

RETAIL MANAGEMENT – LECTURE 9

CHAPTER 9 – HUMAN RESOURCE MANAGEMENT

1. Overview

Employees play a key role in the performance of critical company operations, which makes human resource management particularly important in the retail industry. Machinery, computer systems, and robots are all examples of capital equipment that is routinely utilized in manufacturing organizations to do tasks that were formerly handled by employees. In contrast, retailing and other service industries have remained labor-intensive for the foreseeable future. The majority of essential retailing jobs, like as purchasing, displaying items, and providing customer support, remain to be performed by people, according to industry experts. Store management is often in responsible of implementing the retailer's human resource strategy, which involves recruiting, selecting, training, managing, assessing, and rewarding sales associates, among other responsibilities.

2. Desired Learning Outcomes

1. Examine the goals of human resource management.
2. Describe the main challenges that human resource managers face.
3. Describe the tasks that retail employees perform and how they are typically organized.
4. Discuss the retailer's goals, coordinate employee activities, and encourage employees to work toward them.
5. Describe how human resource management programs are used to develop a loyal workforce.
6. Discuss how human resource managers are affected by legal issues.

HUMAN RESOURCE MANAGEMENT

Learning Objective 1 – Objectives of Human Resource Management

A primary objective of human resource (HR) management is to build a basis for a sustainable competitive advantage. This advantage is attainable since labor costs account for a significant percentage of a retailer's total expenses. Therefore, the effective management of employees can produce a cost advantage. Also, the experience that most customers have with a retailer is determined by the activities of employees who select merchandise, provide information and assistance, and stock displays and shelves. Thus, employees can play a major role in differentiating a retailer's offering from its competitor's. Finally, these potential advantages are difficult for competitors to duplicate. For example, Nordstrom employees are known to provide outstanding customer service. However, most retailers are not able to develop the same customer-oriented culture in their firms. Retailing View 9.1 describes how Men's Wearhouse built a competitive advantage through effective human resource management.

Another strategic objective of human resource management is to align the capabilities and behaviors of employees with the short- and long-term goals of the retail firm. Retailers use several standard metrics to measure how they are doing. One human resource metric is **employee productivity**—the retailer's sales or profit divided by the number of employees. Employee productivity can be improved by increasing the sales generated by employees, reducing the number of employees, or both.

Learning Objective 2 – Issues in Retail Human Resource Management

Human resource management in retailing is very challenging for several reasons. First, it is difficult to achieve a delicate balance between the ability to satisfy the needs of employees, the ability of HR professionals at the corporate offices to set policies, and the capabilities of store managers to implement those policies. Second, retailers have increased their proportion of part-time employees in an effort to reduce expenses

Balancing the Human Resource Triad

Human resource professionals, who typically work out of the corporate office, have specialized knowledge of HR practices and labor laws. They are responsible for establishing HR policies that enforce the retailer's strategy and provide the tools and training used by store managers and employees to implement those policies. Store managers are responsible for bringing the policies to life through their daily management of the employees who work for them. Finally, the employees also share in the management of human resources. They can play an active role by providing feedback on the policies, managing their own careers, defining their job functions, and evaluating the performance of their managers and coworkers.

Expense Control

Retailers must control their expenses if they are to be profitable. Thus, they are cautious about paying high wages to hourly employees who perform low-skill jobs. To control costs, retailers often hire people with little or no experience to work as sales associates, bank tellers, and waiters. High turnover, absenteeism, and poor performance often result from this use of inexperienced, low-wage employees.

Part-Time Employees

To minimize costs, the systems suggest that retailers complement their full-time (40-hours-per-week) store employees with part-time workers. Part-time employees are less expensive than comparable full-time employees. Further, they are usually offered no health or retirement benefits and little job security. The growth of part-time staff in retailing has been slightly outpacing that of full-time staff since 2000.

Utilizing Diverse Employee Groups

The changing demographic pattern will result in a chronic shortage of qualified sales associates. So, besides utilizing less expensive part-time labor, retailers are increasing their efforts to recruit, train, manage, and retain mature, minority, and handicapped workers. Although young employees have traditionally made up the majority of the retail labor force, retailers have realized that what these employees want out of their jobs and work environments is quite different from what their older supervisors want and, therefore, that different approaches need to be used to manage them.

Retail Management
Chapter 9
HUMAN RESOURCE MANAGEMENT
Lecturer: Michaela DeLeon Castillo, DBA

They want more flexibility, meaningful jobs, professional freedom, and a better work-life balance than older employees do.

International Human Resource Issues

The management of employees working for international retailers is especially challenging. Differences in work values, economic systems, and labor laws mean that HR practices that are effective in one country might not be effective in another

Learning Objective 3 – Designing the Organization Structure for A Retail Firm

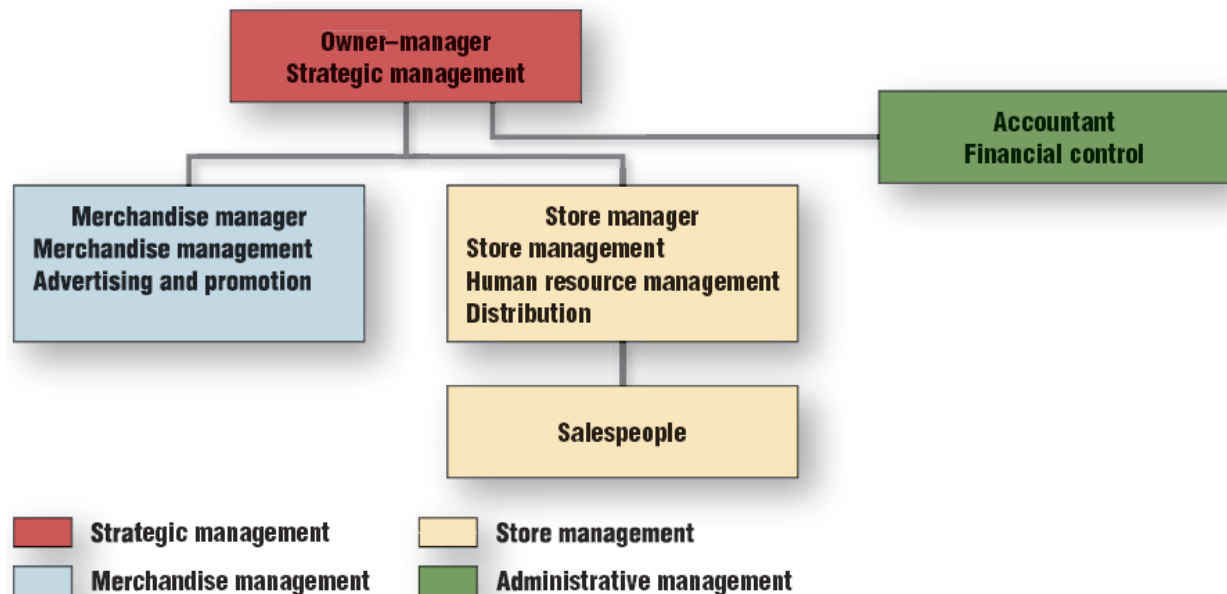
The **organization structure** identifies the activities to be performed by specific employees and determines the lines of authority and responsibility in the firm.

Organization of a Single-Store Retailer

Initially, the owner-manager of a single store may be the entire organization. When he or she goes to lunch or heads home, the store closes. As sales grow, the owner-manager hires employees. Coordinating and controlling employee activities is easier in a small store than in a large chain of stores; the owner manager simply assigns tasks to each employee and watches to see that these tasks are performed properly. Because the number of employees is limited, single store retailers have little **specialization**. Each employee must perform a wide range of activities, and the owner-manager is responsible for all management tasks.

As sales continue to increase, specialization in management may occur when the owner-manager hires additional management employees. Exhibit 9–4 illustrates the common division of management responsibilities into merchandise and store management. The owner-manager continues to perform strategic management tasks. The store manager may be responsible for administrative tasks associated with receiving and shipping merchandise and managing the employees

EXHIBIT 9–4 Organization Structure for a Small Retailer



The merchandise manager or buyer may handle the advertising and promotion tasks, as well as merchandise selection and inventory management tasks. Often the owner-manager contracts with an accounting firm to perform financial control tasks for a fee.

Merchandising

Looking at the merchandising division, the **senior vice president (SVP) of merchandising** works with buyers and planners to develop and coordinate the management of the retailer's merchandise offering and ensure that it is consistent with the firm's strategy.

The buyers in the merchandise division are responsible for determining the merchandise assortment, pricing, and managing relationships and negotiating with vendors. Most retail chains have a set of planning positions parallel to the buying positions supervised by a senior vice president of planning who is at the same level as the merchandise managers in the buying organization. The **merchandising planners** are responsible for allocating merchandise and tailoring the assortment of several categories for specific stores in a geographic area.

Stores

Retail Management
Chapter 9
HUMAN RESOURCE MANAGEMENT
Lecturer: Michaela DeLeon Castillo, DBA

The **senior vice president (SVP) of stores** supervises all activities related to stores, including working with the regional managers, who supervise district managers, who supervise the individual store managers

Operations

The **chief operations officer (COO)** oversees managers in charge of management information systems (MISs), supply chain, human resources, and visual merchandising. The COO is also in charge of shrinkage and loss prevention and the operation and maintenance of the physical assets of the firm, such as stores, offices, distribution and fulfillment centers, and trucks

Marketing

The **chief marketing officer (CMO)** works with staff to develop advertising and promotion programs. Managers in charge of public relations, annual events, credit marketing, and cause-related marketing initiatives also report to the CMO.

Finance

The **chief financial officer (CFO)** works with the CEO on financial issues such as equity-debt structure and credit card operations. In addition, the real estate division and general counsel (legal) divisions, headed by vice presidents, report to the CFO.

Private Label

The **private-label president** is responsible for the conceptualization, design, sourcing, quality control, and marketing of private-label and exclusive merchandise.

Direct Channels

The **president of direct channels** is responsible for the selection and pricing of the merchandise assortment offered through the catalog and Internet channels, the maintenance and design of the retailer's Web site, customer call centers, and the fulfillment centers that fill orders for individual customers.

Global

The **global operations president** oversees retailing operations outside the home country. The size and complexity of this operation is determined by the number of countries served and the number of stores within each country. Regardless of size, many of the functions performed by the home-country operation are duplicated in the global operations.

Learning Objective 4 – Retail Organization Design Issues

Two important issues in the design of a retail organization are (1) the degree to which decision making is centralized or decentralized and (2) the approaches used to coordinate merchandise and store management.

Centralization versus Decentralization

Centralization occurs when the authority for retailing decisions is delegated to corporate managers rather than to geographically dispersed managers; **decentralization** occurs when the authority for retail decisions is assigned to lower levels in the organization.

Retailers reduce costs when decision making is centralized in corporate management. First, overhead falls because fewer managers are required to make the merchandise, human resource, marketing, real estate, information system, and financial decisions.

Second, by coordinating buying across geographically dispersed stores, the company can achieve lower prices from suppliers. The retailer can negotiate better purchasing terms by placing one large order rather than a number of smaller orders.

Third, centralization provides an opportunity to have the best people make decisions for the entire corporation.

Fourth, centralization increases efficiency. Standard operating policies developed at the corporate headquarters are applied to the stores, allowing store managers to focus on their core responsibilities.

Although centralization has advantages in reducing costs, its disadvantage is that it makes it more difficult for a retailer to adapt to local market conditions.

Coordinating Merchandise and Store Management

Small, independent retailers have little difficulty coordinating their stores' buying and selling activities. Owner-managers typically buy the merchandise and work with their salespeople to sell it. In close contact with customers, the owner-managers know what their customers want.

In contrast, large retail firms organize the buying and selling functions into separate divisions. Buyers specialize in buying merchandise and have limited contact with the store management responsible for selling it. While this specialization increases buyers' skills and expertise, it makes it harder for them to understand customers' needs. Three approaches large retailers use to coordinate buying and selling are (1) improving buyers' appreciation for the store environment, (2) making store visits, and (3) assigning employees to coordinating roles.

Learning Objective 5 – Winning the Employee Talent War

Retailers are engaged in a “war” with their competitors for talent, that is, for effective employees and managers. 18 Corporate HR departments are the generals in the war for talent. They are responsible for developing programs that will attract, develop, motivate, and keep talent.

Retail Management

Chapter 9

HUMAN RESOURCE MANAGEMENT

Lecturer: Michaela DeLeon Castillo, DBA

Attracting Talent: Employment Marketing

The HR departments for retailers such as Starbucks and Marriott develop marketing programs to attract the “best and brightest” potential employees. These programs, called employment marketing or employment branding, involve undertaking marketing research to understand what potential employees are seeking, as well as what they think about the retailer; developing a value proposition and an employment brand image; communicating that brand image to potential employees; and then fulfilling the brand promise by ensuring that the employee experience matches that which was advertised. Retailers often use advertising agencies that specialize in employment marketing to develop creative approaches to attract employees.

Developing Talent: Selection and Training

Two activities that retailers undertake to develop knowledge, skills, and abilities in their human resources are selection and training. Retailers that build a competitive advantage through their human resources are very selective in hiring people and make significant investments in training.

Selective Hiring

The first step in building an effective workforce is to recruit the right people. The team who works there gets a say on whether the candidate will fit in with the team. If not, the candidate isn't hired.

Training

Training is particularly important in retailing because the overwhelming majority of retail employees have direct contact with customers, which means they are responsible for helping customers satisfy their needs and resolve their problems.

Motivating Talent: Aligning Goals

The task of aligning the employees' and the firm's goals is often difficult, because employees' goals usually differ from those of the firm. For example, a sales associate might find it more personally rewarding to arrange a display creatively than to help a customer. Retailers

Retail Management
Chapter 9
HUMAN RESOURCE MANAGEMENT
Lecturer: Michaela DeLeon Castillo, DBA

generally use three methods to motivate their employees' activities: (1) written policies and supervision, (2) compensation-based incentives, and (3) organization culture.

Policies and Supervision

Perhaps the most fundamental method of coordination is to prepare written policies that indicate what employees should do and then to have supervisors enforce these policies. For example, retailers may set policies about when and how merchandise can be returned by customers. If employees use the written policies to make return decisions, their actions will be consistent with the retailer's strategy. But strict reliance on written policies also can reduce employee motivation, because employees have little opportunity to use their own initiative to improve performance in their areas of responsibility. As a result, they eventually might find their jobs uninteresting.

Compensation-Based Incentives

The second method of motivating and coordinating employees involves the use of various forms of compensation to encourage them to perform activities consistent with the retailer's objectives. A common type of compensation for retail salespeople is a commission, which is a type of incentive based on a percentage of their sales or margin. Many retailers base at least part of salespeople's compensation on commissions.

Another individual incentive is a **bonus**, which is additional compensation awarded periodically on the basis of an evaluation of the employee's performance. For example, store managers often receive bonuses at the end of the year based on their store's performance relative to its budgeted sales and profits. In addition to receiving compensation-based incentives based on individual performance, retail managers often receive income based on their firm's performance.

Known as **profit sharing**, this type of incentive can be offered as a cash bonus based on the firm's profits or as a grant of stock options that link additional income to the performance of the firm's stock

Organization Culture

The final method for motivating and coordinating employees is to develop a strong organization culture. An organization culture is the set of values, traditions, and customs of a firm

that guides employee behavior. These guidelines aren't written down as a set of policies and procedures; they are traditions passed along by experienced employees to new employees.

Keeping Talent: Building Employee Commitment

Having attracted and developed effective employees, an important challenge in retailing is to keep them, that is, to reduce turnover. High turnover reduces sales and increases costs. Sales are lost because inexperienced employees lack the skills and knowledge about company policies and merchandise to interact effectively with customers; costs increase due to the need to recruit and train new employees.

To reduce turnover, retailers need to build an atmosphere of mutual commitment in their firms. When a retailer demonstrates its commitment, employees respond by developing loyalty to the company. Employees improve their skills and work hard for the company when they feel the company is committed to them over the long run, through thick and thin. Some approaches that retailers take to build mutual commitment are (1) empowering employees and (2) creating a partnering relationship with employees.

Empowering Employees

Empowerment is a process in which managers share power and decision-making authority with employees. When employees have the authority to make decisions, they are more confident in their abilities, have a greater opportunity to provide service to customers, and are more committed to the firm's success.

Creating Partnering Relationships

Three HR management activities that build commitment by developing partnering relationships with employees are (1) reducing status differences, (2) promoting from within, and (3) enabling employees to balance their careers and families.

Promotion from Within

This staffing policy involves hiring new employees only for positions at the lowest level in the job hierarchy and then promoting experienced employees to openings at higher levels in the hierarchy.

Promotion-from-within policies establish a sense of fairness. When employees do an outstanding job and then outsiders are brought in over them, the employees feel that the company doesn't care about them. Promotion-from-within policies also commit the retailer to developing its own employees

Flextime is a job scheduling system that enables employees to choose the times they work. With **job sharing**, two employees voluntarily are responsible for a job that was previously held by one person. Both programs let employees accommodate their work schedules to other demands in their lives, such as being home when their children return from school.

Learning Objective 6 – Managing Diversity

A more diverse labor force requires more and different management skills than was the case in the past. **Managing diversity** is a human resource management activity designed to realize the benefits of a diverse workforce, which includes but is not limited to skin color, nationality, gender, sexual orientation, and people with disabilities.

Diversity Training

Diversity training typically consists of two components: developing cultural awareness and building competencies. The cultural awareness component teaches people about how their own culture differs from the culture of other employees and how the stereotypes they hold influence the way they treat people, often in subtle ways that they might not realize. Then role playing is used to help employees develop their competencies, such as better interpersonal skills that enable them to show respect and treat people as equals.

Support Groups and Mentoring

Many retailers help form support groups of minority employees that exchange information and provide emotional and career support for members who traditionally haven't been included in the majority's networks. Mentoring programs assign higher-level managers to help lower-level managers learn the firm's values and meet other senior executives

Career Development and Promotions

Although laws provide entry-level opportunities for women and minority groups, these employees often encounter a glass ceiling as they move through the corporation. A **glass ceiling** is an invisible barrier that makes it difficult for minorities and women to be promoted beyond a certain level. To help employees break through this glass ceiling,

Learning Objective 6 – Legal Issues in Human Resource Management

Managing in this complex regulatory environment requires expertise in labor laws, as well as skills in helping other managers comply with those laws. The major legal and regulatory issues involving the management of retail employees are (1) equal employment opportunity, (2) compensation, (3) labor relations, (4) employee safety and health, (5) sexual harassment, and (6) employee privacy.

Equal Employment Opportunity

The basic goal of equal employment opportunity regulations is to protect employees from unfair discrimination in the workplace. Illegal discrimination refers to the actions of a company or its managers that result in members of a protected class being treated unfairly and differently from others. A protected class is a group of individuals who share a common characteristic as defined by the law. Companies cannot treat employees differently simply on the basis of their race, color, religion, sex, national origin, age, or disability status. There are a very limited set of circumstances in which employees can be treated differently. For example, it is illegal for a restaurant to hire young, attractive servers because that is what its customers prefer. Such discrimination must be absolutely necessary, not simply preferred.

Compensation

Laws relating to compensation define the 40-hour workweek, the pay rate for working overtime, and the minimum wage, and they protect employee investments in their pensions. In addition, they require that firms provide the same pay for men and women who are doing equal work.

A recent issue related to compensation involves the criteria used to classify employees as managers who are paid a salary and not eligible for overtime pay. A number of lawsuits have

Retail Management
Chapter 9
HUMAN RESOURCE MANAGEMENT
Lecturer: Michaela DeLeon Castillo, DBA

been filed by assistant managers claiming that they do the same job as hourly employees but are classified as managers so that their retail employer can avoid paying them overtime wages

Labor Relations

Labor relations laws describe the process by which unions can be formed and the ways in which companies must deal with the unions. They precisely indicate how negotiations with unions must take place and what the parties can and cannot do.

Employee Safety and Health

The basic premise of health and safety laws is that the employer is obligated to provide each employee with an environment that is free of hazards that are likely to cause death or serious injury. Compliance officers from the Occupational Safety and Health Administration (OSHA) conduct inspections to ensure that employers are providing such an environment for their workers.

Sexual Harassment

Sexual harassment includes unwelcome sexual advances, requests for sexual favors, and other inappropriate verbal and physical conduct. Harassment is not confined to requests for sexual favors in exchange for job considerations such as a raise or promotion. Simply creating a hostile work environment can be considered sexual harassment.

Employee Privacy

Employees' privacy protection is very limited. For example, employers can monitor e-mail and telephone communications, search an employee's work space and handbag, and require drug testing. However, employers cannot discriminate among employees when undertaking these activities unless they have a strong suspicion that specific employees are acting inappropriately.

Developing Policies

The HR department is responsible for developing programs and policies to make sure that managers and employees are aware of the legal restrictions and know how to deal with potential violations. The legal and regulatory requirements are basically designed to treat people fairly. Employees want to be treated fairly, and companies want to be perceived as treating their employees fairly. The perception of fairness encourages people to join a company and leads to the

Retail Management
Chapter 9
HUMAN RESOURCE MANAGEMENT
Lecturer: Michaela DeLeon Castillo, DBA

trust and commitment of employees to a firm. When employees believe they are not being treated fairly, they can complain internally, stay and accept the situation, stay but engage in negative behavior, quit, or complain to an external authority or even sue the employer.

Perceptions of fairness are based on two perceptions: (1) distributive justice and (2) procedural justice. **Distributive justice** arises when the outcomes received are viewed as fair with respect to the outcomes received by others

Procedural justice is based on the fairness of the process used to determine the outcome. American workers consider formal processes as fair, whereas group decisions are considered fairer in collectivist cultures.

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Quiz – Chapter 9 – HRM

Identification

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| 1. | A form of salesperson's compensation in which the amount paid is based on a percentage of sales made minus merchandise returned. |
| 2. | The organizational structure in which employees are typically responsible for only one or two tasks rather than performing all tasks. This enables employees to develop expertise and increase productivity. |
| 3. | The steps taken to transform new employees into effective, committed members of the firm. |
| 4. | Target level used to motivate and evaluate performance. |
| 5. | A staffing policy that involves hiring new employees only for positions at the lowest level in the job hierarchy and then promoting employees for openings at higher levels in the hierarchy. |
| 6. | An employee's perception of fairness (how he or she is treated) that is based on the process used to determine the outcome. |
| 7. | A plan that identifies the activities to be performed by specific employees and determines the lines of authority and responsibility in the firm. |
| 8. | A firm's set of values, traditions, and customs that guide employee behaviour. |
| 9. | A retail employee responsible for allocating merchandise and tailoring the assortment in several categories for specific stores in a geographic area. |
| 10. | The assigning of higher-level managers to help lower-level managers learn the firm's values and meet other senior executives. |
| 11. | A set of human resource management programs designed to realize the benefits of a diverse workforce. |
| 12. | A strategic approach of an organization to achieve its objectives by developing policies and plans for allocating resources. |
| 13. | The process by which a person attempts to influence another to accomplish some goal or goals. |
| 14. | When two or more employees voluntarily are responsible for a job that was previously held by one person. |
| 15. | A description of the activities the employee needs to perform and the firm's performance expectations. |
| 16. | A form a job applicant completes that contains information about the applicant's employment history, previous compensation, reasons for leaving previous employment, education and training, personal health, and references. |
| 17. | Identifying essential activities and determining the qualifications employees need to perform them effectively. |
| 18. | No monetary, intangible rewards employees get from doing their jobs. |

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| 19. | A compensation plan that rewards employees on the basis of their productivity. |
| 20. | The actions of a company or its managers that result in members of a protected class being treated unfairly and differently than others. |
| 21. | A figurative barrier that makes it difficult for minorities and women to be promoted beyond a certain level. |
| 22. | Job scheduling system that enables employees to choose the times they work. |
| 23. | Reward (such as money, promotion, and recognition) given to employees by their manager or the firm |
| 24. | The process of managers sharing power and decision-making authority with employees. |
| 25. | The number of employees occupying a set of positions during a period (usually a year) divided by the number of positions. |
| 26. | Output generated by employee activities. One measure of employee productivity is the retailer's sales or profit divided by its employee costs. |
| 27. | Loss-prevention system in which special tags placed on merchandise in retail stores are deactivated when the merchandise is purchased. The tags are used to discourage shoplifting. |
| 28. | A method of sales compensation in which salespeople receive a weekly cheques based on their estimated annual income. |
| 29. | Exists when outcomes received are viewed as fair with respect to outcomes received by others. |
| 30. | In the case of discrimination, when members of a protected class are treated differently than nonmembers of that class, such as when a qualified woman (protected class) does not receive a promotion given to a less qualified man. |
| 31. | In the case of discrimination, when an apparently neutral rule has an unjustified discriminatory effect, such as when a retailer requires high school graduation for all its employees, thereby excluding a larger proportion of disadvantaged minorities, when at least some of the jobs (e.g., custodian) could be performed just as well by people who did not graduate from high school. |
| 32. | In illegal action of a company or its managers that results when a member of a protected class, women, minorities, etc.) is treated differently from nonmembers of that class (see disparate treatment) or when an apparently neutral rule has an unjustified discriminatory effect (see disparate impact). |
| 33. | Any physical or mental impairment that substantially limits one or more of an individual's major life activities or any condition that is regarded as being such an impairment. |
| 34. | When authority for retail decisions is made at lower levels in the organization. |
| 35. | Compensation based on a fixed formula, such as percentage of sales. |
| 36. | The activity of supporting people to achieve their goals by goal setting, training, advising, encouraging, and rewarding their successes. |

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| 37. | The degree to which authority for making retail decisions is delegated to corporate managers rather than to geographically dispersed regional, district, and store management. |
| 38. | Person in a retailing organization responsible for the purchase and profitability of a merchandise category. Similar to category manager. |
| 39. | Additional compensation awarded periodically, based on a subjective evaluation of the employee's performance. |

Answer key

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|----------------------------------|
| 1. straight commission |
| 2. specialization |
| 3. socialization |
| 4. quota |
| 5. promotion from within |
| 6. procedural justice |
| 7. organization structure |
| 8. organization culture |
| 9. merchandising planner |
| 10. mentoring program |
| 11. managing diversity |
| 12. management |
| 13. leadership |
| 14. job sharing |
| 15. job description |
| 16. job application form |
| 17. job analysis |
| 18. intrinsic rewards |
| 19. incentive compensation plans |
| 20. illegal discrimination |
| 21. glass ceiling |
| 22. flextime |
| 23. extrinsic rewards |

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|---|
| 24. empowerment |
| 25. employee turnover |
| 26. employee productivity |
| 27. electronic article surveillance (EAS) system |
| 28. drawing account |
| 29. distributive justice |
| 30. disparate treatment |
| 31. disparate impact |
| 32. discrimination |
| 33. disability |
| 34. decentralization |
| 35. commission |
| 36. coaching |
| 37. centralization |
| 38. buyer |
| 39. bonus |

