 1990, and 12% in about 2000.<sup>140</sup> Within that still large number, some people are the true creators and innovators, surrounded by many others who turn their ideas into reality. Often the lines are blurry. As Alain Levy, former CEO of EMI Music, put it, “most people in the creative world think that they are artists themselves.”<sup>141</sup>

What are the characteristics of members of the creative class? They value individuality, meritocracy, diversity and openness, professional quality, and a non-routine nature of work. Creatives are typically less structured and organized than others. They are more likely to describe what they do than who they work for, and identify less with their organization. Especially they tend to take pride in the quality of their work.<sup>142</sup> It is often harder to coerce creative employees to lower quality standards than to raise them. Creatives like excitement and stimuli, and tend to be more neurotic.<sup>143</sup> Incentives for creative tasks must be more than money.<sup>144, 145</sup>

In a survey of IT technologists, pay is only the fourth most important factor, far below challenge and flexibility. Similarly, benefits is relatively low on the ranking at #7. Other important factors for technologists include the atmosphere at the workplace, the ability to dress casually, opportunities for innovative work, individual recognition, and personal contribution to success.

If top smart and creative people have one defining trait it is that they resist being led. Their characteristics include: they know their value to the organization; they are smart about how the organization works; they leapfrog within the

135 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](https://global.theiia.org/knowledge/public%20documents/tat_march_2011.pdf).

136 Hartmann RC, F.G.H. and Sergeja Slapnicar. “Control Systems: “Hard” and “Soft” Management Controls.” *MCA*, no. 2 (March 2007): 26–31.

137 Belch, George E. and Michael A. Belch. *Advertising and Promotion: An Integrated Marketing Communications Perspective*, Fourth Edition. New York: Irwin/McGraw-Hill, 1998.

138 DeFillipi, Robert, Gernot Grabher, and Candace Jones. “Introduction to Paradoxes of Creativity: Managerial and Organizational Challenges in the Cultural Economy.” *Journal of Organizational Behavior* 28, no. 5 (July 2007): 511–521.

139 Florida, Richard. *The Rise of the Creative Class*. (New York: Basic Books, 2002), 8.

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

141 Aris, Annet and Jaques Bughin. *Managing Media Companies: Harnessing Creative Value*, 2nd Edition. West Sussex: Wiley, 2009.

142 Noam, Eli. “The Impact of Increased Knowledge on the Business Firm: The Medium is the Company.” Project on the *Economics of Knowledge*. December 1, 2003. Last accessed April 28, 2017. ► <http://www.citi.columbia.edu/elinoam/articles/ImpactOfIncreased.pdf>.

143 Gelade, Garry A. “Creativity in Conflict: The Personality of the Commercial Creative.” *The Journal of Genetic Psychology* 158, no. 1 (March 1997).

144 Share, Ken A. “Interview with Richard Florida, Author and Professor at George Mason University.” *Washingtonian Magazine*, August 2006. Last accessed April 30, 2017. ► [https://www.creativeclass.com/rfgdb/articles/166\\_-\\_interview\\_with\\_richard\\_florida\\_.pdf](https://www.creativeclass.com/rfgdb/articles/166_-_interview_with_richard_florida_.pdf).

145 See also: Murphy, Chris. “2014 US IT Salary Survey.” *InformationWeek Reports*. May 19, 2014. Last accessed April 30, 2017. ► <http://www.informationweek.com/strategic-cio/executive-insights-and-innovation/it-salary-survey-2014-benchmark-your-pay/d/d-id/1252902>.

corporate hierarchy; they are well connected with outside professionals; they must be kept challenged and courted to remain committed; and they are mobile.<sup>146</sup>

There are several approaches to motivating creatives. Identifying these perspectives is part of a wider discipline called “organizational behavior,” which studies the functioning and interaction of people in companies or other entities.<sup>147</sup> Successful people management depends on understanding personalities and motivations.

#### 5.4.2.1 Models of Personality

To create a fit between employees and their jobs, personality tests have been used to help in recruitment, motivation, and assignment of responsibilities. Perhaps the most widely used is the Myers-Briggs model, a widely used personality test that characterizes people based on four dimensions:

##### ■ Introvert Versus Extrovert

*Introverts* focus inwards on ideas and experience, communicate by writing, and learn best by reflection or mental practice. In contrast, *extroverts* focus outwards on people and activity, communicate by talking, and learn best by doing or discussing.

##### ■ Sensing Versus Intuition

*Sensing* individuals prefer to receive information that is real, factual, concrete, and actual. Individuals guided by *intuition* trust inspiration and are imaginative and verbally creative.

##### ■ Thinking Versus Feeling

*Thinking* individuals are analytical, logical, and use cause-and-effect reasoning. In contrast, *feeling* individuals are empathetic, guided by personal values, and assess the impact of decisions on people.

##### ■ Judging Versus Perceiving

*Judging* individuals organize their lives, are scheduled, and methodical. In contrast, *perceiving* individuals are spontaneous, flexible, and change plans.

Thus, individuals can be assigned to one of 16 combinations based on these four pairs, with each characteristic denoted by its initial. Managers would probably classify as ESTJ—extroverted, sensing for data, thinking, and judging. ESTJ types are practical problem-solvers. They like actions, the spoken word, facts, and logic in their decision-making.

On the other hand, most creative types would probably classify themselves as the exact opposite: IIFP—introverted, intuitive, feeling-oriented, and perceiving. IIFP types operate

by their thoughts, felt emotions, and personal values. They use their imagination to solve problems.<sup>148</sup>

Geeks—technology-savvy people who design or run high-tech products—are different again. Most would probably classify themselves as ISTP on the Myers-Briggs test—introverted, sensing, thinking, and perceiving.

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. In consequence, the management of technical teams by people who understand geek values and patterns has become a specialty unto itself.

Different personality types require different approaches by managers, and their mix requires even more attention and focus. A J personality will like to make lists and start early. In contrast, a P personality likes to make fast and last-minute efforts. Not understanding the different personalities can lead to a misreading of the motives of others.<sup>149</sup> Introverts consider group discussions stressful, while extroverts like them as energizing and productive. Managers must create conditions that support the working styles of different personality types.<sup>150</sup> For example, by circulating written information in advance of meetings, introverts can prepare and be comfortable in discussions with the extroverts who like more spontaneity. Introverts benefit from some communications tools, such as email and social networks.

#### 5.4.2.2 Models of Motivation

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

Adherents of extrinsic motivation believe that the average human has an inherent dislike of work and will avoid it when possible. Therefore management must implement control and structure in the workplace, and create financial and other incentives. This perspective of extrinsic motivation has subsequently become known as Theory X.

A classic advocate of extrinsic motivation was Frederick Taylor, pioneer of “scientific management” (1911), who viewed workers as interchangeable cogs in a machine.<sup>151</sup> Even though he was somewhat of a charlatan in his methodology and data collection, his work was widely admired in the business community (as well as in the Soviet Union). His approach—known

146 Goffe, Rob and Gareth Jones. “Leading Clever People.” *Harvard Business Review*. March 2007. Last accessed ► <https://hbr.org/2007/03/leading-clever-people>.

147 Black, J. Stewart and Richard M. Steers. *Organizational Behavior* (New York: Harper Collins College Publishers, 1994), 20.

