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WITH STEPHEN TAYLOR**

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15TH EDITION

# **ARMSTRONG'S HANDBOOK OF HUMAN RESOURCE MANAGEMENT PRACTICE**



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# PREFACE TO THE 15TH EDITION

This 15th edition of the *Handbook of Human Resource Management Practice* includes new chapters on the context of HRM, the HRM role of line managers, evidence-based HRM, e-HRM, performance management, and the gender pay gap. The handbook has been brought up to date by reference to the findings of a number of significant research projects and other investigations of how HRM operates in practice.

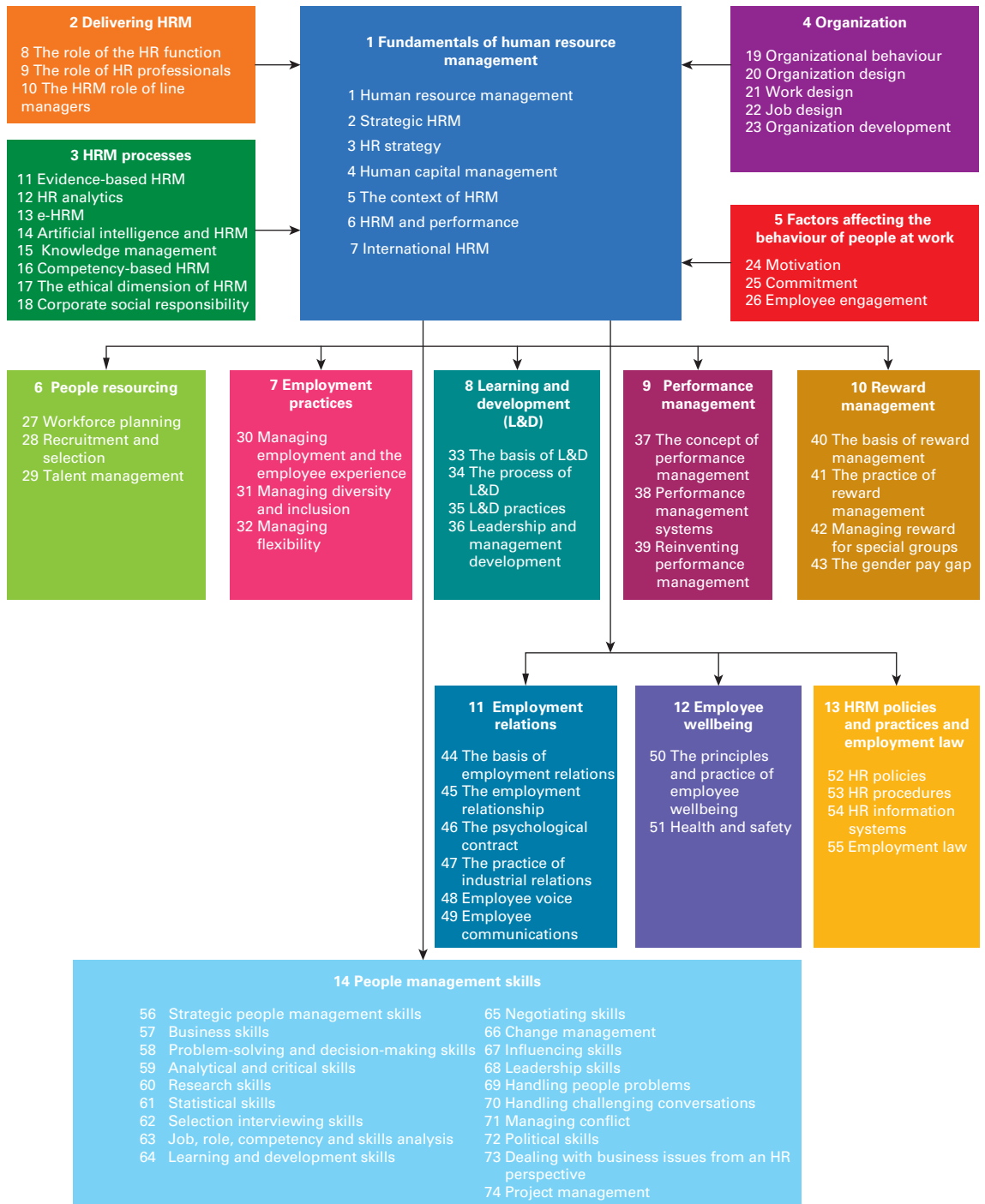
The plan of the book is illustrated in the ‘route map’ shown in Figure 0.1. The logic of the sequence of 14 parts is as follows. Part I contains a conceptual framework for the rest of the handbook by providing a general introduction to the concept of human resource management (HRM) and the associated concepts of strategic HRM and human capital management. The context in which HRM operates, the contribution HRM makes to performance and international HRM are also dealt with in this part. Part II describes how HRM strategies, policies and practices are delivered through the HR function and line managers. Part III deals with the HRM processes that affect the whole organization, namely evidence-based HRM, HR analytics, e-HRM, the growing use of artificial intelligence (AI), knowledge management, competency-based HRM, the ethical dimension of HRM and corporate social responsibility. Following the initial framework provided by parts I to III, Parts IV and V act together as a bridge between the general considerations dealt with in the previous three parts and the specific areas of HRM covered in parts VI to XIII. The aim of parts IV and V is to explain the basis of organizational and individual behaviour to inform how the different aspects of HRM practice should be managed and the approaches that can be used to develop the organization and design the work and jobs that enable it to function. The last part of the book is devoted to describing the main skills that HR professionals have to use.

The appendix provides cross-references to the core and specialist knowledge requirements set out in the CIPD New Profession Map 2018. The

references in the appendix are to chapters. Page references can be located in the subject index.

The companion website at [www.koganpage.com/ArmstrongHRMPractice](http://www.koganpage.com/ArmstrongHRMPractice) provides extensive additional resources for lecturers and students. These comprise:

- A lecturer’s manual containing notes on how teaching could be organized by reference to the chapters in the main text and the supplementary material in the manual. Suggestions are made on various kinds of semesters and guidance is provided on the links between the handbook text and CIPD core and specialist knowledge requirements. The manual includes sections for each chapter containing a summary of the main learning points, an outline of the subject matter, discussion points and questions with comments on the points to be considered. In many chapters there are multiple choice questions, case studies and role-playing exercises. Most of the chapters contain supplementary abstracts from relevant HRM.
- Additional material is provided for lecturers in the shape of PowerPoint slides with notes covering all the chapters.
- A student’s manual consisting of material, which can be used to reinforce the contents of the main book. Summaries of each chapter are provided and in addition most of the chapters include supplementary abstracts from relevant HRM literature to assist in revision, the extra material includes multiple choice questions and ‘flash’ cards containing questions and answers about key aspects of the subject matter. There are also a number of case studies.
- A glossary of HRM terms.
- An HRM bibliography.

**FIGURE 0.1** Handbook route map



# PART I

# Fundamentals of human resource management

## PART I CONTENTS

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- 01** Human resource management
- 02** Strategic HRM
- 03** HR strategy
- 04** Human capital management
- 05** The context of HRM
- 06** HRM and performance
- 07** International HRM

## Introduction

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*HRM is about the management of people in order to achieve desired results.*

The first chapter in this part of the handbook covers the conceptual basis of human resource management, including the various HRM models and the characteristics of an HR system. It also examines

the case for a different approach to HRM through people management. The second chapter deals with the nature of strategic HRM. This is followed by a chapter on HR strategy that describes how the strategic HRM concept functions in practice. The following chapters deal with the associated concept of human capital management, the importance of the context in which HRM takes place, the ways in which HRM affects performance and the practice of international HRM.

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# 01 Human resource management

## Introduction

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Human resource management (HRM) is about how people are employed, managed and developed in organizations. HRM is delivered by means of the HR system, which operates within the framework provided by the HR architecture.

The term ‘human resources’ is controversial. Osterby and Coster (1992: 31) argued that it ‘reduces people to the same category of value as materials, money and technology – all resources, and resources are only valuable to the extent they can be exploited or leveraged into economic value.’ There has therefore been a move to replace ‘human resources’ with ‘people management’ and a proposal on what the latter could mean is made at the end of this chapter. But HRM is still the most commonly used term.

### Words of wisdom

Many texts and dictionaries mistakenly define ‘human resources’ as the people employed in an organization, a notion that obscures the meaning of human resources and that critics see as impugning the dignity and denying the independence of human agents. Human resources are more accurately understood as the resources that are intrinsic to human beings, which they can apply to the various tasks of life.

Boxall (2013: 4)

### Pause for thought

What do you think of the term human resources?

The chapter starts with a general discussion of the meaning of HRM and the issues involved in its practice, and continues with analyses of the meaning and development of HRM and reviews of HRM philosophy, goals and standards. The various models of HRM and its underpinning theories are then considered. The concept of HRM has sometimes been controversial and different perspectives about what it stands for and what it means are then examined. Next, the chapter contains a description of how an HR system within the framework of the HR architecture delivers HRM. It concludes with a discussion of the present state of HRM and its future in the form of a philosophy of people management.

## HRM: meaning and issues

---

It is possible to produce a definition of HRM as set out below. But it is necessary to look more deeply into the meaning of HRM. This involves considering the issues concerned with the tension that can exist between the fundamental requirement on the one hand to help the organization to achieve its aims as a business or a public or voluntary sector body, and the need on the other hand to respect and promote the interests of the people working in the organization.



## HRM defined

HRM was defined by Boxall and Purcell (2003: 1) as ‘all those activities associated with the management of employment relationships in the firm’. Boxall (2007: 13) noted that: ‘Human resources include the knowledge, skills, networks and energies of people and, underpinning them, their physical and emotional health, intellectual capabilities, personalities and motivations.’

### Words of wisdom

Human resource management (HRM), the management of work and people towards desired ends, is a fundamental activity in any organization in which human beings are employed. It is not something whose existence needs to be radically justified: HRM is an inevitable consequence of starting and growing an organization. While there are myriad variations in the ideologies, styles and managerial resources engaged, HRM happens in some form or other. It is one thing to question the *relative* performance of particular models of HRM... It is quite another thing to question the necessity of the HRM process itself, as if organizations cannot survive or grow without making a reasonable attempt at organizing work and managing people.

Boxall *et al* (2007: 1)

## HRM issues

The following fundamental issue facing HRM was raised by Chamorro-Premuzic.

### Words of wisdom

All organizations have problems, and they nearly always concern people. How to manage them; whom to hire, fire or promote; and how to motivate, develop and retain them.

Chamorro-Premuzic (2017: xiii)

However, HRM is not simply there to solve problems. It can be regarded as a philosophy about the ways in which people are managed at work that is underpinned by a number of theories relating to the behaviour of people and organizations. HRM aims to improve organizational effectiveness through people but it should also be concerned with the ethical dimension – how people should be treated in accordance with a set of moral values. An important point was made by Schneider.

### Words of wisdom

Positive job attitudes for workers in an organization can be expected when the natural inclinations of the persons there are allowed to be reflected in their behaviours by the kinds of processes and structures that have evolved there.

Schneider (1987: 450)

However, as Keegan and Francis (2010: 873) noted, HR work is now ‘largely framed as a business issue’. The emphasis is on business alignment and strategic fit. These are important requirements but focusing on them can lead HR professionals to place insufficient emphasis on employee wellbeing when developing HR policy and practice.

A simplistic view of the business imperative – the often-expressed belief that the most important

thing HR professionals should know about is ‘how the business makes money’ – permits little room for considering the rights and needs of employees as well as the other stakeholders. HRM should indeed aim to support the achievement of business goals but it should also aim to build relationships with the people employed in the organization based on fair dealing, trust, openness and personal fulfilment. A basis for doing this is provided by the concept of the employee experience as discussed in Chapter 30.

### Words of wisdom

A regime which provides human beings with no deep reason to care about one another cannot long preserve its legitimacy.

Sennett (1998: 1)

### Pause for thought

Is there an inevitable tension between the need for HRM to further the business success of the organization and the need to be concerned with the wellbeing of the people working in the organization? If there is, how can it be resolved?

## The development of the HRM concept

HRM emerged in the 1980s as a philosophy of how people should be managed and an alternative to traditional forms of personnel management. At the time there were questions about whether or not there was a significant difference between them. An answer to this was provided at that time by the writer as follows:

### Source review

HRM is regarded by some managers as just a set of initials or new wine in old bottles. It could indeed be no more and no less than another name for personnel management, but as usually perceived, at least it has the virtue of emphasizing the virtue of treating people as a key resource, the management of which is the direct concern of top management as part of the strategic planning processes of the enterprise. Although there is nothing new in the idea, insufficient attention has been paid to it in many organizations. The new bottle or label can help to overcome this deficiency.

Armstrong (1987: 35)

As Hendry and Pettigrew (1990: 18) observed: HRM was ‘heavily normative from the start: it provided a diagnosis and proposed solutions’. They also stated that: ‘What HRM did at this point was to wrap around some of the observable changes, while providing a focus for challenging deficiencies – in attitudes, scope, coherence and direction – of existing personnel management’ (ibid: 20).

Torrington and Hall (1991) suggested that personnel management was *workforce centred* and therefore directed itself to employees, while HRM is *resource centred* and concerns itself with the overall human resource need of the organization.

The ‘founding fathers’ of HRM were the US academics Michael Beer and his colleagues in the ‘Harvard framework’, and Charles Fombrun and his colleagues in the ‘Michigan framework’ or ‘matching model’ as described later in this chapter.

In the UK they were followed by a number of commentators who developed, explained and frequently criticized the concept. Legge (2005: 101) commented that: ‘The term [HRM] was taken up by both UK managers (for example, Armstrong, 1987; Fowler, 1987) and UK academics.’

As first conceived, HRM had a conceptual framework consisting of a philosophy underpinned by a number of theories drawn from the behavioural sciences and from the fields of strategic management, human capital management and industrial relations. As defined by Storey (2001: 7), this philosophy consisted of the assumptions ‘that it is the human resource which gives competitive edge,

that the aim should be to enhance employee commitment, that HRM decisions are of strategic importance and that therefore HRM policies should be integrated into the business strategy.' With its emphasis on strategy, commitment, the rights of stakeholders and the need to regard employees as assets not costs, HRM was a groundbreaking departure from traditional personnel management. Referring to strategic HRM (SHRM), Lengnick-Hall *et al* (2009: 69) observed that: 'This shift signalled a dramatic change in the role and influences of human resource professionals and adjusted the lens used to capture the expectations of human resource activities within organizations. SHRM argues that more than mechanical, administrative contributions are expected from HR professionals.'

### Words of wisdom

HR derives its social legitimacy from its ability to serve as an effective steward of a social contract in employment relationships capable of balancing and integrating the interests and needs of employers, employees and the society in which these relationships are embedded.

Kochan (2007: 600)

The development of the HRM concept involved the evolution of notions about HRM philosophy and the goals of HRM. It had a strong base in behavioural science theory and was expressed in a variety of models.

## HRM philosophy

Schuler (1992: 21) suggested that an HR philosophy is 'a statement of how the organization regards its human resources, what role the resources play in the overall success of the business and how they are to be treated and managed.' HRM philosophies have also been described as 'the guiding principles that identify and characterize the value and treatment of employees covered within a particular

HRM system' (Kepes and Delery, 2007: 390). This notion of 'guiding principles' echoes Becker and Gerhart (1996: 786), who pointed out that it is at this level within the HR system that effects are 'generalizable or universal'. The impact of HR philosophy was confirmed by Godard and Delaney (2000), who found that the value placed on human capital by those in decision-making positions within organizations affects the types of HR systems that are chosen and how they are used. Boxall and Macky (2009: 7) take the importance of the role of HR philosophy in HR system design a stage further by suggesting that 'we get closer to describing HR systems in meaningful terms when we identify the principal themes that underpin them: in other words, when we describe the major philosophies that management is trying to pursue.' Lepak *et al* (2006: 241), following their research in 402 establishments in the United States, revealed the importance of HR philosophy in determining how high-investment human resource systems were fashioned for both core and support employees.

The following explanation of the common themes in HRM philosophies was made by Karen Legge – a major contributor to thinking about HRM in its earlier days – on the basis of an analysis of a number of HRM models.

### Words of wisdom

That human resource policies should be integrated with strategic business planning and used to reinforce an appropriate (or change an inappropriate) organizational culture, that human resources are valuable and a source of competitive advantage, that they may be tapped most effectively by mutually consistent policies that promote commitment and which, as a consequence, foster a willingness in employees to act flexibly in the interests of the 'adaptive organization's' pursuit of excellence.

Legge (1989: 25)

Another major British commentator – John Storey – produced this description of the beliefs of HRM:

### Source review

The beliefs of HRM include the assumptions that it is the human resource which gives competitive edge, that the aim should be to enhance employee commitment, that HR decisions are of strategic importance and that therefore HR policies should be integrated into the business strategy.

Storey (2001: 7)

## The goals of HRM

Taking into account these beliefs, the goals of HRM can be defined as being to:

- support the organization in achieving its objectives by developing and implementing human resource (HR) strategies which are integrated with the business strategy (strategic HRM);
- contribute to the development of a high-performance culture;
- ensure that the organization has the talented, skilled, and engaged people it needs;
- maintain a positive employment relationship between management and employees, bearing in mind that employees must feel trusted, valued and appreciated if they are to work effectively and efficiently over time;
- provide for a satisfactory employee experience;
- further the wellbeing of employees as major stakeholders;
- achieve social legitimacy (defined by Dowling and Pfeffer (1975: 122) as ‘the congruence between the values associated with the organization and the values of its environment’) by ensuring the rightfulness of

the way in which management treats its stakeholders and by applying an ethical approach to people management.

Note that the goals include both high performance and employee wellbeing.

### Pause for thought

Why is it important for organizations to achieve social legitimacy? How can it be done?

### Words of wisdom

The potential to pursue the dual goals of high organizational performance and high employee wellbeing reflects the promise of HRM.

Guest *et al* (2013: 197)

### Words of wisdom

Meeting employee needs can also improve productivity, innovation and business success.

Brown *et al* (2019: 52)

### Pause for thought

Is it feasible to achieve the goals of both high employee wellbeing *and* high performance? And if so, how can it be done?

But Peter Boxall (2007: 62) referred to the ‘strategic tensions’ between social legitimacy and managerial autonomy.

## HRM standards

The following are the HRM standards produced by the CIPD on the basis of those issued by the British Standards Institution. They provide guidance on good people management practice.

### Source review

- People working on behalf of the organization have intrinsic value, in addition to their protections under the law or in regulation, which needs to be respected.
- Stakeholders and their interests are integral to the best interests of the organization.
- Every organization is part of wider society and has a responsibility to respect its social contract as a corporate citizen and operate in a manner that is sustainable.
- A commitment to valuing people who work on behalf of the organization and to meeting the requirements of the standard is made and supported at the highest level.

CIPD (2018)

## The theoretical base of HRM

The original notion of HRM had a strong theoretical base. Guest (1987: 505) commented that: ‘Human resource management appears to lean heavily on theories of commitment and motivation and other ideas derived from the field of organizational behaviour.’

Dave Ulrich cites the need for HR practice to be guided by HR theory. He reminded HRM professionals that theory helps explain the manner in which outcomes emerge.

### Words of wisdom

To make HR practices more than isolated acts, managers and HR professionals must master the theory behind HR work; they need to be able to explain conceptually how and why HR practices lead to their outcomes... Regardless of the preferred theory, managers and HR professionals should abstract from it a higher level of reasoning for their day-to-day work and thus better explain why their work accomplishes its goals.

Ulrich (1997: 238)

The main theories underpinning HRM are summarized below.

### AMO theory

The ‘AMO’ formula as set out by Boxall and Purcell (2003) states that performance is a function of Ability + Motivation + Opportunity to Perform. The formula provides the basis for developing HR systems that attend to employees’ interests, namely their skill requirements, motivations and the quality of their job.

### Contingency theory

Contingency theory explains that HRM practices are dependent on the organization’s environment and circumstances. This means that, as Paauwe (2004: 36) observed: ‘The relationship between the relevant independent variables (eg HRM policies and practices) and the dependent variable (performance) will vary according to the influences such as company size, age and technology, capital intensity, degree of unionization, industry/sector ownership and location.’

Contingency theory is associated with the notion of fit – the need to achieve congruence between an organization’s HR strategies, policies and practices and its business strategies within the context of its

external and internal environment. This is a key concept in strategic HRM.

### Human capital theory

Human capital theory is concerned with how people in an organization contribute their knowledge, skills and abilities to enhancing organizational capability and with the *significance of that contribution*. It states that the unique nature of human capital resources within the firm has the potential to generate sustainable competitive advantage (Nyberg *et al*, 2014).

### Motivation theory

Motivation theory, especially expectancy theory and goal theory as described in Chapter 24, explains the factors that affect goal-directed behaviour. It therefore influences the approaches used in HRM to enhance engagement, reward people and manage performance.

### The resource-based view

Resource-based theory (Barney, 1991) is often expressed as ‘the resource-based view’ (RBV). It states that competitive advantage is achieved if a firm’s resources are valuable, rare and costly to imitate. HRM can play a major part in ensuring that the firm’s human resources meet these criteria. The RBV is associated with human capital theory.

### Social exchange theory

Social exchange theory suggests that social beings feel obliged to return favours. Feelings of loyalty and commitment and discretionary effort are in some form a social reciprocation by employees to a good employer. Employees will reciprocate their contribution to the organization if they perceive that the organization has treated them well. It is linked with the concept of ‘mutual gains’ (Kochan and Osterman, 1994) which states that organizations can and should pursue employment policies that produce benefits for both employees and themselves.

### Stakeholder theory

Stakeholder theory as developed by Freeman (1984) states that a number of different groups are stakehold-

ers in organizations, including shareholders, managers, employees, customers, government and the public at large. He quoted (page 31) the Stanford Research Institute’s 1963 definition of stakeholders as ‘those groups without whose support the organization would cease to exist’. Organizations must take account of these various interests when formulating and implementing HR strategy and policies (stakeholder analysis is dealt with in Chapter 3).

#### Pause for thought

Which do you think is the most significant of the theories summarized above and why?

## Models of HRM

In addition to having a strong theoretical base, HRM has manifested itself over the years in a number of models that have defined what it is and how it operates. Of these, the first descriptions of HRM – the Michigan and Harvard frameworks – have been the most influential.

### The Michigan framework or ‘matching’ model

Fombrun and his colleagues at the University of Michigan proposed in 1984 the ‘matching model’, which indicated that HR systems and the organization structure should be managed in a way that is congruent with organizational strategy. This point was made in the following classic statement:

#### Words of wisdom

The critical management task is to align the formal structure and human resource systems so that they drive the strategic objectives of the organization.

Fombrun *et al* (1984: 37)

Thus they took the first steps towards the concept of strategic HRM.

## The Harvard framework

Beer *et al* (1984) produced what has become known as the ‘Harvard framework’. They started with the proposition that: ‘Human resource management (HRM) involves all management decisions and actions that affect the nature of the relationship between the organization and employees – its human resources’ (ibid: 1). They believed that HRM had two characteristic features: (1) line managers accept more responsibility for ensuring the alignment of competitive strategy and HR policies, and (2) HR has the mission of setting policies that govern how HR activities are developed and implemented in ways that make them more mutually reinforcing.

The Harvard framework is modelled in Figure 1.1. Note the reference to stakeholder interests and the

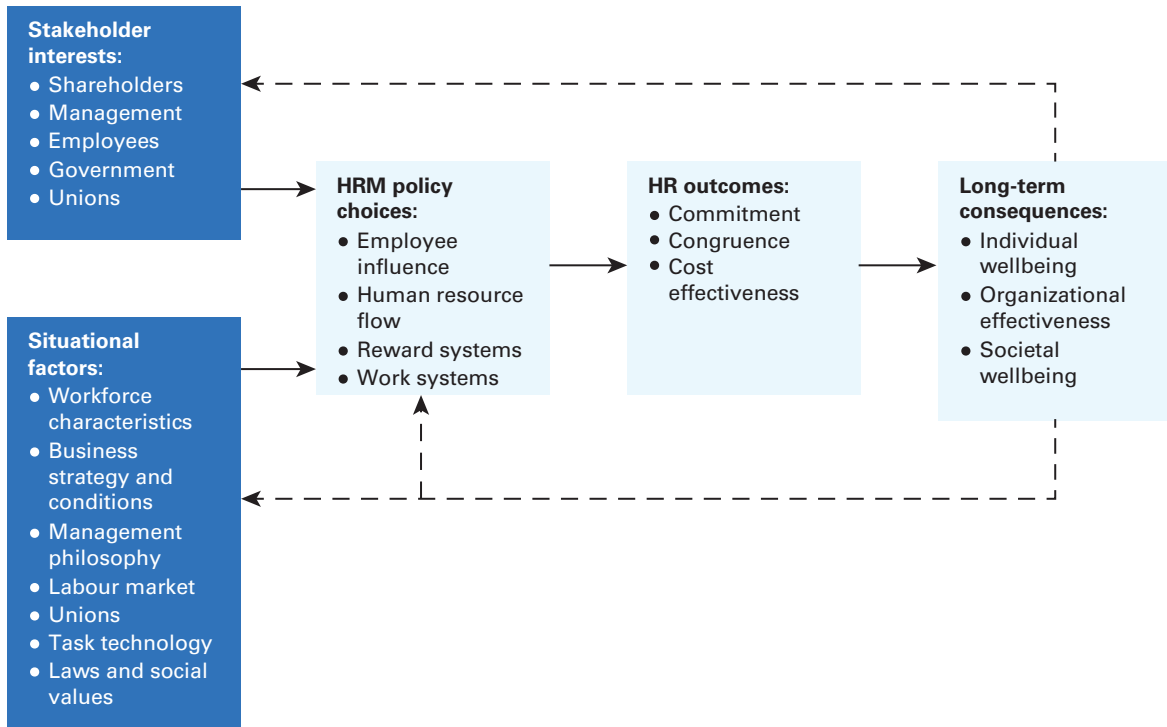
inclusion of employee and societal wellbeing as long-term consequences.

### Words of wisdom

Today... many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organization’s human resources. It is necessary to adopt a longer-term perspective in managing people and consideration of people as a potential asset rather than merely a variable cost.

Beer *et al* (1984: 4)

**FIGURE 1.1** The Harvard HRM framework



Source Beer *et al* (1984)



## Contextual model

The contextual model of HRM refers to the importance of environmental factors affecting the practice of HRM that have been underestimated in other models. These include the influence of the social, institutional and political forces and the circumstances and features of the organization. The contextual model advocates integrating the human resource management system in the environment in which it is developed. As Martin-Alcázar *et al* (2005: 638) mentioned: ‘Context both conditions and is conditioned by the HRM strategy.’ A broader set of stakeholders is involved in the formulation and implementation of human resource strategies. This is referred to by Schuler and Jackson (2000: 229) as a ‘multiple stakeholder framework’. These stakeholders may be external as well as internal and both influence and are influenced by strategic decisions.

## The 5-P model

As formulated by Schuler (1992) the 5-P model of HRM describes the way HRM operates under the five headings of:

- 1 *HR philosophy* – a statement of how the organization regards its human resources, the role they play in the overall success of the business, and how they should be treated and managed.
- 2 *HR policies* – these provide guidelines for action on people-related business issues and for the development of HR programmes and practices based on strategic needs.
- 3 *HR programmes* – these are shaped by HR policies and consist of coordinated HR efforts intended to initiate and manage organizational change efforts prompted by strategic business needs.
- 4 *HR practices* – these are the activities carried out in implementing HR policies and programmes. They include resourcing, learning and development, performance and reward management, employee relations, and administration.
- 5 *HR processes* – these are the formal procedures and methods used to put HR strategic plans and policies into effect.

## European model

Brewster (1993) described a European model of HRM as follows:

- Environment – established legal framework.
- Objectives – organizational objectives and social concern – people as a key resource.
- Focus – cost/benefits and environment analysis.
- Relationship with employees – union and non-union.
- Relationship with line managers – specialist/line liaison.
- Role of HR specialist – specialist managers: ambiguity, tolerance, flexibility.

The main distinction between this model and what Brewster referred to as ‘the prescribed model’ was that the latter involves deregulation (no legal framework), no trade unions and a focus on organizational objectives but not on social concern.

## The hard and soft models

Storey (1989: 8) distinguished between the ‘hard’ and ‘soft’ versions of HRM. He wrote that: ‘The hard one emphasizes the quantitative, calculative and business-strategic aspects of managing human resources in as “rational” a way as for any other economic factor. By contrast, the soft version traces its roots to the human relations school; it emphasizes communication, motivation and leadership.’

However, it was suggested by Keenoy (1997: 838) that ‘hard and soft HRM are complementary rather than mutually exclusive practices’. Research in eight UK organizations by Truss *et al* (1997) indicated that the distinction between hard and soft HRM was not as precise as some commentators have implied.

### Pause for thought

Do you agree that HRM is about being both hard and soft as necessary? But if this is the case how can a consistent approach to HRM be adopted?



## Perspectives on HRM

On the face of it, the original concept of HRM had much to offer, at least to management. But for some time HRM has been a controversial topic in academic circles. Peccei (2004) identified two main perspectives. The first, 'optimistic' one is the idea that HRM can make a positive impact on the well-being of employees.

When management adopts progressive HR policies that provide a more interesting, supportive and rewarding work environment, in accordance with social exchange theory, workers will respond with enhanced levels of engagement with the organization and their work and thus achieve higher levels of performance. Both the organization and its employees will therefore benefit – the concept of 'mutual gains'.

In contrast, the second, 'pessimistic' perspective is that HRM is potentially harmful to employees and leads to the intensification of work and their systematic exploitation. Macky and Boxall (2008) conducted research which showed that work intensification reduces job satisfaction, increases stress and undermines work-life balance. The pessimistic perspective concludes that it is employers rather than employees who benefit from HRM – profits before people. A very early reservation was made by Alan Fowler.

