

Balancing Company Policies And Employee Needs: A Human Resource Management Case Study

Arthur K. Fischer, Pittsburg State University
Jeremy L. Houser, Pittsburg State University

ABSTRACT

An HRM case dealing with problems encountered as employee lifestyles conflict with organizational necessity. Discussion concerns how the case is used to exhibit the alignment between HRM and business strategy.

INTRODUCTION

*M*idwest Education, Inc. is a major supplier of educational materials for the United States. The company focus is on learning tools and systems for use in technology, science and business classrooms. In addition, it develops and provides books, manuals, videos, software and hardware used in the fields of technology education, instructional development and business applications.

The company has its headquarters and primary manufacturing plant in a major Midwest community. In addition, the Creative Development offices are located in Massachusetts and California. Transportation, Service and Maintenance facilities are headquartered out of Texas, with major branches in Baltimore and Phoenix.

The three main divisions exemplify three different strategies: cost-reduction, quality enhancement, and innovation (as discussed by Schuler and Jackson, 1987).

Transportation, Service and Maintenance. The primary strategy of the Transportation, Service and Maintenance Division is cost-reduction. Midwest Education, Inc. has long been known for providing service and maintenance programs which are very reasonably priced.

Manufacturing. The primary strategy of the Manufacturing Division is quality enhancement. Midwest education, Inc. has an enviable history of providing the highest quality products which have been adopted by first-rate schools and corporate training programs.

Creative Development. The primary strategy of the Creative Development Division is innovation. Midwest Education, Inc. is widely known for providing truly cutting edge teaching materials which always mirror the latest techniques and processes.

COMPANY HISTORY

Midwest Education was started by Henry and Mary Dalton in 1975. Dr. Henry Dalton was an industrial arts teacher before he got his MBA and went on to get his Ph.D. in Technology Education. Mary was a software developer who also taught business seminars. At that time a new wave of emerging technology was beginning to alter the way people learn and communicate. By developing Midwest Education, Inc. the Daltons began work in an exciting new field. They found a vast market for quality tools that educated people on how to use all the new technology. Dr. and Mrs. Dalton are in semi-retirement now and travel extensively, but remain major shareholders in the business. They personally hired the CEO when they went into semi-retirement.

The company started with about fifty employees, but has grown consistently and now has a total of 416 employees within its three major divisions: 158 employees work in the Manufacturing Division, 123 work in the Creative Development Division and 135 work in the Transportation, Service and Maintenance Division. There are also 71 employees working at the headquarters in Kansas City (including the corporate staff).

At the beginning on the 1990s it became apparent that international business was becoming the rule rather than the exception. The company went international in 1994 and now is exporting to three European, two Latin American, and two Pacific Rim countries. The Global Operations Division is located within the headquarters.

HEADQUARTERS

The corporate headquarters are in Kansas City. The CEO of Midwest Education, Inc. is Judith Lund. Ms Lund was hired by the Daltons in 1994 when they decided to take a less active role in the company while remaining major shareholders. Ms. Lund has an MBA in business management, and was previously the CEO of a small telecommunications company. In her previous position, Ms Lund had successfully steered the company out of financial difficulties by raising stock value. She had initiated a strong advertising campaign and had put the company 'in the black' for the first time in seven years.

The COO of Midwest Education, Inc. is Frank Rose. Frank has been with the company since 1989. Mr. Rose, a cousin of Dr. Dalton, had a successful career with an international business training group in California. His desire to move back to his home town of Kansas City came at a time when the Daltons were looking for a COO. He has worked out well for the company.

The Human Resources Department is also located at the headquarters. The Vice President for Human Resources is Lawrence Wilson. Mr. Wilson has a degree in industrial and organizational psychology and an MBA. He has been with the company for 11 years. He started out as a generalist and was promoted as he showed good judgment with hiring and earned his MBA at the same time.