148 Steyaert, Chris, Nicola Soccodato, and Gitte Nielsen. “Team Building and Personal Development Day: Follow Up.” *Research Institute for Organizational Psychology*. March 18, 2004.

149 Geisler, Jill. “Managing Employees; Managing Personalities.” *Poynter*. July 30, 2002. Last accessed April 30, 2017. ► <http://www.poynter.org/uncategorized/1480/managing-employees-managing-personalities/>.

150 Warner, Elisa. “Dealing With Different Personalities.” *Idea.org*. December 2, 2005. Last accessed April 30, 2017. ► <http://www.idea.org/blog/2005/12/02/dealing-with-different-personalities/>.

151 Miller, Katherine. *Organizational Communication: Approaches and Processes*. 5th edition. (Boston: Wadsworth Cengage Learning, 2009), 18.

## 5.4 · HRM by Human Touch: “Soft Control”

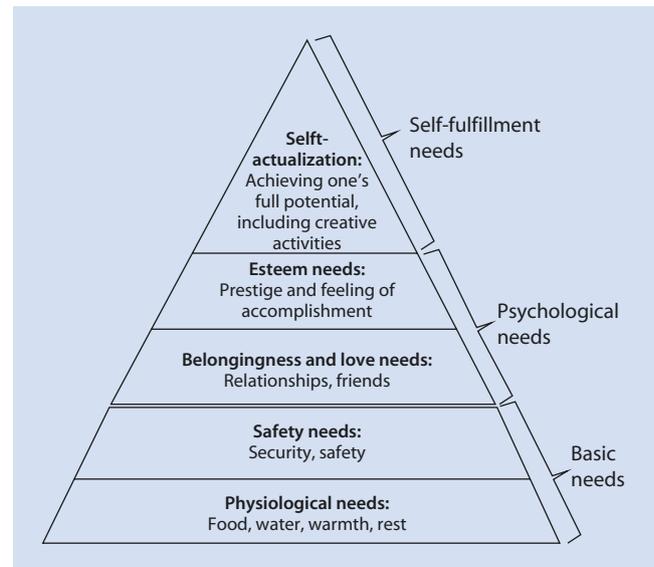
today as Taylorism—is that people need to be socially engineered to fit as components of a larger production machine. This does not work well for creatives, to put it mildly.<sup>152</sup>

Elton Mayo, succeeding Taylor as a thought leader, initiated the human relations approach which stressed positive job satisfaction and group motivation as central elements. Mayo, originally an Australian philosophy graduate, won the attention of leaders of American business and business education with tales of scientific techniques for “healing” labor unrest. After becoming a Harvard Business School professor, Mayo studied workers at the AT&T (Western Electric) Hawthorne Plant in Chicago. Mayo claimed to have discovered the motivating factors that facilitate employee performance as based on social patterns of group work. Mayo’s methodology, too, was thin. He chose a tiny sample of subjects—six atypical women—and replaced them whenever their actions did not conform to his hypothesis. Not surprisingly, he found what he was looking for.<sup>153</sup>

One interesting insight of Mayo’s was that it was the attention the researchers paid to the workers that was associated with increased productivity, respective of the particular research question. This “Hawthorne effect” became a mainstay in the literature on organizational behavior. Though they differ, Taylor and Mayo follow the extrinsic view of motivation. One must create extrinsic incentives for employees to obtain goals that are apart from the work itself: money, power, security, and status. In contrast, *intrinsic* motivation, popularized by Douglas McGregor as Theory Y, is achieved through attributes of the work world: enjoyment, interest, satisfaction of curiosity, self-expression, personal challenge, and respect, feelings of task accomplishment, and personal growth.<sup>154</sup> The intrinsic approach seems to fit the media industry much better. In the music industry, for example, motivation is typically tied to a love of music and a passion to participate in the recording scene, not necessarily money.<sup>155</sup> Fame, recognition, and status are motivators for many creatives, and both intrinsic and extrinsic factors are at work.

### 5.4.3 Situational Motivation: The Hierarchy of Needs

A third approach to understanding motivation takes into account that a person’s motivation is not immutable, but that it depends on circumstance. Motivational attitudes follow a “hierarchy of needs,” a concept popularized by Abraham Maslow.<sup>156</sup> Human needs will never be fully satisfied, but



■ Fig. 5.10 Maslow’s Hierarchy of Needs

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 be different from before and become more important than before.<sup>157</sup> In Maslow’s hierarchy, each level corresponds to specific needs (■ Fig. 5.10)<sup>158</sup>:

Level 1: Physical comfort (individual survival)—food, clothing, shelter.

Level 2: Safety needs—job, security.

Level 3: Social needs—group companionship, love.

Level 4: Esteem needs—self-confidence, ability.

Level 5: Self-actualization—realizing one’s full potential.

Every person has all of these needs but at 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 creative employees, many effective companies provide “caring sweatshop” environments that may make work as attractive—or even more so—as their regular life, yet may also be relentlessly demanding, because creatives thrive on challenge. Job perks signify caring far beyond

152 Sagle, Jones and John Thompson. “Taylorism”. Spring 1999. Cornell University. February 2, 2007.

153 The real incentive for the women tested was the extra money handed out to do well in the experiment, but that aspect was left unmentioned by Mayo. See Stewart, Matthew. *The Management Myth*, W.W. Norton & Company, New York, 2009.

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

155 Lampel, Josh, Theresa Lant, and Jamal Shamsie. “Cultural Industries: Learning from Evolving Organizational Practices.” *Organizational Science* 11, no. 3 (June 2000): 263–269.

156 Maslow at one point postulated his perspective to be “Theory Z,” but that term has been applied more to William Ouchi’s views on loyalty and the human workplace.

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

158 Graph based on McLeod, Saul. “Maslow’s Hierarchy of Needs.” *Simply Psychology*. Last updated May 21, 2018. ▶ <https://www.simplypsychology.org/maslow.html>.

their organizational cost.<sup>159</sup> Google provides all-you-can-eat snacks, a massage therapist, and doctors and dentists on site.<sup>160</sup> Apple, Yahoo, and Google have organic chefs and on-site masseuses.<sup>161</sup> Employees get access to advanced equipment and resources. The workplace is made visually stimulating. In one survey, 93.8% of participants said that

art works makes the workplace feel more welcoming, and 60.8% felt that they stimulate creativity by staff.<sup>162</sup> 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.<sup>163</sup>

## Case Discussion

### Disney and 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.<sup>164</sup> 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.<sup>165</sup> On the whole, therefore, Disney has done a good job on physical comfort, Level 1 of the Maslow hierarchy of needs.

5

### 5.4.3.2 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 include several elements: job security, retirement security, and the security of fair treatment.