### Words of wisdom

At the heart of the concept is the complete identification of employees with the aims and values of the business – employee involvement but on the company's terms.

Power in the HRM system remains very firmly in the hands of the employer. Is it really possible to claim full mutuality when at the end of the day the employer can decide unilaterally to close the company or sell it to someone else?

Fowler (1987: 3)

The following is a selection of other reservations about HRM.

- HRM is simplistic – as Fowler (1987: 3) wrote:

The HRM message to top management tends to be beguilingly simple. Don't bother too much about the content or techniques of personnel management, it says. Just manage the context. Get out from behind your desk, bypass the hierarchy, and go and talk to people. That way you will unlock an enormous potential for improved performance.

- Guest (1991: 149) referred to the 'optimistic but ambiguous label of human resource management'.
- Keenoy (1990: 3) referred to HRM as a 'wolf in sheep's clothing'.
- HRM is manipulative; Willmott (1993: 534) asserted that: 'any (corporate) practice/value is as good as any other so long as it secures the compliance of employees.' Perhaps the initials HRM stand for human resource manipulation.
- Legge (1998: 42) claimed that HRM is 'macho-management dressed up as benevolent paternalism'.
- 'The HRM rhetoric presents it as an all or nothing process which is ideal for any organization, despite the evidence that different business environments require different approaches' (Armstrong, 2000: 577).
- The unitarist approach to industrial relations implicit in HRM (the belief that management and employees share the same concerns and it is therefore in both their interests to work together) is questionable (Ramsay *et al*, 2000: 521).
- HRM is managerialist: 'The analysis of employment management has become increasingly myopic and progressively more irrelevant to the daily experience of being employed. While the reasons for this development are immensely complex... it is primarily a consequence of the adoption of the managerialist conception of the discourse of HRM' (Delbridge and Keenoy, 2010: 813).

### Pause for thought

To what extent do you think these reservations are valid?

David Guest referred to such comments as the ‘radical critique of HRM’ and summarized them as follows:

### Words of wisdom

This view of HRM, in which workers are viewed primarily as resources or objects, is attractive to some managers, if only to remind them of past neglect of a potentially untapped resource. But it is also an easy and familiar target for criticism. It reflects a longstanding capitalist tradition in which the worker is viewed as a commodity. The resultant exploitation may be paternalist and benevolent; but, equally, it may operate against the interests of workers. Essentially, workers are simply resources to be squeezed and disposed of as business requirements dictate. More importantly, the interests of workers and their wellbeing are of no significance in themselves.

Guest (1999: 6)

But in spite of this, Guest concluded from his research that: ‘It appears that workers like their experience of HRM. The more HR practices they are currently experiencing in their employment, the more satisfied they seem to be and the better their psychological contract’ (ibid: 23).

More recently, Dundon *et al* (2017: 19) referred to the ‘inherent bias in managerial writings to treat workers as objects to be subservient to some employer-led strategic mission’. They also commented on ‘the unitarist flavour of mainstream HRM’ (the unitarist belief is that management and

employees share the same concerns). And Hyman made the following memorable observation:

### Words of wisdom

Capitalism is a system in which employers require workers to be *both* dependable *and* disposable.

Hyman (1987)

However, in spite of reservations, it is a fact that some form of human resource management or, as it is increasingly being called, people management, is an inevitable feature of any organization. HRM has largely become something that organizations do when they manage people rather than an aspiration or a philosophy. The way in which this is carried out through the HR system is described below.

## The HR system

A system is a set of practices or activities that fit together and interact to achieve a purpose. This is how HRM is delivered. In a properly functioning HR system its different parts are interrelated and jointly supportive and, together, they are there to enable HR goals to be achieved. The HR system operates within the framework provided by the HR architecture. It also involves managing the employee experience of working in an organization.

### HR architecture

The HR architecture is a comprehensive representation of all that is involved in HR, not simply the structure of the HR function. As explained by Becker *et al* (2001: 12): ‘We use the term HR architecture to broadly describe the continuum from the HR professionals within the HR function, to the system of HR-related policies and practices, through the competencies, motivation and associated behaviours of the firm’s employees.’ It was noted by Hird *et al* (2010: 25) that: ‘This architecture is seen as a unique combination of the HR function’s structure and delivery model, the HR practices and system, and the strategic employee behaviours that these create.’

Purcell (1999: 38) suggested that the focus should be on ‘appropriate HR architecture and the processes that contribute to organizational performance’. Becker and Huselid (2006: 899) stated that: ‘It is the fit between the HR architecture and the strategic capabilities and business processes that implement strategy that is the basis of HR’s contribution to competitive advantage.’

Activities such as organization development, selection interviewing and testing, talent management, learning and development, performance management and total reward play an important part in the delivery of HR. But there is the danger that new and seemingly different techniques become ‘flavours of the month’ only to be quickly forgotten when they fail to deliver.

### Words of wisdom

The history of the management of human resources is littered with examples of widely acclaimed techniques enthusiastically introduced by managers who are keen to find solutions to their ‘people’ problems, only to be discarded and discredited by the same disillusioned and increasingly cynical managers some time later.

McLean (1981: 4)

The effective delivery of HR depends on using techniques that are tried, tested and appropriate, not ones that have been promoted vigorously as ‘best practice’ without supporting evidence.

### Features of the HR system

Becker and Huselid (1998: 95) observed that: ‘The HR system is first and foremost a vehicle to implement the firm’s strategy.’ Later (2006), they argued that it is the HR system that is the key HR asset. Boselie *et al* (2005: 73) noted that in its traditional form HR can be viewed as ‘a collection of multiple

discrete practices with no explicit or discernible link between them. The more strategically minded system approach views HR as an integrated and coherent bundle of mutually reinforcing practices.’

### The components of the HR system

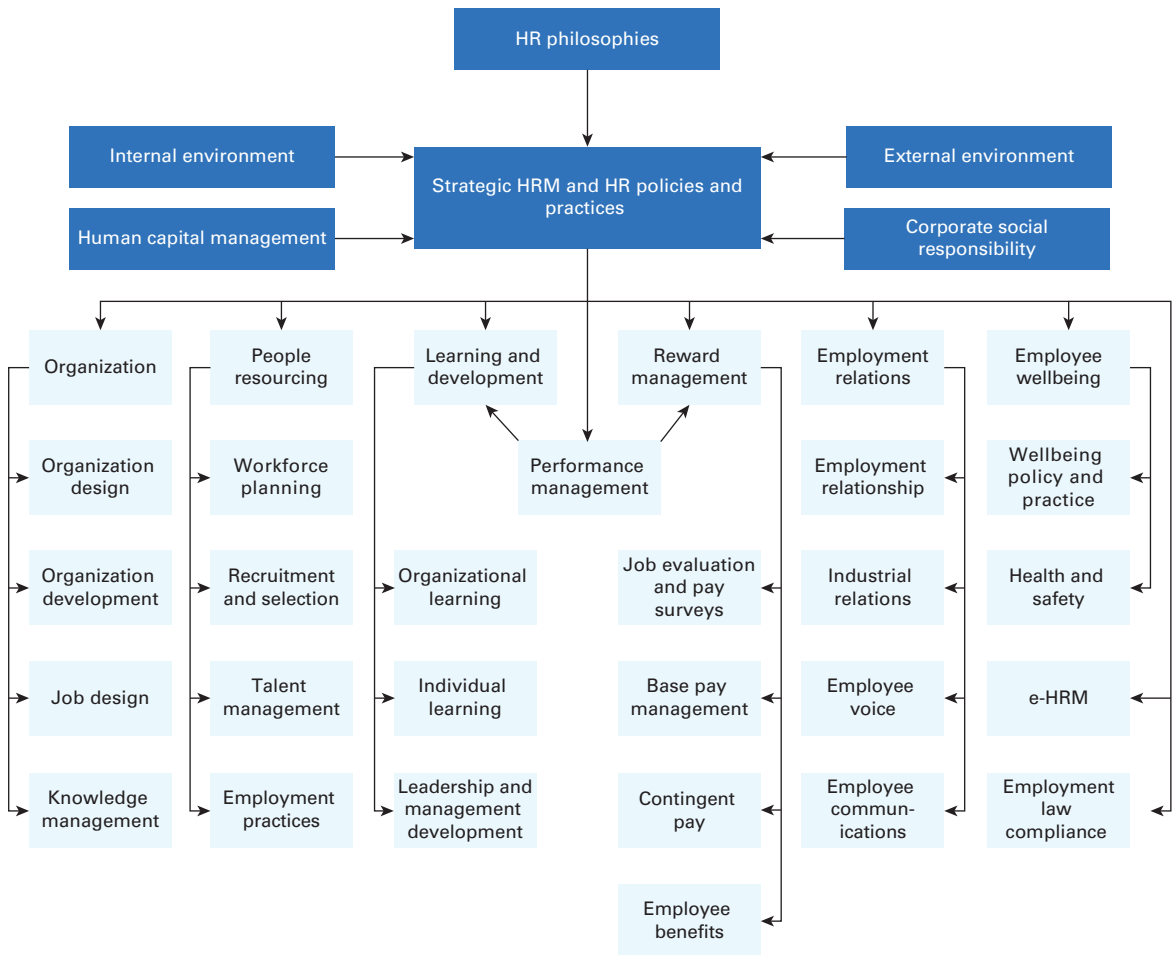
As illustrated in Figure 1.2, an HR system brings together HR philosophies that describe the overarching values and guiding principles adopted in managing people. The HR activities carried out in the system can be divided into two broad categories: (1) transformational (strategic) activities such as organization development and strategic human resource management that are concerned with developing organizational effectiveness and the alignment and implementation of HR and business strategies; and (2) transactional activities that cover the main areas of HR service delivery – resourcing, learning and development, reward and employment relations.

Taking account of the internal and external environments in which the organization operates, the system incorporates:

- *HR strategies*, which define the direction in which HR intends to take each of its main areas of activity.
- *HR policies*, which set out what HR is there to do and provide guidelines defining how specific aspects of HR should be applied and implemented.
- *HR practices*, which consist of the HR activities involved in managing and developing people and in managing the employment relationship.

### A strong HR system

Bowen and Ostroff (2004) advocated a ‘strong’ HR system to ensure the more effective implementation of HRM practices. They developed a model of HRM in which HR practices can be viewed as communications from the employer to the employee. They suggested that ‘when the HRM system is perceived as high in distinctiveness, consistency, and consensus, it will create a strong situation’ (ibid: 208). They argued that a strong HRM system can significantly affect firm performance by creating powerful, focused organizational cultures that help

**FIGURE 1.2** The HRM system

to structure and direct employee behaviour and effort towards desired organizational goals. They also emphasized the important role of implementation in translating the intended HRM system into action. This point was later reinforced by Nishii and Wright (2008), who observed that there are gaps between intended and implemented HR systems and between implemented and perceived HR systems.

### Pause for thought

What do you think a 'strong' HRM system would look like?

## The impact of HRM

HRM or people management practices impact on:

- *Performance* – of individuals and the whole organization through resourcing (enabling the recruitment and retention of capable people), enhancing the employee experience, learning and development activities (skills development), performance management, reward management and concern for employee wellbeing.
- *Behaviour* – influencing motivation, commitment and engagement.

- *Culture* – through organizational development interventions.
- *Systems* – by influencing work design.
- *Structures* – by influencing organization design.

## HRM – today

As a description of people management activities in organizations, the term HRM is now in common use. Emphasis is placed on the need for HR to be strategic and businesslike and to add value, ie to generate extra value (benefit to the business) by the expenditure of effort, time and money on HRM activities. The problem with this approach is that the needs and rights of employees as key stakeholders in the business can be neglected, even ignored. Emphasis on being businesslike has led commentators like Dundon *et al* (2017: 100) to declare with some reason that many employers ‘simply view workers as a disposable means to a profitable end’.

There have been plenty of new interests and developments including human capital management, engagement, the concept of ‘the employee experience’, talent management, competency-based HRM, e-HRM, people analytics, high-performance work systems, performance management and total reward. But these have not been introduced under the banner of the HRM concept as originally defined.

The practice of HRM can be diverse. Dyer and Holder (1988) pointed out that HRM goals vary according to competitive choices, technologies, characteristics of employees (eg could be different for managers) and the state of the labour market. Boxall (2007: 48) observed that: ‘Human resource management covers a vast array of activities and shows a huge range of variations across occupations, organizational levels, business units, firms, industries and societies.’

But it has become increasingly evident that the term HRM has been adopted as a synonym for what used to be called personnel management without paying much attention to the philosophy of its founding fathers. As noted by Storey (2007: 6): ‘In its generic broad and popular sense it [HRM] simply refers to any system of people management.’ HRM practice today is no longer governed by the

original philosophy if it ever was. It is just what HR people and line managers do.

## HRM – the future

HRM has a past and a present. What about its future? The accusation that HRM risks losing its direction and *raison d’être* was made by Marchington (2008). He thought that HRM was becoming unidimensional and one-best-way-driven, elitist, overly focused on the needs (and short-term financial performance priorities and metrics) of investors and leaders, and mis-focused, by ignoring how HRM is (or is not) put into effect by line managers. He argued in favour of a future in which the HR function returns to its distinctive roots in people management and refocuses in three ways:

- increasingly playing the role of strategic problem solver and broker, attempting to balance the demands of different constituents and stakeholders, rather than ‘providing the answers that leaders want to hear’;
- paying greater attention to employee wellbeing as the route to high performance; and
- recognizing that what really matters is how line managers put HRM into effect.

He returned to the fray in 2015.

### Words of wisdom

HRM has always been located at the interface of potentially conflicting forces within organizations. However, in its quest for legitimacy, HRM has tended primarily to look up the hierarchy and focus on narrow performance goals, so neglecting other longstanding values and stakeholders.

Unless HRM reasserts its independence, it is likely to wither both in academic and practitioner circles.

Marchington (2015: 176)

David Guest made a related point.

### Words of wisdom

The mutual gains model suggests that HRM should benefit both individuals and organizations. However, the dominant models within HRM theory and research continue to focus largely on ways to improve performance, with employee concerns very much a secondary consideration.

Guest (2017: 22)

## The concept of people management

The views expressed above are those of two of the most distinguished HRM academics, researchers and commentators in the UK. They should be respected and indicate that consideration should be given to what needs to be done to reshape the HRM philosophy to take account of the problems to which they refer. A different approach could be defined under the heading of 'people management'. This is a term that is increasingly being used as an alternative to 'human resource management' but it should mean more than just a change to a more acceptable name, as may often be the case. A philosophy of people management needs to be developed as described below.

### The philosophy of people management

The philosophy of people management is based on two interrelated principles. The first is that a multi-stakeholder approach should be adopted. Employees have a stake in their organization that is just as important as the stake held by owners and senior management. The attention given to the interests of employees has to equal the attention given to the interests of the business. In their seminal book on HRM, Beer *et al* (1984: 15) observed that:

HRM policies are and indeed should be influenced by the interests of various stakeholders: shareholders, management, employees, community and government. Unless these policies are influenced by all stakeholders, the enterprise will fail to meet the needs of these stakeholders in the long run and it will fail as an institution.

In 2015, Michael Beer, Paul Boselie and Chris Brewster reviewed the state of this neglected perspective after 30 years. They stated that 'we need to take a wider, more contextual, more multi-layered approach founded on the long-term needs of all relevant stakeholders' (p 427). They also argued that: 'Fundamental to a multi-stakeholder approach must be the creation, maintenance, and development of a culture of trust among the different stakeholders. Considering HRM as a social system, in contrast to the dominant individual perspective, puts the relationships between stakeholders at the centre of our studies' (p 432).

In a business, its owners and its senior management as principal agents of those owners are two of the key stakeholders. They will aim to achieve financial success as a necessary requirement for the survival of the business. So where does HRM stand? Boxall (2007: 63) suggested that 'The mission of HRM is to support the viability of the firm'. And he correctly observed later that 'HR strategy is part and parcel of a larger business model, and it fails if it does not serve the economic imperatives that are essential to that model' (Boxall, 2013: 59). However, a fundamental feature of people management is that policies and practices should be looked at and developed in accordance with the interests of the people affected by them, not just the economic needs of the business. It is necessary to achieve a balance between these interests. Thompson and Harley (2007:149) remarked that:

In an environment where employee skills and commitment are central to organizational success it is precisely by giving employees more that organizations will gain more... Successful strategies therefore rely on aligning employer and employee interests.

The second principle is that employees should be regarded as people rather than as exploitable resources. John Rawls (1973: 183) wrote that 'We must treat persons solely as ends and not in any way as means'. Schneider (1987: 450) argued that 'Organizations are the people in them; that people make the place'. Managing the employee experience is a 'bottom up'



rather than a ‘top down’ process. To enhance the experience, the starting point is to gain understanding of how employees perceive what it is like to work in the organization and from that analysis obtain the evidence on what needs to be done to deal with any issues. And this cannot be done by an annual engagement survey. Frequent ‘pulse’ surveys are necessary.

A people management system that adopts these principles will cover the same areas as an HRM system. People professionals will be responsible for the same things as HR professionals, but the ways in which they do them will differ.

### People management defined

The fundamental aim of people management is to ensure that the organization has the knowledgeable, skilled, engaged and productive people it needs. It adopts a multi-stakeholder approach to managing the employment relationship. This recognizes the need to satisfy the interests of the owners (the shareholders) of a business or the requirements of those responsible for the operation of a public or voluntary sector organization. It also recognizes the interests of the management of the organization and the organization’s responsibilities to its suppliers and

the public at large (the community). Equally, however, it recognizes the interests of the people the organization employs and acts accordingly. People are not simply treated as resources – commodities or disposable factors of production who exist to be exploited at the behest of the owners and management. Essentially, people management aims to achieve a balance between the needs of employees and those of the other stakeholders. It pursues employment policies that are socially legitimate and produce benefits for both employees and employers. It avoids the temptation to look upwards and focus on the strategic (business) aims of the organization at the expense of the wellbeing of the people in the organization.

### Comparison between HRM and people management

A comparison of the characteristics of HRM with those of people management is given in Table 1.1.

### People management in practice

The following case study illustrates people management in practice at Richer Sounds.

**TABLE 1.1** Comparison between HRM and people management

	<b>HRM</b> (Resource-based view version)	<b>People management</b> (Organizations are the people in them... people make the place: Gerald Schneider)
Concept/philosophy	Calvinism (focus on the values of order and regularity) Darwin (survival of the fittest)	Quakerism (emphasis on non-authoritarian fellowship) Rawls (treat people as ends, not means)
Ownership and priority	Shareholder/senior management driven Employees regarded as factors of production	Multi-stakeholder with employees as key Focus on employee wellbeing
Approach	Fads and flavours of the month	Evidence-based
Employment relationship	Unitary perspective Legal employment contracts Compliance De-recognition Focus on managing diversity Formal joint consultation processes	Pluralist perspective Psychological contracts Voluntarism Partnership/mutual gains Focus on both inclusion and diversity Importance attached to all forms of employee voice

(continued)

**TABLE 1.1** (Continued)

	<b>HRM</b> (Resource-based view version)	<b>People management</b> (Organizations are the people in them... people make the place: Gerald Schneider)
Work	Work intensification Mechanistic	Emphasis on job quality Flexible working
Analytics	Descriptive Annual engagement survey	Predictive Pulse surveys
Digital	Human resource information systems	Web-based applications: social media, cloud technologies, chatbots, smart phones
Learning and development	Systematic training Learning organization E-learning	Workplace/experiential/self-managed/social learning Organizational learning Blended learning
Talent management	Buy in the best talent and win the talent war Exclusive approach Elitist meritocracy	Grow everyone's talents Inclusive approach Grow your own (talent on demand)
Performance emphasis	Financial Individual	Balanced scorecard Collective
Rewards and incentives	Financial emphasis Highly differentiated Individual performance pay and bonuses	Total reward and recognition More widely shared Profit sharing
Performance management	Results and pay focus Formal annual event	Strengths-based and development focus Continuous dialogue and feedback

**Source** Adapted from an unpublished paper by Duncan Brown

## CASE STUDY

### Richer Sounds

Julian Richer founded Richer Sounds, the chain of hi-fi and TV shops, in 1978 when he was 19. In 2018 the firm made profits of around £10 million on a turnover of £189 million. The shops run by Richer Sounds have been declared by *The Guinness Book of Records* as the busiest in the world for 20-plus years running. Shrinkage (theft) at the chain is 0.1 per cent of sales, a fraction of the 1–2 per cent typical on the high street. Labour turnover is 11 per cent a year, compared to 100 per cent in some retailers. Richer Sounds donates 15 per cent of its profits to charity.

Julian Richer claims that ethically run businesses like his – those that treat their staff well – are inevitably more successful than their peers. He has now decided to hand over control of his business to its 500 or so workers.

Julian Richer has written that 'My experience has shown me that treating your staff better will make your business perform better' (Richer, 2017: 16). Some of the key features of how this is done at Richer Sounds are:

- staff are called colleagues;
- competitive pay (at the top level of market rates – no one gets less than the National Living Wage);



- a formal recognition scheme which includes every month providing the colleagues in the most successful branch with the use of the company Bentley;
- profit sharing;
- career counselling rather than performance appraisal;
- a policy of continuous development – regular seminars for managers and training sessions for staff until midday every morning, Monday to Friday, covering technology, customer service and product knowledge;
- an active suggestion scheme;
- an 'introduce a friend' scheme – colleagues who introduce someone to the company who has been employed for six months get a bonus of £100;
- active support for new staff – apart from induction training, everyone is given a 'shadow', a colleague who helps them to settle down;
- a hardship scheme which provides grants or interest-free loans to staff who are struggling financially;
- a private healthcare scheme;
- ten holiday homes for staff including ones in Venice and Paris;
- free holidays for staff with more than five years' service.

## Key learning points

### HRM defined

Human resource management (HRM) is concerned with all aspects of how people are employed and managed in organizations.

### The development of the HRM concept

HRM emerged in the 1980s as a philosophy of how people should be managed. Its 'founding fathers' were the US academics Michael Beer and his colleagues in the 'Harvard framework', and Charles Fombrun and his colleagues in the 'Michigan framework' or 'matching model'.

As first conceived, HRM had a conceptual framework consisting of a philosophy underpinned by a number of theories drawn from the behavioural sciences and from the fields of strategic management, human capital management and industrial relations.

### HRM philosophy

Schuler (1992: 21) suggested that an HR philosophy is 'a statement of how the organization regards its human resources, what role the resources play in the

overall success of the business and how they are to be treated and managed.'

'The beliefs of HRM include the assumptions that it is the human resource which gives competitive edge, that the aim should be to enhance employee commitment, that HR decisions are of strategic importance and that therefore HR policies should be integrated into the business strategy' Storey (2001: 7).

### Goals of HRM

The goals of HRM are to:

- support the organization in achieving its objectives by developing and implementing human resource (HR) strategies which are integrated with the business strategy (strategic HRM);
- contribute to the development of a high-performance culture;
- ensure that the organization has the talented, skilled, and engaged people it needs;
- create a positive employment relationship between management and employees and a climate of mutual trust;

- further the wellbeing of employees as major stakeholders;
- encourage the application of an ethical approach to people management.

### Underpinning theories

'Human resource management appears to lean heavily on theories of commitment and motivation and other ideas derived from the field of organizational behaviour' (Guest, 1987: 505). The main theories are:

- AMO;
- contingency;
- human capital;
- motivation;
- social exchange; and
- stakeholder.

### Models of HRM

A number of HRM models exist, the most influential being the Harvard and Michigan frameworks.

### The HRM system

HRM is delivered through the HR system within the framework of the HR architecture of an organization.

HR architecture includes the HR systems and processes and employee behaviours as well as the structure of the HR function.

The HR system consists of the interrelated and jointly supportive HR activities and practices which together enable HR goals to be achieved.

### People management

There is a case for developing a concept of people management which emphasizes the need to adopt a multi-stakeholder approach.

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# 02 Strategic HRM

## Introduction

Strategic human resource management (strategic HRM or SHRM) is a concept that aims to explain what is involved in ensuring that key issues of human resource management (HRM) are dealt with strategically. Acting strategically means taking a broad and longer-term view of what needs to be done and ensuring that strategic fit is achieved, ie that HR or people strategies are integrated with business strategies and therefore support them.

What's the difference, if any, between SHRM and HR strategy? The answer to this question is that SHRM is an overall concept, the aim of which is to illuminate the process of developing and implementing HR strategy with particular emphasis on the integration of the HR strategy with the business strategy and the integration of each of the different aspects of the HR strategy with one another. SHRM provides the conceptual background against which HR strategy can be devised and implemented. SHRM only becomes real when it produces actions and reactions that can be regarded as strategic, either in the form of overall or specific HR strategies or strategic behaviour on the part of HR professionals working alongside line managers.

This chapter starts with an analysis of the nature of SHRM and how it is linked to the processes of strategic management and human resource management. The next two parts deal with the achievement of strategic fit (an important feature of SHRM) and the significance of the resource-based view that provides a fundamental rationale for SHRM. These are followed by an examination of how strategic HRM works, namely the universalistic, contingency and configurational perspectives defined by Delery and Doty (1996) and the three approaches associated with those perspectives – best practice, best fit and bundling.

## The nature of strategic human resource management

Strategic human resource management (SHRM) was defined by Wright and McMahan (1992: 298) as: 'The pattern of planned human resource deployments and activities intended to enable an organisation to achieve its goals.' It was later defined by Kaufman (2015: 404) as: 'The choice, alignment, and integration of an organization's HRM system so that its human capital resources most effectively contribute to strategic business objectives.' SHRM has been described by Boxall (1996) as the interface between HRM and strategic management. Schuler and Jackson (2007: 5) stated that SHRM is fundamentally about 'systematically linking people with the firm.'

### Words of wisdom

SHRM is the choice, alignment, and integration of an organization's HRM system so that its human capital resources most effectively contribute to strategic business objectives.

Cascio (2015: 423)

SHRM is also about how members of the HR function adopt a strategic approach on a day-to-day basis. This means that they operate as part of the management team and ensure that HR activities support the achievement of corporate strategies.



### Words of wisdom

Strategic human resource management is largely about integration and adaptation. Its concern is to ensure that: (1) human resources (HR) management is fully integrated with the strategy and strategic needs of the firm (vertical fit); (2) HR policies cohere both across policy areas and across hierarchies (horizontal fit); and (3) HR practices are adjusted, accepted and used by line managers and employees as part of their everyday work.

Schuler (1992: 18)

## Strategic HRM and HRM

One of the characteristics of HRM is that it is strategic, so what's the difference between HRM and strategic HRM? An answer to this question was provided by Truss and Gratton (1994: 666) who wrote that: 'We should perhaps regard SHRM as an overarching concept that links the management and development of people within the organization to the business as a whole and its environment, while HRM could be viewed as an organizing activity that takes place under this umbrella.'

## Strategic HRM and strategic management

Strategic HRM takes the notion of HRM as a strategic, integrated and coherent process and associates it with the process of strategic management. This is an approach to management that takes a broad and long-term view of where the organization is going and manages it in ways that ensure that this strategic thrust is maintained. As stated by Boxall and Purcell (2003: 44): 'Strategic management is best defined as a process. It is a process of strategy making, of forming and, if the firm survives,

reforming its strategy over time.' The purpose of strategic management was expressed by Kanter (1984: 288) as being to 'elicit the present actions for the future and become action vehicles – integrating and institutionalizing mechanisms for change.' Truss *et al* (2014: 49) also emphasized the action-oriented nature of strategic management. They defined it as 'the process that enables organizations to turn strategic intent into action'.

The focus is on identifying the organization's mission and strategies, but attention is also given to the resource base required to make it succeed. Managers who think strategically will have a broad and long-term view of where they are going. But they will also be aware that they are responsible, first, for planning how to allocate resources to opportunities that contribute to the implementation of strategy, and second, for managing these opportunities in ways that will add value to the results achieved by the firm.

To summarize, strategic management deals with both ends and means. As an end it describes a vision of what something will look like in the future. As a means, it shows how it is expected that this vision will be realized. To understand how strategic management functions it is first necessary to appreciate the meaning of strategy, as discussed below.

## The meaning of strategy

The classic definition of strategy was made by Chandler (1962: 13) who wrote that it was: 'The determination of the long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals.' A simpler businessman's definition was made more recently by Julian Richer (2017: 144). He defined it as the process of 'identifying the direction we should be moving in'.

Strategy has three fundamental characteristics. First, it is forward looking. It is about deciding where you need to go and how you mean to get there. In this sense a strategy is a declaration of intent: 'This is what we want to do and this is how we intend to do it'. Strategies define longer-term goals but they also cover how those goals will be attained. It's about deciding what needs to be done to get from here to there. They guide purposeful action to

deliver the required result. A good strategy is one that works, one that in Abell's (1993: 1) phrase, ensures that organizations adapt to changing demands and circumstances by 'mastering the present and pre-empting the future'. As Boxall (1996: 70) explained: 'Strategy should be understood as a framework of critical ends and means.'

Second, strategy aims to achieve strategic fit – the need when developing functional strategies such as HR to achieve congruence between them and the organization's business strategies within the context of its external and internal environment.

Third, strategy recognizes that the organizational capability of a firm (its capacity to function effectively) depends on its resource capability (the quality and quantity of its resources and their potential to deliver results), ie the resource-based view.