Within the Human Resources Department there are four sections:

1. Staffing, the head of this section is Patrick Shew.
 2. Compensation and benefits section, headed by Michael Martin.
 3. Labor management relations section, headed by Keith Lane.
 4. Training, career development and performance appraisal section, headed by Cynthia Burns.
- There are also human resource specialists in each of the three divisions around the country.

MANUFACTURING DIVISION

The mission statement for the Manufacturing Division is:

"The aim of the Manufacturing Division of Midwest Education, Inc. is to continually improve the quality and strength of all our products. The superior products for which we have become world renowned will still be manufactured along with new and innovative products and ideas. We will work hard to keep quality high and cost down while supplying customers with the best possible products in the shortest possible time." The Manufacturing Division follows a strategy of quality enhancement.

The main manufacturing plant is located on the outskirts of Kansas City, not far from the company headquarters. The president of the Manufacturing Division is Max Thorn. Mr. Thorn has been with the company almost since its inception. He was one of the first employees hired by the Daltons. He started writing programs for the company and originally worked alongside the Daltons in interviewing and hiring many other employees.

The head of human resources for the Manufacturing Division is Janine Woods. She has a staff of five generalists who assist her in meeting HRM needs for the Manufacturing Division.

The Manufacturing Division used to be housed in the same building as the headquarters. As the business expanded and more room was needed, the division moved to the suburbs into a large factory site. There are 158 employees in the Manufacturing Division. They are divided into ten teams, each team works at producing and packaging a specific product at a time. There are five supervisors who each supervise two teams: Doris Malone, John Fizer, Sandi Cross, Wendy Atchison, and Ian Carpenter.

The Manufacturing Division usually has a long lead time on orders and can anticipate what will be needed. The factory has flexible work areas that can be re-tooled and rearranged for the changeover from one product to another in less than four hours. The pay in this Division starts at \$6.25/hr for production workers and has a full benefits package. Most employees seem happy with their work. Max Thorn is generally thought of as a good, easy-going man to work for.

CREATIVE DEVELOPMENT DIVISION

The mission statement for the Creative Development Division is:

"In the Creative Development Division of Midwest Education, Inc. we will strive to bring our customers the most innovative and cutting edge programs and products in the world. Our team of creative professionals is constantly working to improve, upgrade, and create the most useful products to bring to our customers." This division follows a strategy of innovation.

The Creative Development Division has two locations; a headquarters in California and a branch located in Massachusetts. The president of the Creative Development Division is Serena Tibaldo. Ms. Tibaldo recently joined the company. Previously she was a software developer for a large computer game producer. She has a bachelor's degree in business and a computer programming master's degree, and is doing very well at Midwest.

The head of human resources for the Creative Development Division is Amelia Chi, who is located at the California headquarters. Ms. Chi has a staff of five assistants. The head of the human resource section at the Massachusetts branch is Virginia Fox. Ms Fox has a staff of two assistants.

There are 90 people employed at the California plant and 38 at the Massachusetts location. The California location opened in 1980 and the Massachusetts branch was opened in 1993. In the 1970's and 1980's many computer software programmers moved to the west coast to be located in Silicon Valley. Most people hired by Midwest Education, Inc. transferred from wherever they lived to the California branch, with the company paying all relocation expenses. By 1990 some employees desired to live in the east. The Daltons decided it was time to expand the company and in doing so decided the next branch would be in the Massachusetts area. Most of the long time elected to remain California. The majority of recent hires are in Massachusetts.

TRANSPORTATION, SERVICE AND MAINTENANCE DIVISION

The mission statement for the Transportation, Service and Maintenance Division is:

"The Transportation, Service, and Maintenance Division is committed to providing the fastest and most cost effective way of safely shipping our product to our customers. No effort will be spared as we streamline and improve our fast and friendly service". The Transportation, Service and Maintenance Division follows a strategy of cost-reduction.

The Transportation, Service and Maintenance Division headquarters is located in San Antonio, Texas. There are major branches in Baltimore, Maryland and Phoenix, Arizona. The President of the Transportation, Service and Maintenance Division is Mark Derrick. Mr. Derrick is based in San Antonio. Mr. Derrick has been with Midwest Education, Inc. for 13 years. He personally hires the managers for the other branches in Maryland and Arizona.

The head of human resources for the Transportation, Service and Maintenance Division is Salvador Vasquez. Mr. Vasquez has a staff of five assistants. Mr. Vasquez appoints HR heads to the other branches. Often they are employees from San Antonio that he knows well and trusts.

The Transportation, Service and Maintenance Division was originally based in Kansas City. As the company grew a decision was made to relocate the division to Texas. The other branches are newer, with Maryland opening in 1989 and Arizona in 1996. There are 55 employees in San Antonio, and 40 in each of the other two branches.

SITUATION

The CEO, Judith Lund, COO, Frank Rose, Lawrence Wilson, who is the VP of Human Resources, Michael Martin who is the compensation and benefits manager, and the presidents of the different divisions, are meeting to discuss policy issues. Max Thorn is the president of Manufacturing Division, Serena Tibaldo, is the president of Creative Development Division, and Mark Derrick is the president of Transportation, Service and Maintenance Division.

Ms. Lund: I have called everyone here today to discuss the issue of our rising healthcare costs within the company. We have all seen that our profit margin has been shrinking while we are still able to increase sales and keep costs down. Mr. Rose, Mr. Wilson, Mr. Martin and I have gone over the numbers and believe we have identified a few reasons behind this problem. We wanted to run some of these ideas by everyone and see what you think.

Frank Rose: We have looked at the numbers and there is no denying that healthcare is the direct culprit, and Michael and I have looked at a few areas that we can work on.

Michael Martin: The three major possibilities that we've identified behind our healthcare crisis are (1) our costs directly related to smoking, (2) our healthcare costs that are directly related to obesity, high blood pressure, and high cholesterol, and finally (3) our healthcare costs directly related to injuries off the job.

Frank Rose: We believe that each of these costs can be lowered drastically, and we are willing to provide incentives if these costs can be reduced in your the departments.

Ms. Lund: Let's begin with the issues with healthcare costs related to our smokers. I would like to hear any ideas anyone has to reduce these costs, from direct visits to the hospital, to the amount of breaks the smokers are taking on a given day.

Lawrence Wilson: I have gathered all information about this issue and would like to allow everyone to be current on our situation. As you all know, currently we are offering complete healthcare to all of our full-time employees, who make up over 95% of the workers at Midwest Education, Inc. These benefits are at no cost to the employees, but they must pay a \$500 deductible on any medical costs over \$5000. This means that all tests and small procedures are covered completely by the company.

We have seen a steady increase in costs that are directly attributed to smokers. The average smoking employee costs us \$1,429 per employee. These costs are mainly attributed to lung cancer, heart attacks (on and off the job), emphysema, and a general increase in smokers using healthcare more than nonsmokers.

Beyond the healthcare costs, the employees who smoke are recorded as taking four times as many breaks compared to employees who don't smoke. The employees who smoke take on average four ten minute smoke breaks a day, and that comes out to each employee who smokes working one less month a year than their nonsmoking counterparts. The smokers are also recorded as being absent from work 50% more than our nonsmoking employees.

Mark Derrick: I don't know about everyone else, but this has become a major problem in my department. We have employees taking whole days off because of smoking-related health problems, and when they are at work it seems like they are always outside smoking. I've heard of other companies that had this same problem, and I remember they gave their employees a year to quit smoking. I'm not really sure about all of the details though.

Lawrence Wilson: That is one of the ideas that we have discussed. The idea of what you are talking about would be to offer free programs to quit, and to establish a reimbursement program for employees to get their money back on products that they used to quit, such as the "patch", quit-smoking gum, and anything else within reason. We've calculated the costs for each smoking employee to quit, and it would cost approximately \$45 per employee, which would save the company \$1,382 in the first year alone.

Max Thorn: What would happen if the employees weren't able to quit within the one year period?

Ms. Lund: They would be dismissed from the company. If this is something we believe is truly important then we can't be lenient on this.

Serena Tibaldo: Hold on a second. I don't know about other departments, but my employees would be worthless if they weren't allowed to smoke on the job. We aren't just loading a truck or working on an assembly line, everyone would be too stressed to come up with new ideas. Aren't there any other alternatives?

Lawrence Wilson: One other idea that we have looked at is having employees pay for a portion of the monthly costs that the company pays towards their healthcare insurance. This will at least bring down the insurance costs to the company, but there is still the 40 minutes of lost productivity attributed to smoking, and let's not forget the amount of sick days.

Max Thorn: How about having those employees clock out or deduct that time from their lunch break? I know in my department there has been grumbling from the employees who don't smoke. They feel it isn't fair that some employees are gone much of every hour.

Lawrence Wilson: That's a good idea; does anyone have any other ideas?

Serena Tibaldo: I just have to say that this seems like a witch hunt. Virtually everyone in my department smokes, including me. There has got to be other ways to lower these costs without removing smoking from the workplace.

Ms. Lund: OK, how about we move on for now. The second problem that we've identified is the rising healthcare costs that are directly related to obesity, high blood pressure, and high cholesterol, basically problems stemming from people living unhealthy lives.

Lawrence Wilson: Our healthcare provider has reported to us that over the past five years we have seen dramatic increases in our cases of type 2 diabetes, cardiovascular disease, and osteoporosis. We have also seen the usage and cost of blood pressure and cholesterol medication steadily increasing. I just want everyone to know this isn't an isolated case for Midwest Education - this is a nationwide problem.

Frank Rose: We've got a lot of options in dealing with this problem. We've looked into the idea of mandatory wellness programs. We aren't quite sure about the degree or depth of the programs, but we'd like to hear what everyone thinks. Some of the decisions that we need to make concern what portions of the program to implement and how much we believe is vital to having a successful wellness program. Let me just tell everyone a couple of ideas we've found and an approximate cost of each. Nothing is written in stone, but we want everyone to know a few of the options we've identified:

1. Fitness Program: Pedometers per employee (\$3), gym memberships per employee (\$55 per month), or building an on-site gym (\$150,000 initially and \$30,000 annually for upkeep).
2. Nutrition Program: Handing out pamphlets (\$25 total) to hiring an on-site nutritionist (\$45,000 annually)

3. Stress Management Program: Stress management Material (\$25 total) or we could hire an on-site psychologist (\$65,000 annually)
4. Physiological Testing Program: These tests can run from \$15 per employee for a very basic package such as blood pressure and body weight to over \$500 per employee for a thorough test of everyone.

Serena Tibaldo: Now we are on the same page. I believe this can be much more beneficial than the smoking idea. I've heard of programs that promote physical activity with cash bonuses or incentives of free vacation days.

Lawrence Wilson: Ms. Tibaldo is hinting on a program we've looked into. One example we identified is a program where every employee is required to take a health assessment: they would be evaluated based on blood pressure, cholesterol level, body fat percentage and a couple other factors. Once these have all been established, regardless of their initial performance they will be given a number between 0 and 24, 0 being the poorest and 24 being the healthiest an employee can be. If an employee can either maintain a 20 or better, or improve their initial number 3 points or more, then they will be given a \$500 cash bonus and two paid days off during a one year period.

We believe the \$500 and the two days off will cost us approximately \$700, where the cost savings of an employee moving up 3 or more points on this scale will save us at least \$1,200 per person annually. These are just the numbers from healthcare that we can calculate; we haven't mentioned the benefits of lowered stress, higher productivity, and all around better mood.

Mark Derrick: So you guys are talking about requiring us to take medical tests and then requiring us to participate in a health program. What's the alternative if an employee doesn't feel that the \$500 and time off are worth it?

Lawrence Wilson: We're trying to help our employees' live longer healthier lives and at the same time reduce our healthcare costs. We haven't determined what the penalty will be for employees with repeated poor performance, but we feel this is a very important issue to resolve if we intend on staying competitive.

Mark Derrick: Is there any way that my department can only have to meet 2 points or a lower score on this scale or just all around more leniencies? Our tight schedules keep my personnel in their trucks all day long and they won't have the same opportunities as the other departments to get out and exercise.

Max Thorn: If we're going to implement a program like this it needs to be spread evenly across each department. It won't take very long for one of my staff members to hear about someone in transportation getting a \$500 bonus for meeting 2 points when they met same goal and didn't get anything to show for it.

Mark Derrick: How about we only offer incentives to the current employees we have, and just identify people with possible health problems at the hiring process and not hire them? It's not fair to our employees who were hired before this program was implemented to be forced to participate and be penalized for not meeting a standard. The healthy new employees will offset any of the health costs caused by our current employees.

Serena Tibaldo: I agree with Mark. I think that would be a much better alternative than penalizing our current employees. It seems fair that if potential employees are aware of the system before they are hired they can choose whether it is something they want. The current employees don't have a choice; many of them have families and don't have time to exercise every day or have to eat on the go and can't always make the healthiest decision.

Ms. Lund: This is something we'll all have to think more about, but we're running short on time and I would like to move onto our final issue today. That is our chronic problem with some of our employees continually getting injured off the job because they choose to participate in dangerous activities.

Lawrence Wilson: We have approximately 25 employees spread across the different departments that seem to always be in the hospital. They are in the hospital for broken bones, burns, and various other injuries. These employees are costing us a fortune in healthcare costs. Does anyone have any ideas as how to deal with this?

Max Thorn: I know exactly what you're talking about. Many are from my department and these employees are some of my best when they aren't in the hospital. I know that one of them is a volunteer firefighter, a couple rock climb on the weekend, and a few participate in motocross racing. I don't think I've ever seen any of them injured on the job. I don't want to lose these employees, regardless of their costs to our healthcare. I think we should consider having them pay for a portion of their insurance, just like the idea that was mentioned about the smokers.

Mark Derrick: If these activities are costing us so much money, then why don't we just bar them from behaving in these types of activities? I understand our healthcare covering someone who is injured on the job, but not when it has nothing to do with work.

Serena Tibaldo: Like Max I have a few employees that are chronically injured, but these are some of my best employees and I think that he was onto something about having them pay. Why don't we just completely remove them from our healthcare program, and if they still choose to participate in these activities they can pay for it out of their own pocket. It would be a shame to lose these employees, but we never know if after a weekend they will be coming in to work or not.

Ms. Lund: You have all had some good ideas and we would like to pursue these alternatives and see what we legally can do. I know that some of these issues were very personal for some of you, but I want everyone to know that these issues wouldn't have been presented unless they were a problem for the bottom line of the company.

DISCUSSION QUESTIONS

1. Which idea do you feel is best to deal with the smoking dilemma? If all the ideas seem bad, are there any other alternatives to reduce healthcare costs due to smokers?
2. Do you believe that the company has the authority to require employees to participate in a wellness program?
3. Should a company fire people who choose to participate in activities that cause them to use their healthcare benefits considerably more than other employees?
4. Do you believe that these issues alone can make an otherwise profitable company unprofitable, or is the company just using these issues as a scapegoat?
5. What should you consider when trying to decide which option to choose? What would be the ethical considerations with each option?

REFERENCE

1. R.S. Schuler and S.E. Jackson, *Linking competitive Strategy with Human Resources Management Practices*, Academy of Management Executives, 1 (August, 1987), p.213.

NOTES