The media and information sector (aside from traditional telecoms) is not a good environment for job or retirement security. In fact, it is hard to think of an industry with less of it. 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 being an objective performance evaluation,<sup>166</sup> and non-discrimination. Creatives can lose their motivation if they feel inequitably treated.<sup>167</sup> Creative employees value an unprejudiced workplace treatment and a compensation structure that is not lopsided. Gender equality is part of fairness at the workplace. In 2007, women represented only 11.5% of directors and 24.2% of corporate officers in the arts, entertainment and recreation industry. They made up 12.1% of

directors and 18.5% of corporate officers in the information industry.<sup>168</sup> In the telecom industry, women accounted for only 12% of directors and 16% of executives.<sup>169</sup> In Japan, at the major telecom company NTT DoCoMo, only 4% in the ranks of assistant managers and higher in 2009 were female.<sup>170</sup>

One way to create fairness is to reward people fairly, which means following a performance appraisal system that is understandable, open, and constructive.<sup>171</sup> This can be done through objective measures or through subjective judgments. Performance appraisals are an important but unpopular tool. Labor unions prefer a seniority system rather than a performance-based merit system. Employees often prefer not to be judged against each other. Upper-managers, being human, often dislike playing judge and delivering bad news. Nevertheless, everyone understands that performance reviews, feedback, and incentives are essential if done right. A company must decide who does the evaluating: is it specialized HR “assessment centers,” or is it the person’s superior, or their colleagues, or even subordinates (“upward evaluation”), or a “360-degree feedback” that combines multiple sources?<sup>172</sup>

The question is, can the performance of creative talent be evaluated without suppressing creativity? Creatives tend to be intensely involved with their work and are therefore even more sensitive to evaluations than others.

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

160 Google. “Life at Google,” Last accessed June 16, 2010. ► <http://www.google.com/jobs/lifeatgoogle/benefits/>.

161 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>.

162 Li, Charmaine. “Can Spending on a Google Style Office Make Employees Happy (And More Productive)?” *Venture Beat*. September 1, 2013. Last accessed April 30, 2017. ► <https://venturebeat.com/2013/09/01/can-spending-on-a-google-style-office-make-employees-happy-and-more-productive/>.

163 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>.

164 Gabler, Neal. *Walt Disney: The Triumph of the American Imagination*. New York: Alfred A. Knopf, 2006.

165 Rubis, Leon. “Disney Show & Tell,” *HR Magazine* 43, no. 5 (April 1998): 110.

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

167 Ainsworth Maguire. “Managing Creative People.” Last accessed April 30, 2017. ► <http://www.ainsmag.co.uk/pr-advice/managing-creative-people/>.

168 Catalyst. “2007 Catalyst Census: Fortune 500,” *Catalyst*. December 10, 2007. Last accessed April 30, 2017. ► <http://www.catalyst.org/knowledge/2007-catalyst-census-fortune-500>.

169 Koss-Feder, Laura. “Few Women at the Top of Media Companies,” *We News*. September 23, 2002. Last accessed April 30, 2017. ► <http://womensenews.org/2002/09/study-few-women-at-the-top-media-companies/>.

170 NTT Docomo. “Employment and Compensation,” Last accessed June 23, 2010. ► <http://www.nttdocomo.co.jp/english/corporate/csr/report/partner/employee/employment/>.

171 Glassman, Edward. “Creative Problem Solving: Your Role as a Leader,” *Supervisory Management* 34, no. 4 (April 1989): 4.

172 Corporate Leadership Council. “Pre-Hire and Developmental Assessment Tools at Fortune 500 Companies,” January 2003. Last accessed June 29, 2011. ► <http://www.mckpeople.com.au/SiteMedia/w3svc161/Uploads/Documents/918417bd-5cad-44a8-a174-619843dab228.pdf>.

They often have problems handling rejections or setbacks.<sup>173</sup> Creatives resist “objective” quantifications—tickets or recordings sold, audience ratings, clicks, likeability (“Q-rating”), or profitability—as being “bean counting.” They prefer more subjective judgments of quality and value. However, where subjective judgments turn against them, such as a critical review in a newspaper, they will often question the reviewer’s judgment, competence, and

integrity. Subjective measures are thus also unpopular with creatives, but more acceptable if they are done by respected peers.

The question is how to evaluate the performance of creative talent without suppressing creativity and discouraging risk-taking. Transparency of criteria is essential. Performance appraisal directives should not be secretive. Frequent employee feedback should be offered.<sup>174</sup>

## Case Discussion

### Job Security

Job insecurity is a major factor in high unionization at media companies such as Disney. Another element of security is fairness. We have already identified the huge imbalance in compensation of Disney’s top management as an equity problem.

Disney evaluates its entry-level employees every year. These evaluations are based on the same three abilities Disney looks for during recruitment: learning, leadership, and analytical skills.<sup>175</sup> Supervisors also evaluate employee attitudes: energy, enthusiasm, commitment, and pride.<sup>176</sup> These are described as

important criteria for picking employees for promotion.

Officially, Disney describes these performance appraisals as a tool for improvement rather than a judgment for punishment or reward. Yet this downplaying of the importance of evaluations is in tension with Disney’s stated promotion policy.

### 5.4.3.3 Level three: 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 versus them 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 hardest. 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 co-operate, 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 start-ups. Team members tend to informally monitor each others’ efforts in a way that is often more effective than if done by an outside supervisor, while emphasizing mutual reliance and trustworthiness.<sup>177</sup> 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. In such an effort, team cohesion helps productivity. But it also lowers it when things go badly.

Some companies conduct periodic employee engagement surveys that measure the extent to which employees are involved and positive about their work and company.<sup>178</sup> The surveys can be anonymous or involve in-depth discussions with employees at all levels, as well as a review of social media use by employees about their workplace.

Top managers often view creatives as having valuable ideas but lacking a broad perspective or business imperatives. Therefore, they are typically not included in the company’s strategic discussions.<sup>179</sup> 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- and long-term objectives.<sup>180</sup>

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 has broken the tradition of separating “church and state”—the supposed wall between the editorial and the publishing business sides of the operation. Since the

173 Penttila, Chris. “An Art in Itself.” *Entrepreneur*. December 2003. Last accessed June 10, 2010. ► <http://www.entrepreneur.com/magazine/entrepreneur/2003/december/65600.html>.

174 Glassman, Edward. “Creative Problem Solving: Your Role as a Leader.” *Supervisory Management* 34, no. 4 (April 1989): 4.

175 Gerdes, Lindsey. “Best Places to Launch a Career.” *Bloomberg*. September 18, 2006. Last accessed April 30, 2017. ► <https://www.bloomberg.com/news/articles/2006-09-17/the-best-places-to-launch-a-career>.

176 Rubis, Leon. “Disney Show & Tell.” *HR Magazine* 43, no. 5 (April 1998): 110.

177 Hartmann RC, F.G.H. and Sergeja Slapnicar. “Control Systems: “Hard” and “Soft” Management Controls.” *MCA*, no. 2 (March 2007): 26–31.

178 Rigby, Darrell and Barbara Bilodeau. “Management Tools 2013.” *Bain & Company*. May 8, 2013. Last accessed April 30, 2017. ► <http://www.bain.com/publications/articles/management-tools-and-trends-2013.aspx>.

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

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

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 brought criticism from news staff, who felt they were being pressured to report news content of less informational value but helpful to the newspaper’s advertising and marketing. In some cases, cultural disparities reared their head. The

journalistic work culture is one of skepticism and confrontation toward those in power. It is more geared to shoot down new ideas than to design business plans with colleagues.

Another challenge is the increasing reliance on project-oriented independent contractors. Freelancers have greater independence, which complicates the “us” identification. An important element of soft control is to supervise and include such independent people and make them feel part of the family.

## Case Discussion

5

### 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 was 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 start-up, 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 all, without having to get permission or having to go through the “proper” channels.

According to Ed Catmull, president of Pixar, “A movie contains literally tens of thousands of ideas. They’re in the form of every sentence; in the performance of each line; in the design of characters, sets, and backgrounds; in the locations of the camera; in the colors, the lighting, the pacing. The director and the other creative leaders of a production do not come up with all the ideas on their own; rather, every single member of the 200- to 250-person production group makes suggestions.”<sup>181</sup> The development of complex products such as films involves hundreds of people from various disciplines working together. The initial idea for the movie is just the first step in a multiyear process.

The community must not be too closed. Innovators must stay close to innovations in the academic community, publish their research, and participate in conferences. This may disclose some ideas, but it keeps the firm connected with others’ ideas. It also helps in attracting talent.

These approaches worked for Pixar’s animation films, which reaped triumphs. Pixar recreated the spirit of Disney when that company had been a start-up 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, produced mainly flops. Disney was far behind in computer animation. But it still had deep pockets. It bought the successful upstart Pixar in 2006 for \$9 billion and with it acquired the creative and technical talent. In buying Pixar, Disney, to its credit, hoped to bring back that spirit of its own youth. It also bought Marvel (\$4 billion, 2009) Lucasfilm (\$4.05 billion, in 2012) and The Muppets (about \$200 million in 2004).

### 5.4.3.4 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.<sup>182</sup> 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 special title.<sup>183</sup> Tools of peer recognition are award ceremonies and appropriate credit for notable work. The Oscars, Golden Globes, Grammys, 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.<sup>184</sup> Constraints should be converted into challenges.<sup>185</sup> Negativity is an enemy of creativity.

181 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>.

182 Florida, Richard. *The Rise of the Creative Class*. (New York: Basic Books, 2002), 8.

183 Robinson, Alan G. and Sam Stern. *Corporate Creativity: How Innovation and Improvement Actually Happen*. San Francisco: Berrett-Koehler, 1997.

184 Reitz, Joseph H. *Behavior in Organizations*. 3rd edition. Homewood: Irwin Publishers, 1987.

185 Javitch, David. “Inspiring Creativity in Your Employees.” *Entrepreneur*. April 4, 2005. Last accessed April 30, 2017. ► <https://www.entrepreneur.com/article/76890>.

## Case Discussion

### Disney’s Recognition System

Disney created an extensive internal reward system. Employees nominate co-workers for a coveted Partners in Excellence award, which rewards a maximum of 3% of staff. Disney also rewards employees who have excelled by listing their names as shop owners on the storefronts in the theme park.<sup>186</sup>

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.<sup>187</sup>

Disney is also actively promoting its films, TV shows, and artists for awards such as the Oscars or Emmys. Partly as a result,

films produced or distributed by Disney 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.

### 5.4.3.5 Level Five: Self-Actualization Needs

Self-actualization is the most defining level of needs for creatives. It 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 in which they can be motivated.

In the industrial firm thinking was separated from doing. Four or five managers, it was said, would effectively do the thinking for 400–500 workers. In post-industrial creative companies, workers have to be more educated, and companies have to invest more in education and training.<sup>188</sup> Employees need a broader range of skills and problem-solving tools as their roles and responsibilities become more flexible.<sup>189</sup> The firm no longer seeks workers for rigid roles with narrowly specialized skills but increasingly workers who can work flexibly, are educated and thoughtful, and can work independently.

Companies thus must provide, beyond financial rewards, intrinsic rewards,<sup>190</sup> for personal growth.<sup>191</sup> To increase intrinsic motivation, they must give employees responsibility, autonomy, and tasks that promote personal development.

It is useful for the firm to train individuals in organization-specific skills.<sup>192</sup> The larger the employee’s investment in it, the costlier it is for them to leave, both for themselves and for the company which loses them. This fosters mutual loyalty.

The British Broadcasting Corporation (BBC) sends its creators and producers on three-month management courses at American business schools. It also rotates its top creators

through different work spheres. The BBC also runs its own BBC Academy as a training program. Motorola’s training system—Motorola U—at its peak offered 330 classes, many online, which were taught by 600 external educators and run internally by 300 staff members.

In France, the media company Lagardère spent an average of about \$1500 for each employee who participated in its Media Campus training programs, taught by experts from Université Paris-Dauphine.<sup>193</sup> The leading Japanese mobile telecommunications operator NTT DoCoMo Group offers more than 120 elite training programs and 400 other courses.<sup>194</sup>

In the telecommunications sector, Verizon, ranked #11 on *Business Week’s* 2006 list of best places to start a career in the USA, spent an average of over \$10,000 to train each of its 18,535 new entry-level employees. Verizon enrolls entry-level workers in a formal mentorship program, as well as various formal leadership, management development, and rotation programs that last a year or more.<sup>195</sup> Pixar, the film animation company, invests in its people with the goal of crafting a learning environment. The Pixar University trains people in multiple work-related skills, but also offers optional courses such as screenplay writing, drawing, and sculpting, so they can appreciate what other employees do. Still other courses are just for fun, so that people from different disciplines can interact.<sup>196</sup>

Dell’s skill development program, EducateU.com, offers two types of training. When employees opt to “learn to know,” they acquire widely applicable skills through knowledge about the company and its methods. “Learning to do,” on the other hand, helps employees apply certain skills and knowledge to a specific aspect of a job.<sup>197</sup>

186 Rubis, Leon. “Disney Show & Tell.” *HR Magazine* 43, no. 5 (April 1998): 110.

187 The Disney Institute. *Be Our Guest: Perfecting the Art of Customer Service*. New York: Disney Editions, 2001.

188 Brynjolfsson, E. and H. Mendelson. “Information Systems and the Organization of Modern Enterprise.” *Journal of Organizational Computing* 3, no. 4 (1993): 245–255.

189 Bresnahan, T., E. Brynjolfsson, and L.M. Hitt. “Information Technology, Workplace Organization and the Demand for Skilled Labor: Firm-level Evidence.” *Quarterly Journal of Economics* 117, no. 1 (2002): 339–376.

190 Black, J. Stewart and Richard M. Steers. *Organizational Behavior*. (New York: Harper Collins College Publishers, 1994), 218.

191 Bowen, Brayton. “Today’s Workforce Requires New Currency.” *HR Magazine* 49, no. 3 (March 2004): 101–105.

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

193 Lagardere. “Human Capital: Development.” Last accessed April 30, 2017. ► <http://www.lagardere.com/human-capital/our-approach/development-331.html>.

194 NTT Docomo. “Professional Skill Development.” Last accessed June 23, 2010. ► <http://www.nttdocomo.co.jp/english/corporate/csr/report/partner/employee/career/>.

195 Gerdes, Lindsey. “Best Places to Launch a Career.” *Bloomberg*. September 18, 2006. Last accessed April 30, 2017. ► <https://www.bloomberg.com/news/articles/2006-09-17/the-best-places-to-launch-a-career>.

196 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>.

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

General Electric has a 13-week course that covers business policy, economics, social issues, and management principles. GE also incorporates understudy/mentor, job rotation, and coaching programs.<sup>198</sup>

In Japan, the IT company Work Application hires based on potential rather than experience, and then hosts a training program called Professional Development Scholarship System. It was named the best place to work in Japan in 2010 by *Nikkei Business* magazine.<sup>199</sup>

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.<sup>200</sup>

Another element of self actualization is job "sculpting," which involves shaping, as much as possible, jobs around employees' skills and interests. Workers are allotted more

freedom to pursue personal achievements in the industry.<sup>201</sup> Newspapers often employ job sculpting when they allow their journalists to expand and compile stories into a book, which generates visibility (and income).

Yet one must understand that a loose structure that encourages individuals' roaming without close supervision can also create problems. In 2013, the *New York Times* reporter Jayson Blair engaged in extensive fabrication of quotes and sources. This led to a broader look into editorial operations. The evidence for a lack of internal quality control forced the *Times's* executive editor Howell Raines and the managing editor to resign. The response need not be to establish tight monitoring of performance but to provide guidelines. The scandal prompted the *New York Times* to issue a 52-page manual titled "Ethical Journalism: Code of Conduct for the News and Editorial Departments." This details 155 situations, covering ethical questions arising in protecting the newspaper's neutrality, the staff's civic and journalistic activities outside work, conflicts of interest in personal and professional activities, and dealing with contributions and gifts.

## 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 programs it also aims to preserve Disney's business culture.<sup>202</sup> Disney also runs an HR Certificate Institute (HRCI), a program designed for its HR professionals.<sup>203</sup> A Disney University has been established at each of Disney's theme park locations, providing diverse

training in skills, including management protocol, cooking techniques, and computer proficiency.<sup>204</sup> 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.

Disney offers a wide range of professionally designed and taught courses for its employees. 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.

### 5.4.3.6 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 the 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 cellular telephones. US West decided not to enter the market at all, while Bell South 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, Bell South's culture was on infrastructure and

198 Donnelly, Jr., James H., et al. *Fundamentals of Management*. (Texas: Business Publications, 1987), 253.

199 Nikkei Business. "Best Workplaces in Japan." March 1, 2010.

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

201 Butler, Timothy and James Waldrup. "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>.

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

203 Disney Institute. "Accredited Programs." Last accessed June 10, 2010. ► [http://www.disneyinstitute.com/About\\_US/Accredited\\_Programs.aspx](http://www.disneyinstitute.com/About_US/Accredited_Programs.aspx).

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

public service, and it took a long-term perspective. It thus viewed mobile service as a complement to its wireline business.<sup>205</sup> US West’s decision to skip mobile communications turned out to be disastrous.

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 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 are sometimes known as “Netheads.”<sup>206</sup>

This corporate culture is the embodiment of internal knowledge of the firm. It conditions members to respond to certain situations with a certain set of behavior. 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. “Organizational culture” is the establishment of behavioral norms in an organization through a pattern of common values and beliefs. Organizational culture has several levels. The most basic one is dress code and styles of conduct. For example, the employees of a music company will tend to dress differently from those of IBM.

A deeper level is that of organizational style and values. A telecom company will be hierarchical and deliberate in its decision processes; a Silicon Valley company more risk-taking, flexible, and “flat” in hierarchy. A still deeper level is that of underlying assumptions about the nature of organization. For example, an investment bank values short-term profit-making as its mission; and money matters greatly. In contrast, a public service TV broadcaster such as the BBC has a culture of good-citizenship and looks for the long-term betterment of society.

At its widest reach, business culture may vary by country. William Ouchi, in his book *Theory Z* (1981), demonstrated how American culture places a high value on individual achievement, whereas Japanese culture stresses a sense of community.<sup>207</sup>

Typically, companies start with an inspirational leader who sets the tone and leads by vision, skill, judgment, personality, and innovation. Over time, as the firm matures, a more organized structure emerges.<sup>208</sup> Companies then often

overshoot in the other direction. Examples are Bertelsmann, Vivendi, and Time Warner, which in recent years moved from visionary leadership to a basic day-to-day management system that delivered decent results for the present but lowered expectations long-term.

Characteristics of visionary leaders are high visibility, being “larger-than-life,” and having a significant influence over careers, projects, and culture. Examples are Steve Jobs of Apple; Theodore Vail, creator of AT&T’s Bell System; John Reith, guiding spirit of the BBC and public service broadcasting; Rupert Murdoch, who established the world’s first global satellite TV presence; and Walt Disney who created the genre of full-feature animation films aimed at family entertainment.

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 is also formal leadership or management development programs that last a year or more. The Verizon orientation program includes three “tours”: an online virtual tour that includes information such as 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 it is the aggregate of behaviors and routines acquired over the organization’s lifetime. Corporate reeducation campaigns are usually 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 might 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.

Similarly, different industries exhibit different cultures. People often believe that a strong and common culture is always desirable. But there are times when a strong organizational culture undermines changes and innovation. For example, Encyclopedia Britannica’s culture was dominated by direct-to-home salespeople. When annual sales collapsed from a high of 117,000 to about 20,000, this strong sales force culture prevented a change from a door-to-door sales model to an online tech model.

Within a corporate culture, companies must evolve. Like 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

205 Barnett, William P. and Robert A. Burgelman. “Evolutionary Perspectives on Strategy.” *Strategic Management Journal* 17, no. 51 (Summer 1996): 5–19.

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

207 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.

208 Aris, Annet and Jaques Bughin. *Managing Media Companies: Harnessing Creative Value*, 2nd Edition. West Sussex: Wiley, 2009.

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.<sup>209</sup>

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."<sup>210</sup> These are inspiring words. Many companies articulate equally noble 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.

## Case Discussion

### Disney Cultural Dissonance

From the preceding elements of this case discussion, we concluded that 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 versus them climate.

Disney's corporate culture was shaped by Walt Disney and his early animation team. He 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 Disney. As the Disney Company grew in the 1980s, management became increasingly rigid. Disney's official culture, emphasizing creativity and family was at odds with the reality of managing a global corporation in a competitive marketplace, and being responsive to investors.

All new Disney employees participate in Traditions, a one-and-a-half day orientation program that introduces them to the

company history and philosophy through a variety of training techniques, including lecture presentations, storytelling, videos, interactive exercises, and group discussions.<sup>211</sup> The goal is to familiarize employees with Disney's culture, its quality standards, symbols, heritage, and traditions. Disney culture is described by management as "Dream, Believe, Dare and Do"<sup>212</sup>:

Give every member a chance to dream and tap into creativity.

Stand firm on your beliefs and principles.

Treat your customers like guests.

Support, empower and reward employees.

Dare to take calculated risks in order to bring innovative ideas to fruition.

Train extensively.<sup>213</sup>

Disney uses its own lingo, called "Disney-speak," to demonstrate a cheerful work environment. Employees are often referred to as cast members, uniforms are called costumes, interviews are auditions, jobs are roles, and frontline employees are called hosts or hostesses.<sup>214</sup> Customers are guests.

This is what Disney's employees felt their culture meant. The dissatisfied

employees in 2004 who voted overwhelmingly against management believed that 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 self-interest. Whereas Walt Disney had spoken in inspirational terms, "You don't work for a dollar- you work to create and have fun,"<sup>215</sup> now the company chief operating 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 upholders of a proud tradition. To them, CEO Eisner and his financial performance-driven style and strategy were the usurpers.

The questions, then, are as follows. 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

### 5.5.1 Employment Impacts

We end this chapter by looking at the overall impact 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

209 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.

210 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>.

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

212 Glanville, Monica Caroline Kirkbright, and Mary Tamasco. "Disney: It's a Small World." *Managing the Global Workforce*. 2002. Last accessed October 12, 2008. ► [http://www.ghrm.rutgers.edu/files/disneypaper\\_final.doc](http://www.ghrm.rutgers.edu/files/disneypaper_final.doc).

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

214 The Disney Institute. *Be Our Guest: Perfecting the Art of Customer Service*. New York: Disney Editions, 2001.

215 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.

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.

Thus, in countries undergoing deindustrialization an internet-based economic growth has been widely recommended as a way to create economic activity and reduce the inequality of industrial society. In particular, the opportunities that the internet affords to the creative workforce are believed to be an engine for employment. We have now had several decades of digital evolution, and it becomes possible to measure rather than postulate.<sup>216</sup>

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.<sup>217</sup> In the USA, the internet economy has reportedly created 1.2 million jobs directly.<sup>218</sup> In France, too, the internet has supposedly created 1.2 million jobs directly. But what kind of jobs? In the USA, most of them are in e-commerce, not in anything really creative, but mostly in order fulfillment, packaging and shipping, as well as the delivery of physical goods, through trucking, for example, accounting for more than 500,000 of those 1.2 million jobs. 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.<sup>219</sup> These modest numbers are in contrast to the sometimes breathless hype.

There were also new types of jobs spawned by various applications: for example, new taxi drivers through the car service app Uber, or people creating their own new income streams, an example being renting out their driveways for parking.<sup>220</sup> There are also many indirect job creations. A study found that each internet job supports approximately 1.54 additional jobs elsewhere in the economy.<sup>221</sup>

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 for after 2000. (There is also the multiplier effect of jobs to take into account, about 1.6 per industrial worker and 2.5 per skilled industrial worker.) This adds up to a job loss of about half a million each year.<sup>222</sup> 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. Middle management levels have been cut as information and communications technology has made supervision and information exchange easier, thus reducing the need for intermediate levels of management.

Online shopping has been growing steadily, with a US share of above 12% (\$473 billion) of total retail (\$4.03 trillion) in 2014.<sup>223</sup> In the UK, a research project predicted, "By March, we expect 4000 to 5000 stores to close due to competition from online retail, with an acceleration in chains closing stores to focus more on online operations."<sup>224</sup> In America, the drop in retail jobs since 2007—after a four-year boom—has been pronounced, with a reduction of 900,000 jobs in five years, a near 6% decline.<sup>225</sup>

Retailing is not the only service industry to be squeezed. A short list of some of the major industries affected by the internet includes newspapers, travel agencies, stockbrokers, and universities.<sup>226</sup> Thus we can observe not only a deindustrialization but also a "deservicization."

## 5.5.2 The Unequal Impact on Different Income Classes

The problem is not just the loss of traditional employment at a pace that is hard to counter-act by digital employment, but that the losses are distributed unequally. In the USA, half the 7.5 million jobs lost during the Great Recession were in industries that pay middle-class wages. But only 2% of the jobs gained since the recession ended in 2009 were in mid-pay industries. Nearly 70% are in low-pay industries and 29% in industries that pay well.<sup>227</sup>

In the 17 European countries that use the Euro as their currency, the numbers are even worse. Almost 4.3 million

216 Noam, Eli. "Why the Internet Economy Raises Inequality—Implications for Media Managers". In Herrero, Mónica and Steve Wildman. *The Business of Media: Change and Challenges*. MediaXXI Porto, 2015.

217 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>.

218 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>.

219 Thibodeau, Patrick. "Study: Internet economy has created 1.2 M 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>.

220 Bensinger, Greg and Jessica E. Lessin. "Apps are Creating New Jobs." *Wall Street Journal*. Last updated March 5, 2013. ► <http://online.wsj.com/news/articles/SB10001424127887323864304578320861732248742>.

221 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>.

222 Atkinson, Robert et al. "Worse than the Great Depression: What Experts Are Missing About American Manufacturing Decline." *The Information Technology & Innovation Foundation*. March 2012. Last accessed September 14, 2015. ► <http://www2.itif.org/2012-american-manufacturing-decline.pdf>.

223 Mintel Market Sizes. New York NY. 2014. Last accessed on June 23, 2015 at ► <http://cli.columbia.edu/catalog/8010526?counter=2>.

224 Reilly, Jill. "Booming internet sales 'will close 5000 High Street stores and cost 50,000 jobs'" *Daily Mail*. Last updated January 2, 2013. ► <http://www.dailymail.co.uk/news/article-2255677/Booming-Internet-sales-close-5-000-High-Street-stores-cost-50-000-jobs.html>.

225 Wright, Joshua. "The Demise of Retail Jobs? Not So Fast." *Emsi*. April 16, 2012. Last accessed April 30, 2017. ► <http://www.economicmodeling.com/2012/04/16/the-demise-of-retail-jobs-not-so-fast/>.

226 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>.

227 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](http://www.huffingtonpost.com/2013/01/23/middle-class-jobs-machines_n_2532639.html).

low-pay jobs have been gained since mid-2009, but the loss of mid-pay jobs has not stopped. In Japan, a report documented a “substantial” drop in mid-pay, mid-skill jobs in the five years through 2005, and linked it to technology.<sup>228</sup>

Many middle-level jobs are easier to automate by smart software programs, or to outsource and offshore, than low level jobs. One can automate 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 was the historic way to individual progress, is becoming more difficult.

### 5.5.3 The Generational Impact of the Internet

It is generally believed that while the internet leaves behind older folks unprepared for the digital age, it is a great improvement in the opportunities for young people. Yet their standard of living today is lower than that of the preceding generation.<sup>229</sup> Youth unemployment in 2015 was at 11.7% in the USA, 14.4% in the UK, 24.1% in France, and 48.5% in Spain.

The internet creates, indeed, greater opportunities for a few young people who have education, a spirit of entrepreneurship, and a great deal of luck. But this does not mean that the average opportunities of the young generation have grown.

Paradoxically, a similar problem happens at the other end of the age spectrum. The rapid change in knowledge and technologies means that the learning curve is short and that there is less value to experience. In the past, an experienced elder had advantages. Now, the old are becoming expensive, out of date, and expendable. They get bumped out of the middle-level jobs where there is less room and the competition is tougher than before. Their skills become obsolete for the top jobs, and the menial jobs at the bottom are often physically too demanding.

### 5.5.4 Is the Creative Sector the Remedy for Industrial and Service Job Losses?

Is the creative sector going to be the substitute for all of these industrial and service sector jobs that are being lost? This

claim, often heard, is unrealistic if one looks at the numbers. In America, the number of industrial and clerical jobs lost in the period 2008–2012 has been 7 million, including the multiplier effects.<sup>230</sup> In contrast, the total number of people with jobs in journalism, books, TV, film, theater, and music is less than 1 million.<sup>231</sup> So if creative jobs alone will provide the compensation, that sector will have to expand by a factor of seven. Demand for the output will not grow that fast. Moreover, a lot more people produce content as volunteers, rather than employees. The globalization of media means that every other country’s content is also available, and is also expanding, by the same logic.

These emerging employment issues are not the result of digital failure but of its success in penetrating society and economy. And because they are fundamental they are hard to deal with through government action, as we have discussed before.

### 5.5.5 The Fundamental Characteristics of the Digital Economy and their Impact on Employment

New information industries are more capital intensive than old ones. Their ratio of capital costs to operating costs is higher than in the past. In consequence, their scale economies are greater and their market concentration is higher.

A major characteristic of media is its high risk in the presence of competition. One often observes an 80–20 outcome in which 80% of all media products do not become profitable, 90% of all profits are generated by 10% of the products, and 50% of profits are generated by 1–2% of products. Correspondingly, creatives’ incomes are much more unequally distributed than regular incomes, owing to the risk characteristics of their companies and industries. The tournament profile of compensation for aspiring creatives is extraordinarily steep. Pay differentials in media are especially high owing to an oversupply of talent, as well as an incentives structure where the few “winners” receive the majority of the reward.

Creatives usually overestimate the odds for personal success.<sup>232</sup> They also accept low compensation and high risk because of the high level of personal satisfaction inherent in artistic careers. In creative activities such as film and TV, or in sports, small differences in talent may typically result in

228 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](http://www.huffingtonpost.com/2013/01/23/middle-class-jobs-machines_n_2532639.html).

229 International Labour Organization. “World Employment and Social Outlook Trends 2015.” (Geneva: ILO, 2015), 21.

230 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>.

231 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>.

232 Caves, Richard E. *Creative Industries: Contracts Between Art and Commerce*. Cambridge: Harvard University Press, 2002.

extreme differences in reward.<sup>233</sup> These small talent differences are rewarded exponentially rather than linearly, which leads to a highly skewed distribution of rewards. This model applies to many industries, but it is most pronounced in the creative industries because spots at the top are scarcer and the bottom is much wider and lower.<sup>234</sup> Thus an economy with a stronger participation by creatives is a more unequal economy; and a digital economy with a strong reward system for the winners is more unequal.

Many individuals in the digital field derive utility from the process of creating a product, not from profiting from its sale. Producing the good is not a chore but a benefit. When this occurs it is hard to distinguish production from consumption. In media production, creatives are incentivized to maximize recognition, not profit, or a combination of the two. Online media provide a greater way to create content and find an audience by lowering the cost of production and distribution, and hence have increased this non-profit participation. As a result, it becomes more difficult for participants to survive economically. “One can’t compete against free” affects companies as well as individuals. This is another factor in skewing the income distribution further.

Media production increases exponentially at a substantial rate, while media consumption increases linearly and slowly. Content rises by about 12% and attention rises by less than 4%. Given the gap between production (supply) and consumption (demand), excess supply and price inflation are inevitable.

As a result of these various factors, the digital economy is more volatile than the industrial economy. It is more subject to economic cycles and greater instability. The dynamics are as follows. An innovative idea raises hope. A boom gets on its way, becoming a bubble. But in a competitive environment, competition drives prices down to marginal cost. Marginal cost is close to zero. Such a price is not sustainable for long. Companies go out of business en masse. Investors flee. The economy descends in a downward spiral. But soon the survivors stabilize the industry. Prices rise, and with it profitability. At that point new entrants emerge. The industry becomes more competitive. A new cycle begins.

Thus the information economy is an unstable economy, and employment in it is unstable. And because of the acceleration of technological progress (Moore’s Law), the cycles almost inevitably accelerate in frequency and maybe in amplitude.

The economic system based on electronic networks changes work relations. Firms become organized as networks. They hire by project. They outsource to contactors. They do everything they can to reduce the fixed costs and to shift them to others. Examples are chip making and film

production. Most chips today are designed by companies but not manufactured by them. Sometimes even the design gets outsourced to design bureaus. The same holds true for the Hollywood studios. Most of the films they distribute are made by independent entities, which in turn contract with others for their temporary services. Increasingly, collaborators are assembled for projects on a project-by-project basis. Companies contract workers, consultants, and outsourced vendors.<sup>235</sup> In the same way that “just in time” (JIT) production has shifted manufacturing, capital assets, inventory, and risk to the suppliers of components, so it is now giving rise to JIT workers—employees whom a business can hire at a moment’s notice to fill a moment’s need.<sup>236</sup>

These JIT workers have few of the benefits that traditional employees have gained over time, such as health and safety protections, retirement plans, or overtime pay. This organizational model has the potential to become the model for the mainstream firm of the future, given its project-oriented, fluid management structure, flexible skills deployment, and reduction of fixed costs.

## 5.6 Consequences for Digital Management

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.<sup>237</sup> But that did not help those who 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.

### 5.6.1 A Return of Unionization?

To create employment benefits for the new type of employees, labor unions in the freelance tech sector are likely to emerge, following the model of unionization of creatives in theater, film, and music. The constraint is the difficulty of effectively striking when the work can be easily outsourced to offshore locations. This suggests that the most likely strategy of labor will be that of political pressure and legislation.

233 MacDonald, Glenn M. “The Economics of Rising Stars”. *The American Economic Review* 78, no. 1 (March 1988): 155–166.

234 De Vany, Arthur. *Hollywood Economics*. New York: Routledge, 2004.

235 De Vany, Arthur. *Hollywood Economics: How Extreme Uncertainty Shapes the Film Industry*. (New York: Routledge, 2004), 231–254.

236 United States Department of Labor. “Futurework – Trends and Challenges for Work in the 21st Century Executive Summary.” ► <http://www.dol.gov/oasam/programs/history/herman/reports/futurework/execsum.htm>.

237 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/>.

## 5.7 Conclusion and Outlook

Why is it important to understand the HR management of media companies?

Creative workers have a distinctive set of individualistic work styles, meritocratic values, and unconventional social behaviors that pose unique challenges to its 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 media business is essentially a people’s business. The long-term survival of firms in the future depends on creating and replenishing those creative resources.<sup>238</sup> Every media company therefore needs a well-honed HRM strategy. Managers must be able to handle creative talent, or at least handle the handlers of talent.

HRM strategies in the media sector help us to understand the more general trends of the employment system of the future. There has been significant change in the media industry structure in organizing talent. Increasingly, groups of creatives are assembled for projects under an entrepreneurial model. Companies partner with contract workers, consultants, and outsourced vendors. This organizational model for the media industry has the potential to become the model for the mainstream firm of the future, owing to its project-oriented, freelance-based emphasis, fluid management structure, flexible skills deployment, high element of creatives, and flat hierarchy.<sup>239</sup>

Managing people rather than managing physical assets is the focus for a media company.<sup>240</sup> The challenge is to manage HR more effectively without alienating the creatives, who are the core productive assets.

Managers of creatives need to consider both the creative and profit aspects of the firm. They must balance their need of operational control with assuring creative freedom.<sup>241</sup> The most successful companies will be those where management provides equal attention and respect to both the “suits” and the “pony tails.” They maintain, at the same time, hard HRM and soft control.

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

239 Fink, Michael. *Inside the Music Industry*. (New York: Schirmer Books, 1996), 325–346.

240 Cairncross, Frances. *The Company of the Future: How the Communications Revolution is Changing Management*. (Boston: Harvard Business School Publishing Corporation, 2002), 23–46.

241 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>.

## 5.8 Review Materials

### Issues Covered

In this chapter we have covered the following issues:

- 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 on employment is.
- How to design financial incentives for promotion.
- How to negotiate with unions.
- How to deal with the creative workforce.
- Why one company—Disney—failed in its labor relations.

### Tools Covered

We used these tools to address HRM issues:

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

### 5.8.1 Questions for Discussion

1. How do producers assess how much to compensate a star or superstar for their services?
2. How has the relationship between actors and production studios changed over the past 50 years?
3. Discuss whether the compensation structure utilized in the film and telecom industry is an appropriate method to promote productivity and creativity.
4. Are individuals motivated by their enthusiasm for their craft and profession rather than by hope for financial gain more valuable to the overall success of a media company than those seeking mostly money and power?
5. Discuss whether the humanistic approach toward a business environment, known as Theory Z, can be a successful permanent strategy, or whether it is only applicable for a temporary timeframe?
6. What is the reason for the strong unionization in many media industries? Should one expect similar trends in new creative industries such as game development?
7. How can a TV network company measure ROI in human capital?
8. Discuss the impact of unions on the media industry. Are they conducive to enhancing productivity, or do they hinder a creative and competitive work environment?
9. How should an e-commerce company determine its compensation mix of fixed salary and contingent compensation? What factors should the company consider?
10. Why are stars so highly compensated if the difference to thousands of other talented people is so small?
11. 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?
12. How should a start-up proceed in motivating its employees?
13. How can a firm use the concepts of tournament theory to design a compensation gradient for the firm's employees?
14. Discuss how a company could use an internal labor market map to improve its performance.

### 5.8.2 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 the organizational 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. An employee who scores high on the "judging" versus the "perceiving" part of a personality questionnaire is likely to be a
  - A. Creative;
  - B. Manager;
  - C. Geek.
5. In the publishing business, how has the typical contract changed over time?
  - A. It has allocated authors a higher percentage of profits;
  - B. It has allocated authors a lower percentage of profits;
  - C. It has allowed authors the same percentage of profits.
6. 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're actually worth;
  - B. Studios and producers end up paying actors much less than they're 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.
7. 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's difficult to reach any significant conclusion from this bit of information.

8. 80% of Company X's employees are at or below Hierarchy Level 5 out of a possible 7. The company tends to hire Level 6 and 7 employees from outside the firm. What kind of employee turnover can this company expect at Level 5 and below?
- High—employees see they're not likely to be promoted past Level 5;
  - Low—employees see that although they won't reach upper management they have very high job stability;
  - Average.
9. When a company hires aggressively in tight labor markets, what does it run the risk of doing?
- Undervaluing its current employees by underpaying;
  - Attracting top talent to work for it, only to have them leave after a short time;
  - Not providing incentive for employees to perform at their capability level;
  - All of the above.
10. 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?
- No;
  - Yes;
  - More information required;
  - No answer capable.
11. Which of the following is not a direct reason for the unionization in crafts, and among media creatives?
- Scarcity of talent;
  - Oversupply of talent;
  - Stress;
  - Need for respect.
12. What are factors for the low unionization in high tech start-ups?
- Foundercentric culture;
  - Subjective pay practices;
  - High turnover;
  - Egalitarian culture of managers and employees.
13. How should managers design its wage spread when the company faces a riskier environment?
- The wage spread should be smaller;
  - The wage spread should stay the same;
  - The wage spread should be larger;
  - The wage spread should be indexed to the inflation rate.
14. What main effect, does the firing of older employees have, besides anger by these employees?
- Rewards for young employees should be lowered;
  - Need to better reward younger employees;
  - Younger employees are not effected;
  - Younger employees want to stay with the company.
15. When should a manager hire Person A over Person B even though A's expected NPV for the first year is lower?
- When the upside potential for A is higher than for B;
  - When A is more experienced than B;
  - When B is younger than A;
  - When A has better personal relations to the management.
16. What does Theory Y state on the motivation of workers?
- Workers should be closely supervised and incentivized;
  - Workers enjoy work and are self-motivated;
  - Workers are lazy and avoid responsibility;
  - Workers are creative and innovative.
17. What level of Maslow's Hierarchy is the most defining one for creative employees?
- Esteem needs;
  - Safety needs;
  - Social needs;
  - Self-actualization.
18. What is the "Hawthorne Effect"?
- Performance decrease because individuals are observed;
  - Improvement of behaviors owing to monetary incentives;
  - Occurrence of unexpected behaviors;
  - Improvement of behaviors because individuals are observed.
19. What is not a reason for difficulties in measuring productivity for "black-collar" creative jobs?
- Outputs hard to define and measure;
  - Differences in quality;
  - Production is difficult to measure;
  - Non-homogeneous products.
20. Why is it difficult to manage geeks?
- They are judgmental about the company's strategy;
  - Their values are peer driven rather than hierarchy driven;
  - Geeks are structured and do not need guidance;
  - They can be energized by actions.

## 5.8 · Review Materials

21. What is not an attribute of commercial papers (CP)?
- A. CP is a way for established companies to raise money for short periods;
  - B. CP interest is paid at the maturity date;
  - C. The companies borrow money from financial institutions and issue CPs as promises to repay;
  - D. CP is most appropriate for companies with steady cash flows or strong growth prospects.
22. Which statement about vendor financing is correct?
- A. Vendor financing of media and digital activities is most developed in the film sector, perhaps because its funding requirements are the largest among content media;
  - B. It reduces the debt on a company's balance sheet and enables the firm to take on debt for other purposes;
  - C. Under vendor financing the financier typically doesn't influence the production in any way;
  - D. Vendor financing in the film industry is also referred to as a negative pickup deal.
23. Which statement is incorrect for Venture Capital (VC) Financing?
- A. VC firms finance new and rapidly growing companies;
  - B. VC firms also assist in the development of new products or services;
  - C. VC firms differentiate among several stages of startup financing;
  - D. Inexpensive for startups as they don't have to pay interest.
24. One source of funding is often self-financing from undistributed profits. Which statement about internal funding is incorrect?
- A. Transaction costs are lower relative to the issuance of securities;
  - B. No supervision and review by banks;
  - C. Internal funding has no cost to the company;
  - D. Less disclosure of financial details that could benefit competitors;
  - E. Self-financing has an impact on content and innovation.
25. Which statement about the CAPM is not correct?
- A. 12-month US treasury bonds are typically used to estimate the risk free rate of interest;
  - B. A  $\beta$  value of greater than one, indicates that the company is more volatile than the market;
  - C. According to CAPM, a security's expected return is equal to the risk free rate plus a premium;
  - D. None of the above.
26. What does the  $\beta$  in the "capital asset pricing model" (CAPM) stand for?
- A. Estimated cost of capital;
  - B. The company's riskiness;
  - C. Risk free rate of interest;
  - D. Expected rate of return.

## Quiz Answers

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5

- ✓ 1. D
- ✓ 2. C
- ✓ 3. C
- ✓ 4. B
- ✓ 5. C
- ✓ 6. A
- ✓ 7. A
- ✓ 8. A
- ✓ 9. D
- ✓ 10. B
- ✓ 11. A
- ✓ 12. D
- ✓ 13. C
- ✓ 14. B
- ✓ 15. A
- ✓ 16. B
- ✓ 17. D
- ✓ 18. D
- ✓ 19. C
- ✓ 20. B
- ✓ 21. D
- ✓ 22. A
- ✓ 23. D
- ✓ 24. C
- ✓ 25. D
- ✓ 26. B