### Critical evaluation of the concept of strategy

The development of corporate strategy is often assumed to be a logical, step-by-step affair, the outcome of which is a formal written statement that provides a definitive guide to the organization's intentions. Many people still believe and act as if this were the case, but it is a misrepresentation of reality. In practice, the formulation of strategy may not be as rational and linear a process as some writers describe it or as some managers attempt to make it. There are limitations to the logical model of management that underpins the concept of strategic human resource management. In the words of Mabey *et al* (1998: 74): 'The reality is... that strategies may not always be easy to discern, that the processes of decision-making may be implicit, incremental, negotiated and compromised.' Boxall and Purcell (2016: 39) suggested that 'it is better if we understand the strategies of firms as *sets of strategic choices*, some of which may stem from planning exercises and set-piece debates in senior management, and some of which may emerge in a stream of action.'

Strategy formulation is not necessarily a deterministic, rational and continuous affair, as was emphasized by Mintzberg (1987), who referred to strategy formulation as an 'emergent' process.

### Words of wisdom

A realized strategy can emerge in response to an evolving situation and the strategic planner is often a pattern organizer, a learner if you like, who manages a process in which strategies and visions can emerge as well as be deliberately conceived.

Mintzberg (1987: 68, 73)

## Strategic fit

The notion of strategic fit is fundamental to the concept of SHRM. It states that when developing HR strategies it is necessary (1) to integrate them with the organization's corporate or business strategies in order to ensure that they contribute to the achievement of the organization's goals (vertical fit), and (2) to integrate them with one another in order to provide mutual reinforcement (horizontal fit). Richardson and Thompson (1999) suggested that a strategy's success turns on combining vertical or external fit and horizontal or internal fit. They concluded that an organization with bundles of associated HR practices should have a higher level of performance, provided it also achieves high levels of fit with its competitive strategy. Research in a successful international furniture firm in Holland by Paauwe *et al* (2013) established that an important contributory factor to the company's success was its pursuit of fit in strategic HR planning, which included involving employees in the planning process.

In the first two sections of this part, consideration is given to how vertical and horizontal fit can be achieved. An overall description of what is involved in making these choices is provided by the perspectives on strategic HRM set out by Delery and Doty (1996) as summarized in the next section. These perspectives provide the basis for an analysis in the final sections of the relative merits of adopting a 'best practice' or 'best fit' approach in making the choice.



## Achieving vertical fit

Vertical fit or integration involves linking HR strategy to the business strategy. In accordance with contingency theory, HR strategies are related to the context and circumstances of the organization. The following models exist as the basis for achieving it:

- *Competitive strategies model* – HR strategy should match the preferred strategy of the firm in seeking sustainable competitive advantage. Porter (1985) defined competitive advantage as achieving and sustaining better results than business rivals, thus placing the firm in a competitive position. He listed the drivers of competitive advantage as innovation, quality and cost leadership.
- *Life cycle model* – as the organization changes through the four stages of start-up, growth, maturity and decline, HR strategy must change to meet its needs (Baird and Meshoulam, 1988).
- *Strategic configuration model* – HR strategy should match the characteristics of the organization as defined by Miles and Snow (1978), who identified three types of ‘ideal’ organizations: prospectors, defenders and analysers.

### Words of wisdom

Organizations with ‘greater congruence between their HR strategies and their (business) strategies should enjoy superior performance’.

Delery and Doty (1996: 803)

## Achieving horizontal fit (bundling)

The notion of vertical fit was expanded by Baird and Meshoulam (1988) to embrace horizontal fit or integration. This involves the integration of a number of people management practices. The aim is to develop and implement several HR practices together so that they are interrelated and therefore complement and reinforce each other. Thus the sum becomes greater

than the parts. The significance of horizontal fit as a means of achieving high employee performance also emerged in the writings of Wright and McMahan (1992) and MacDuffie (1995). This is known as ‘bundling’ and is an important feature of SHRM. In a sense, SHRM is concerned with the organization as a total system or entity and addresses what needs to be done across the organization as a whole. It is not interested in isolated programmes and techniques or in the ad hoc development of HR strategies and practices.

Dyer and Reeves (1995: 656–57) pointed out that: ‘The logic in favour of bundling is straightforward... Since employee performance is a function of both ability and motivation, it makes sense to have practices aimed at enhancing both.’ Their study of various models listing HR practices that create a link between HRM and business performance found that the activities appearing in most of the models were involvement, careful selection, extensive training and contingent pay. Richardson and Thompson (1999) concluded that a firm with bundles of associated HR practices should have a higher level of performance, provided it also achieves high levels of fit with its competitive strategy. Research in US automotive assembly plants by MacDuffie (1995) established that innovative HR practices affect performance not individually but as interrelated elements in an internally consistent HR bundle.

### Words of wisdom

Implicit in the notion of a ‘bundle’ is the idea that practices within bundles are interrelated and internally consistent, and that ‘more is better’ with respect to the impact on performance, because of the overlapping and mutually reinforcing effect of multiple practices.

MacDuffie (1995: 197)

Bundling can take place in a number of ways. High-performance systems are in effect based on the principle of bundling because they group a number of HR practices together to produce synergy and thus

increase their impact. Grade structures can define career ladders in terms of competency requirements (career family structures) and thus provide the basis for learning and development programmes. Job evaluation can be used to clarify and define levels in an organization. Total reward approaches ‘bundle’ financial and non-financial rewards together. Competency frameworks (a set of definitions of the competencies that describe the types of behaviour required for the successful performance of a role) can be devised that have a variety of uses, for example to specify recruitment standards, to provide a framework for structured interviews, to help identify learning and development needs and to indicate the standards of behaviour or performance required.

### Pause for thought

Do you know of any examples of bundling in action? If so, how well did they work?

## Perspectives on the achievement of strategic fit

Delery and Doty (1996) identified three perspectives that illuminated the notion of strategic fit:

- 1 *The universalistic perspective* – some HR practices are better than others and all organizations should adopt these best practices. There is a universal relationship between these practices and firm performance.
- 2 *The contingency perspective* – to be effective an organization’s HR policies must be consistent with the situation in which they are practised – the features and circumstances of the organization.
- 3 *The configurational perspective* – this is a holistic approach that emphasizes the importance of the pattern of HR practices and the greater impact on organizational performance if they are associated with one another. It suggests that an organization must develop HR as a system so that both horizontal and vertical fit can be achieved.

Michie and Sheehan (2005) tested these perspectives on a sample of UK manufacturing and service-sector firms. They found that the relationship between HR policies and practices and performance is dependent upon business strategy (the contingency perspective) and that companies pursuing an integrated approach to HR perform best.

The typology produced by Delery and Doty provided the basis for what has become the most commonly used categorization of approaches, which is to adopt the terms ‘best practice’ and ‘best fit’ for the universalistic and contingency perspectives, and ‘bundling’ as discussed earlier for the configurational approach. This follows the classification made by Guest (1997) of fit as an ideal set of practices, fit as contingency and fit as bundles. There has been much debate about the relative merits of the best practice and best fit approaches.

## 1 The best practice approach

The best practice or ‘universalist’ approach is based on the assumption that there is a set of best HRM practices and that adopting them will lead to superior organizational performance. They are universal in the sense that they are best in any situation. The following well-known list of best practices was produced by Pfeffer (1998):

- 1 employment security;
- 2 selective hiring;
- 3 self-managed teams;
- 4 high compensation contingent on performance;
- 5 training to provide a skilled and motivated workforce;
- 6 reduction of status differentials;
- 7 sharing information.

The ‘best practice’ rubric was attacked by Cappelli and Crocker-Hefter (1996: 7) who commented that the notion of a single set of best practices has been overstated: ‘There are examples in virtually every industry of highly successful firms that have very distinctive management practices. We argue that these distinctive human resource practices help to create unique competencies that differentiate products and services and, in turn, drive competitiveness.’

In accordance with contingency theory, which emphasizes the importance of interactions between organizations and their environments so that what

organizations do is dependent on the context in which they operate, it is difficult to accept that there is any such thing as universal best practice. What works well in one organization will not necessarily work well in another because it may not fit its strategy, culture, management style, technology or working practices. However, a knowledge of what is assumed to be best practice can be used to inform decisions on what practices are most likely to fit the needs of the organization, as long as it is understood *why* a particular practice should be regarded as a best practice and what needs to be done to ensure that it will work in the context of the organization. Perhaps it is best to think of ‘good practice’ rather than ‘best practice’.

## 2 The best fit approach

The best fit approach emphasizes that HR strategies should be related to the context and circumstances of the organization and its type. It is in line with contingency theory. This model seems to be more realistic than the best practice model. As Dyer and Holder (1988: 31) observed: ‘The inescapable conclusion is that what is best depends.’

### Pause for thought

What sort of factors should an organization take into account when it is seeking best fit?

But there are limitations to the concept of best fit. Paauwe (2004: 37) argued that: ‘It is necessary to avoid falling into the trap of contingent determinism [ie acting as if the context absolutely determines the strategy]. There is, or should be, room for making strategic choices.’

There is a danger of mechanistically matching HR policies and practices with strategy. It is not credible to claim that there are single contextual factors that determine HR strategy, and internal fit cannot therefore be complete. Boxall (2007: 61) contended that: ‘It is clearly impossible to make *all* HR policies reflective of a chosen competitive or economic mission.’

Purcell (1999: 35) refers to the notion of ‘idiosyncratic contingency’ which ‘shows that each firm has to make choices not just on business and operational strategies but on what type of HR system is

best for its purposes.’ He commented that: ‘The search for a contingency or matching model of HRM is also limited by the impossibility of modelling all the contingent variables, the difficulty of showing their interconnection, and the way in which changes in one variable have an impact on others, let alone the need to model idiosyncratic and path dependent contingencies’ (ibid: 37).

## Conclusions on the best practice vs best fit debate

It is often claimed that best fit is better than best practice but Stavrou and his colleagues argued differently:

### Source review

There may be merit in both approaches [best fit and best practice] where the debate is between general principles/bundles (training and development, staffing, compensation and benefits, communication and participation, and planning) and the manner in which they are carried out... It seems that the ‘best fit’ and ‘best practice’ approaches of the HR-performance relationship are not necessarily mutually exclusive. On the contrary, they may be combined to provide a more holistic picture.

Stavrou *et al* (2010: 952–73)

### Pause for thought

What is your view about the best fit vs best practice debate?

## The resource-based view of SHRM

To a very large extent, the philosophy of SHRM is underpinned by the resource-based view. This states

that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage. The resource-based view is founded on the ideas of Penrose (1959: 24–25), who wrote that the firm is ‘an administrative organization and a collection of productive resources’ and saw resources as ‘a bundle of potential services’. It was expanded by Wernerfelt (1984: 172), who explained that strategy ‘is a balance between the exploitation of existing resources and the development of new ones’. Resources were defined by Hunt (1991: 322) as ‘anything that has an enabling capacity’. The concept was developed by Barney (1991: 102), who stated that: ‘A firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.’ This will happen if their resources are valuable, rare, inimitable and non-substitutable. He noted later (Barney 1995: 49) that an environmental analysis of strengths, weaknesses, opportunities and threats (SWOT analysis) was only half the story: ‘A complete understanding of sources of a firm’s competitive advantage requires the analysis of a firm’s internal strengths and weaknesses as well.’ Delery and Roumpi (2017: 1) stated that: ‘HRM practices, when viewed as systems of ‘inter-related and internally consistent’ practices, can be unique, causally ambiguous, synergistic and difficult to imitate.’

### Words of wisdom

Creating sustained competitive advantage depends on the unique resources and capabilities that a firm brings to competition in its environment. To discover these resources and capabilities, managers must look inside their firm for valuable, rare and costly-to-imitate resources, and then exploit these resources through their organization.

Barney (1995: 60)

Resource-based SHRM can produce what Boxall and Purcell (2016) referred to as ‘human resource advantage’. The aim is to develop strategic capability. This means strategic fit between resources and opportunities, obtaining added value from the effective deployment of resources, and developing managers who can think and plan strategically in the sense that they understand the key strategic issues and ensure that what they do enables the strategic goals of the business to be achieved. In line with human capital theory, the resource-based view emphasizes that investment in people increases their value to the firm. It proposes that sustainable competitive advantage is attained when the firm has a human resource pool that cannot be imitated or substituted by its rivals.

Boxall (1996: 66) suggested that ‘the resource-based view of the firm provides a conceptual basis, if we needed one, for asserting that key human resources are sources of competitive advantage.’ He noted that human resource advantage is achieved by a combination of ‘human capital advantage’, which results from employing people with competitively valuable knowledge and skills, and ‘human process advantage’, which follows from the establishment of ‘difficult to imitate, highly evolved processes within the firm, such as cross-departmental cooperation and executive development’. Accordingly, ‘human resource advantage’, the superiority of one firm’s labour management over another’s, can be thought of as the product of its human capital and human process advantages. He also observed (ibid: 66) that the strategic goal emerging from the resource-based view was to ‘create firms which are more intelligent and flexible than their competitors’ by hiring and developing more talented staff and by extending their skills base. Resource-based strategy is therefore concerned with the enhancement of the human or intellectual capital of the firm. As Ulrich (1998: 126) commented: ‘Knowledge has become a direct competitive advantage for companies selling ideas and relationships. The challenge to organizations is to ensure that they have the capability to find, assimilate, compensate and retain the talented individuals they need.’

This is the basis of resource dependence theory (Pfeffer and Davis-Blake, 1992), which suggests that HR strategies such as those concerned with reward are strongly influenced by the need to attract, retain and energize high-quality people.

## Critical evaluation of the resource-based view

The resource-based view has had considerable influence on thinking about strategic human resource management. It provides a justification for attaching importance to resourcing activities, especially those concerned with talent management. It can also be used to enhance the value of the HR contribution in achieving competitive advantage. But it has the following limitations:

- it may be difficult to find resources that satisfy all the criteria;
- external factors such as product market pressures are ignored;
- it provides only generalized guidance on what resources are suitable;
- different resource configurations can provide the same value for firms;
- as Priem and Butler (2001) pointed out, the theory is tautological because valuable resources and competitive advantage are defined in the same terms.

### Pause for thought

What use can be made by practitioners of resource-based view theory?

## Critical evaluation of the concept of SHRM

The rationale for SHRM is the perceived advantage of having an agreed and understood basis for developing and implementing approaches to people management which takes into account the corporate plans and priorities of the organization and the changing context in which it operates. As Dyer and Holder (1988: 13) remarked, SHRM should provide ‘unifying frameworks which are at once broad, contingency based and integrative’.

This is compelling stuff. But a literature review of SHRM by the writer and Duncan Brown in 2019 left the impression that SHRM is more of a construct (in the sense of a subjective theory containing

various conceptual elements) than a description of the reality of strategy formulation and implementation in organizations. As Brown *et al* (2019: 43) commented following their research for the Institute for Employment Studies (IES): ‘Maybe the proponents of strategic HRM had some very pertinent ideas but used jargon which got in the way of people management becoming genuinely more strategic.’ They were struck by the absence in current HR language of the term ‘strategic human resource management’. It is interesting to note that the CIPD’s New Profession Map (2018) setting out its professional standards does not mention it.

Strategic HRM is fundamentally conceptual. It only becomes real when people management professionals and line managers jointly practise strategic management and together develop and implement people strategies which address the people and business issues facing their organization.

### Pause for thought

What is the practical value of the SHRM concept to practitioners?

As emphasized by Armstrong and Brown (2019), another fundamental problem with SHRM is that it has been over-concerned with the interests of one set of stakeholders – meeting the needs of the shareholders and business leaders – and has been much less concerned with the interests of the other stakeholders, especially employees. This issue was raised by Kaye (1999), who asked the question: ‘Does SHRM benefit employees as well as their organizations?’ He observed that virtually all SHRM research takes the managerial/organizational perspective with an emphasis on the consequences for organizational performance. This, he wrote, suggests that SHRM may be improving the bottom line of companies, but may also be hurting employees – especially when workers are viewed as commodities.

Cascio (2015: 424) argued that: ‘In SHRM research, organizational performance is sometimes viewed only in terms of operational outcomes (productivity, quality, service, innovation) and financial outcomes (return on assets, return on equity, sales growth, overall financial performance). Yet as Beer *et al* (1984) emphasized in their seminal

work, performance has to be framed more broadly to include meeting corporate, ethical and social responsibilities, including job satisfaction, industrial democracy, and distributive justice. They advocated a multi-stakeholder approach to HRM, commenting as follows:

### Words of wisdom

HRM policies are and indeed should be influenced by the interests of various stakeholders: shareholders, management, employees, community and government. Unless these policies are influenced by all stakeholders, the enterprise will fail to meet the needs of these stakeholders in the long run and it will fail as an institution.

*Beer et al (1984: 15)*

In 2015, Michael Beer, Paul Boselie and Chris Brewster reviewed the state of this perspective after 30 years. They stated that ‘we need to take a wider, more contextual, more multi-layered approach founded on the long-term needs of all relevant stakeholders’ (p 427). They also argued that ‘Fundamental to a multi-stakeholder approach must be the creation, maintenance, and development of a culture of trust among the different stakeholders. Considering HRM as a social system, in contrast to the dominant individual perspective, puts the relationships between stakeholders at the centre of our studies’ (p 432).

Echoing this and earlier points, the most important conclusion reached by Armstrong and Brown (2019) in their SHRM literature review was that there was a requirement for a more action- and evidence-focused, multi-stakeholder perspective to strategic HRM.

## Key learning points

Strategic human resource management (strategic HRM or SHRM) is concerned with ensuring that key issues of human resource management (HRM) are dealt with strategically in order to support the achievement of organizational goals

The conceptual basis of strategic HRM

Strategic HRM is the ‘interface between HRM and strategic management’. (Boxall, 1996). It takes the notion of HRM as a strategic, integrated and coherent approach and develops that in line with the concept of strategic management.

Strategic management

Strategic management is an approach to management that takes a broad and long-term view of where the business is going and manages it in ways that ensure that this strategic thrust is maintained.

The fundamental characteristics of strategy

- 1 It is forward looking. It is about deciding where you need to go and how you mean to get there.
- 2 It recognizes that the organizational capability of a firm (its capacity to function effectively) depends on its resource capability (the quality and quantity of its resources and their potential to deliver results). This is called the resource-based view.
- 3 It aims to achieve strategic fit – the need when developing functional strategies such as HR to achieve congruence between them and the organization’s business strategies within the context of its external and internal environment.

Critical evaluation of the concept of strategy

Strategy formulation is not necessarily a deterministic, rational and continuous affair, as was emphasized by



Mintzberg (1987), who referred to strategy formulation as an 'emergent' process.

## Critical evaluation of the concept of SHRM

### Strategic fit

The concept of strategic fit states that when developing HR strategies it is necessary (1) to integrate them with the organization's corporate or business strategies in order to ensure that they contribute to the achievement of the organization's goals (vertical fit), and (2) to integrate them with one another in order to provide mutual reinforcement (horizontal fit).

### Achieving vertical fit

Vertical fit or integration involves relating HR strategies in accordance with contingency theory to the context and circumstances of the organization.

### Achieving horizontal fit (bundling)

Horizontal fit or integration involves the development and implementation of several HR practices together so that they are interrelated and therefore complement and reinforce each other. It is generally known as bundling and is an important feature of SHRM.

### Perspectives on the achievement of strategic fit

Delery and Doty (1996) identified three perspectives that illuminated the notion of strategic fit:

- 1 *The universalistic perspective* – some HR practices are better than others and all organizations should adopt these best practices. There is a universal relationship between these practices and firm performance.

- 2 *The contingency perspective* – to be effective an organization's HR policies must be consistent with the situation in which they are practised – the features and circumstances of the organization.

- 3 *The configurational perspective* – this is a holistic approach which suggests that an organization must develop HR as a system so that both horizontal and vertical fit can be achieved.

## Best practice

This is the notion that there is a set of best HRM practices which are universal in the sense that they are best in any situation and adopting them will lead to superior organizational performance. The notion of best practice incorrectly assumes that there are universally effective HR practices that can readily be transferred.

## Best fit

The notion that HR strategies should be congruent with the context and circumstances of the organization. More realistic than best practice, but there is a danger of mechanically matching HR policies and practices with strategy.

## Best fit vs best practice

It is often claimed that best fit is better than best practice but it can be argued that both approaches have their uses if this is done judiciously.

## The resource-based view of SHRM

The philosophy of SHRM is underpinned by the resource-based view. This states that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage

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# 03

## HR strategy

### Introduction

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HR or people strategy specifies what the organization intends to do about people management generally or in particular areas to support the achievement of corporate goals and meet its obligations to its stakeholders, especially its employees. It sets out how its people management policies and practices should be integrated with the business strategy and with each other.

Dyer and Reeves (1995: 656) described HR strategies as ‘internally consistent bundles of human resource practices’, and in the words of Boxall (1996: 61) they provide ‘a framework of critical ends and means’. HR strategy was defined by Boxall and Purcell (2016: 26) as ‘the critical set of economic and socio-political choices that managers make in building and managing a workforce’. Its purpose as stated by Wright and McMahan (1999: 52) is to ‘enable an organization to achieve its goals’. These goals will include the achievement of required levels of performance – business success in a commercial organization, operational success in a not-for-profit organization.

#### Words of wisdom

HR strategy is part and parcel of a larger business model, and it fails if it does not serve the economic imperatives that are essential to that model.

Boxall (2013: 59)

High levels of economic or operational performance are important but so are the obligations of organizations to all their stakeholders. The standards quoted in Chapter 1 state that: ‘Stakeholders and their interests are integral to the best interests of the organization’ and stakeholders include both employees and owners. HR strategy is about people as well as organizations. It should also encompass another of the standards, namely: ‘Every organization is part of wider society and has a responsibility to respect its social contract as a corporate citizen and operate in a manner that is sustainable.’

Strategic HRM as described in the previous chapter provides a conceptual background for HR strategy. But it is only a background. The reality is that strategic choice is exercised within organizations on the basis of evidence on the issues to be resolved and beliefs on the direction to be taken and not on abstract SHRM principles. In this chapter, consideration is given to the nature of HR or people strategy, approaches to the formulation of HR strategy, the processes of developing and implementing HR strategy including testing new people management practices.

### The nature of HR strategy

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Purcell (2001: 72) observed that: ‘Strategy in HR, like in other areas, is about continuity and change, about appropriateness in the circumstances, but anticipating when the circumstances change. It is about taking strategic decisions.’ HR strategy should be based on the values that an organization believes govern its approach to people management. It will set out intentions but it is not just a long-term plan. It can and should be immediately relevant. It is

necessary to bear in mind the dictum of Fombrun *et al* (1984) that businesses and managers must perform well in the present to succeed in the future.

Research by the Institute for Employment Studies (Brown *et al*, 2019) established that people strategy has to balance explicit business alignment with the need in uncertain circumstances to keep flexible. The following were the features of the strategies in the case study organizations they examined.

### Source review

Prioritization seems to be the clear goal and requirement of people management strategies today. One HR director told us that extremely lengthy and over-ambitious HR strategies have bedevilled the function and given HR a bad reputation in the past for over-promising and under-delivering. Focus and delivery seem to be the new watchwords for people management.

Brown *et al* (2019: 4–5)

HR strategy should be distinguished from HR policy. HR strategy is purposeful and dynamic. It provides a sense of direction and constantly adjusts to meet changed circumstances. HR policy is more about the here and now. It defines ‘the way things are done around here’. It may evolve but this is not necessarily the result of a strategic choice. It is when a deliberate decision is made to change a policy that a strategy for achieving this change may have to be formulated.

Because all organizations are different, all people strategies are different. There is no such thing as a standard strategy. Research into HR strategy conducted by Armstrong and Long (1994) and Armstrong and Baron (2002) revealed many variations. Some articulated strategies are simply very general declarations of intent or statements of the values that the organization has adopted for managing people. Others go into much more detail.

## Approaches to the formulation of HR strategy

HR strategies come in all sorts of shapes and sizes but three approaches can be distinguished: (1) developing an overarching purpose and set of organizational

principles; (2) creating a system of complementary people management practices; and (3) giving priority to specific aspects of people management. These approaches can be combined in various ways.

### Overarching purpose

An approach devoted to developing an overarching purpose and set of organizational values will be concerned with indicating the overall direction for managing people in which the organization intends to go. It provides a framework for the development of more specific strategies.

This approach is in line with the notion of ‘the big idea’ that emerged from the longitudinal research conducted in 12 companies by Professor John Purcell and his colleagues from Bath University (Purcell *et al* 2003). This was perhaps the most notable feature of some of the organizations. The big idea is a clear sense of mission underpinned by values and a culture expressing what the firm is and its relationship with its customers and employees.

The big ideas in five of the organizations studied were summarized as:

- AIT – make the workplace a good place to work;
- Jaguar Cars – quality management in terms of outcomes, process and routines;
- Nationwide Building Society – mutuality as a key value;
- Selfridges – turning values into value;
- Tesco – focus on people and customer issues.

### Source review

Organizations with a Big Idea displayed five common characteristics – the idea was embedded, connected, enduring, collective and ‘measured and managed’. The Big Idea therefore means more than just having a formal mission statement. It means that the values are spread throughout the organization so that they are embedded in policies and practices. These values interconnect the relationships with customers (both internal and external), culture and behaviour, and provide the basis upon which employees should be managed.

Purcell *et al* (2003: ix)

The research conducted by Brown *et al* (2019) identified the following key issues (ie ‘big ideas’) in the HR strategies of the organizations they investigated:

- Keep the workforce at the ‘front and centre’ of everyone’s thinking (Anchor Homes).
- Supporting LSE to deliver success through its most critical asset: its people (London School of Economics).
- Ensuring that we have a tailored, excellent, clearly signaled support and development offer which will attract and retain talent, and is amongst the best across the Civil Service (Ministry of Housing, Communities and Local Government).
- Recognize that our people provide the outstanding customer experience that is at the heart of our strategy (Revolution Bars).

Here are some more examples of ‘big idea’ approaches:

- A local authority: As expressed by the chief executive of this borough council, its HR strategy is about ‘having a very strong focus on the overall effectiveness of the organization, its direction and how it’s performing; there is commitment to, and belief in, and respect for individuals, and I think that these are very important factors.’
- A public utility: ‘The only HR strategy you really need is the tangible expression of values and the implementation of values... unless you get the human resource values right you can forget all the rest’ (managing director).
- A manufacturing company: ‘The HR strategy is to stimulate changes on a broad front aimed ultimately at achieving competitive advantage through the efforts of our people. In an industry of fast followers, those who learn quickest will be the winners’ (HR director).
- A retail stores group: ‘The biggest challenge will be to maintain [our] competitive advantage and to do that we need to maintain and continue to attract very high-calibre people. The key differentiator on anything any company does is fundamentally the people; money is easy to get hold of, good people are not. All we do in terms of HR practice is directly linked to business improvement’ (managing director).

## Complementary HRM practices

A strategy for introducing an overall system or bundle of complementary HRM practices will involve the development and implementation of several of them together so that they are interrelated and internally consistent and therefore complement and reinforce each other. There are three ways of doing this, as described below.

### High-performance management

High-performance management aims to make an impact on the performance of the organization in such areas as productivity, quality, levels of customer service, growth and profits. It can do this through high-performance work systems (bundles of practices that enhance employee performance and facilitate their engagement, motivation and skill enhancement). High-performance working practices include rigorous recruitment and selection procedures, extensive and relevant training and management development activities, incentive pay systems, and performance management processes. Table 3.1 gives examples of firms that have adopted high-performance working policies and practices.

#### Pause for thought

Is it realistic to expect that an organization should introduce a high-performance work system just like that? Or is one more likely to emerge after a fairly prolonged period of incremental steps towards high-performance working?

### High-commitment management

One of the defining characteristics of HRM is its emphasis on the importance of achieving ‘mutual gains’ by pursuing employment policies that produce benefits for both the organization and its employees (the concept of mutuality formulated by Walton, 1985). High-commitment management has been described by Wood (1996) as: ‘A form of management which is aimed at eliciting a commitment

**TABLE 3.1** Examples of high-performance working ingredients

Organization	High-performance working ingredients
Halo Foods	<ul style="list-style-type: none"> <li>● Reliance on teamworking and effective leadership, with innovation and self- and team-management skills.</li> </ul>
Land Registry	<ul style="list-style-type: none"> <li>● Managers who could see that the problems were as much cultural as organizational.</li> <li>● Recruitment whose attitudes and aptitudes match the needs of high-performance work practices.</li> </ul>
Meritor Heavy Vehicle Braking Systems	<ul style="list-style-type: none"> <li>● Teamworking skills and experience used on improvement projects.</li> <li>● Linking learning, involvement and performance management.</li> </ul>
Orangebox	<ul style="list-style-type: none"> <li>● A strategy that relies on constant reinvention of operational capability.</li> <li>● Engagement and development of existing talent and initiative in productivity improvement.</li> <li>● Increasing use of cross-departmental projects to tackle wider opportunities.</li> </ul>
Perkinelmer	<ul style="list-style-type: none"> <li>● A vision and values worked through by managers and supervisors.</li> <li>● Engagement of everyone in the organization and establishment of a continuous improvement culture.</li> <li>● Learning as a basis for change.</li> </ul>
United Welsh Housing Association	<ul style="list-style-type: none"> <li>● Linking of better employment relations with better performance.</li> <li>● Using staff experience to improve customer service.</li> <li>● Focusing management development on the cascading of a partnership culture.</li> </ul>

so that behaviour is primarily self-regulated rather than controlled by sanctions and pressures external to the individual, and relations within the organization are based on high levels of trust.’

### Words of wisdom

The most sustainable HR systems serve investors well while also serving employees and their communities well. This is *mutual* high performance and it is here that many of us would like to build mutually satisfying HR systems based on a good analysis of when, why, how and for whom they will work.

Boxall (2013: 57)

## High-involvement management

The term ‘high-involvement’ was used by Lawler (1986) to describe management systems based on commitment and involvement, as opposed to the old bureaucratic model based on control. As defined by Benson *et al* (2006: 519): ‘High-involvement work practices are a specific set of human resource practices that focus on employee decision making, power, access to information, training and incentives.’ Camps and Luna-Arocas (2009: 1057) observed that: ‘High-involvement work practices aim to provide employees with the opportunity, skills and motivation to contribute to organizational success in environments demanding greater levels of commitment and involvement.’

## Specific HR strategies

Specific people strategies set out what the organization intends to do in areas such as:

- HR analytics;
- knowledge management;

- employee wellbeing;
- corporate social responsibility;
- engagement;
- organization development;
- resourcing;
- diversity and inclusion;
- talent management;
- learning and development;
- reward and recognition;
- employment relations;
- employee wellbeing.

The following are some examples of specific HR strategies.

### The Children's Society

- Implement the rewards strategy of the society to support the corporate plan and secure the recruitment, retention and motivation of staff to deliver its business objectives.
- Manage the development of the human resources information system to secure productivity improvements in administrative processes.
- Introduce improved performance management processes for managers and staff of the society.
- Implement training and development that supports the business objectives of the society and improves the quality of work with children and young people.

### Diageo

There are three broad strands to the Organization and People Strategy:

- **Reward and recognition:** use recognition and reward programmes to stimulate outstanding team and individual performance contributions.
- **Talent management:** drive the attraction, retention and professional growth of a deep pool of diverse, talented employees.
- **Organizational effectiveness:** ensure that the business adapts its organization to maximize employee contribution and deliver performance goals.

The strategy provides direction to the company's talent, operational effectiveness and performance and reward agendas. The company's underlying thinking is that the people strategy is not for the human resource function to own but is the responsibility of the whole organization, hence the title 'Organization and People Strategy.'

### A government agency

The key components of the HR strategy are:

- Investing in people – improving the level of intellectual capital.
- Performance management – integrating the values contained in the HR strategy into performance management processes and ensuring that reviews concentrate on how well people are performing those values.
- Job design – a key component concerned with how jobs are designed and how they relate to the whole business.
- The reward system – in developing reward strategies, taking into account that this is a very hard-driven business.

### A local authority

The focus is on the organization of excellence. The strategy is broken down into eight sections: employee relations, recruitment and retention, training, performance management, pay and benefits, health and safety, absence management and equal opportunities.

## Developing HR strategy

HR strategy may be created by means of a deliberate process of analysis, discussion and choice. But it may come into existence through an emergent, evolutionary and possibly unarticulated process influenced by the business strategy as it develops and changes in the internal and external environment. Pettigrew and Whipp (1991: 30) emphasized that strategy '... far from being a straightforward, rational phenomenon, is in fact interpreted by managers according to their own frame of reference, their particular motivations and information.' But there are still strong arguments for a formal and systematic approach to identifying strategic priorities and directions in order to provide a framework for decision making and action.

The formal development of HR strategy involves the following steps:

- 1 Scan the internal and external environment and analyse the implications.
- 2 Analyse the effectiveness of existing people strategies.
- 3 Conduct a diagnostic review drawing on the outcomes of steps 1 and 2.
- 4 On the basis of this review, decide what needs to be in the shape of overall or specific strategies.
- 5 Conduct a stakeholder analysis as described below to ensure that the interests of all the stakeholders, eg employees as well as management, are taken into account.
- 6 Set out the objectives of the strategy and how the effectiveness of any policies and practices included in it will be tested against those objectives. Performance criteria can be determined which may be expressed as targets or in terms of return on investment.
- 7 Plan the implementation of the strategy, ensuring that any likely problems are identified and means of overcoming them established. It is essential to spell out *how* the strategy is to be implemented as well as *what* is to be implemented.

### Pause for thought

What do you think is likely to be the most important factor affecting the formulation of people strategy?

## Stakeholder analysis

Stakeholders are the people or bodies who have a legitimate interest in an organization. They can include shareholders, (owners), management, employees, suppliers, customers and the community or public at large. Account should be taken of their various interests when formulating and implementing people strategy and policies. This is done through stakeholder analysis, the process of identifying the stakeholders and establishing what their concerns are.

Stakeholder analysis takes place while formulating the strategy and involves answering the following questions:

- 1 Who are the people who are likely to have legitimate interests in or concerns about what we are proposing to do?
- 2 What are those interests and concerns?
- 3 To what extent does our proposal meet or conflict with them?

**FIGURE 3.1** Stakeholder analysis matrix

Stakeholder	Proposal		
	Interests/ concerns	Potential impact	Action
Senior management			
Line management			
Employees			
Trade union(s)			
Shareholders (owners)			
Customers			
Suppliers			
The public			



- 4 In the light of the answer to question 3, do we need to modify the proposal?
- 5 How should we take account of these interests and concerns in our plans for implementing the proposal?

A stakeholder matrix, as illustrated in Figure 3.1, may be used for this purpose.

An example of another approach to stakeholder analysis is given in Figure 3.2.

### Pause for thought

Carry out a stakeholder analysis for your organization or any one you know.

- takes account of the interests and concerns of all the stakeholders including line managers and employees generally as well as those of the business and its other stakeholders;
- is founded on detailed analysis and study and is evidence based – it is not just wishful thinking;
- is aligned to the business strategy and will support the achievement of business goals;
- is coherent and integrated, being composed of components that fit with and support each other;
- can be turned into actionable programmes that anticipate implementation requirements and problems.

## Criteria for an effective HR strategy

An effective HR strategy is one that works in the sense that it achieves what it sets out to achieve. Its criteria are that it:

## Approach to strategy development

The process of formulating HR strategy involves generating strategic options and then making appropriate strategic choices. It was noted by Cappelli (1999: 8) that: ‘The choice of practices that an

**FIGURE 3.2** The Selfridges stakeholder value model



Source Purcell *et al* (2003: 21)



employer pursues is heavily contingent on a number of factors at the organizational level, including their own business and production strategies, support of HR policies, and cooperative labour relations.’ It is necessary to adopt a contingent approach in generating strategic HRM options and then making appropriate strategic choices. There is seldom if ever one right way forward.

### Pause for thought

What difficulties might an HR director have in formulating a people strategy and getting it accepted and implemented? How might they be overcome? If possible, think about these questions in relation to an organization you know.

Choices should relate to but also anticipate the critical needs of the business and the people in it. They should be evidence based – founded on detailed analysis and study, not just wishful thinking, and should incorporate the experienced and collective judgement of top management about the organizational requirements while also taking into account the needs of line managers and employees generally. The emerging strategy should anticipate the problems of implementation, which may arise if line managers are not committed to the strategy and/or lack the skills and time to play their part, and the strategies should be capable of being turned into actionable programmes. Strategy should always be formulated with implementation in mind.

The development of people strategy is not something to be left to the HR function. It should be treated as a major responsibility of the organization’s leaders working in conjunction with HR. The process should be continuous, not a one-off plan, and it should be integrated with what is happening in the business. At Anchor Homes, as reported by Brown *et al* (2019: 45), the people strategy is fully incorporated into the business strategy, driven by the centrality of employees to the customer service and financial/cost dynamics of that strategy. Fundamental people issues are owned by the top team and regularly discussed in their meetings, leading directly to HR functional supporting action and the review of policies or processes where necessary.

### Words of wisdom

HR Directors must always be connected to the realities of the organization. While you need to stay close to the executive and their priorities, you have to understand the behaviours and habits throughout the organization if you are going to influence cultural norms to support this type of transformational change and ensure that the overall objectives of the company are achieved.

Fiona Regan, People Development  
Director, Revolution Bars

Source Brown *et al* (2019: 58)

## CASE STUDY

### The Peabody Trust

This is how the Chief Executive of The Peabody Trust explained the organization’s approach to the development of HR strategy.

First of all you have your business strategy, which includes at management team level a review of what we expect our HR to deliver. We define what the strategy means in terms of its implications for us as

individuals and for our employees. We decide what changes we have to effect and how we are going to communicate with and motivate the staff group to achieve those changes. The management team needs to be clear on what our vision for our people is, what we see our people doing, what we think they have to learn and what practices they need to change to effect the strategy we want. When you have answered those questions, then you can start to decide what the strategy is. The key to this is that all our directors have to contribute. The most important

thing is the corporate understanding and responsibility for HR strategy.

A good HR strategy is one, which actually makes people feel valued. It makes them knowledgeable about the organization, and makes them feel clear about where they sit as a group, a team, or an individual. It must show that what they do either together or individually fits into the strategy. Importantly, it should indicate how people are going to be rewarded for their contribution and how they might be developed and grow in the organization.

## Implementing HR strategy

The ultimate challenge of HR strategy is putting it to work. As Gratton (2000: 30) commented: ‘There is no great strategy, only great execution.’ Strategies cannot be left as generalized aspirations or abstractions. But getting strategies into action is not easy: intent does not always lead to action. Too often, strategists act like Charles Dickens’ character Mr Pecksmith, who was compared by Dickens (*Martin Chuzzlewit*, Penguin Classics, 2004: 23) to ‘a direction-post which is always telling the way to a place and never goes there.’ It is necessary to avoid saying, in effect: ‘We need to get from here to there but we don’t know or care how.’

Gratton (1999: 202) noted ‘... the disjunction between rhetoric and reality in the area of human resource management, between HRM theory and HRM practice, between what the HR function says it is doing and how that practice is perceived by employees, and between what senior management believes to be the role of the HR function, and the role it actually plays.’ The factors identified by Gratton which contribute to creating this gap included:

- complex or ambiguous initiatives that may not be understood by employees or will be perceived differently by them, especially in large, diverse organizations;
- it is more difficult to gain acceptance of non-routine initiatives;
- the initiative is seen as a threat;
- inconsistencies between corporate strategies and values;

- the extent to which senior management is trusted;
- the perceived fairness of the initiative.

To which could be added failure to take account of the strategic needs of the business (which may be difficult because they are changing too rapidly or no one really understands them), inadequate assessment of the environmental and cultural factors, including internal politics, that affect the content of the strategies, the development of ill-conceived, unmanageable and irrelevant initiatives, possibly because they are current fads or because there has been a poorly digested analysis of ‘best practice’ which does not fit the organization’s requirements, and, importantly, failure to involve stakeholders in the shape of managers and employees with the formulation of strategy. These problems are compounded when insufficient attention is paid to practical implementation problems, particularly where line managers are concerned and there is a need for supporting systems. The role of line managers is vital.

Guest and Bos-Nehles (2013: 80–81) produced a model for successful implementation. They identified four stages, each one being a necessary requirement for those that follow:

- 1 Decision to introduce HR practices (HR managers and senior executives).
- 2 Quality of HR practices (HR managers).
- 3 Implementation of HR practices (line managers).
- 4 Quality of implementation (line managers).

Implementation is likely to be more effective if practical strategies are formulated that can be put

into effect without too much difficulty and if line managers and other employees are involved in the formulation of the strategy. The aims should be to (1) keep it simple; (2) spell out *how* the strategy is to be implemented as well as *what* is to be implemented; and (3) ensure that support is given to line managers in the shape of advice, guidance and training.

To a large extent, HR strategies are implemented by line managers. As Purcell *et al* (2003: x) stressed, it is front-line managers who ‘bring policies to life’.

### Source review

Implementing and enacting policies is the task of line managers. It is necessary first to involve line managers in the development of HR strategy – bearing in mind that things done *with* line managers are much more likely to work than things done *to* line managers. Second, ensure that the HR policies they are expected to put into practice are manageable with the resources available. Third, provide managers with the training, supporting processes and on-the-spot guidance they need.

Purcell *et al* (2003)

But HR professionals must play a major part in presenting and justifying the strategy, helping to manage the change programme, and providing support and guidance to managers. They need the communications and political skills that emerged from the Brown *et al* (2019) research as being critical to the effective implementation and delivery of people management strategies.

### Pause for thought

What do you think is likely to be the biggest barrier to the implementation of a people strategy?

## Implementation programme

The implementation programme should:

- use change management techniques (see Chapter 66), particularly those involving communication and involvement and, possibly, nudge theory;
- be conducted as a project in line with the requirements of effective project management (see Chapter 74); the project plan may involve pilot schemes and staged implementation;
- take particular care in briefing and involving line managers;
- identify the training needs of line managers and other employees and plan and implement training programmes;
- provide for the evaluation of the success of the programme stage by stage and on completion; this will involve testing new people practices as described below.

## Testing new people management practices

New people management practices need to be tested to ensure that their objectives and performance criteria are being attained. These should have been defined when they were initiated in terms, for example, of return on investment. Reactions should be obtained from those responsible for implementing and managing the practice and those affected by it on how well it is working and the extent to which it is meeting their needs. The costs and benefits of the practice should be assessed and an estimate of the added value it has produced. Any problems in implementing the policy or practice should be identified and methods of solving them worked out.

## Key learning points

### People strategy defined

People or HR strategy specifies what the organization intends to do about people management generally or in particular areas to support the achievement of corporate goals and meet its obligations to its stakeholders, especially its employees. It sets out how its people management policies and practices should be integrated with the business strategy and with each other.

### The nature of people strategy

A people strategy should be based on the values that an organization believes should govern its approach to people management. It will set out intentions but it is not just a long-term plan. It can and should be immediately relevant.

### Approaches to people strategy

People strategies come in all sorts of shapes and sizes but three approaches can be distinguished: developing

an overarching purpose and set of organizational principles, creating a system of complementary people management practices, and giving priority to specific aspects of people management. These approaches can be combined in various ways.

### Formulating people strategy

People strategy may be created by means of a deliberate process of analysis, discussion and choice. But it may come into existence through an emergent, evolutionary and possibly unarticulated process influenced by the business strategy as it develops and changes in the internal and external environment.

### Implementing people strategy

The ultimate challenge of people strategy is putting it to work. Implementation is likely to be more effective if practical strategies are formulated that can be put into effect without too much difficulty and if line managers and other employees are involved in the formulation of the strategy.

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# 04

# Human capital management

## Introduction

Human capital management (HCM) is an approach to managing people that regards them as assets and emphasizes that competitive advantage is achieved by strategic investments in those assets. As Hitt *et al* (2001) established through their research in professional service firms, leveraging human capital had a positive effect on firm performance.

HCM involves measuring the value of human capital, ie representing the value of people and making good use of the information gained from measurements. The concept of HCM is underpinned by the concept of human capital which is associated with that of the resource-based view.

### Words of wisdom

The [human capital] journey starts with clarity on the value that the organization and its activities provide. That value proposition then forms the basis for determining what value is created and where people add value to capital. Implicit in this is the quality and ideology behind the management of people.

Wong (2017: 2)

This chapter starts with a definition of the concept of human capital and continues with an analysis of its constituents and a discussion of how it can be measured. The chapter concludes with a description of the approaches to people management raised by human capital theory.

## Human capital management defined

Human capital management (HCM) is concerned with the knowledge, skills, abilities and capacity to develop and innovate possessed by people in an organization and the added value they therefore provide. It treats them as assets to be invested in through resourcing, talent management and learning and development policies and practices. The aim is to enhance the value of the organization's human capital so that the business can perform successfully in the short and longer term and achieve competitive advantage. HCM also involves measuring the value of an organization's human capital, assessing the contribution of people and measuring the effectiveness of the HR practices used to manage them.

As pointed out by Delery and Roumpi (2017: 9), human capital in the shape of intellectual and social capital is different from other types of resources in that it is owned by employees and can be transferred to other firms if they leave. Therefore it is critical for firms to use HRM systems to enhance existing levels of human capital, initially by attracting high-quality people and providing them with development opportunities, and then preventing the loss of their human capital investments to other firms by enhancing the commitment of employees to the firm and

applying retention policies. As Wright *et al* (1994: 320) noted: ‘Sustained competitive advantage is achieved only by the interaction between the human capital pool and the HR practices.’

### Pause for thought

The resource-based view states that it is the range of resources in an organization, including its human resources, that produces its unique character and creates competitive advantage. What does the notion of human capital management add to this concept?

Skaggs and Youndt (2004) used a sample of 234 service organizations and found strong empirical support to indicate that if fit is achieved between human capital and the organization’s strategic positioning, the result is positive organizational performance.

## The concept of human capital

Human capital is the knowledge, skills and abilities of the people employed in an organization. Human capital theory regards people as assets and stresses that investment by organizations in people will generate worthwhile returns.

Adam Smith originated the idea of human capital (like so many other economic concepts).

### Words of wisdom

The acquired wealth of nations derives from the acquired abilities of people – their education, experience, skills and health.

Adam Smith, cited by Schultz (1981: 140)

The significance of the term was emphasized by Schultz, whose definition is set out below.

### Source review

Although it is obvious that people acquire useful skills and knowledge, it is not obvious that these skills and knowledge are a form of capital, that this capital is in substantial part a product of deliberate investment, that it has grown in Western countries at a much faster rate than conventional (non-human) capital, and that its growth may well be the most distinctive feature of the economic system.

Schultz (1961: 1)

Schultz also noted that: ‘Attributes... which are valuable and can be augmented by appropriate investment will be treated as human capital... Consider all human abilities to be either innate or acquired’ (ibid: 21).

Scarborough and Elias (2002: *ix*) commented that: ‘The concept of human capital is most usefully viewed as a bridging concept – that is, it defines the link between HR practices and business performance in terms of assets rather than business processes.’ They pointed out that human capital is to a large extent ‘non-standardized, tacit, dynamic, context dependent and embodied in people.’ These characteristics make it difficult to evaluate human capital, bearing in mind that ‘the features of human capital that are so crucial to firm performance are the flexibility and creativity of individuals, their ability to develop skills over time and to respond in a motivated way to different contexts’ (ibid: *ix*).

### Source review

Each individual in the organization has characteristics that comprise human capital. He/she also engages in the processing of information, interpretation and reaction to that information in making choices about how to feel and behave. The aggregation of human capital, we propose, constitutes the organization or unit’s ‘human capital’.

Wright and McMahan (2011: 101)



Human capital is an intangible asset in the form of a stock of knowledge. It is indeed the knowledge, skills and abilities of individuals that create value, which is why the focus has to be on means of attracting, retaining, developing and maintaining the human capital they represent.

Human capital theory is related to the resource-based view. It states that the unique nature of human capital resources within the firm has the potential to generate sustainable competitive advantage (Nyberg *et al*, 2014; Ployhart, 2006).

## The constituents of human capital

Human capital consists of intellectual, social and organizational capital. The intellectual knowledge possessed by people is enhanced by the interactions between them (social capital) and generates the institutionalized knowledge possessed by an organization (organizational capital).

### Intellectual capital

The concept of human capital is associated with the overarching notion of intellectual capital, which is defined as the stocks and flows of knowledge available to an organization. These can be regarded as the intangible resources associated with people that, together with tangible resources (money and physical assets), comprise the market or total value of a business.

### Social capital

Social capital consists of the knowledge derived from networks of relationships within and outside the organization. Social capital has been defined by Putnam (1996: 66) as ‘the features of social life – networks, norms and trust – that enable participants to act together more effectively to pursue shared objectives.’ It is important to take into account social capital considerations, that is, the ways in which knowledge is developed and learning takes place (social learning) through interaction between people. Bontis *et al* (1999) commented that it is flows as well as stocks that matter. Intellectual capital develops and changes over time and a significant part is played in these processes by people acting together.

## Organizational capital

Organizational or structural capital is the institutionalized knowledge possessed by an organization that is stored in databases, manuals, etc. Ployhart and Moliterno (2011) defined it as ‘a unit-level resource that is created from the emergence of individuals’ knowledge, skills, abilities and other attributes. They present an ‘emergence’ model explaining how a number of individuals with specific human capital endowments can be combined in such a way that a ‘human capital resource’ emerges at the unit level.

## Measuring human capital

Human capital management is concerned with measuring the value of people – establishing their contribution to organizational performance in order to provide insight into the strengths and weaknesses of the organization’s approach to managing its key resource. Such measurements can assess the extent to which the organization has sufficient numbers of the sort of people it needs and analyse the operation and effectiveness of HR activities. Thus they can inform the process of developing human resource management strategy and indicate what steps need to be taken to change policy or practice.

But the CIPD (2018) warns that: ‘Understanding the context of data is key and as such there is no single measure, or set of measures, which can adequately convey its human capital value. Organizations need to decide which measures are relevant to them and will give them the information they need to effectively communicate the value and contribution of human capital both internally and externally.’ The CIPD also noted that ‘the emphasis for measurement is no longer on absolute measures of human capital, but instead context-specific information to enable informed decision making.’

There is, however, still a belief, at least in some academic circles, that absolute measures of the total value of human capital are useful, although it is recognized that establishing them presents considerable, possibly insurmountable difficulties which might explain why less interest is being taken in them by practitioners. Approaches to developing absolute and specific (contextual) measures and representing the value of people in different ways are discussed below.



## Absolute measures

As McMahan and Harris (2013: 114) observed: ‘Human capital has been measured in a multitude of ways and has been related to an array of individual outcomes.’ They identified the following approaches to the establishment of absolute measures, ie measures that indicate the total value of human capital in an organization:

- A single rater, eg the head of HR, makes an overall assessment using a scale including items such as levels of education, training, skills and abilities, and performance – but this is a subjective judgement from someone who may not have the information required to make it.
- Multiple raters – this reduces individual bias but is still largely subjective.
- Aggregation of individual measures to a higher level of analysis (team or organization) – the challenge is to find individual levels of analysis that can be aggregated.

### Source review

The individual context recognizes that each individual in the organization has characteristics that comprise human capital. He/she also engages in the processing of information, interpretation and reaction to that information in making choices about how to feel and behave. The aggregation of the individual human capital, we propose, constitutes the organization or unit’s ‘human capital’. Thus, this unit-level construct comprises the aggregation of individual-level constructs.

Wright and McMahan (2011: 101)

## Specific measures

The selection and use of specific measures or metrics will be dependent on the context of the organization. They could be drawn from the following groups of human capital data relating to different aspects of HR suggested by the CIPD (2018):

- workforce composition: demographics data including age, gender and ethnicity;
- recruitment and retention: number of resignations/vacancies/applications, length of service;
- skills, qualifications and competencies: levels of expenditure on training, types of training provided, length of time to reach competence levels, data on training needs;
- performance management: performance management results, productivity and profitability data, targets set and met, levels of customer satisfaction, customer loyalty;
- employee relations and voice: findings from employee attitude surveys;
- pay and benefits: overall wage bill costs, distribution of individual performance-related pay awards, level of total reward package;
- regulatory compliance: includes data on the compliance of employees to established standards and guidelines for working practices in particular disciplines;
- organization development and design: includes data on spans of control, skills mix and talent pipelines.

This data could contribute to the measurement of the absolute value of human capital but essentially it performs the function of enabling evidence-based decisions on the development of HR strategy and on the management of different parts of the HR system. The collection, analysis and interpretation of this data is the function of the operational wing of human capital management, people analytics (see Chapter 12). An approach to human capital measurement used by the Civil Aviation Authority is shown in Figure 4.1.

## Representing the value of people in different ways

Representing the value of people in an organization focuses attention on the importance of enhancing that value as a means of improving organizational performance. Analysis of data on trends in values provides a basis for HR planning and for monitoring the effectiveness of HR policies and practices.

**FIGURE 4.1** Human capital evaluation – Civil Aviation Authority

Value can be measured in financial terms in terms of the cost of employing people (the ratio of employment costs to the total costs incurred by the organization). In commercial enterprises, value can also be measured in terms of the contribution made by employees to the profitability of the business (profit per employee).

Value can be represented in non-financial terms by reference to the skills base and levels of capability in the organization. The data for these can be provided by preparing and updating skills inventories and by analysing information on organizational performance and the outcome of individual performance reviews.

## Approaches to people management raised by human capital theory

An approach to people management based on human capital theory involves obtaining answers to these questions:

- What are the key performance drivers that create value?
- What skills do we have?
- What skills do we need now and in the future to meet our strategic aims?
- How are we going to attract, develop and retain these skills?

- How can we develop a culture and environment in which organizational and individual learning takes place that meets both our needs and the needs of our employees?
- How can we provide for both the explicit and tacit knowledge created in our organization to be captured, recorded and used effectively?

### Pause for thought

What does the concept of human capital management add to that of human resource management?

## Key learning points

### Human capital management defined

- Human capital management (HCM) is an approach to managing people that regards them as assets and emphasizes that competitive advantage is achieved by strategic investments in those assets.
- It is concerned with the knowledge, skills, abilities and capacity to develop and innovate possessed by people in an organization and the added value they therefore provide. It treats them as assets to be invested in through resourcing, talent management and learning and development policies and practices.
- HCM also involves measuring the value of an organization's human capital, assessing the contribution of people and measuring the effectiveness of the HR practices used to manage them.
- Human capital in the shape of intellectual and social capital is different from other types of resources in that it is owned by employees and can be transferred to other firms if they leave. Therefore it is critical for firms to use HRM systems to enhance existing levels of human capital, initially by attracting high-quality people and providing them with development opportunities, and then preventing the loss of their human capital investments to other firms by enhancing the commitment of employees to the firm and applying retention policies.

### Human capital defined

Human capital is the knowledge, skills and abilities of the people employed in an organization. Human capital

theory regards people as assets and stresses that investment by organizations in people will generate worthwhile returns.

### Constituents of human capital

- Intellectual capital – the stocks and flows of knowledge available to an organization.
- Social capital – the knowledge derived from networks of relationships within and outside the organization.
- Organizational or structural capital – the institutionalized knowledge possessed by an organization that is stored in databases, manuals, etc.

### Measuring human capital

Human capital management is concerned with measuring the value of people – establishing their contribution to organizational performance in order to provide insight into the strengths and weaknesses of the organization's approach to managing its key resource.

The CIPD (2018) has noted that 'the emphasis for measurement is no longer on absolute measures of human capital, but instead context-specific information to enable informed decision making.'

### Representing the value of people in different ways

Representing the value of people in an organization focuses attention on the importance of enhancing that value as a means of improving organizational performance.

Value can be represented in terms of profit, cost, skills and capability.

Approaches to people management raised by human capital theory

An approach to people management based on human capital theory involves obtaining answers to these questions:

- What are the key performance drivers that create value?

- What skills do we have?
- What skills do we need?
- How are we going to attract, develop and retain these skills?
- How can we ensure that organizational and individual learning takes place?
- How can we provide for the knowledge created in our organization to be used effectively?

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# 05

## The context of HRM

### Introduction

Typical approaches to HRM and typical organizations don't exist. Organizations function in many different ways depending on their contexts. And so does HRM. Contingency theory tells us that definitions of aims, policies and strategies, lists of activities and analyses of the role of the HR function are only valid if they are related to the context or circumstances of the organization. Descriptions in textbooks like this can be no more than generalizations that suggest possible approaches: they cannot be prescriptive in the sense of laying down what should be done in all circumstances. It all depends.

#### Words of wisdom

Different organizational and environmental circumstances will necessitate transformation of general prescription into concrete strategy adapted to the situation in which it is to operate.

Karen Legge (1978: 97)

The aim of this chapter is to examine the main contextual factors that affect people management and the practice of HRM, namely: environmental factors (the nature of the internal and external environments); what is happening to work including the impact of emerging technology; and what is happening to the labour market.

### Environmental factors

Environmental factors inside and outside the organization exert a major influence on how the organization functions. This includes the need for concern over the impact of the organization on environmental issues such as pollution. Environmental factors will have a direct effect on the organization's human resource management policies and practices.

#### Words of wisdom

HRM in organizations cannot be fully understood in an atomic sense isolated from economic, social, and institutional interconnecting relationships.

Dundon and Rafferty (2018: 380)

### *The internal environment*

The internal environment of an organization consists of its social system (the ways in which work groups are organized and the interactions that take place) and its technical system (the ways in which the work is organized and carried out to deliver products or services to customers or clients). The other contextual factors are the sector in which the organization operates (eg public, private, voluntary, manufacturing, service), and its size, complexity, technology, culture and financial circumstances. Two other important factors are the type of people it employs and the presence or absence of trade unions

### Pause for thought

What differences in HRM organizations would you expect between a large and well-established insurance company and a start-up organization specializing in the development of AI applications?

## The external environment

The external environment impacts on organizations through the forces of national and international competition, the deregulation of markets and the impact of globalization (the process by which businesses or other organizations develop international influence or start operating on an international scale). Organizations are also influenced by the state of the financial and labour markets, economic and societal trends, developments in new technology, and government interventions in the shape of legislation and regulations.

## What's happening to work?

The nature of work is altering in many organizations. Some are operating more flexibly and some, for example high-technology firms, are being organized organically, ie they are relatively informal with the emphasis on lateral processes and interaction (networking). The external environment is constantly changing and may be turbulent, even chaotic. The following changes were noted by Jill Rubery and her colleagues:

### Source review

The radical shift in production principles signals the collapse of old employment standards – especially job-for-life norms, standard working hours and collective wage negotiation. New forms of ‘open innovation’ in services, for example, suggest organizations may need to access specialized creative, technical and professional skills on a temporary, part-time or freelance basis in an effort to build ‘outside-in knowledge’.

Rubery *et al* (2016: 245)

There have been significant shifts in the demographics of the workforce in the shape of an increased proportion of women, greater ethnic diversity, more educated employees and an ageing population. More people are engaged in ‘knowledge work’ (technology and professional services) and fewer in factory jobs following the decline of manufacturing in the UK. Work intensification is increasing. The pressure for flexibility has meant that traditional office or factory-based working is declining and the ‘gig economy’ and zero-hours contracts are flourishing. The state of the labour market is analysed in the next main section of this chapter.

David Guest (2017: 23) has pointed out that: ‘The 2008 financial crisis, greater international competition, technological changes that facilitate the expansion of the ‘gig’ economy and the growth of temporary employment have increased the numbers within what Standing (2011) describes as the “precariat” and have made large areas of employment potentially insecure.’

The Taylor Review of Modern Working Practices (2017) listed a number of factors that could lead to poorer outcomes for workers. The key factor was an imbalance of power between individuals and employers: ‘Where employers hold more power than employees, this can lead to poorer working conditions and lower wage levels’ (ibid: 26). A submission by the Citizen’s Advice Bureau, Newham, to the Review listed the following top three employment issues raised in enquiries to them:

- 1 unauthorized deduction of wages (26 per cent of enquiries);
- 2 unfair dismissal (19 per cent);
- 3 terms and conditions, many in relation to bogus self-employment (13 per cent).

Attitudes to work vary. Some people just see work as a means to an end while others see it as a source of fulfillment. Galbraith (2004: 75) argued for a distinction between ‘people for whom work is exhausting, fastidious and disagreeable and... those who manifestly take pleasure from it and feel no stress from it, with a gratifying sense of their personal importance, perhaps, or the visible superiority they feel in placing others under their orders.’ Those in the latter category are of course the highest-paid workers.

As described below, the most important changes have been the impact of emerging technologies and work intensification accompanied by major changes in the labour market.



## The impact of emerging technologies

New technologies are affecting work in a number of ways, as explained by the CIPD.

### Source review

Current emerging technology centres on artificial intelligence (AI), including both machine learning and robotics. This latest era is changing the nature of work in new ways, where the technology not only assists in basic physical tasks, but also [in] tasks that require higher cognitive functions. In addition, AI and automation can result in new integrations and co-operation possibilities and challenges, which also can create new types of jobs and services.

CIPD (2019: 4)

As a result of this impact, some commentators have predicted large-scale job losses. However, the Taylor Review (2017) noted that, as confirmed by research such as that undertaken by Deloitte in 2015, technological advancements and the automation of individual tasks result in job creation as well as substitution of labour. This is the concept of the *augmentation* of human work, rather than its *replacement*.

But there may be a time lag between job losses and job creation.

### Source review

This new study has shown that technology is having a profound effect on the UK's workforce. Lower-skilled, routine jobs are progressively being replaced by higher-skilled, non-routine jobs that require dexterity, creativity, digital know-how and other 'softer' people skills. This technology-driven shift has already created nearly four times more jobs than have been lost, and it has brought considerable additional value to the UK's economy. It also accentuates the importance of generating and retaining the right skills in the workforce.

Deloitte (2015: 11)

There is also evidence from research conducted by the CIPD in conjunction with Loughborough University (2017a) that new technology can improve the quality of work by removing mundane tasks and allowing for some degree of role expansion. Examples identified by the research included:

- An automated dispensing system in a UK hospital reduced the amount of time pharmacists spent in the dispensary, which was better used to care for patients on wards.
- An automated decision support system for air traffic controllers, advising them on optimal solutions in a real-time setting, increased their performance and accuracy without increasing their workload.
- A comparison of a realistic rail-signalling automation model and experienced human rail signal operators found that as automation increased, the perceived workload of human operators, both mentally and physically, decreased and the consistency of performance increased.

The CIPD (2019: 33) observed that 'AI and automation are potentially deskilling and disempowering, but they are more likely to free people to do more value-added, higher-skilled tasks and exercise more discretion in decision making.' Their survey indicated that while the greatest drivers for AI [artificial intelligence] and automation are business focused – in particular to improve service quality, reduce costs and keep up with competitors – they can also deliver real benefit for workers.

## Work intensification

Work intensification is the process of raising the expected workload of an employee by increasing the amount of tasks to be undertaken or shortening the time allowed to complete those tasks. A Cardiff University study in 2012 found that work intensification increased from 31.5 per cent of the working population in 1992 to 45.3 per cent in 2012. The study established that intensification commonly occurred in workplaces where new computerized equipment or other information and communication technology had recently been introduced. Other factors included increased competitiveness and the pressure on employers to cut costs and a change in the balance of power between employers and employees, although high work intensity was

not associated with reductions in the number of employees (downsizing).

### Pause for thought

Isn't work intensification an inevitable feature in current organizational life? If it is, what can be done to modify its effects?

Research in New Zealand by Macky and Boxall (2008) showed that work intensification reduces job satisfaction, increases stress and undermines work-life balance.

## The labour market

The labour market is the place where employers seek workers and workers seek employment. Jill Rubery and her colleagues made the following observations about its characteristics:

### Source review

Cross-national comparative research suggests that the UK's deregulated labour market is the most likely among European countries to generate a 'lean' model of work organization, described by teamwork, job rotation, relatively low worker autonomy, tight quantitative production rules and relatively high use of fixed-term employment. It is less likely to generate employee commitment, for which fair treatment and job security are critical ingredients.

Rubery *et al* (2016: 246)

The nature of the labour market in terms of its composition and the availability of people for employment will affect how organizations develop and apply their recruitment policies. Recruitment problems arise because of skills shortages or the reduction in the numbers of workers from overseas. The rise of the gig economy and the use of zero-hours

contracts affect the nature of the labour market and the approaches adopted by employers to satisfy their employment requirements. There is also uncertainty in the UK about the implications of Brexit.

The state of the labour market in the UK in 2017 was described by the CIPD as follows:

### Source review

At present, however, despite the economic uncertainty surrounding Brexit, the labour market is buoyant, at or nearing full employment in many UK localities. It might be expected that as labour becomes more scarce, the market would correct for poor jobs as employers seek to improve the attractiveness of their offer. This has not happened. A persistent bad-jobs trap exists in the UK with too many workers in low-skill, low-wage jobs being unable to progress out of these jobs. In-work poverty (having an income that is below the official poverty line) continues to be an issue.

CIPD (2017b: 9)

## The composition of the UK labour market

As reported by the Taylor Review (2017), full-time, permanent work as an employee continues to make up the majority of employment in the UK (63 per cent). However, there has been a shift towards more flexible forms of working, with changes in levels of part-time working and self-employment. Currently, almost 26 per cent of employment is in part-time work and self-employment now accounts for around 15 per cent of total employment.

## Recruitment

The CIPD (2017c) reported that recruitment difficulties, especially for professionals and specialists, remain substantial for organizations, with three-quarters experiencing them in the last year. A tenth of organizations had difficulties recruiting for more than 50 per cent of their vacancies. There has been a decline in applicants per vacancy across all skill levels, with the biggest drop seen in low- and medium-skilled roles.



## The gig economy

The gig economy is a labour market characterized by the prevalence of short-term contracts or freelance work as opposed to permanent jobs. It is said to get its name because each piece of work is akin to an individual ‘gig’ – a brief musical performance by a band or a group (‘gig’ is short for engagement). The CIPD (2017d) stated that the number of people in the UK working in the gig economy, such as Uber drivers and delivery people, was about 1.3 million.

Gig workers are treated as contractors with no guarantee of pay and no employment rights. They are constantly being subjected to last-minute scheduling. Their employers say they provide the flexibility for people to work whenever they like but critics argue that not only do workers lack protection and fair pay, but the roles aren’t as flexible as they seem, as workers are pressured or incentivized to work when their employers need them. To deal with this problem, the Taylor Review suggested that the government should create a new category of worker, known as a ‘dependent contractor’, that sits between contractors and those in full employment, and brings with it some benefits and wage protection.

Research by the CIPD (2017e) found that a higher proportion of gig workers are aged 18–29, with nearly four in ten falling into this category, compared with just 21 per cent of other workers. Gig economy workers are marginally more likely to be male (56 per cent) than other workers. The Royal Society of Arts (2017) reported that gig working has the potential to expand into sectors such as retail and confirmed that this type of work is particularly attractive to young people.

### Pause for thought

What are the implications of the gig economy for the future of work?

## Possible implications of Brexit

Brexit may create recruitment problems and labour shortages in some sectors, especially those employing a high share of EU nationals such as hospitality, healthcare, food production, retail and

construction. The UK Government has stated its intention to introduce migration restrictions that will focus on attracting ‘the brightest and the best’ EU nationals to the UK. However, this could have a negative impact if implemented without due understanding of the needs of unskilled or low-skilled industries. It is possible that Brexit will mean immigration restrictions taking place at a time when the UK labour market is already tight. The following are the comments of the CIPD on the implications of Brexit:

### Source review

Brexit will affect sectors and occupations differently, with varying impacts on resourcing requirements and talent availability. Availability should be more apparent once the new immigration rules are settled. However, factors including changing trading regulations and potentially increased costs, (temporarily) lower exchange rates, a general economic upturn or downturn, wage inflation, and so on, could have less apparent and certainly more complex effects on resourcing requirements.

CIPD (2018a: 3)

## Zero-hours contracts

The CIPD (2018b: 1) defines a zero-hours contract as ‘an agreement between two parties that one may be asked to perform work for another but there is no minimum set contracted hours. The contract will state what pay the individual will get if they do work, and what will happen when they turn down work offered.’ The Taylor Report (2017) stated that the proportion of the labour force in zero-hours contracts is 2.8 per cent.

The exact nature of zero-hours contracts may differ from organization to organization. For example:

- individuals on zero-hours contracts may be engaged as employees or workers;
- in some zero-hours contracts the individual will be obliged to accept work if offered, but in others they will not;
- the pay arrangements and benefits provided may differ.

They are most suited to situations where work fluctuates unexpectedly so that the employer cannot always guarantee work and are most common in retail, hospitality and restaurants.

Zero-hours contracts have received very bad press but on the basis of their research, the CIPD has taken a more favourable view, as set out below:

### Source review

Zero-hours contracts have sometimes, it seems, been singled out as an especially unfair form of employment. In our view, this is unjustified. Our research shows that zero-hours contracts appear to work well for many of those on them. But they are not for everybody and that's why zero-hours contract workers need to understand their employment rights as well as how these contracts are likely to work in practice. Zero-hours contracts work best when there's an element of

give and take, a recognition that flexibility works both ways. A small minority of employers using them don't seem to recognize this, but there are many 'permanent' jobs where the actions of employers can make them anything but secure. There may be too much emphasis at times on the precise terms of the employment contract with not enough attention given to the spirit in which the employment relationship is conducted.

CIPD (2015: 2)

### Key learning points

#### Contingency theory

Typical approaches to HRM and typical organizations don't exist. Organizations function in many different ways depending on their contexts. And so does HRM. Contingency theory tells us that definitions of aims, policies and strategies, lists of activities and analyses of the role of the HR function are only valid if they are related to the circumstances of the organization

#### Environmental factors

Environmental factors inside and outside the organization exert a major influence on how the organization functions and on its human resource management policies and practices.

#### The internal environment

The internal environment of an organization consists of its social system (the ways in which work groups are organized and the interactions that take place) and its technical system (the ways in which the work is organized and carried out to deliver products or services to customers or clients).

#### The external environment

The external environment impacts on organizations through the forces of national and international competition, the deregulation of markets and the impact of globalization (the process by which businesses or other organizations develop international influence or start operating on an international scale).

Organizations are also influenced by the state of the financial and labour markets, economic and societal trends, developments in new technology, and government interventions in the shape of legislation and regulations.

#### What's happening to work?

There have been significant shifts in the demographics of the workforce in the shape of an increased proportion of women, greater ethnic diversity, more educated employees and an ageing population. More people are engaged in 'knowledge work' (technology and professional services) and fewer in factory jobs

The pressure for flexibility has meant that traditional office or factory-based working is declining and the 'gig economy' and zero-hours contracts are flourishing.

## The impact of emerging technologies

As a result of the impact of emerging technologies, including artificial intelligence (AI) and rapid developments in automation in the form of machine

learning and processing capacity, some commentators have predicted large-scale job losses. However, research has shown that technological advancements result in job creation as well as substitution of labour.

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# 06

## HRM and performance

### Introduction

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The internal factors that shape short- and long-term business performance are the quality of the people working for the organization at every level, the capacity of the organization to innovate and compete, and the efficiency with which it plans and conducts operations, which includes cost effectiveness. The external factors are competition in the UK and globally, economic trends, Government financial and business policies and legislation, international influences and pressures, eg Brexit, and the state of the labour market.

But to do well, organizations depend largely on the quality, dedication, enthusiasm, expertise and skill of the people working in them. The message of the resource-based view is that HRM delivers added value and helps to gain ‘sustainable competitive advantage’ through the strategic development of the organization’s rare, hard-to-imitate and hard-to-substitute human resources. As Guest (1997: 269) argued: ‘The distinctive feature of HRM is its assumption that improved performance is achieved through the people in the organization.’ If, therefore, appropriate HR policies and practices are introduced, it can also be assumed that HRM will impact on firm performance. ‘The way in which human resource management (HRM) contributes to business performance is at the heart of the field of strategic HRM’ (Boxall, 2013: 47).

This chapter is concerned with how HR can contribute to the improvement of organizational performance. In the initial section, consideration is given to the foundation of any evidence-based

performance improvement programme, namely, the measurement of organizational performance in financial and non-financial terms as a basis for identifying issues and indicating possible courses of action. Guidance on any actions that HR might take is provided by the evidence from research on what impact HRM can make on performance, and how it does this as covered in the next two sections of the chapter. The chapter concludes with an analysis of what steps can be taken by HR to enhance performance in the shape of developing a high-performance culture and introducing a high-performance work system.

### Measuring organizational performance

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Organizational performance can be measured in financial and non-financial terms:

#### *Financial measures*

- Shareholder value – the financial value delivered by a company to its shareholders.
- Profit (in a business) – the amount by which the value of sales exceeds costs.
- Financial performance (in a not-for-profit organization) – the surplus or deficit of income over expenditure; control of expenditure.
- Sales turnover – the value of the sales made by the business.

- Return on capital employed – the profits earned by the company as a percentage of its financial assets (profitability).
- Earnings per share – profits divided by the number of shares.
- Productivity – the added value created by the company divided by the number of employees (added value is the difference between the value of sales and the cost of labour and bought-in parts).
- Cost per unit of output – cost of production divided by the number of units produced.

### Non-financial measures

- Quality and execution of corporate strategy (extent to which goals have been achieved).
- Management expertise.
- Innovation and research leadership.
- Effectiveness of human capital management – ability to attract, retain and develop talented people.
- Quality of product or service.
- Market share.
- Ratio of number of employees to output, for example units produced.
- Exercise of corporate social responsibility especially in connection with environmental issues.
- Reputation as a business and as an employer.
- Levels of customer service.

#### Pause for thought

If you had to select three key financial measures and three key non-financial measures, which would you choose and why?

#### Words of wisdom

Most businesses make the mistake of measuring performance in terms of figures when they ought to be measuring it in terms of people. The primary measures of a business's success should be customer and staff satisfaction, not profits. Profits are simply an indication that you are getting customer service right.

Julian Richer (2017: 6)

## The impact of HRM

Much research has been carried out showing that people practices can create value and that good HRM practice and firm performance are correlated. As Woodrow and Guest (2014: 51) commented: 'One stream of previous research has placed employee responses at the heart of the analysis and has shown that HR policy and practice can affect employee attitudes and behaviour, which in turn affects organizational performance.' But they also observed that any impact is likely to be limited if good HR policy and practice are poorly implemented.

Notable examples of UK research on the impact of HRM are Birdi *et al* (2008), Guest *et al* (2000a), Patterson *et al* (1997), Purcell *et al* (2003), Thompson (2002) and West *et al* (2002). Their findings are summarized in Table 6.1.

Elsewhere, Huselid (1995) examined the relationship between high-performance work systems (HPWS) and firm performance in a sample of 1,000 US firms (the features of an HPWS are described in the last section of this chapter). He found that HPWSs reduce employee turnover and increase productivity, thus having a positive effect on corporate financial performance. Guthrie (2001) replicated Huselid's methodology in a sample of New Zealand firms and found a similar relationship between HPWSs and firm performance. Khatri (2000) used a sample of 200 of the largest companies representing all major industries in Singapore to examine the links between strategy and

**TABLE 6.1** Research on the link between HRM and firm performance

Researcher(s)	Methodology	Outcomes
Birdi <i>et al</i> (2008)	A longitudinal research study by the Institute of Work Psychology, University of Sheffield covering 308 companies over 22 years designed to establish the impact of various HRM and operational practices on company productivity.	It was found that the impact of empowerment (job enrichment) was to produce a gain of nearly 7 per cent of value added per employee, while the gain for extensive training was nearly 6 per cent. But teamwork did not make a significant impact, neither did total quality management or just-in-time.
Guest <i>et al</i> (2000a)	An analysis of the 1998 WERS survey which sampled some 2,000 workplaces and obtained the views of about 28,000 employees.	A strong association exists between HRM and both employee attitudes and workplace performance.
Patterson <i>et al</i> (1997)	The research examined the link between business performance and organization culture and the use of a number of HR practices.	HR practices explained significant variations in profitability and productivity (19 per cent and 18 per cent respectively). Two HR practices were particularly significant: (1) the acquisition and development of employee skills, and (2) job design including flexibility, responsibility and variety.
Purcell <i>et al</i> (2003)	A University of Bath longitudinal study of 12 companies to establish how people management impacts on organizational performance.	The most successful companies had 'the big idea.' They had a clear vision and a set of integrated values. They were concerned with sustaining performance and flexibility.
Thompson (2002)	A study of the impact of high-performance work practices such as teamworking, appraisal, job rotation, broad-banded grade structures and sharing of business information in UK aerospace establishments.	The number of HR practices and the proportion of the workforce covered appeared to be the key differentiating factor between more and less successful firms.
West <i>et al</i> (2002)	Research conducted in 61 UK hospitals obtaining information on HR strategy, policy and procedures from chief executives and HR directors and mortality rates.	An association between certain HR practices and lower mortality rates was identified. As noted by West: 'If you have HR practices that focus on effort and skill; develop people's skills; encourage cooperation, collaboration, innovation and synergy in teams for most, if not all employees, the whole system functions and performs better.'

HR practices, and HR practices and firm performance. Results showed that overall strategy affects HR practices, HR practices have a direct effect on organizational performance, and business strategy moderates the relationship between HR practices and organizational performance.

It was suggested by Peccei (2004) that wellbeing had a key role in enhancing organizational performance.

Peccei *et al* (2013: 15) pleaded that any analysis of the link between HRM and performance should be more employee-centred and look explicitly at the effect that HR practices have on employee wellbeing. They noted that a considerable amount of research had been carried out focusing specifically on the positive relationships between HR practices, employee wellbeing and organizational performance (Orlitzky



and Frenkel, 2005; Wright *et al*, 2005; Vanhala and Tuomi, 2006).

## The impact of rewards on performance

Conceptually, rewards can improve individual or team performance by encouraging people to work smarter or harder – money can provide positive motivation in the right circumstances, not only because people need and want money but also because it serves as a highly tangible means of recognition. But the ability of financial rewards to do this has been questioned by commentators such as Herzberg (1966), Kohn (1993) and Pink (2009). Badly designed and managed pay systems can demotivate rather than motivate people. However, non-financial rewards, especially the recognition of achievement and contribution, can provide intrinsic motivation (see Chapter 24) that can lead to improved performance.

## How HRM makes an impact

Storey *et al* (2009: 4) observed that: ‘The premise is that, in some shape or form, HR policies have an effect on HR practices and these in turn influence staff attitudes and behaviours which will, in turn again, impact on service offerings and customer perceptions of value.’ The assumption is that good HRM practices will enhance performance and add value, ie the benefits to the organization will exceed the cost of developing and operating them.

### Words of wisdom

An optimistic version [of the relationship between HRM and performance] proposes that HRM has a positive association with performance because workers respond positively to it. An alternative, more pessimistic view is that HR practices result in intensification of work and it is this that leads to performance gains.

Guest and Bos-Nehles (2013: 79)

Bowen and Ostroff (2004) argued that the link between HRM and performance is likely to be greater where what they describe as a ‘strong’ HR system is in place. Core characteristics of their ‘strong’ system are high levels of distinctiveness, consistency and consensus. Where these are present there will be an organizational climate that supports HR implementation. But they suggested that it is not enough just to have good practices; they have to be properly implemented. As Guest (2011: 6) commented: ‘What this does is switch the focus to line management.’ Nishii *et al* (2008) argued that it is not just the presence of practices that is important but ‘perceptions about the intentions behind the practices.’

### Words of wisdom

To make an impact HR practices must be present, they must be effective and they must be effectively implemented.

Guest and Conway (2011: 1700)

## Uncertainties about the link between HRM and performance

As noted earlier, much research has demonstrated an association between HRM and performance. But Guest *et al* (2000b) observed that it left uncertainties about cause and effect.

### Words of wisdom

HR practices seem to matter; logic says it is so; survey findings confirm it. Direct relationships between performance and attention to HR practices are often fuzzy, however, and vary according to the population sampled and the measures used.

Ulrich (1997: 304)

Pauwe (2009) remarked that although progress has been made on the link between HRM and performance, significant methodological issues exist to the understanding of this relationship. He argued that while it may be possible to observe HRM inputs in the form of HR practices and to measure firm performance outputs, it may be difficult to ascertain, through research, what happened in between – what the HRM outcomes were that converted the input of HR practices into firm performance outputs. This is the so-called black box. Guest (2011: 11) concluded that: ‘After hundreds of research studies we are still in no position to assert with any confidence that good HRM has an impact on organization performance.’ He also asserted that the research is riddled with errors both with respect to data on HRM and on outcomes.

### Pause for thought

How do you think people practices can create value for an organization?

There are two issues that affect the determination of a link between HRM and firm performance: ‘causal ambiguity’ and ‘contingency factors.’

### Causal ambiguity

The term causal ambiguity refers to the numerous, subtle and often hidden interconnections between the factors influencing cause and effect. Boselie *et al* (2005: 75) referred to the causal distance between an HRM input and an output such as financial performance: ‘Put simply, so many variables and events,

both internal and external, affect organizations that this direct linkage strains credibility.’

A basic reason for ambiguity is multiple causation, which exists when there is more than one possible cause for an effect. HRM may have caused an improvement in performance but there may be many other economic or business factors that did so, and it could be difficult to unravel them. Another factor is the possibility of reversed causality (a situation where A might have caused B but B might well have caused A). As Purcell *et al* (2003: 2) expressed it: ‘Although it is nice to believe that more HR practices leads to higher economic return, it is just as possible that it is successful firms that can afford more extensive (and expensive) HRM practices.’

### Contextual factors

Causation will additionally be affected by the organization’s context, ie the internal and external environmental factors that influence what happens within the organization.

### The black box phenomenon

The black box phenomenon, as illustrated in Figure 6.1, is the situation in which, while it may be possible to observe HRM inputs in the form of HR practices and to measure firm performance outputs, it may be difficult to ascertain through research what happened in between – what the HRM outcomes were that converted the input of HR practices into performance outputs. Alvesson (2009: 56) suggested that: ‘Research does not proceed beyond attempts to find an empirical association between HR practices and organizational performance. The phenomena are in a black box, only input and output are registered and what is happening remains clouded in the dark.’

**FIGURE 6.1** The black box phenomenon





## Explanations of how HRM makes an impact

Guest (1997: 268) stated that: ‘The assumption is that “appropriate” HRM practices tap the motivation and commitment of employees.’ His view on how expectancy theory might help to explain the HR/performance link is given below.

### Source review

The expectancy theory of motivation provides one possible basis for developing a more coherent rationale about the link between HRM practices and performance. Although expectancy theory is concerned primarily with motivation, it is also a theory about the link between motivation and performance. Specifically, it proposes that high performance at the individual level depends on high motivation plus possession of the necessary skills and abilities and an appropriate role and understanding of that role. It is a short step to specify the HRM practices that encourage high skills and abilities, for example careful selection and high investment in training; high motivation, for example employee involvement and possibly performance-related pay; and an appropriate role structure and role perception, for example job design and extensive communication and feedback.

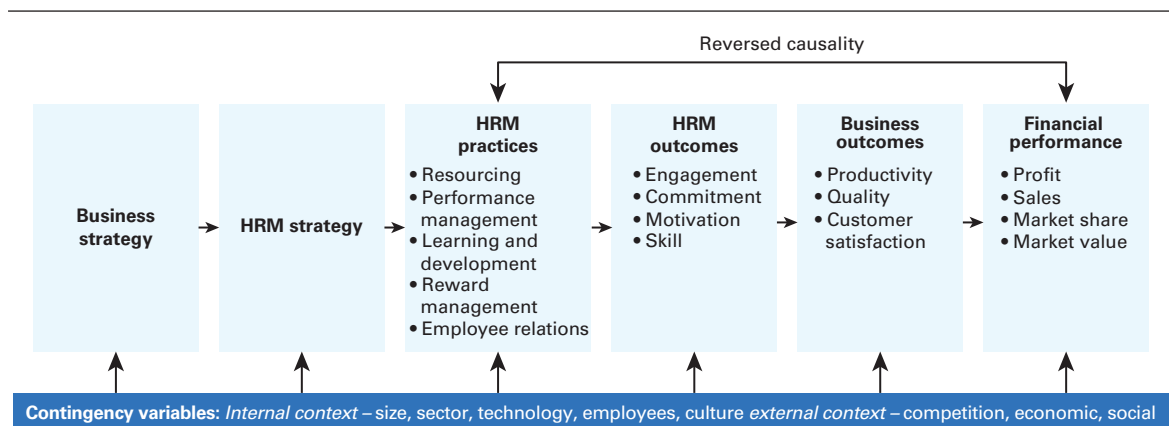
Guest (1997: 268)

Opinions on how people practices add value and how HRM impacts on organizational performance are likely to be based on three propositions: (1) that HR practices can make a direct impact on employee characteristics such as engagement, commitment, motivation and skill; (2) if employees have these characteristics it is probable that organizational performance in terms of added value, productivity, quality and the delivery of high levels of customer service will improve; and (3) if such aspects of organizational performance improve, the financial results achieved by the organization will improve. This can be described as the HR value chain.

The propositions highlight the existence of an intermediate factor between HRM and financial performance. This factor consists of the HRM outcomes in the shape of employee characteristics affected by HR practices. Therefore, HRM does not make a direct impact. A model of the impact of HRM taking into account the considerations of reverse causation and contingency effects mentioned earlier is shown in Figure 6.2.

As explained by Guzzo and Noonan (1994) and Rousseau (1995), HR practices communicate important goals and desired employee behaviours from the organization to the employee. They can be seen as ‘signals’ and are interpreted as such by individual employees (Den Hartog *et al.*, 2004). The signals of the HR system are, however, often not interpreted similarly or reacted to in the same way by each individual due to differences in experience, values or preferences. Wright and Nishii (2007) suggested that it is not the HR practices as intended by policy makers, but rather how employees experience

**FIGURE 6.2** Impact of HRM on organizational performance



Source Based on Paauwe (2004)

the HR practices that will affect employee outcomes. This belief is reinforced by the AMO model as described below.

### How the AMO model explains the impact of HRM

The AMO model (Boxall and Purcell, 2003) states that performance depends on the individual's ability, motivation and opportunity. It provides valuable guidance on the HRM practices that should be included in a high-performance work system (HPWS). A meta-analysis by Jiang *et al* (2012) established that the three dimensions of HR practices linked to the AMO formula – skills, motivation and opportunity enhancement – could lead to improved financial performance. As emphasized later by Delery and Roumpi (2017: 3): 'The systems approach that emerged suggests that it is the appropriate combination of different HRM practices rather than individual practices that can ensure the enhancement of all three components of the AMO model and ultimately lead to high employee or workforce performance.' They also commented

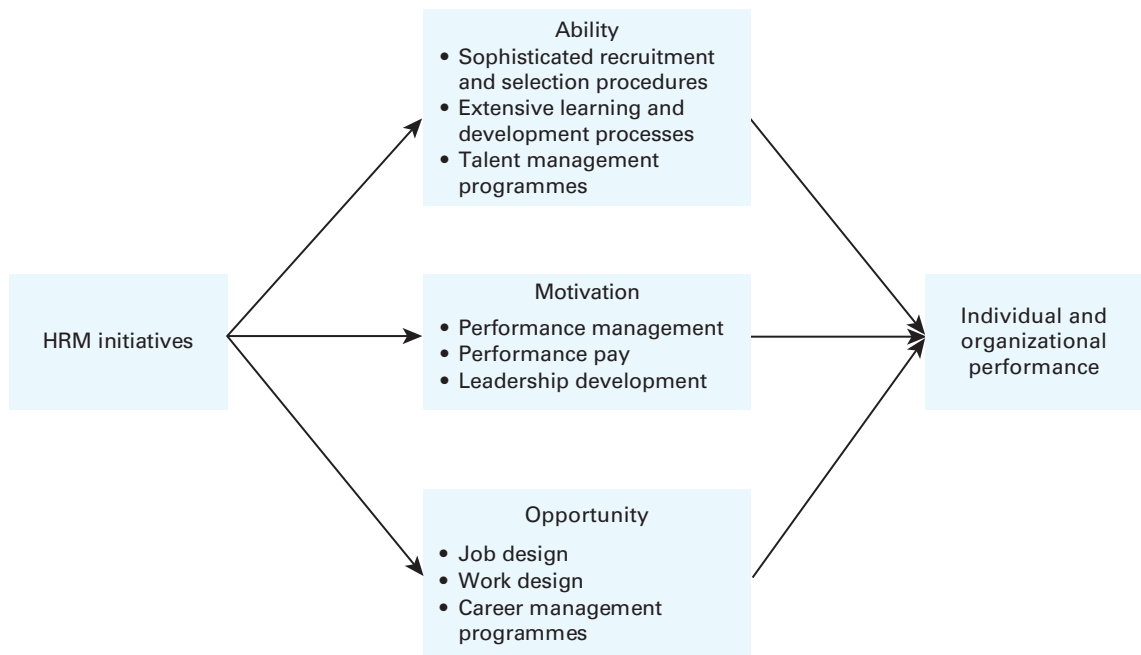
that: 'Despite the lack of consensus regarding the HRM practices that are or should be included under the umbrella term high-performance work practices (HPWPs), there is a common thread across the different proposed sets of practices: they address the aspects of the AMO model. In other words, HRM practices that combine as HPWPs can be viewed as ability-enhancing or skill-enhancing, motivation-enhancing and opportunity-enhancing or empowerment-enhancing' (ibid: 6). As illustrated in Figure 6.3, the AMO model can provide a framework for performance enhancing practices.

#### Words of wisdom

Arguably, the most sustainable HR systems serve investors well while also serving employees and their communities well.

Boxall (2013: 57)

**FIGURE 6.3** The AMO model as a framework for performance enhancing HRM practices



## The contribution of HR

Research by Khilji and Wang (2006: 1174) established that: 'It is the ability of HRM to motivate employees that proves to be a necessary condition for improved organizational performance.' HR makes an important contribution to enhancing organizational performance by developing and implementing HR strategies that focus on high performance and by ensuring that the HR system delivers the human capital the organization needs. This can be done by fostering a high-performance culture as described below.

### Pause for thought

What do you think is the main contribution that the AMO model makes to the practice of people management?

## The development of high-performance working

Organizations achieve sustained high performance through the systems of work they adopt, but these systems are managed and operated by people. Ultimately, therefore, high-performance working is about improving performance through people. This can be done by the development and implementation of a high-performance culture.

High-performance cultures are ones in which the achievement of high levels of performance is a way of life. The characteristics of such cultures are:

- Management defines what it requires in the shape of performance improvements, sets goals for success and monitors performance to ensure that the goals are achieved.
- Alternative work practices are adopted such as job redesign, autonomous work teams, improvement groups, team briefing and flexible working.
- People know what is expected of them – they understand their goals and accountabilities.

- People feel that their job is worth doing, and there is a strong fit between the job and their capabilities.
- There is a focus on promoting positive attitudes that result in an engaged, committed and motivated workforce.
- Performance management processes are aligned to business goals to ensure that people are engaged in achieving agreed objectives and standards.
- Capacities of people are developed through learning at all levels to support performance improvement and they are provided with opportunities to make full use of their skills and abilities.
- A pool of talent ensures a continuous supply of high performers in key roles.

A high-performance culture can be developed through a high-performance work system.

### Pause for thought

If you were an HR director and your chief executive asked what you and your function could do to improve organizational performance, what would you reply?

## High-performance work systems

High-performance work systems (HPWS) are bundles of HR practices that facilitate employee involvement, skill enhancement and motivation. An HPWS was described by Becker and Huselid (1998: 55) as: 'An internally consistent and coherent HRM system that is focused on solving operational problems and implementing the firm's competitive strategy.' The approach used in an HPWS is sometimes referred to as 'high-performance working.'

High-performance work systems incorporate bundles of complementary practices that, as an integrated whole, make a much more powerful impact on performance than if they were dealt with as

separate entities. Appelbaum *et al* (2000) stated that they facilitate employee involvement, skill enhancement and motivation. Research conducted by Sung and Ashton (2005), Combs *et al* (2006) and Ericksen (2007) indicated that an HPWS can significantly improve performance.

## Features of an HPWS

There is no generally accepted definition of an HPWS and there is no standard list of the features or components of such a system. In spite of this problem of definition, an attempt to describe the basic components of an HPWS was made by Shih *et al* (2005) as follows:

- *Job infrastructure* – workplace arrangements that equip workers with the proper abilities to do their jobs, provide them with the means to do their jobs, and give them the motivation to do their jobs. These practices must be combined to produce their proper effects.
- *Training programmes to enhance employee skills* – investment in increasing employee skills, knowledge and ability.
- *Information sharing and worker involvement mechanisms* – to understand the available alternatives and make correct decisions.
- *Reward and promotion opportunities that provide motivation* – to encourage skilled employees to engage in effective discretionary decision making in a variety of environmental contingencies.

Many descriptions of high-performance systems include lists of desirable features and therefore embody the notion of ‘best practice’. However, Gephart (1995) noted that research has not clearly identified any single set of high-performance practices. Becker *et al* (1997) pointed out that high-performance work systems were idiosyncratic and had to fit the organization’s individual circumstances. The lists that have been compiled vary considerably, as is shown in the selection set out in Table 6.2.

**TABLE 6.2** Components of an HPWS

US Department of Labor (1993)	Appelbaum <i>et al</i> (2000)	Sung and Ashton (2005)	Thompson and Heron (2005)
<ul style="list-style-type: none"> <li>● Careful and extensive systems for recruitment, selection and training.</li> <li>● Formal systems for sharing information with employees.</li> <li>● Clear job design.</li> <li>● High-level participation processes.</li> <li>● Monitoring of attitudes.</li> <li>● Performance appraisals.</li> <li>● Properly functioning grievance procedures.</li> <li>● Promotion and compensation schemes that provide for the recognition and reward of high-performing employees.</li> </ul>	<ul style="list-style-type: none"> <li>● Work is organized to permit front-line workers to participate in decisions that alter organizational routines.</li> <li>● Workers require more skills to do their jobs successfully, and many of these skills are firm-specific.</li> <li>● Workers experience greater autonomy over their job tasks and methods of work.</li> <li>● Incentive pay motivates workers to extend extra effort on developing skills.</li> <li>● Employment security provides front-line workers with a long-term stake in the company and a reason to invest in its future.</li> </ul>	<ul style="list-style-type: none"> <li>● High-involvement work practices – eg self-directed teams and sharing/ access to company information.</li> <li>● Human resource practices – eg sophisticated recruitment processes, performance appraisals, work redesign and mentoring.</li> <li>● Reward and commitment practices – eg various financial rewards, family-friendly policies, job rotation and flexi hours.</li> </ul>	<ul style="list-style-type: none"> <li>● Information sharing.</li> <li>● Sophisticated recruitment.</li> <li>● Formal induction programme.</li> <li>● Five or more days of off-the-job training in the last year.</li> <li>● Semi or totally autonomous work teams; continuous improvement teams; problem-solving groups.</li> <li>● Interpersonal skill development.</li> <li>● Performance feedback.</li> <li>● Involvement – works council, suggestion scheme, opinion survey.</li> <li>● Team-based rewards, employee share ownership scheme, profit-sharing scheme.</li> </ul>

However, Godard (2004) suggested that such lists were no more than bundles of long-accepted good HRM practices. This may be so and in any case these practices will vary according to circumstances. But an essential and defining ingredient in an HPWS is the notion of ‘bundling’ HR practices to make them mutually supportive and therefore more effective. A longitudinal study by De Menezes *et al* (2010) found that British firms investing in Japanese-style lean manufacturing systems such as integrated computer-based

technology and total quality management perform better when they integrate these costly changes in production strategy with a more empowering style of HRM and extensive employee training.

But the CIPD (2017: 24) observed that ‘high-performance work systems remain more topical than typical in the UK.’ A survey by UKCES (2014) found that only 12 per cent of organizations have adopted all or most of the HR practices that comprise a HPWS.

## CASE STUDY

### Performance strategy at Johnson and Johnson

The strategy was to develop an integrated performance and development process into the organization. To do this it was appreciated that an enhanced process required a cultural shift within the organization. It was accepted that performance management should be a continuous process and was not a one-time event; it

takes time and effort and a dedication to developing people. It was also understood that from a business standpoint it was critical to build and develop the talent pipeline of the organization to meet aggressive business goals and to operate profitably in a dynamically changing marketplace.

## Key learning points

### The impact of HRM

Much research has been carried out showing that good HRM practice and firm performance are correlated; notable examples in the UK are Guest *et al* (2000a), Patterson *et al* (1997), Purcell *et al* (2003), Thompson (2002) and West *et al* (2002).

### How HRM makes an impact

An explanation of the impact of HRM is based on three propositions:

- 1 that HR practices can make a direct impact on employee characteristics such as engagement, commitment, motivation and skill;

- 2 if employees have these characteristics it is probable that organizational performance in terms of productivity, quality and the delivery of high levels of customer service will improve; and
- 3 if such aspects of organizational performance improve, the financial results achieved by the organization will improve.

### How the AMO model explains the impact of HRM

The AMO model states that performance depends on the individual’s ability, motivation and opportunity. It provides valuable guidance on the HRM practices that should be included in a high-performance work system (HPWS).

### The contribution of HR

HR can contribute to enhancing organizational performance by providing insight on the performance issues affecting the organization and its employees including the development of a high-performance work system.

### High-performance work systems

HPWS are bundles of HR practices that facilitate employee involvement, skill enhancement and motivation.

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## 07

# International HRM

## Introduction

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International human resource management (international HRM) is the process by which multinational companies (MNCs) manage people across international boundaries. It involves the worldwide management of people, not just the management of expatriates.

It was stated by Brewster *et al* (2005: 949) that: 'A critical challenge for organizations from both the public and private sectors in the 21st century is the need to operate across national boundaries.' As Sparrow *et al* (2011: 50) commented: 'The ultimate aim of multinational companies (MNCs) is to build a core competence of being able to transfer capability across multiple countries, which involves monitoring the implementation of relevant policies and practices, ensuring an adequate corporate culture, establishing the necessary networks, and ensuring all parts of the organization are sensitive to the needs of international staff.'

The fundamental differences between international and domestic HRM are that in an international organization:

- HRM is more complex because it involves operating across national boundaries rather than within only one boundary and therefore takes place in different countries, each with its own culture and institutions.
- It is necessary to manage a wider mix of people at headquarters and in foreign subsidiaries that employ local staff (home country nationals) and expatriates from either the parent company (parent company nationals) or other countries (third country nationals).
- Choices have to be made on the extent to which parent company HRM policies and

practices should be adopted by subsidiaries – how far they should converge or diverge.

- Choices have to be made on the extent to which HR decisions on matters such as appointments, promotions, redeployments and talent management should be centralized or decentralized.
- The management of expatriates involves different approaches to selection, training, career management remuneration and special concerns about the adjustment of expatriates to working in foreign countries and to the problems of repatriation.
- HR professionals have to exercise a broader range of expertise covering knowledge about foreign countries, their cultures and their institutions.
- Firms become more involved in the personal lives of their expatriate employees.

International HRM is covered in this chapter under the following headings: the international scene, international strategy, contextual factors, convergence and divergence, the practice of international HRM, and the employment of expatriates.

## The international scene

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Internationalization is the process of international economic integration in worldwide markets. Isidor *et al* (2011: 2167) observed that: 'Internationalization offers firms manifold advantages such as realizing economies of scale and scope, learning from international markets, exploiting interrelations between business segments and geographic areas, achieving risk diversification, and cost reduction.'

Globalization is the development of single international markets for goods or services accompanied

by an accelerated growth in world trade. Any company that has economic interests or activities extending across a number of international boundaries is a global company. Globalization raises a number of issues not present when the activities of the firm are confined to one country.

### Source review

Globalization requires organizations to move people, ideas, products and information around the world to meet local needs. They must add new and important ingredients to the mix when making strategy: volatile political situations, contentious global trade issues, fluctuating exchange rates, and unfamiliar cultures. They must be more literate in the ways of international customers, commerce, and competition than ever before. In short, globalization requires that organizations increase their ability to learn and collaborate and to manage diversity, complexity, and ambiguity.

Ulrich (1998: 126)

Brewster *et al* (2005) identified five distinct, but linked, organizational drivers of this process: efficiency orientation, global service provision, information exchange, core business processes and localization of decision-making.

## International HRM strategies

International HRM has to function strategically in order to support the achievement of international business strategies. International HRM strategies will be affected by the different types of business strategies that MNCs can adopt, as identified by Bartlett and Ghoshal (2002: 18–19):

- Multinational – building strong local presence through sensitivity and responsiveness to local needs.
- Global – building cost advantages through controlled global-scale operations.

- International – exploiting parent company knowledge and capabilities through worldwide diffusion and adaptation.
- Transnational – creating a new organizational model by simultaneously developing global competitiveness, multinational flexibility and worldwide learning capacity.

They suggested that the transnational organization ‘is a feasible and necessary response to the changes in the international environment’ (ibid: 19) and claimed that adopting the transnational model allowed companies such as Unilever to deal effectively with these demands. They mentioned that Unilever had developed a strongly held philosophy of management built around independent operating companies whose managers were given maximum responsibility and freedom. The clearly understood role of the Unilever board is to approve plans and budgets, control capital expenditures and appoint and develop executives. At an operating level, local managers have great latitude to develop and implement strategies that reflected the opportunities and constraints of their particular environments. The watchwords that became corporate dogma were ‘local initiative and decentralized control’.

In contrast, Procter & Gamble, although regarded by Bartlett and Ghoshal as a transnational organization, linked back its international operations to the parent company in two important respects: not only did foreign subsidiaries depend on the parent for advanced technology and marketing expertise, but they were also structured to operate as replicas of the US company, immersed in the same principles and guided by the same policies.

## Contextual factors

All HR activities are affected by the context in which they operate, but the variety of contexts in which international HRM functions are particularly significant. They strongly influence decisions on the dissemination of parent company policies and practices (convergence or divergence) and on the employment of expatriates. As Sparrow *et al* (1994: 269) asserted: ‘For global firms to be successful in managing their worldwide workforces, they need to have an understanding and sensitivity to several local environments. They must utilize local information and adapt it to a broader set of human resource

policies that reflect the firm itself.’ Cultural differences in local environments are often treated as the most significant factor to be taken into account in managing globally, but differences in local institutions and practices such as collective bargaining and workers’ rights can also be important.

## Convergence and divergence

In international HRM it is necessary to judge the extent to which, on the one hand, an organization should implement standardized policies and practices across the world (convergence) or, on the other hand, that it should allow overseas subsidiaries to adopt their own practices or at least modify the policies and practices of the parent company to suit local requirements (divergence). As Briscoe *et al* (2012: 48) commented: ‘International HRM strategy has to deal with the issue of whether to standardize HRM policies and practices from headquarters, or to localize them to meet local conditions, or do both (eg combination of core policies established by HQ with localized practices to accommodate local culture and practices).’

Festing and Eidems (2011: 163) reported that: ‘In the course of increasing globalization, more and more MNEs are being forced to compete globally and simultaneously adapt their business strategies to changing local demands.’ They also suggested that ‘firms tend not to standardize a whole HRM system but rather focus on single practices’ (*ibid*: 165).

As Brewster *et al* (2005: 951) pointed out: ‘Where global integration and coordination are important, subsidiaries need to be globally integrated with other parts of the organization and/or strategically coordinated by the parent. In contrast, where local responsiveness is important, subsidiaries will have far greater autonomy and there is less need for integration.’

But the choice is not between total convergence and total divergence. Frenkel and Peetz (1998: 537) described a globalization-induced trend towards increasing convergence, which finds a counterbalance in national culture, the role of the nation state, and national industrialization strategies. Brewster and Suutari (2005) remarked that strategic alignment (convergence) and localization (divergence) can be regarded as opposite extremes on a continuum.

The convergence and divergence of HRM policies are associated respectively with centralization and decentralization – but there are differences. Centralization involves concentrating the authority for decision making in the hands of managers in an organization’s headquarters and decentralization means devolving decisions more widely through operating units, branches and lower-level managers. Convergence and divergence are about the dissemination or absence of dissemination of specific policies and practices, although they may be linked to processes of centralization or decentralization.

Generally, research has indicated that while global HR policies in such areas as talent management, performance management and reward may be developed, communicated and supported by centres of excellence, often through global networking, a fair degree of freedom has frequently been allowed to local management to adopt their own practices in accordance with the local context – as long as in principle these are consistent with global policies. Paik and Ando (2011: 3006) suggested on the basis of their research that: ‘To effectively integrate and coordinate activities of foreign affiliates, MNCs need to maintain a higher level of control at headquarters. MNC headquarters want foreign affiliates to act as if they were the headquarters’ agents. In this situation, MNCs are inclined to staff foreign affiliates with managers who understand and appreciate headquarters’ directives.’ However, they also noted that this policy may evolve to rely more on host country staff as headquarters learns how better to integrate activities of foreign affiliates to achieve global efficiency. Cumulatively, headquarters will learn more about managing in the host country and local practices and will build relationships with local suppliers and recruit more local employees.

It was argued by Reilly and Williams (2012: 30) that: ‘What HR might need to do is more carefully decide what is common and global, versus what is different and local, against some well-thought-through criteria. This might mean, for instance, a common HR information system, but local resourcing, or one method of executive reward, yet multiple ways of aligning local pay with the market.’ They concluded that: ‘It is the essential processes, populations and tools that are the ones to control from the centre, not a crude imposition of one size fits all across the piece’ (*ibid*: 31).

### Pause for thought

What arguments would you use in favour or against convergence?

## The practice of international HRM

The practice of international HRM is concerned with the HR activities conducted by a multinational company (MNC) in managing people throughout the organization. The basic HR practices carried out in subsidiaries for their own nationals – recruitment and selection, training, the payment of junior staff and operatives, day-to-day employee relations and HR administration – are similar to those described in later chapters of this book. However, they will be affected by local employment legislation, industrial relations practices, customs and cultures and may be influenced by policy guidelines from the centre. One of the roles of an international HR function will be to be aware of local practices and the local contexts that influence them in order to be in a position to provide advice and guidance, especially where they affect the employment of expatriates. HQs will probably not get involved in detailed employee relations but they may issue policy guidelines on union recognition and negotiations and monitor local decisions to ensure that the guidelines are followed, or that there is good reason to ignore them because of local industrial relations practices.

There are, however, a number of HRM areas in which the parent company may play a major part, as discussed below. Workforce planning for more senior staff may be centralized, as may be resourcing decisions that affect the deployment of parent company or third country nationals. Talent management processes and the remuneration of senior staff and expatriates may also be centralized. While performance management systems will be administered by subsidiaries, the centre may want to ensure that the processes involved conform to what is regarded as good practice within the organization and provide the information required for talent management and staffing decisions. An international HR function

may also be concerned with encouraging the actions required to promote multicultural working throughout the organization.

### Workforce planning

International resourcing is based on workforce planning, which assesses how many people are needed throughout the MNC (demand forecasting), sets out the sources of people available (supply forecasting) and, in the light of these forecasts, prepares action plans for recruitment, selection or assignment.

Workforce planning may be carried out by the parent company HR function, although it is likely to focus mainly on managers and professional and technical staff throughout the global organization, and is linked to talent planning and talent management. Workforce planning for junior staff and operatives is more likely to be carried out by subsidiaries, although the centre may require information on their plans.

In an international organization, estimates of future people needs can be prepared by each subsidiary for their own workforce planning purposes. The basis of such forecasts is the annual budget and longer-term business plan, translated into activity levels. These are in turn converted to specific requirements expressed in terms of numbers of people in different occupations and levels and with different skills. Assessments can also be made by subsidiaries on how anticipated needs will be met. This may be from inside their organization or in their own labour market (national or international) but it could also include information on how many positions will need to be filled by expatriates from the parent company or from other countries (third country nationals). The role of headquarters may be to review the plans of subsidiaries to make sure that they are realistic and to consolidate information on the requirements for expatriates so as to plan for their availability.

### Resourcing

Resourcing in an international organization means making policy decisions on how the staffing requirements of headquarters and the foreign subsidiaries can be met, especially for managers, and professional and technical staff. Sparrow *et al* (2011: 42) emphasized that: ‘MNC’s increasingly demand

highly skilled, highly flexible, mobile employees who can deliver the required results, sometimes in difficult circumstances.’

Research conducted by Paik and Ando (2011: 3006) led to their conclusion that: ‘To effectively integrate and coordinate activities of foreign affiliates, MNCs need to maintain a higher level of control at headquarters. MNC headquarters want foreign affiliates to act as if they were the headquarters’ agents. In this situation, MNCs are inclined to staff foreign affiliates with managers who understand and appreciate headquarters’ directives.’ However, they also noted that this policy may evolve to rely more on host country staff as headquarters learns how better to integrate activities of foreign affiliates to achieve global efficiency. Cumulatively, headquarters will learn more about managing in the host country and local practices and will build relationships with local suppliers and recruit more local employees.

Additionally, or alternatively, a decision may be made to employ third country nationals (TCNs) in certain posts. TCNs might be easier to obtain than home country nationals and could cost less. But, as noted by Dowling *et al* (2008), they might not want to return to their own countries after assignment, the host government may resent the hiring of TCNs, and national animosities (eg India/Pakistan) would have to be considered.

But there are other ways of meeting staff requirements in foreign subsidiaries. Dowling *et al* (2008) identified the following approaches:

- *Short-term assignments* that may be for troubleshooting, project management or a stopgap measure until a more permanent arrangement can be made.
- *Extended assignments* that may last up to one year and involve similar activities as those for short-term assignments.
- *Commuter assignments* that include special arrangements where the person commutes on a weekly or bi-weekly basis to the place of work in another country.
- *Rotational assignments* in which employees commute from the home country for a short set period followed by a break in the home country.
- *Virtual assignments* where the employee does not move to a host location but manages from home some aspect or aspects of the

operations in the foreign subsidiary. Use is made of communication technologies such as video conferencing, although the home-based employee may have to visit the host country frequently.

These alternatives are becoming increasingly popular, especially in companies finding it difficult to obtain satisfactory expatriates for more conventional assignments. But they can be difficult to manage and stressful for those involved.

## International talent management

Global talent management is defined below:

### Source review

The systematic identification of key positions which differentially contribute to the organization’s sustainable competitive advantage on a global scale, the development of a talent pool of high-performing incumbents to fill these roles which reflects the global scope of the multinational enterprise, the development of a differentiated human resource architecture to facilitate filling these positions with the best available incumbent and to ensure their continued commitment to the organization.

Mellahi and Collings (2010: 143–44)

Mellahi and Collings suggested that enabling high-performing home country nationals (HCNs) to become senior managers improves the performance of an international business by: (1) being better able to respond effectively to the demands of local stakeholders; (2) legitimizing the firm in the host country; (3) providing incentives for retaining and motivating talents.

## Global approaches to talent management

As described by Ready and Conger (2007: 71), HSBC has created a system of talent pools that track and manage the careers of high potentials within the



company. After those employees have been identified, they are assigned to regional or business unit talent pools, which are managed by local human resources and business unit leaders. They are then selected initially for new assignments within their region or business and may later be given positions that cross boundaries. Managers of the pools single out people to recommend for the group talent pool, which represents the most senior cadre of general managers and is administered centrally. Ready and Conger reported (ibid: 73) that at Procter & Gamble, hiring and promotions are the responsibility of local managers, but high-potential prospects are identified globally. People and positions are tracked in a technology-based talent management system that can accommodate all the company's 135,000 employees but is primarily used to track 13,000 middle- and upper-management employees. Procter & Gamble also conducts a global talent review – a process by which every country, function and business is assessed for its capacity to find, develop, deploy, engage and retain skilled people.

## International performance management

As described in Chapter 38, performance management systems operating in subsidiaries covering home and third country nationals are the area of HRM where there is likely to be the most convergence. This means that a system based on the one used in the parent company is applied completely or partly worldwide. As Briscoe *et al* (2012: 347) observed: 'There are some valid reasons which suggest that a standardized approach may be warranted for the sake of global integration, culture cohesiveness, fairness, mobility of global employees, and as a control mechanism.'

### Pause for thought

Performance management systems are difficult enough to work well in a parent company so what can be done to help them function effectively in an overseas subsidiary?

## Approaches to international performance management

While the arguments in favour of standardization are powerful, and a convergent approach is often adopted, the degree of convergence or divergence in international performance management systems can vary in a number of ways:

*Total convergence (standardization)* – using the parent company's scheme throughout the international organization.

*Total divergence (localization)* – foreign subsidiaries use their own systems.

*Partial convergence* – foreign subsidiaries use a version of the parent company's system, modified to take account of local factors such as culture and work systems. Alternatively, they ensure that their own systems conform to policy guidelines issued by headquarters, possibly including certain requirements such as the design of the forms or methods of rating.

*Dual system* – using the headquarters' scheme for expatriates (parent company nationals), and local, possibly partly converged schemes, for home country and third country nationals.

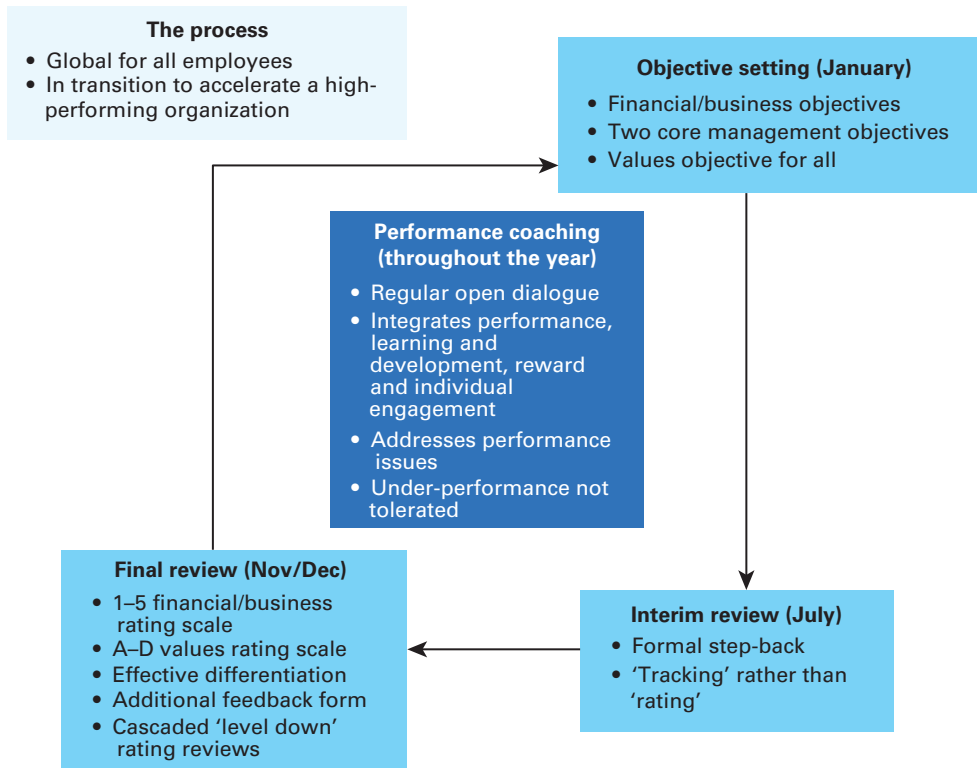
The effectiveness of international performance management is affected overall by the sheer complexity of international business and the distance separating headquarters and subsidiaries. The difficulties include influencing and controlling line managers; cultural differences; the problem of achieving consistent rating results; and variable levels of maturity among subsidiaries, which affect relative performance.

### Standard Chartered Bank

The international performance management process used by Standard Chartered Bank is illustrated in Figure 7.1.

### Serono SA

Serono SA, the Swiss biotechnology company with offices around the world, needed a performance management, pay-for-performance and compensation system that was not only consistent but was also flexible enough to adjust to the laws governing employment in each of its far-flung operations.

**FIGURE 7.1** International performance management system – Standard Chartered Bank

Each Serono operating unit has its own objectives, which are aligned to overarching corporate goals. Units in each country tailor their performance management and reward systems for compliance with local laws, customs and budgets. An information technology system was developed to automate performance management and compensation for Serono's global operations. The analytical tools built into this system enable HR at the centre to gain an overview of how the organization as a whole is evaluating its employees. For example, data on assessments presented as bell curves (graphs showing distributions in the form of a curve shaped like a bell), reveal the extent to which appraisal scores are out of line with what is regarded as a normal distribution.

## Reward management

International reward management involves the management of all aspects of rewards in organizations operating worldwide or at least in a number

of countries. It is not just the management of expatriate remuneration.

Traditionally, discussions of international reward strategies and practices have tended to focus on an elite of expatriate workers, sourced from headquarter locations and rewarded in isolation from local country staff. Today, a diverse and complex pattern is emerging, requiring a more strategic approach than simply copying the practices of other multinationals.

Stephen Perkins (2006) explained that achieving an appropriate balance between global and local requirements in international staffing and rewards has therefore become a much more strategic and challenging issue for HR and reward managers. Major organizations such as BP and the World Bank have overhauled their policies in recent years to achieve their key strategic reward goals of mobility and affordability in this more demanding global context.

White (2005: 23) argued that: 'Global consistency in management's messages to employees, as

well as in the reward programs that reinforce these messages is critical in building a cohesive entity that will create shareholder value.’ His research in a

multinational finance firm established that different pay rates were adopted to reflect differences in the local labour market.

## CASE STUDIES

### US-owned MNC

Over the years this large US-owned international company operating in Europe changed the degree of centralization or decentralization frequently. Until the 1980s, corporate HQ issued a number of global policies that national managers were expected to implement. Some room was given for the policies to be adapted to fit local circumstances but management in subsidiaries had to justify these changes to headquarters.

During the late 1980s, the firm moved away from this highly centralized approach, allowing more scope for subsidiaries to develop policies that suited their own situation. For example, job evaluation systems could be developed independently of the US system. The decentralizing tendency was reversed in the early 1990s, and there has followed a period during which strong coordination of HR policies between countries and central control has been re-established.

### General Motors (GM)

GM moves people around the globe frequently because its products are designed and built on global platforms. The international philosophy of GM is expressed in the mantras

‘One GM, one global team’ and ‘Global perspective: local engagement’.

But different locations were using different level pay structures and job evaluation schemes. A ‘leading change’ programme involved compensation chiefs around the world. Under the banner of the phrase, ‘Global compensation takes the approach that what can be should be’ the global team:

- analysed the various strategies, structures and practices in place around the world;
- used corporate governance to decide what needed to be global, regional or local;
- identified ‘best practices’ in compensation to establish a common philosophy, tools and structure for the salaried workforce;
- engaged key stakeholders in the process;
- provided tools, support and education;
- created with the help of Mercer Consultants more than 200 benchmarks in 30 job functions and then slotted them into global salary grades.

## Multicultural working

A fundamental feature of international operations is that multinational and therefore multicultural teams have to work together in foreign subsidiaries. Haas and Nüesch (2012) conducted research which showed that on the one hand multinational teams may have access to a greater variety of task-relevant experience. On the other hand, national diversity may complicate team collaboration and increase team conflict. Evidence was found that multinational teams perform worse than teams with less national diversity. It is therefore necessary for international organizations to develop ways of improving multicultural working.

## Role of the international HR function

An international HR function is responsible for developing and operating a transnational HR system, which was defined by Festing and Eidems (2011: 162) as ‘the sum of HRM policies and practices that a multinational enterprise uses to attract, develop and maintain its human resources including globally standardized and locally adapted structures and processes’. Briscoe *et al* (2012: 413) indicated that the role of an international HR department should be to:

- contribute as an integral partner in formulating the global strategy for the firm;



- develop processes and concepts for top management as they develop the global strategy;
- help top management to understand the people implications of globalization;
- identify the key skills required in the global organization – both line and HR management;
- share the responsibility for HRM with line managers.

## CASE STUDY

### IBM

IBM has over 300,000 employees in more than 160 countries. It has evolved in recent years from a predominately IT manufacturing and sales company to become a business services company.

The company is structured into three regions and describes itself as a globally integrated company. Strategy is global but the human front end of HR is local, staffed with

local nationals. A generally integrated approach to HR is adopted, although the extent to which HR policies are tailored to local circumstances varies. This is affected by the need to conform to different legal requirements in each company, which particularly affects employee relations policies. However, total reward and performance management policies and practices are common across the world. The company claims that it acts on its values, for example equal opportunities, even when they may prove controversial locally. Levels of international mobility are high, especially for staff working in HR, finance and IT.

## Managing expatriates

An expatriate was defined by Lee and Donohue (2012: 1198) as ‘any individual who relocates from his/her home base to an international location for business or work purposes and sets up temporary residence in the host country.’

The management of expatriates is an important factor determining the degree of success achieved in an international business. Expatriates are expensive; they can cost three or four times as much as the employment of the same individual at home. They can be difficult to manage because of the problems associated with adapting to and working in unfamiliar environments, concerns about their development and careers, difficulties encountered when they re-enter their parent company after an overseas assignment, and how they should be remunerated. The process of managing expatriates has been summarized by Sparrow *et al* (2004: 145) as a global assignment cycle, the three phases of which are:

- 1 *Pre-departure* – planning the assignment, selecting the individual, administering the relocation programme and conducting preparatory training and development.
- 2 *Assignment* – performance management, pay and benefits, family support and preparation for repatriation or reassignment.
- 3 *Post-assignment* – retention by reintegrating returning international assignees into organizational career systems.

### Pause for thought

What do you think are the most important things to do when assigning someone to work in an overseas subsidiary?

## International HRM policies

The difficulties involved in managing expatriates mean that policies need to be developed in each of the areas described below and for their remuneration, as covered in Chapter 42.

## Resourcing policies

The challenge is that of resourcing international operations with people of the right calibre. As Perkins (2006) observed, it is necessary for businesses to remain competitive with their employment offering in the marketplace, to attract and retain high-quality staff with world-wide capabilities.

Policies are required on the employment of local nationals and the use of expatriates for long periods or shorter assignments. The advantages of employing local nationals are that they:

- are familiar with local markets, the local communities, the cultural setting and the local economy;
- speak the local language and are culturally assimilated;
- can take a long-term view and contribute for a long period (as distinct from expatriates who are likely to take a short-term perspective);
- do not take the patronizing (neo-colonial) attitude, which expatriates sometimes adopt.

Expatriates may be required to provide the experience and expertise that local nationals lack, at least for the time being. But there is much to be said for a long-term resourcing policy which states that the aim is to fill all or the great majority of posts with local people. Parent companies who staff their overseas subsidiaries with local nationals always have the scope to ‘parachute in’ specialist staff to deal with particular issues such as the start-up of a new product or service.

## Recruitment and selection policies

Policies for recruitment and selection should deal with specifying requirements, providing realistic previews and preparation for overseas assignments.

Role specifications should take note of the behaviours required for those who work internationally. Leblanc (2001) suggested that they should be able to:

- recognize the diversity of overseas countries;
- accept differences between countries as a fact and adjust to these differences effectively;
- tolerate and adjust to local conditions;

- cope in the long term with a large variety of foreign contexts;
- manage local operations and personnel abroad effectively;
- gain acceptance as a representative of one’s company abroad;
- obtain and interpret information about foreign national contexts (institutions, legislations, practices, market specifics etc);
- inform and communicate effectively with a foreign environment about the home company’s policies;
- take into account the foreign environment when negotiating contracts and partnerships;
- identify and accept adjustments to basic product specifications in order to meet the needs of the foreign market;
- develop elements of a common framework for company strategies, policies and operations;
- accept that the practices that will operate best in an overseas environment will not necessarily be the same as the company’s ‘home’ practices.

At interviews for candidates from outside the organization, and when talking to internal staff about the possibility of an overseas assignment, it is advisable to have a policy of providing a realistic preview of the job. The preview should provide information on the overseas operation, any special features of the work, what will need to be done to adjust to local conditions, career progression overseas, re-entry policy on completion of the assignment, pay, and special benefits such as home leave and children’s education.

The preparation policy for overseas assignments should include the provision of cultural familiarization for the country(ies) in which the expatriate will work (sometimes called ‘acculturation’), the preferred approach to leading and working in international teams, and the business and HR policies which will apply.

## Training policy

Tarique and Caligiri (1995) propose that the following steps should be taken to design a training programme for expatriates:

- 1 Identify the type of global assignment, eg technical, functional, tactical, developmental or strategic/executive.
- 2 Conduct a cross-cultural training needs analysis covering organizational analysis and requirements, assignment analysis of key tasks and individual analysis of skills.
- 3 Establish training goals and measures – cognitive (eg understanding the role of cultural values and norms) and affective (modifying perception about culture and increasing confidence in dealing with individual behaviours to form adaptive behaviours such as interpersonal skills).
- 4 Develop the programme – the content should cover both general and specific cultural orientation; a variety of methods should be used.
- 5 Evaluate training given.

### **Career management policy**

Special attention has to be paid to managing the careers of expatriates either as part of their experience overseas or on return permanently or for a period to their home country.

### **Assimilation and review policies**

Assimilation policies will provide for the adaptation of expatriates to overseas posts and for their progress in them to be monitored and reviewed. This may take the form of conventional performance management processes but additional information may be provided on potential and the ability of individuals to cope with overseas conditions.

Where a number of expatriates are employed it is customary for someone at headquarters to have the responsibility of looking after them.

### **Re-entry policies**

Re-entry policies should be designed to minimize the problems that can arise when expatriates return to their parent company after an overseas posting. They want to be assured that they will be given positions appropriate to their qualifications, and they will be concerned about their careers, suspecting that their overseas experience will not be taken into account. Policies should allow time for expatriates to adjust. The provision of mentors or counsellors is desirable.

### **Global mobility policies**

Global mobility policies for expatriates need to be specified and communicated to those concerned. The subjects that should be covered are:

- pay;
- allowances;
- hardship and danger pay;
- mobility incentives;
- housing and payment for utilities;
- education of children;
- transportation;
- home leave;
- spouse and family support;
- relocation arrangements;
- repatriation arrangements.

### **Key learning points**

#### International HRM

International HRM is concerned with human resource management policies and practices in multinational enterprises. It has to function strategically in order to support the achievement of international business strategies.

#### Internationalization and globalization

Internationalization is the process of international economic integration in worldwide markets. Globalization is the development of single international markets for goods or services accompanied by an accelerated growth in world trade. Any company that

has economic interests or activities extending across a number of international boundaries is a global company.

### Contextual factors affecting international HRM

All HR activities are affected by the context in which they operate, but the variety of contexts in which international HRM functions are particularly significant in the way in which they influence decisions on the dissemination of parent company policies and practices (convergence or divergence) and on the employment of expatriates. Cultural differences may also be significant.

### Convergence and divergence

International HRM involves the need to judge the extent to which, on the one hand, an organization should implement similar policies and practices across the world (convergence) or, on the other, it should allow overseas subsidiaries to adopt their own practices or at least modify the policies and practices of the parent company to suit local requirements (divergence).

### Multicultural working

A fundamental feature of international operations is that multinational and therefore multicultural teams have to work together in foreign subsidiaries.

### Role of the international HR function

An international HR function is responsible for developing and operating a transnational HR system.

### The practice of international HRM

The practice of international HRM is concerned with the HR activities conducted by a multinational company (MNC) in managing people throughout the organization.

### Workforce planning

International resourcing is based on workforce planning processes, which assess how many people are needed throughout the MNC (demand forecasting),

set out the sources of people available (supply forecasting) and, in the light of these forecasts, prepare action plans for recruitment, selection or assignment.

### Resourcing

Resourcing in an international organization means making policy decisions on how the staffing requirements of headquarters and the foreign subsidiaries can be met, especially for managers, professionals and technical staff.

### Talent management

The conduct of international talent management involves basically the same methods as those used in a domestic setting, namely, a pipeline consisting of processes for talent planning, talent pool definition, identifying talent internally, recruiting talent, performance management, management development and career planning, assignment or promotion.

### International performance management systems

The effectiveness of international performance management is affected overall by the sheer complexity of international business and the distance separating headquarters and subsidiaries. The particular issues affecting international performance management are the increased difficulty in influencing and controlling line managers, cultural differences, the problem of achieving consistent rating results, and variable levels of maturity among subsidiaries, which affect relative performance.

### Reward management

International reward management involves the management of all aspects of rewards in organizations operating worldwide, or at least in a number of countries.

The factors that are likely to impact on the design of reward systems, as suggested by Bradley *et al* (1999), are the corporate culture of the multinational enterprise, expatriate and local labour markets, local cultural sensitivities and legal and institutional factors.

International reward strategy is concerned with the development of an integrated approach to building reward policies and practices across international boundaries.

## Expatriates

An expatriate was defined by Lee and Donohue (2012: 1198) as 'any individual who relocates from his/her home base to an international location for business or work purposes and sets up temporary residence in the host country.'

## Managing expatriates

The management of expatriates on international assignments is a major factor determining success or failure in a global business.

## The process of managing expatriates

The process of managing expatriates has been summarized by Sparrow *et al* (2004: 145) as a global

assignment cycle, the three phases of which are: pre-departure, assignment and post-assignment.

## Policies for expatriates

Policies are required on:

- the employment of local nationals and the use of expatriates for long periods or shorter assignments;
- recruitment and selection;
- preparation, assimilation and support;
- career management;
- remuneration.

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# PART II

## Delivering HRM

### PART II CONTENTS

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- 08** The role of the HR function
- 09** The role of HR professionals
- 10** The HRM role of line managers

### Introduction

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HR is delivered within the framework provided by the HR architecture of the organization, which consists of the HR system and HR practices and the

HR model it adopts – the HR function in which HR professionals provide advice and services working in conjunction with line management. The role of the latter in implementing HRM is crucial.

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## 08

# The role of the HR function

## Introduction

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The HR function deals with the employment, management, development and performance of people in organizations. The members of the function may be involved in strategic or transformational activities although the function also has the transactional role of providing the HR services the organization requires. The ‘clients’ of the HR function are not just the management of the organization. They also include line managers and employees generally.

In this chapter, consideration is given to the contribution of HR – overall and specifically with regard to the achievement of competitive advantage, the role and organization of the HR function, the three-legged stool model of the function, the use of outsourcing (selecting and managing suppliers and partnership organizations), the power and reputation of the HR function, evaluating the HR function, and the role of HR in SMEs.

## The overall contribution of HR

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The overall contribution that HR can make is to:

- *Provide insight* – seek understanding of the issues affecting the organization and its employees, explore the implications of these issues for business and people management, and convey these messages to management. The aim is to help organizations ‘to find new ways of meeting current and future challenges’ (CIPD, 2010: 5).
- *Contribute to the formulation and implementation of corporate strategy* – as Lawler and Mohrman (2003: 16) commented: ‘HR can play an important role in the formulation of strategy by making explicit the human capital resources required to support various strategies and strategic initiatives, by playing a leadership role in helping the organization develop the necessary capabilities to enact the strategy, and by playing a strong role in implementation and change management.’
- *Improve organizational effectiveness* (the ability of an organization to achieve its goals by making good use of the resources available). As emphasized by the CIPD (2010: 7): ‘HR has a unique role to play in helping an organization succeed today in a way that lays the foundations for future, sustainable success.’ This includes contributing to the achievement of competitive advantage as considered below.
- *Facilitate change* – fulfil the role of change agent, lead and advise senior and line managers how best to manage organizational change. Ulrich (1998: 125) suggested that HR should become ‘an agent of continuous transformation’.
- *Deliver HR services* – provide effective and efficient services in such fields as recruitment, talent management, learning and development, reward management, employment relations and employee engagement.
- *Provide expertise* – contribute to the achievement of the organization’s strategy

by developing HR strategies and delivering advice and services in accordance with good practice in each aspect of HRM.

- *Provide advice* – improve the quality of employment relationships by advising managers on the implementation of HR policies and procedures, on employment issues, and on handling people problems.
- *Enhance the employee experience* – take steps to ensure as far as possible that everything that people encounter, observe and feel during the course of their employment is satisfying and rewarding.
- *Promote the wellbeing of employees* – help to improve the quality of the work environment, covering how people are treated at work and in such areas as health and safety, working conditions, reduction of stress, work-life balance, bullying and harassment.
- *Promote social responsibility* – formulate socially responsible HR policies on such issues as equal opportunity, the management of diversity and inclusion, flexible working, harassment, and bullying and ensure they are implemented. Act as the guardian of the organization's values and ethical standards concerning people, pointing out when behaviour conflicts with those values or where proposed actions will be inconsistent with them. Ulrich (1998) called this the 'employee champion' role.
- *Ensure compliance* – develop and implement policies and procedures which ensure that the provisions of employment law and the General Data Protection Regulation (GDPR) are complied with in spirit as well as to the letter.

## The contribution of the HR function to the achievement of competitive advantage

According to Michael Porter (1985), sustainable competitive advantage is achieved when a firm creates value for its customers, selects markets in which

it can excel, and presents a moving target to its competitors by continually improving its position. He stated that the three most important factors contributing to its achievement were innovation, quality and cost leadership. But he recognized that these depend on the quality of the organization's people. In accordance with the resource-based view, unique talents among employees, including superior performance and skills and the capacity to achieve high productivity, to work flexibly, to innovate and to deliver high levels of customer service are ways in which people are a critical ingredient in developing an organization's competitive position. The role of the HR function is to ensure that the organization gets and keeps people with these sorts of talents.

### Pause for thought

The HR function is part of the management of the organization and is expected to promote the interests of the business.

Doesn't this make it difficult for it to give sufficient attention to the interests of employees?

## The role and organization of the HR function

Although the basic role of HR is to deliver HRM services, it does much more than that. It plays a key part in the creation of an environment and the development of the employee experience that furthers employee engagement by enabling people to make the best use of their capacities, to realize their potential to the benefit of both the organization and themselves, and to achieve satisfaction through their work. This involves contributing to improved performance by focusing on the three dimensions of HR practices linked to the AMO formula (see Chapter 6) – skills, motivation and opportunity enhancement.

Many commentators argue that the role of HR is to be business-oriented – contributing to the

achievement of sustained competitive advantage as discussed above. Becker and Huselid (1998: 97) believe that HR should be ‘a resource that solves real business problems’. But one of the issues explored by Francis and Keegan (2006) in their research is the tendency for a focus on business performance outcomes to obscure the importance of employee in its own right. They quoted the view of Ulrich and Brockbank (2005: 201) that ‘caring, listening to, and responding to employees remains a centrepiece of HR work’. The HR function and its members have to be aware of the ethical dimensions of their work. They have to be business-oriented but they have to be people-oriented too.

### HR activities

HR activities can be divided into two broad categories: 1) transformational (strategic) activities that are concerned with developing organizational effectiveness and the alignment and implementation of HR and corporate or business strategies; 2) transactional activities, which cover the main areas of HR service delivery. The remit of the HR function will vary in different organizations. It may be concerned with all or any the following areas of HRM: organization design and development, job design, people analytics, workforce planning, recruitment and selection, talent management, learning and development, knowledge management, performance management, reward management, employment relations, employee wellbeing, managing diversity and inclusion, health and safety, fulfillment of statutory requirements, dealing with employment law issues, and HR administration. HR functions are sometimes given other responsibilities such as managing the car fleet or providing catering facilities.

### The HR operating model

The operating model for the organization of an HR function varies immensely depending on the context of the organization – its size, the extent to which operations are decentralized, the type of work carried out, the kind of people employed and the role assigned to the HR function. As Sisson (1990) commented, HR management is not a single homogeneous occupation – it involves a variety of roles and activities that differ from one organization to another and from one level to another in the

same organization. Tyson (1987) claimed that the HR function is often ‘balkanized’ – not only is there a variety of roles and activities but these tend to be relatively self-centred, with little passage between them. Hope-Hailey *et al* (1997: 17) believed that HR could be regarded as a ‘chameleon function’ in the sense that the diversity of practice identified by their research suggests that ‘contextual variables dictate different roles for the function and different practices of people management.’

A chief executive’s view on the HR agenda as quoted by Hesketh and Hird (2010: 105) was that it operates on three levels: ‘There’s the foundation level, which we used to call personnel, it’s just pay and rations, recruitment, all that sort of stuff that makes the world go round, transactional work. Level two to me is tools, it could be engagement, reward, development, those sorts of things. Level three is the strategic engagement.’

A survey by Incomes Data Services (IDS, 2010) found that the overall median number of HR staff in the responding organizations was 14: in companies with up to 499 employees, the median number was 3.5, and in companies with 500 or more employees it was 20. While, as would be expected, large organizations employed more staff than small- and medium-sized companies, they had on average fewer HR staff per employee. For smaller companies the median ratio of employees to HR staff was 62:1; in large employers it was 95:1. The overall ratio was 80:1. The XpertHR survey in 2018 found that the median ratio of employees to HR staff was 60:1 but there was quite a large range – the lower and upper quartiles were respectively 37:1 and 91:1.

An organization could consist of an HR or people director responsible directly to the chief executive, with a number of functional heads, possibly one each for talent management and recruitment, learning and development, reward management, employment relations and HR administration. But there is no such thing as a typical HR or people management function, although the ‘three-legged stool’ model as described below has attracted a lot of attention.

### The three-legged stool model

The notion of delivering HRM through three major areas – centres of expertise, business partners and HR shared service centres – emerged from the HR

delivery model produced by Ulrich (1997, 1998), although Ulrich has stated that the three-part structure was not his idea but an interpretation of his writing. The first reference to the three-legged stool was in an

article by Johnson in 1999, two years after Ulrich published his delivery model. In this article, Johnson quoted David Hilborn, an associate of William Mercer, management consultants, as follows:

### Source review

The traditional design [of an HR department] typically includes a vice president of HR, then a manager of compensation and benefits, a manager of HRIS and payroll, a manager of employment and so on. However, the emerging model is more like a three-legged stool. One leg of the stool includes an administrative service centre which processes payroll, benefits and the like and focuses on efficiency in transaction functions. The second leg is a centre of excellence (or expertise) in which managers and specialists work. These

employees concentrate on design rather than transactions and will have line managers as their customers. HR business partners make up the third leg. They are generalists who usually report to line managers and indirectly to HR. These employees don't get involved in transactions, but instead act as consultants and planners, linking the business with appropriate HR programmes.

David Hilborn quoted by Johnson (1999: 44)

This exposition provided the blueprint for all subsequent versions of the model, which has evolved in its three-part form as follows:

*Centres of expertise* – these specialize in the provision of high-level advice and services on key HR activities. The CIPD survey on the changing HR function (CIPD, 2007) found that they existed in 28 per cent of respondents' organizations. The most common expertise areas were learning and development (79 per cent), recruitment (67 per cent), reward (60 per cent) and employment relations (55 per cent).

*Strategic business partners* – these work with line managers to help them reach their goals through effective strategy formulation and execution. They are often 'embedded' in business units or departments.

*HR shared service centres* – these handle all the routine 'transactional' services across the business, which include such activities as recruitment, absence monitoring and advice on dealing with employee issues like discipline and absenteeism.

## Critical evaluation of the three-legged stool model

This model has attracted a great deal of attention but the 2007 CIPD survey found that only 18 per cent of respondents had implemented all three 'legs', although 47 per cent had implemented one or two elements, with business partners being the most common (29 per cent).

Moreover, there are difficulties with the notion. Gratton (2003: 18) pointed out that 'this fragmentation of the HR function is causing all sorts of unintended problems. Senior managers look at the fragments and are not clear how the function as a whole adds value.' And as Reilly (2007) commented, respondents to the CIPD survey mentioned other problems in introducing the new model. These included difficulties in defining roles and accountabilities, especially those of business partners, who risk being 'hung, drawn and quartered by all sides', according to one HR director. At the same time, the segmented nature of the structure gives rise to 'boundary management' difficulties, for example when it comes to separating out transactional tasks from the work of centres of expertise. The model can also hamper communication between those engaged in different

HR activities. Other impediments were technological failure, inadequate resources in HR, and skills gaps.

Hird *et al* (2010: 31) drew attention to the following issues:

- An ‘off the shelf’ introduction of a new HR structure without careful thought as to how the model fits the organization’s requirements.
- A lack of care in dealing with the boundary issues between elements of the HR structure, which can easily be fragmented.
- A lack of attention to the new skill sets needed by business partners to ensure they can play at the strategic level.
- A lack of understanding on the part of managers as to the value of a new HR structure.
- A lack of skill on the part of line managers to make the required shift to greater responsibility for people issues implied by the new model.
- What is referred to as the ‘polo’ problem: a lack of provision of the execution of HR services as the business partner shifts to strategic work, and the centre of expertise to an advisory role.

Research carried out by Orion reported by Boroughs (2015) found that many of the HR business partners who were interviewed pointed out that their roles were still ‘too transactional’ in nature and that they struggle to shed the administrative elements involved.

However, some benefits were reported by respondents to the CIPD (2007) survey. Centres of expertise can provide higher-quality advice. Business partners can exercise better business focus, line managers can become more engaged, and the profile of HR is raised. Also, the introduction of shared services results in improved customer service and allows other parts of HR to spend more time on value-adding activities. It can also cut costs by reducing the number of HR staff required.

By segmenting activities, the three-legged stool model indicates to line managers where they should contact HR and for what. But it introduces multiple channels rather than a one-stop shop. Circumstantial evidence has suggested that attempts to create new structures can be frustrated by line managers continuing to use their ‘old’ generalist HR contacts on a personal basis.

## Dealing with the issues

The following approach incorporating recommendations by Holley (2009: 8–9) can be used to deal with three-legged stool issues:

- ensure that top management are behind the changes;
- involve line managers and the whole of HR in planning and implementation;
- work out exactly who will do what in each area – HR and the line – and avoid overlaps and ambiguities, taking particular care in defining the respective responsibilities of business partners and members of shared services centres and centres of expertise;
- ensure that the right balance is achieved between HR strategic (transformational) activities and HR service delivery (transactional) activities;
- ensure that the right people are in the right roles (don’t simply switch job titles);
- let everyone know about the changes – why they are taking place, how they will work and any differences in responsibilities;
- define the skills required by both HR staff and line managers and help in their development;
- plan the implementation, phasing it as required to avoid any disruption;
- monitor implementation to ensure that it is going according to plan.

## Outsourcing HR work

The advantages of getting HR work done by outside suppliers, including management consultants (outsourcing) and setting up partnerships with other organizations, are that:

- members of the HR function can focus on the key tasks that add value;
- know-how, experience and facilities that the organization does not possess are obtained;
- an ‘extra pair of hands’ is made available when required;
- cost savings can be achieved as long as the supplier or partner is selected and managed carefully.



The services that can be provided by outside suppliers include recruitment, executive search, training, occupational health and safety, employee wellbeing including counselling, childcare, and payroll administration. HR functions that have been given responsibility for other miscellaneous activities such as catering, car fleet management, facilities management and security because there is nowhere else to put them may gladly outsource them to specialist firms or go in for some form of partnership.

Close consideration should be given to the case for outsourcing. The questions that need to be answered are: Is the service one that can easily be separated from other HR activities? Do we really want to lose direct control over this activity? Will the benefits exceed the costs?

Before selecting a supplier, check with other firms on which suppliers they use and how satisfied they are with them. Then draw up a short list of three or four providers, brief them and ask them to bid for the contract, spelling out how they would meet the brief in terms of deliverables – the level of service they would guarantee – and how much it would cost. Select the best tender but obtain references before making the choice.

Service providers need to be managed just as carefully – if not more so – than internal services in order to ensure that the agreed service standards and costs are being achieved. Standards and budgets should be reviewed regularly and revised as necessary. Swift corrective action should be taken if things go wrong and the contract terminated if there is a serious shortcoming.

Partnerships can be set up with other organizations to provide joint services. The same care in creating and managing a partnership should be exercised as for suppliers. The terms and conditions of the partnership have to be spelt out including the procedure for terminating it. Managing operations jointly can be tricky and care needs to be taken in reviewing how things are going and identifying any improvements required.

## Power of the HR function

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Research by Sheehan *et al* (2014) established that the extent of the power possessed by the HR function – the amount of influence it exerts – depends on three dimensions:

- 1 *Power of resources* – HR functional expertise and in-house HRM (ie not significantly outsourced).
- 2 *Power of processes* – HR works closely with top management team, HR functions as facilitator.
- 3 *Power of meaning* – support from the chief executive, use of business language in communicating with line managers, use of HR analytics.

But it can be argued, as do Arrowsmith and Parker (2013: 2709), that ‘HR is fundamentally a dependent function – virtually everything it does has to be endorsed by and implemented through the line.’

## The reputation of the HR function

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Wright *et al* (2001: 702), stated that: ‘The human resource function has consistently faced a battle justifying its position in organizations,’ but also observed that: ‘Growing acceptance of internal resources as sources of competitive advantage brought legitimacy to HR’s assertion that people are strategically important to firm success.’

Research by Graham and Tarbell (2006) found that employees, line management and top management define the credibility of the HR function differently. While employees emphasize trust, line managers emphasize expertise and effective relationships, and senior managers emphasize achievement of results. And Guthrie *et al* (2001) observed that: ‘HR departments have long suffered from a lack of stature within business organizations.’

Clearly, there are many instances where the HR function is regarded highly. For example, this was established through the research carried out by Hesketh and Hird (2010). But there have been lots of criticisms. Barney and Wright (1998: 32) suggested that managers’ views of HR departments do not stem from their lack of understanding of the importance of their workforce, but instead because HR departments ‘fail to direct the HR activities toward developing characteristics of the firm’s human resources that can be a source of sustainable competitive advantage.’ An extreme criticism is quoted below:

### Source review

The human resources trade long ago proved itself, at best, a necessary evil – and at worst, a dark bureaucratic force that blindly enforces nonsensical rules, resists creativity, and impedes constructive change. HR is the corporate function with the greatest potential – the key driver, in theory, of business performance – and also the one that most consistently under-delivers.

Hammonds (2005: 42)

In the universities they studied, Guest and Clinton (2007) found no evidence that any feature of HR structure or practice was associated with any of the numerous performance indicators. Guest and Bos-Nehles (2013) commented that: ‘The evidence to date suggests that we cannot look with any confidence to the HR function to provide a lead in HR innovation and in ensuring effective HR implementation.’

On a more positive note, Hesketh and Hird (2010: 113) suggested that HR builds a good reputation not only by enabling the business to perform but also by ‘the orchestrating of performance-enhancing transformations of people and operations and their underpinning architectural forms.’

### Pause for thought

If HR is not well regarded in an organization, what can be done about it?

## Evaluating the HR function

It is necessary to evaluate the contribution of the HR function to establish how effective it is at both the strategic level and in terms of service delivery and support. The prime criteria for evaluating the work of the function are its ability to operate strategically and its capacity to deliver the levels of services required.

Research conducted by the Institute for Employment Studies (Hirsh, 2008) discovered that the factors that correlated most strongly with line managers’ and employees’ satisfaction with HR were:

- being well supported in times of change;
- HR giving good advice to employees;
- being well supported when dealing with difficult people or situations;
- HR getting the basics right.

But the results showed that HR could do better in each of these areas. The conclusions reached were that HR must find out what its customers need and what their experiences of HR services are. HR has to be responsive – clear about what it is there for and what services it offers, and easy to contact.

Typical measures to assess HR effectiveness in order of popularity include:

- absence management data;
- staff turnover data;
- exit interview feedback;
- discipline and grievance data;
- results of employee surveys;
- anecdotal/informal feedback;
- number of tribunal cases;
- benchmarking;
- spending against budget;
- time-to-fill vacancies data;
- cost per hire.

The contribution of HR to improving organizational performance is less frequently used, perhaps because of measurement difficulties. But it is certainly relevant; HR potentially can have a major influence on performance. And even if a quantified assessment is impossible, a qualitative one can and should be made.

The evaluation should cover not only the work of the function as a whole but also the effectiveness of the main HR policies and practices with which the function is concerned. The following three key questions should be answered when carrying out a review:

- 1 To what extent is what is taking place in accordance with the principle of good practice?
- 2 How effectively is the policy or practice being implemented?
- 3 What are the reactions of line managers and employees generally to the policy or practice?

### Pause for thought

What do you think are the three most important measures of HR effectiveness and why?

## CASE STUDIES

### HR organization at the National Australia Bank Group

HR at the National Australia Bank Group has a number of centres of expertise, business partners, solutions consultants, project managers, a shared services centre, and telephone advisory service for employees (the people advisory helpline).

#### Centres of expertise

Centres of expertise cover areas such as reward, employment policy, talent management, culture management, diversity and performance. The staff in the centres are specialists in their respective fields, while the other parts of HR can be found in the HR service centre, with the exception of recruitment, which is conducted by line managers.

#### Business partners

Business partners attend business unit leadership team meetings and set the company's people strategies and deliver the HR requirements emerging from various projects.

They tend to work in the areas of talent, performance, leadership, diversity and culture and their job is to facilitate the implementation of corporate people initiatives with the relevant specialist HR partners. Unlike shared services staff, they only get involved in HR's daily operational matters if projects escalate and extra help is required.

#### Solutions consultants

Solutions consultants deal with operational queries referred to them from the people advisory helpline – mainly issues of case management and other more complex enquiries. They are a key point of contact for people leaders on matters of policy and procedure, although they do participate in some transaction work as well.

#### Project staff

Project staff work on projects that emerge from strategic discussions.

### The HR shared services model at PricewaterhouseCoopers (PwC)

The HR shared services model at PwC consists of transactional and professional areas. Transactional functions include payroll, benefits administration and the joiners/leavers process department. The transactional functions also provide services for their professional counterparts. In contrast, professional areas organized into centres of expertise include functions such as recruitment, learning and development, reward, diversity, and legal and advisory.

The centres of expertise sit within the central human capital services centre but there are definite lines between them. Every centre of expertise is a cost centre, but for the annual budgeting process all are looked at together as part of the HR shared services function.

The result of introducing the centres of expertise has been that specialist knowledge is now organized into discrete units enabling know-how and experience to be more

easily shared. The new structure means there is less duplication and the improved efficiencies allow more time to be dedicated to strategic issues. Additionally, a decrease in

costs has been achieved via a combination of reductions in headcount, economies of scale and related efficiencies.

## Reorganizing HR in the Greater Manchester Fire Service

Following major changes in operations, it was decided by senior management that the role of the fire service's HR function was to provide high-level, strategic advice from advisers who could work closely with them, backed up by specialists. In other words, a business partner model. So the brigade began to recruit business partners – placing a special emphasis on those with expertise in employee relations – and specialists to cover areas such as occupational health, equality and diversity, reward, pensions and recruitment. Finding candidates with sufficient gravitas to act as top-level strategic advisers was difficult. There weren't many true business partners about. A lot of people calling themselves business partners were really HR advisers.

When the team was in place the major developments were:

- to introduce a more transparent promotions process;
- to work on the organizational climate and leadership – a series of awaydays for leaders using organizational climate tools such as 360-degree feedback and the Belbin Team Inventory;
- the recruitment process was also modernized by putting together a resourcing team, building a microsite and developing an applicant tracking system;
- to reorganize training;
- a departmental competency framework was put in place to ensure HR staff would be able to move easily within the organization rather than becoming bogged down in specialist areas.

## The role of HR in small- and medium-sized organizations (SMEs)

SMEs are usually defined as companies with up to 250 employees. The approach to HR they adopt varies even more widely than in larger organizations. There may be no HR function at all or in some larger or more sophisticated SMEs there may be a fully formed HR department, albeit a small one. However, people management activities tend generally to be more informal, at least in the early stages of development. Research conducted by Miller (2015) established that there were four stages of SME growth.

*Stage 1: Start-up.* In this initial stage, people matters tend to be dealt with by the owner, with no formal HR role. Overall the business is characterized by informality, with an emergent strategy, fluid structures and flexible job roles. The owner takes responsibility for hiring, looking for someone who 'fits' with what the company is all about. The people-

related requirements tend to be minimal, centred on pay and contracts, with the rate for the job set by the owner.

*Stage 2: Emerging enterprises.* In a growing business the owner will have to delegate more and people issues become more important. Someone may be appointed to look after HR matters, possibly on a part-time basis for any of the following reasons:

- The business has reached a size where policies and procedures are needed to guide work and create a sense of fairness.
- The owner feels that people issues are taking up too much of their time.
- People management is seen as vital for growth and to achieve the company's vision.
- There is a specific people issue that needs to be addressed, for example tribunal cases, skills shortages, high turnover.

But the owner may decide simply to outsource HR work such as recruitment and seek advice from consultants on any serious people problem.

*Stage 3: Consolidation.* As the business develops and expands it may appoint a full-time HR specialist who will introduce more sophisticated practices in areas such as recruitment, talent management, or reward or performance management to meet the needs of the business for talented high-performing employees.

*Stage 4: Established business.* Fully established businesses will set up an HR department under a generalist manager with specialized assistants, for example one focusing on recruitment and talent management and another dealing with learning and development.

As a company moves through each change, different HR requirements emerge which may lead to the appointment of full-time or part-time HR professionals or the extended use of external agencies and consultants.

The research by Miller found that attaching workforce numbers to the stages did not reveal any particular pattern. SMEs tended to develop more formal HR practices and a dedicated HR manager or function at different workforce sizes, depending on the people requirements of the business, the leader's view on people management and the industry in which the business operates.

Marlow *et al* (2010) established through their research in six growing SMEs that although there was some formalization of HR, many owners still retained informal control over employment matters. They commented that SMEs did not necessarily move from informality to formality and that it could be argued that in a small firm there may be advantages in maintaining an informal approach to people management.

## Key learning points

### The HR function

The HR function deals with the employment, management, development and performance of people in organizations. The members of the function may be involved in strategic or transformational activities although the function also has the transactional role of providing the HR services the organization requires.

### The HR operating model

Operating models for the organization of the HR function vary immensely depending on the context of the organization – its size, the extent to which operations are decentralized, the type of work carried out, the kind of people employed and the role assigned to the HR function.

### The role and organization of the HR function

Although the basic role of HR is to deliver HRM services, it does much more than that. It plays a key part in the creation of an environment that enhances employee engagement by enabling people to make the

best use of their capacities, to realize their potential to the benefit of both the organization and themselves, and to achieve satisfaction through their work.

Increasingly, the role of HR is seen to be business-oriented – contributing to the achievement of sustained competitive advantage.

HR activities can be divided into two broad categories:

- 1 transformational (strategic) activities that are concerned with developing organizational effectiveness and the alignment and implementation of HR and corporate or business strategies;
- 2 transactional activities, which cover the main areas of HR service delivery.

### The 'three-legged stool' model of the HR function

This model identifies three areas of HR activity: centres of expertise, strategic business partners and shared service centres.

### Outsourcing

Services that can be outsourced to suppliers include recruitment, executive search, training, occupational

health and safety, employee wellbeing including counselling, childcare, and payroll administration. Care has to be taken in selecting and managing providers.

### Evaluating the HR function

It is necessary to evaluate the contribution of the HR function to establish how effective it is at both the strategic level and in terms of service delivery and support.

### The role of HRM in small- and medium-sized organizations (SMEs)

The approach to HR adopted by SMEs varies even more widely than in larger organizations. There may be no HR function at all or in some larger or more sophisticated SMEs there may be a fully formed HR department, albeit a small one. However, people management activities generally tend to be more informal, at least in the early stages of development.

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# 09

## The role of HR professionals

### Introduction

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This chapter examines the role of HR professionals under the following headings:

- The overall role
- The Ulrich model
- The strategic role
- The HR business partner role
- The partnership role
- The innovation role
- The change agent role
- The service delivery role
- Carrying out the role

### The overall role of the HR professional

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HR or people management professionals provide advice, guidance and services on all matters concerning the employment of people. The role can be transactional, dealing with basic HR matters such as recruitment and selection, or transformational, operating strategically in order to make significant changes in how the organization functions or how its employees are treated. The CIPD (2013: 9) stated that the HR profession is ‘an applied business discipline with a people and organization specialism.’

The roles of HR professionals vary according to the extent to which they are generalist (eg HR

director, HR manager, HR business partner, HR officer) or specialist (eg head of learning and development, head of talent management, head of reward), the level at which they work (strategic, executive or administrative), the needs of the organization, the view of senior management about their contribution, the context within which they work and their own capabilities. They can act as strategists, business partners, innovators, internal consultants, facilitators, coaches or service providers. Tyson and Fell (1986: 7) explained that they were ‘specialists in managing the employment relationship’. The best-known summary of the roles of HR professionals is the Ulrich model as described below.

### The Ulrich model

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Dave Ulrich made the following important point in his influential *Harvard Business Review* article:

#### Words of wisdom

HR should not be defined by what it does but by what it delivers – results that enrich the organization’s value to customers, investors, and employees.

Ulrich (1998: 124)

More specifically he suggested that HR can deliver in four ways: as a strategic partner, an administrative expert, an employee champion and a change agent. This first model was later modified by Ulrich and Brockbank (2005), who defined five roles as follows:

- 1 *Employee advocate* – focuses on the needs of employees through listening, understanding and emphasizing.
- 2 *Human capital developer* – focuses on preparing employees to be successful in the future.
- 3 *Functional expert* – concerned with the HR practices that are central to HR value on the basis of the body of knowledge they possess.
- 4 *Strategic partner* – combines the multiple dimensions of business expert, change agent, strategic HR planner, knowledge manager and consultant to align HR systems to help accomplish the organization's vision and mission, helping managers to get things done and disseminating learning across the organization.
- 5 *Leader* – leading the HR function, collaborating with other functions and providing leadership to them, setting and enhancing the standards for strategic thinking and ensuring corporate governance.

They commented on the importance of the employee advocate role, noting that HR professionals spend about one-fifth of their time on employee relations issues and that caring for, listening to and responding to employees remains a centerpiece of HR work. Their model draws attention to the multifaceted nature of the role, although most attention has been paid to the notion of the strategic nature of HR work and the concept of the strategic business partner. These are discussed below, as are the other aspects of the role not referred to specifically in the latest version of the Ulrich model, namely the innovation role, the change agent role and the service delivery role.

## The strategic role of the HR professional

### Words of wisdom

HR must be fully responsive to the strategy and business model of the business. HR is not a rule to itself. It is not 'HR for HR', but HR (as broadly defined across the competing stakeholders whom HR has to satisfy) for the business.

Sparrow *et al* (2010: 88)

HR professionals have a strategic role when they are operating at a transformational level as HR directors, heads of HR centres of expertise or main HR functions, or strategic business partners. As such they take part in conjunction with their line manager colleagues in the development and implementation of innovative HR strategies that are aligned with business strategies and thus help to achieve them. At a transactional level (as an HR officer, adviser or assistant providing HR services possibly in an HR shared service centre) their role is not primarily strategic but they can make a contribution to the formulation and implementation of HR strategy.

### Pause for thought

What steps can HR practitioners take to understand the strategic priorities of their organization?

Clearly, the extent to which HR roles are strategic depends on the level of the role and its primary purpose, and summaries of what this involves for directors, heads or senior members of functions or

centres of expertise are given below. This is followed by an analysis of the role of business partners who, conceptually at least, function strategically.

Restructuring the organization is an area where, as pointed out by Hardman and Mookherjee (2015), to be successful, HR needs to be involved in strategic conversations right from the start, and right at the top. To earn a place in those conversations, HR professionals need to have credibility within their organization. They can achieve this by developing their ability to think and work strategically and, in particular, being able to ask the right questions. The case study research for the Institute for Employment Studies by Duncan Brown and his colleagues led to the following conclusion:

### Words of wisdom

If HR wants more strategic impact, it needs to engage business leaders in the identification, understanding and solution of key people issues. This is not about having an HR presence on the Board, but rather about senior players in HR being able to facilitate the right level of discussion, whether in top team meetings or elsewhere.

Brown *et al* (2019: 55)

## The strategic role of HR directors

The strategic role of HR or people directors is to promote the achievement of the organization's goals and values by: 1) developing and implementing HR strategies that are integrated with the business or corporate strategy and are coherent and mutually supportive; 2) ensuring that a strategic approach is adopted that enables HR activities to support the organization and add value; and 3) taking into account the ethical dimension of HRM. To carry out this role, HR directors need to:

- understand the strategic goals of the organization;

- appreciate the operational and business imperatives and performance drivers relative to these goals;
- in commercial businesses, understand the business model of the organization (how it makes money) and play a part in business model innovation;
- comprehend how sustainable competitive advantage can be obtained through the human capital of the organization and know how HR practices can contribute to the achievement of strategic goals;
- contribute to the development of the business strategy on an 'outside-in' basis (Wright *et al*, 2004), starting from an analysis of the customer, competitor and business issues that the organization faces – the HR strategy then derives directly from these challenges to create solutions, add value and ensure that the organization has the distinctive human capital required to make an impact;
- contribute to the development for the organization of a clear vision and a set of integrated values;
- ensure that senior management understands the HR implications of its business or corporate strategy;
- see the big picture, of how the organization functions and the broader context in which the organization operates;
- think in the long term about where HR should go and how to get there;
- understand the kinds of employee behaviour required to execute the business strategy successfully;
- take time to identify business issues and their implications for HR strategy (see Chapter 73);
- believe in and practise evidence-based management;
- be capable of making a powerful business case for any proposals on the development of HR strategies;
- fully embrace ethical considerations when developing and implementing HR strategy.

This is a formidable list of requirements. Being an HR director is not an easy option.

## The strategic role of heads of HR functions

The strategic role of heads of HR functions or centres of expertise is fundamentally the same for their function as that of HR directors for the whole organization. They promote the achievement of the organization's corporate goals by developing and implementing functional strategies that are aligned with the business strategy and integrated with the strategies for other HR functions, and adopt a strategic approach in the sense of ensuring that HR activities support the business, add value and are ethical. To carry out this role, heads of HR functions should:

- understand the strategic goals of the organization as they affect their function;
- appreciate the operational and business imperatives and performance drivers relative to these goals;
- help senior management to understand the implications of its strategy for the HR function;
- know how HR practices in the function can contribute to the achievement of the strategic goals;
- ensure that their activities provide added value for the organization;
- be aware of the broader context (the competitive environment and the business, economic, social and legal factors that affect it) in which the function operates;
- think in terms of the bigger and longer-term picture of where HR strategies for the function should go and how to get there;
- believe in and practise evidence-based management;
- be capable of making a powerful business case for any proposals on the development of HR strategies for the function;
- fully embrace ethical considerations when developing and implementing HR strategy for the function.

## The HR business partner role

HR business partners work alongside their line management colleagues in order to develop and implement an HR agenda that contributes to achieving the

business or corporate goals of the organization or function. They share responsibility with their colleagues for the success of the enterprise and get involved with them in implementing corporate strategy and running the organization. They may be 'embedded' in an operational division or department or be part of a centralized HR function.

Ulrich and Beatty (2001: 294) stated that the strategic business partner 'represented a "player" whose aim is to add value through acting as a "coach, architect, builder, facilitator, leader and conscience."'

The CIPD (2015a: 1) defined HR business partnering as 'a model whereby HR professionals work closely with business leaders and/or line managers to achieve shared organizational objectives, in particular designing and implementing HR systems and processes that support strategic business aims. This can involve the formal designation of HR business partners – HR professionals who are embedded within specific areas of the business.'

But there are many different definitions of HR business partnering and the role of HR business partners can vary widely from one organization to another. In some cases it may involve an entirely new approach to HR. At the opposite extreme the title may simply be a re-badging of a traditional generalist HR role. Following her research, Pritchard (2010: 176) noted that the strategic partner role 'appears to be something of a moving target, rather loosely defined and precariously positioned with respect to changing relationships both internal and external to the HR function', and that being a business partner can be a 'fragmented experience'.

The term originated in the concept of the strategic business partner as defined by Ulrich (1998). He advocated that HR should become a partner with senior and line managers in strategy execution. Ever since then the focus has been on the strategic nature of the business partner's role, although it is not always made clear what being strategic really means. But research conducted by Hirsh (2008) found that the word 'strategic' itself was hardly used by the line manager participants. They talked much more about HR helping them to solve the key people problems they faced. And this is essentially what business partners are there to do, bearing in mind that business strategy is devised and implemented by people.

However, as Keegan and Francis (2010: 236) observed: 'The business partner term seems to have become the title of choice for ambitious HR practitioners.' Research by Burroughs (2015) established

that over 50 per cent of the organizations surveyed had introduced some form of HR business partner.

Conceptually, HR business partners have to:

- understand the business as a whole and its competitive environment;
- understand the goals of their part of the business and its plans to attain them;
- see the broad picture of how HR contributes to business success;
- ensure that their activities support the strategic activities of their colleagues;
- be proactive, anticipating requirements, identifying HR issues and problems and producing innovative and evidence-based solutions to them which are aligned with business requirements;
- respond to the needs of managers and ensure that the transactional HR services required by them are provided by colleagues in shared services departments or by outsourcing;
- build relationships founded on trust and demonstrated expertise with their line management clients.

Reilly (2015) noted that research conducted by the CIPD and the IES in 2007 established that the business partner concept had helped HR to become a more strategic contributor, to increase its business focus and to improve the credibility of the function. It also encouraged greater line engagement with people management and put people management issues higher on the agenda. But the research revealed the following problems:

- business partners get drawn into ‘wrong’ activities – usually lower-level tasks than they should, given their role (and pay grade);
- a tension arises between responding to corporate and business unit needs (often manifested by business partners ‘going native’ when, as perceived by the corporate centre, they pursue parochial objectives at the expense of the whole organization);
- difficulties are apparent in finding staff of the right calibre;
- the failure of those in the role to be strategic rather than operational in their contribution.

The following practical advice on carrying out the role was given by two strategic business partners in

a London-based US investment bank, interviewed by Pritchard (2010: 182, 184):

- ‘I think the way you change their [the business clients’] behaviours in the longer term is by getting to be a trusted advisor, and the way to become a trusted advisor is to know your individual, to know your client and to know how to hook the individual.’
- ‘If you don’t know the little things, they’ll [the business leaders] never trust you with the bigger things . . . you survive by doing the little things and doing them right; and then building up that trust and that relationship with them.’

### Pause for thought

What can a newly appointed HR business partner do to get off to a good start?

## Critical evaluation of the business partner concept

Achieving success in the deployment of business partners is hard. Research by Sparrow *et al* (2015: 6) led to the conclusion that the following difficulties need to be overcome to make the concept work:

- problems of capability (upskilling, building business acumen, cultural insight and relational skills);
- problems of expectations (selling the proposition, educating the line about how to use the expertise and building the line capability to actually do it);
- aligning the resources behind the business partner (aligning them to the business, avoiding role overload and providing necessary support);
- regulating the relationships they have so they can be aligned to potential differences between business units and corporate agendas;
- avoiding role drift back into reactive, operational or residual transactional work;
- managing the boundaries between the business partners and their connections back to work in centres of expertise and service centres.

### Source review

Historically, a lot of HR work has been about delivering processes to the business, administering payroll, keeping out of tribunals, writing terms and conditions, and so on, so HR has attracted people with the requisite skills and mindset. The HR business partner role is very different. It's about delivering innovative ways of developing organizational and people capability, building on deep data-driven insights into the strategic and commercial direction of

the business. This requires a different level of thinking, as the complexity and degree of ambiguity inherent in the role, and in the environment, in which organizations are operating has increased exponentially. In some cases the issue has been that no one has actually articulated to the newly rebadged business partners how the role is different or the new level it is operating at.

Holley (2015: 12)

It can be argued that too much has been made of the business partner model. Perhaps it is preferable to regard the role of HR professionals as being part of the business rather than merely being partners. There is a risk of overemphasizing the seemingly glamorous role of business or strategic partner at the expense of the service delivery aspect of the HR practitioner's role. Syrett (2006) noted that whatever strategic aspirations senior HR practitioners have, they will amount to nothing if the function they represent cannot deliver the essential transactional services their internal line clients require. As an HR specialist commented to Caldwell (2004): 'My credibility depends on running an extremely efficient and cost-effective administrative machine... If I don't get that right, and consistently, then you can forget about any big ideas.' Another person interviewed during Caldwell's research referred to HR people as 'reactive pragmatists', a realistic situation in many organizations.

The danger is that if business partners do focus too much on what they believe to be strategic issues they are in danger of existing in some sort of strategic stratosphere remote from everyday people management concerns. Perhaps it would be preferable to emphasize the transformational rather than the strategic aspect of a business manager's role. They are there to make a difference to organizational performance through applications of HRM such as organization development and talent management.

The problem of making too much of the strategic business partner role has been influenced by the erroneous belief that Ulrich was simply focusing on HR executives as business partners. This has had the unfortunate effect of implying that it was their only worthwhile function. But Ulrich cannot be blamed for this. In 1998 he gave equal emphasis to the need for HR people to be administrative experts, employee champions and change agents.

## CASE STUDY

### Business partnering at the Automobile Association (AA)

The key competencies required by the AA for its business partners are concerned with commercial decision making, commerciality, influencing people and facilitating change. They have to:

- understand the key factors affecting overall costs and profits;
- understand and interpret financial data;
- understand the connectivity between functional areas of the business;
- understand the impact of actions on cash flow and profitability.



## The partnership role of HR professionals

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It is not just business partners who need to adopt a partnership approach with line managers. This applies to all HR professionals. Partnership means working with line managers to deal jointly with issues, people problems and, importantly, implementing HR strategies and new HR policies and practices. Traditionally, some HR specialists have tended to lay down the law to their line manager clients: ‘This is the policy, this is what you have to do about it, this is how I am going to help you.’ In a partnership mode, they will still explain what the policy is and what the responsibilities of the manager are in implementing it, and they will still provide guidance and advice. But in adopting a partnership approach the HR professional will be focused on understanding the particular preoccupations and concerns of individual managers and working alongside them to produce a joint agreement on how to proceed based on that understanding. It will be a matter of agreeing rather than prescribing.

When acting as partners HR specialists need to demonstrate to line managers that they understand the situation in which the latter operate and the pressures they face. HR people need to be appreciated as colleagues who know about the business and will listen to managers when they make suggestions or express doubts about a new policy. They will discuss possible approaches and even agree modifications to fit particular circumstances as long as these do not fundamentally affect the policy. They will work alongside line managers when a new policy is being introduced, not as a prescriptive trainer but as, in effect, a coach.

## The innovation role

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A strategic and therefore proactive approach to HRM will mean that HR specialists will need to innovate – to introduce new processes and procedures they believe will increase organizational effectiveness.

The case for innovation should be established by processes of analysis and diagnosis using an evidence-based management approach to identify the business need and the issues to be addressed. ‘Benchmarking’ can be used to identify ‘best practice’

in other organizations. But ‘best fit’ is important – the innovation should meet the particular needs of the business, which are likely to differ from those of other ‘best practice’ organizations. It has to be demonstrable that the innovation is appropriate, beneficial, practical in the circumstances and can be implemented without too much difficulty in the shape of opposition from those affected by it, lack of the expertise or skill required to apply it, or the unjustifiable use of resources – financial and the time of those involved.

The danger, according to Marchington (1995), is that HR people may go in for ‘impression management’ – aiming to make an impact on senior managers and colleagues through publicizing high-profile innovations. HR specialists who try to draw attention to themselves simply by promoting the latest flavour of the month, irrespective of its relevance or practicality, are falling into the trap that Drucker (1955: 243), anticipating Marchington by 40 years, described as follows: ‘The constant worry of all personnel administrators is their inability to prove that they are making a contribution to the enterprise. Their preoccupation is with the search for a “gimmick” which will impress their management colleagues.’

As Marchington points out, the risk is that people believe ‘all can be improved by a wave of the magic wand and the slaying of a few evil characters along the way.’ This facile assumption means that people can too readily devise elegant solutions that do not solve the problem because of the hazards encountered during implementation – for example, the indifference or even open hostility of line managers. These have to be anticipated and catered for.

The guidelines for HR innovations are:

- Be clear on what has to be achieved and why.
- Gain the support of the organization’s leaders.
- Involve line managers and consult employees.
- Ensure that what you do fits the strategy, culture and circumstances of the organization.
- Don’t follow fashion – do your own thing as long as it is relevant and fits the organization’s needs.
- Keep it simple – over-complexity is a common reason for failure.



- Define the innovation in language and using terms that line managers use.
- Don't rush – it will take longer than you think.
- Don't try to do too much at once – an incremental approach is generally best.
- Assess resource requirements and costs.
- Pay close attention to project planning and management.
- Remember that the success of the innovation rests as much on the effectiveness of the process of implementation (line manager buy-in and skills are crucial) as it does on the quality of the concept, if not more so.
- Focus on change management approaches – communicate, involve and train.

## The change agent role

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The implementation of strategy means that HR specialists have to act as change agents, facilitating change by providing advice and support on its introduction and management. Caldwell (2001) categorized HR change agents in four dimensions:

- 1 *Transformational change* – a major change that has a dramatic effect on HR policy and practice across the whole organization.
- 2 *Incremental change* – gradual adjustments of HR policy and practices which affect single activities or multiple functions.
- 3 *HR vision* – a set of values and beliefs that affirm the legitimacy of the HR function as a strategic business partner.
- 4 *HR expertise* – the knowledge and skills that define the unique contribution the HR professional can make to effective people management.

## The service delivery role

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The role of HR professionals operates at a transformational level when HR strategies, programmes and policies are devised and implemented which further the achievement of business or corporate goals and help to meet the needs of employees. But for many HR people the emphasis is on transactional activities such as recruitment, training,

handling day-to-day employment matters, helping to solve people problems and dealing with employment law issues. The latter is one of the most demanding and time-consuming areas in which they give advice and provide services. A 2002 survey by the CIPD found that two-thirds of HR specialists were spending in excess of 20 per cent of their time coping with employment law issues, while a quarter reported that over 40 per cent of their working days were being spent in this way.

For many HR practitioners, service delivery is what they do. The importance of this aspect of their work should not be underestimated by focusing too much on strategic or business partner roles. Line managers tend to judge HR professionals on the quality and efficiency of the services they provide rather than on their strategic capabilities.

## HR professionals: role requirements

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### Words of wisdom

The capabilities of HR professionals include: 'a real understanding of the business and ability to work closely with senior leaders; the ability to identify and prioritize people issues; understand the timeframes on which they need to be addressed; and help managers to see practical solutions. This sometimes means challenging the views of senior people and reminding them of the importance of taking a customer and employee perspective, not just seeing the business from their own point of view.'

Brown *et al* (2019: 56)

The role requirements of HR professionals are exacting. They are described below in terms of levels of competency and expected behaviours.

## HR competencies

Research conducted by Brockbank *et al* (1999) led to a definition of the key HR competency ‘domains’ and their components, as set out in Table 9.1.

A competency framework for the strategic partner role in an investment bank as reported by Pritchard (2010) emphasized three key areas: organizational effectiveness, personal impact and business insight. The competencies included trusted advisor, leading change, critical thinking, financial acumen and strategy formulation.

### Pause for thought

It has been said that HR practitioners should be ‘specialists in ambiguity’. What does this mean, why might it be the case and if it is the case, what can be done about it?

## HR professional behaviours CIPD

The CIPD Profession Map (2018) stated that members of the ‘people profession’ should be ‘principles led, evidence based, outcomes driven’. The map set out the following core behaviours expected of people professionals:

- *Ethical practice* – building trust by role-modelling ethical behaviour, and applying principles and values consistently in decision making.
- *Professional courage and influence* – showing courage to speak up and skilfully influencing others to gain buy-in.
- *Valuing people* – creating a shared purpose and enabling people development, voice and wellbeing.
- *Working inclusively* – working and collaborating across boundaries, effectively and inclusively, to achieve positive outcomes.

**TABLE 9.1** Key HR specialist competency areas

Competency	Definition
1 Personal credibility	Live the firm’s values, maintain relationships founded on trust, act with an ‘attitude’ (a point of view about how the business can win, backing up opinion with evidence).
2 Ability to manage change	Drive change: ability to diagnose problems, build relationships with clients, articulate a vision, set a leadership agenda, solve problems and implement goals.
3 Ability to manage culture	Act as ‘keepers of the culture’, identify the culture required to meet the firm’s business strategy, frame culture in a way that excites employees, translate desired culture into specific behaviours, encourage executives to behave consistently with the desired culture.
4 Delivery of human resource practices	Expert in the speciality, able to deliver state-of-the-art innovative HR practices in such areas as recruitment, employee development, compensation and communication.
5 Understanding of the business	Strategy, organization, competitors, finance, marketing, sales, operations and IT.

- *Commercial drive* – using a commercial mindset, demonstrating drive, and enabling change to create value.
- *Passion for learning* – demonstrating curiosity and making the most of opportunities to learn, improve and innovate.
- *Insights-focused* – asking questions and evaluating evidence and ideas to create insight and understand the whole.
- *Situational decision making* – making effective and pragmatic decisions or choices based on the specific situation or context.

## Carrying out the role of the HR professional

How HR professionals carry out their roles depends on the context in which they work (the size and culture of the organization, the types of activities carried out and the requirements of senior management), their skills and disposition and, importantly, the values they adopt. They will be affected by ambiguity and questions on the status of the profession and what is involved in being a professional. It can be a difficult job to do well and the criteria for success are demanding. An example of a grade structure illustrating the different levels in an HR department based on a large charity is given in Chapter 29, Figure 29.5.

### *The values of HR professionals*

The most important aspect of HR values is the ethical stance HR people take in promoting people management policies and practices that are just, fair and take account of the interests of employees as well as those of the organization. The pressure on HR practitioners in the private sector is to promote the interests of the business and thus increase shareholder value. In the public sector, the pressure is to further the aims of the organization. The problem is that, as observed by Parkes and Davis (2013: 2413): ‘HR seems wedded to its allegiance to profitability and distancing itself from any connections with welfare.’ They also note that: ‘The economic drivers for organizations are important but the danger of relying only on the business case is that ethics and responsibility become optional.’

### Pause for thought

What can HR people do if they believe that a management decision is unethical?

### *Ambiguities in the role of HR professionals*

The activities and roles of HR specialists and the demands made upon them as described above appear to be quite clear cut but Thurley (1981) pointed out that HR practitioners can be specialists in ambiguity. This continues in the age of Ulrich. As Hope-Hailey *et al* (2005: 51) commented: ