Module 1: Business Management and Strategy

11% PHR
30% SPHR

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Thriving in a VUCA World

Management

Awareness
Discipline

Strategy

Direction
Growth
<table>
<thead>
<tr>
<th>Participate in creating organization’s strategy.</th>
<th>Align HR business plan with strategic plan.</th>
<th>Support other functions’ strategic roles.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Identify implications of strategy across functions.</td>
<td></td>
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<tr>
<td>• Apply understanding of external forces.</td>
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<tr>
<td>• Define workforce planning and management needs.</td>
<td>• Use technology to expand capabilities and provide data; revise hiring goals; adjust compensation systems.</td>
<td>• Assist in building and acquiring talent.</td>
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<tr>
<td></td>
<td></td>
<td>• Support succession planning and mentoring.</td>
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</tbody>
</table>
HR’s Nonstrategic Role in 20th Century

- Finance/accounting
- Sales/marketing
- Research and development
- Operations
- Information systems
HR’s Strategic Integrated Role

- Finance/accounting
- Sales/marketing
- HR
- Research and development
- Operations
- Information systems

Senior management

Administrative
- Operational
- Strategic
Changes in the HR Profession

• Workforce/workplace changes
• Globalization
• Ethics
• Flexible organizational boundaries
• Increased accountability
Key Trend: Offshoring

- **Home-country HR challenges**
  - Displaced workers
  - Changes in work requirements
  - Decline in employee morale
  - Impacts on available skills in domestic job pool

- **Host-country HR challenges**
  - Recruiting, managing, and motivating the new workforce
  - Ensuring communication and coordination
  - Acculturation of new workforce
1. Identify issues, form and train teams, and prepare for change.
2. Investigate structural, technological, financial, legal, and cultural risks.
3. Develop plans to address key issues.
4. Measure activity of new organization against benchmarks.
Management Functions

Planning
- Forecast
- Set goals

Organizing
- Design
- Assist

Directing
- Schedule
- Implement

Controlling
- Measure
Project Management Steps

PM Roles

Interpersonal
- Leader
- Liaison

Informational
- Communicator
- Information disseminator

Decisional
- Conflict resolver
- Resource allocator

Define problem and gain support.

Plan project.

Implement project plan.

Monitor, control, and adapt.

Evaluate outcomes.

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Business Case

- Problem statement
- Objectives
- Potential solutions
- Project timeline
- Project metrics
- Business Case

Essential tool when competing for limited organizational resources
Project Planning Tool: Gantt Chart

- Also known as horizontal bar chart, milestone chart, or activity chart.
- Plots the sequential steps of a project against time.

<table>
<thead>
<tr>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td>Development of RFP for new medical insurance plan</td>
<td></td>
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<tr>
<td>Identification of possible providers</td>
<td></td>
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<tr>
<td>Issuance of RFP</td>
<td></td>
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<tr>
<td>Evaluation of proposals</td>
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<td></td>
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<tr>
<td>Company presentations</td>
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<tr>
<td>Selection</td>
<td></td>
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</tr>
<tr>
<td>Development of plan</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Presentation of new plan to employees</td>
<td></td>
<td></td>
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</tbody>
</table>
Project Planning Tool: PERT Chart

- Arrow diagram or road map identifying all major events
- Shows how much time is needed to complete a project.

Legend:
- Event
- Activity
- Critical path

Numbers = Weeks
Change Management Models

Create awareness of need for change.

Create vision.

Facilitate change.

Motivate employees.

Incorporate change into culture and structures.

Common themes in change management models
A company must immediately downsize its workforce by 15% due to shrinking markets. What important role will HR play during the process?

A. Form new work teams based on the gaps created by the layoffs.
B. Summarize industry trends and communicate them to employees.
C. Ensure that top management regularly communicates with employees.
D. Launch a new quality initiative to preserve customer satisfaction.

Answer: C
Strategies for Vendor Selection

- Define appropriate relationship.
- Choose goals.
- Identify and manage risks.
- Build metrics and rewards into service-level agreement.

What do we stand to gain or lose?

Do we want a partner or vendor?

Should we include performance-based incentives?
The Outsourcing Process

1. Analyze needs and define goals.
2. Define budget.
3. Create RFP.
4. Send RFPs to vendors.
5. Evaluate vendor proposals.
6. Choose vendor.
7. Negotiate contract.
8. Implement and monitor.
9. Evaluate.
Managing Technology Trends

- Business integration (BPI, CRM, ERM)
- Collaboration and information sharing
- E-discovery
- Social media
- Mobility and security
- Sustainability
Strategic Planning Process

- Defines where the organization is now, where it wants to be, and how it will get there.
- Gathers internal and external information.
- Develops alternative strategies.
- Selects appropriate strategies.
- Implements a plan.
- Evaluates and revises the plan as needed.
Phase 1: Strategy Formulation

HR must understand:

- How the organization generates value.
- How and when to communicate the mission.
- How values connect to policies and processes.

<table>
<thead>
<tr>
<th>Strategy Formulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Develop vision and mission statements.</td>
</tr>
<tr>
<td>• Define organizational values.</td>
</tr>
</tbody>
</table>
Phase 2: Strategy Development

Strategy Development

- Conduct a SWOT analysis, including an environmental scan.
- Establish long-term objectives (three to five years).
- Identify strategies.

S = Internal strengths
W = Internal weaknesses
O = External opportunities
T = External threats
## Phase 3: Strategy Implementation

### Strategy Implementation

| • Establish short-term objectives (six months to a year). |
| • Develop action plans. |
| • Allocate resources. |
| • Motivate employees. |

### Resources needed to achieve objectives:

- Financial
- Physical
- Human
- Technological
Phase 4: Strategy Evaluation

**Strategy Evaluation**

- Review strategies.
- Measure performance.
- Take corrective action.

- Assess strategies by noting changes in:
  - Internal strengths and weaknesses.
  - External opportunities and threats.

- Take corrective action when changes have occurred.
Align HR Function with Strategic Plan

- Serve the organization and its functions, not just HR.
- Position HR as expert in workforce planning.
- Create and maintain a motivated, participative workforce.
- Understand every function’s role and processes.

Strategic Plan

- Build partnerships across the organization and relationships inside and outside the organization.
- Learn about your industry.
- Support ideas with facts and data.
- Help the organization measure its strategic success.
Understanding the Internal Environment

- Understand the perspective of your business partners.
- Create communication and collaboration.
- Identify internal needs and emerging issues.
Finance and Accounting

Goals of finance and accounting functions:

• Comply with all laws and regulations.
• Provide information to decision makers and stakeholders.
• Provide financial control.
• Ensure efficient use of organization’s financial resources.
Summarizes the firm’s financial position at one point in time.

- Basic form of the sheet is:
  \[ \text{Assets} = \text{Liabilities} + \text{Equity}. \]
- Every financial transaction is an exchange, and both sides are recorded.
- Only records transactions measured in money.

Employees constitute human capital, but, in accounting terms, “people” are not “assets.”
## Balance Sheet

### Assets

- Current assets (easily liquidated/converted): $310,000
- Fixed assets (intended to be held long-term): $50,000
- Accounts receivable: $20,000
- Investments: $20,000

**Total assets:** $400,000

### Liabilities and Equity

- Accounts payable: $45,000
- Debt (short- and long-term): $100,000
- Equity: $255,000

**Total liabilities and equity:** $400,000
Income Statement

Compares revenues, expenses, and profits over a specified period of time.

• Basic form of the statement is:  
  \[ \text{Revenues} - \text{Expenses} = \text{Net income}. \]

• Some expenses are never cash outflows (depreciation).

• Some expenses may be paid partly in one period and partly in another (cost of goods sold).

• Owner withdrawals are distributions, not operating expenses.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross sales (revenues)</td>
<td>$360,000</td>
</tr>
<tr>
<td>Less cost of goods sold</td>
<td>$240,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>$120,000</td>
</tr>
<tr>
<td>Less expenses:</td>
<td>$50,000</td>
</tr>
<tr>
<td>Salaries</td>
<td>$20,000</td>
</tr>
<tr>
<td>Rent</td>
<td>$18,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>$7,200</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$1,800</td>
</tr>
<tr>
<td>Interest</td>
<td>$3,000</td>
</tr>
<tr>
<td>Subtotal of expenses</td>
<td>$50,000</td>
</tr>
<tr>
<td>Income less expenses</td>
<td>$70,000</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>$28,000</td>
</tr>
<tr>
<td>Net income</td>
<td>$42,000</td>
</tr>
</tbody>
</table>
Cash Flow Statement

Shows how money is flowing into and out of the organization over a defined time period.

- Uses financial data from balance sheet and income statement and changes in values from previous period.
- Important indicator of organizational health for investors.
## Cash Flow Statement

<table>
<thead>
<tr>
<th></th>
<th>Year 1 (thousands)</th>
<th>Year 2 (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash flow from operating activities</td>
<td>$22,300</td>
<td>$11,700</td>
</tr>
<tr>
<td>Net cash flow from investments</td>
<td>($10,000)</td>
<td>($10,000)</td>
</tr>
<tr>
<td>Net cash flow from financing activities</td>
<td>($8,000)</td>
<td>($8,000)</td>
</tr>
<tr>
<td>Cash flow</td>
<td>$4,300</td>
<td>($6300)</td>
</tr>
<tr>
<td>Beginning cash balance</td>
<td>$129,600</td>
<td>$133,900</td>
</tr>
<tr>
<td>Ending cash balance</td>
<td>$133,900</td>
<td>$127,600</td>
</tr>
</tbody>
</table>

Items in parentheses represent cash amounts flowing OUT of the organization; other amounts represent cash flowing INTO the organization.
A company has $10,000,000 in gross sales, $500,000 in returned or discounted product, and $7,000,000 in cost of goods sold. What is its gross profit margin?

A. 30%
B. 26%
C. 18%
D. 10%

Answer: B
Budgeting Methods

**Incremental**
- Prior budget and newly identified needs are the basis for funding.

**Formula**
- Usually stated as a percentage of increase or decrease to general funding.

**Zero-based**
- All objectives and operations are ranked and funds are allocated according to rank.
- Budgets start at zero; all expenditures must be justified.
Marketing and Sales

**Marketing:**
Plan, price, promote, and distribute goods and services.

**Sales:**
Sell the organization's product to the marketplace.
The role of R&D is to fill an organization’s pipeline of products/services.

R&D requires:
• Awareness of latest knowledge and technology.
• Creativity and excellent problem solving.
• Team focus and skills.
• Flexibility and pragmatism.
Operations

Key concepts

- Goal: To provide goods and services to customers.
- Focuses on productivity, quality, cost, delivery, and performance.
- Affected by supply chain management.
A company commits to answering all phone calls within 15 seconds. Which operational concept deals with observing and documenting actual results?

A. Capacity
B. Inventory
C. Scheduling
D. Control

Answer: D
Information Technology

Strategic information systems
Achieve competitive edge.

Operational information systems
Decrease costs and/or increase productivity.

IT
Support HR processes.

HR
Analyze implications of new technology.
# Evolution of Organizations

<table>
<thead>
<tr>
<th>HR Focus: Staffing</th>
<th>Staffing and training</th>
<th>Compensation, HR planning, training</th>
<th>Change management, outplacement, cross-training</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Challenge:</strong> Leadership</td>
<td><strong>Challenge:</strong> Delegation</td>
<td><strong>Need:</strong> Formal systems</td>
<td><strong>Challenge:</strong> Change resistance</td>
</tr>
<tr>
<td><strong>Need:</strong> Creativity</td>
<td><strong>Need:</strong> Clear direction</td>
<td><strong>Challenge:</strong> Bureaucracy</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Introduction</th>
<th>Growth</th>
<th>Maturity</th>
<th>Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Need:</strong> Creativity</td>
<td><strong>Need:</strong> Clear direction</td>
<td><strong>Need:</strong> Formal systems</td>
<td><strong>Need:</strong> Streamlined decision making, Flexibility, Small-company thinking</td>
</tr>
<tr>
<td><strong>Challenge:</strong> Leadership</td>
<td></td>
<td></td>
<td><strong>Challenge:</strong> Change resistance</td>
</tr>
</tbody>
</table>
Cost Leadership Strategy

Goal: To be the low-cost producer.

• Requires:
  – Exploitation of all sources of cost advantage.
  – Efficiency and productivity.
  – Sharing of information.
  – Centralized decision making.
  – Cross-training and job rotation.
  – Process improvements.
Differentiation Strategy

Goal: To attempt to set the product apart from its competition by giving it unique characteristics for which customers will pay a premium price.

• Requires:
  – Reduced costs in areas not related to differentiation.
  – Strong research and development and marketing.
  – Product knowledge and quality training.
  – Decentralized decision making for quicker speed to market.
### Other Strategy Theories

<table>
<thead>
<tr>
<th>Strategy Theory</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus</td>
<td>• Focus on particular buyer group, segment, or geographical market.</td>
</tr>
<tr>
<td>Operational excellence</td>
<td>• Optimize processes for maximum efficiency and cost-effectiveness.</td>
</tr>
<tr>
<td>Product leadership</td>
<td>• Develop reputation for being on cutting edge.</td>
</tr>
<tr>
<td>Customer intimacy</td>
<td>• Focus on understanding and fulfilling customer needs.</td>
</tr>
<tr>
<td>Blue ocean</td>
<td>• Find new markets without established competition.</td>
</tr>
<tr>
<td>Human capital advantage</td>
<td>• Develop expert and empowered employees.</td>
</tr>
</tbody>
</table>
Specialization and Departmentalization

- **Specialization**: Degree to which processes are divided into tasks and grouped into jobs
  - Balances need for productivity with employee satisfaction
- **Departmentalization**: The way an organization groups jobs so work can be coordinated
  - Functional, divisional, or matrix
Functional Structure

NexStage President

- HR
- Operations
- IT
- Accounting
- Marketing
Authority and Reporting Issues

Chain of command

- Line of authority within an organization
- Defines the boundaries within which a manager can make decisions

Span of control

- Number of individuals who report to a supervisor
  - Narrow span ("tall" organization)
  - Wide span ("flat" organization)
Centralization and Decentralization

Centralization
Authority resides with upper management.

Decentralization
Authority is shared with lower levels.

Decision making

Formalization: Degree of discretion individuals have over how to perform their work.
Environmental Scanning

- Identify external opportunities and threats and their effect on strategy.
- Examines seven key factors.
Demographic Factors

- Age
- Generational differences
- Geographic shifts
- Ethnicity
- Gender
- Unskilled labor
- Nontraditional labor force

Organization
Employment Factors

<table>
<thead>
<tr>
<th>Attitudes toward careers</th>
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</thead>
<tbody>
<tr>
<td>Immigration</td>
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<tr>
<td>Occupational and industry shifts</td>
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<tr>
<td>Recruitment</td>
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<tr>
<td>Unions</td>
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<tr>
<td>Unemployment</td>
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<tr>
<td>Turnover</td>
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<tr>
<td>Relocation</td>
</tr>
</tbody>
</table>
International Factors

- Global economy
- Wage comparisons
- Trade agreements
- International labor law
### Other Factors

#### Political
- Legislation and regulatory guidelines

#### Social
- Changing definition of families
- Education
- Strain on health-care systems
- Diversity

#### Technology
- Advances
- Skills
- “Digital divide”
- Process changes
What best illustrates the external force of politics on an organization?

A. Older employees decide to postpone retirement.
B. Applicants expect domestic partner benefits.
C. Employment visas for skilled workers are delayed due to additional screening requirements.
D. An increasing percentage of the organization’s employees are non-native speakers.

Answer: C
Cost-Benefit Analysis

• Compares value received from an action to its cost.
• Can include tangible and intangible factors, but all must be monetized.
• Presents data as a ratio.

Cost-benefit ratio = \( \frac{\text{Value of projected or received benefits}}{\text{Cost}} \)
ROI

• Demonstrates efficiency with which resources are used.
• “Hurdle rate” is minimum ROI organization requires from project investments.
• Presents data as a percentage.

\[
\text{ROI} = \frac{\text{Value received from investment} \times \text{Cost of investment}}{\text{Cost of investment}} \times 100
\]
Break-Even Analysis

Determines the point in time at which total revenue associated with a program is equal to the total cost of the program.

Break-even point = \( \frac{\text{Cost}}{\text{Savings}} \times \text{Time} \)

* Time = The period of time most relevant to the analysis.
HR is launching a company-wide training initiative. How can HR determine when the anticipated revenue return will exceed the cost of developing the program?

A. Calculate gross margin.
B. Calculate return on investment.
C. Conduct a cost-benefit analysis.
D. Conduct a break-even analysis.

Answer: D
Balanced Scorecard

- Aligns business function measures with organizational strategies.
- Measures the effectiveness of a department or the entire company.
- Considers perspective of all stakeholders.
For a balanced scorecard system to be implemented effectively, it should

A. be introduced simultaneously to all divisions and departments.
B. start at the bottom of the organization and work its way to the top.
C. focus on specific measures that support business strategies.
D. concentrate on tracking and reporting financial results.

Answer: C
Audits

☑ Use objective criteria to assess “system” performance.
☑ Systems can include functions but also processes (e.g., hiring process).
☑ HR audits measure program effectiveness and policy/process compliance and suggest fixes.
☑ Conducted by HR staff or a third-party contractor.

Organizations are well advised to act promptly and thoroughly on audit findings and recommendations.
<table>
<thead>
<tr>
<th>Organization’s most important issues (e.g., dollar sales per employee)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human capital ROI</td>
</tr>
<tr>
<td>Turnover cost</td>
</tr>
<tr>
<td>Compensation as a percentage of operating expense</td>
</tr>
<tr>
<td>Training investment factor</td>
</tr>
<tr>
<td>Time to start</td>
</tr>
<tr>
<td>Cost per hire</td>
</tr>
</tbody>
</table>
Primary and Secondary Research

<table>
<thead>
<tr>
<th>Primary (data gathered firsthand)</th>
<th>Secondary (data gathered by others)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiments</td>
<td>Historical data</td>
</tr>
<tr>
<td>Pilot projects</td>
<td>Benchmarking and best-practices reports</td>
</tr>
<tr>
<td>Surveys/questionnaires</td>
<td>Purchased data</td>
</tr>
<tr>
<td>Interviews</td>
<td>Professional publications</td>
</tr>
<tr>
<td>Focus groups</td>
<td>Secondhand reports</td>
</tr>
<tr>
<td>Direct observation</td>
<td></td>
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<tr>
<td>Testing</td>
<td></td>
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</tbody>
</table>
Quantitative v. Qualitative Research

Quantitative

- Collects and analyzes numerical data in a descriptive or inferential manner.
- Uses: Describe groups, compare results, identify trends or commonalities.
- Examples: Charts and graphs, statistical measures, regression analysis.

Qualitative

- Collects attitudes, opinions, and feelings.
- Uses: Identify strengths and weaknesses, generate ideas, determine preferences.
- Examples: Focus groups, in-depth interviews, questionnaires.
Descriptive Statistics: Measures of Central Tendency

Mean = Average = 10.33
Median = Point above and below which 50% of scores lie = 12
Mode = Most frequently occurring score = 12

15 scores for a total of 155 points
Given the following data, what is the mode?

2 3 3 4 5 5 5 6 6

A. 3  
B. 4  
C. 5  
D. 6  

Answer: C
• Provide an indicator of variation around central tendency values.
  – Range: Distance between highest and lowest scores.
  – Percentile: Specific point that has a given percentage of cases below it.
  – Standard deviation: How much scores are spread out around a mean.
Descriptive Statistics: Measures of Association—Correlation

Shows the relationship between two variables.

-1.00 0.00 1.00

Negative Relationship: As the value of one variable increases, the other decreases.

Example: The higher one's satisfaction, the lower his or her intention to quit.

No Relationship: As the value of one variable increases, so does the other.

Positive Relationship: As the value of one variable increases, the higher his or her intention to remain with the organization.

Example: The higher one's satisfaction, the higher his or her intention to remain with the organization.
Descriptive Statistics: Measures of Association—Regression

• Refers to a statistical method used to predict a variable from one or more predictor variables.

• Determines:
  — Whether a relationship exists between variables and
  — The strength of the relationship.

• Causal relationship exists when two variables are related in some way.
Inferential Statistics

• Form a conclusion by studying a sample of the population.
  – Population: Entire group (all employees).
  – Sample: Part of the population (20 random employees).
  – Normal distribution: Expected distribution given a random sampling of a large population.
Qualitative Analysis: Interviews

Benefits
- Yield insightful information.
- Provide opinions and reactions to events.
- Allow for personal connection to interviewee.
- Are flexible.

Cautions
- Interviewer’s nonverbals can influence responses.
- Interviewers should be careful not to ask leading questions.
- Interviewees may answer with what they think is “right.”
Qualitative Analysis: Surveys and Questionnaires

Benefits
• Ensure interviewee anonymity.
• Are efficient.
• Standardize data collection.

Cautions
• Less flexible than interviews.
• Can produce low response rate, which yields little data and impairs analysis.
Reliability

- Ability of an instrument to measure consistently.
- Parallel form method compares results of similar tests administered to same group at two times.
- Here Test A shows less variability and is therefore considered more reliable.

<table>
<thead>
<tr>
<th>Candidate</th>
<th>Test A</th>
<th>Test B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First test</td>
<td>Retest</td>
</tr>
<tr>
<td>1</td>
<td>90</td>
<td>92</td>
</tr>
<tr>
<td>2</td>
<td>89</td>
<td>90</td>
</tr>
<tr>
<td>3</td>
<td>92</td>
<td>94</td>
</tr>
</tbody>
</table>
Validity

• Ability of an instrument to measure what it is intended to measure.
• Answers the questions:
  – What does the instrument measure?
  – How well does the instrument measure it?

A reliable instrument is not always valid.
A valid instrument is always reliable.
Ethics

A system of moral principles and values that establish appropriate conduct.

Ethics is not synonymous with legality.

HR assumes a key role in creating an ethical organization by:

• Participating in the creation of an ethics policy.
• Determining supportive procedures and training.
• Creating a culture that values ethics.
• Conducting investigations and applying discipline.
Which of the following would NOT be an ethical violation for an HR manager?

A. Recommending a qualified friend for an open position
B. Telling a friend in private that layoffs will occur
C. Having ownership in an outside firm under contract to the organization
D. Allowing surveillance of locker room areas

Answer: A
Ethical Issues

- Workplace privacy
- Workplace violence
- Conflict of interest
- Diversity
- Copyrights
- Corporate social responsibility

Privacy laws and regulations

OSH Act

Dodd-Frank

Copyright Act
Ethical Issues

- Transparency
- Board of directors’ training
- Whistleblowing
- Bribes, payoffs, and kickbacks
- Insider trading
Legislative and Regulatory Environment

• Laws are actions passed by Congress and state legislatures.

• Regulations reflect how laws will be implemented and often have the force of law.
  – Regulatory agencies may issue guidelines that interpret how regulations will be enforced.
A bill is introduced separately in House and Senate versions. Differences are significant. What happens next?

A. After 30 days, if differences persist, both bills die.
B. After each body passes its version, differences are resolved through the rule-making process.
C. The Senate version prevails and is forwarded to the president.
D. Both bills are directed to a joint conference committee.

Answer: D
The public may comment via public hearings, conversation, e-mail, or letter for a specified time period.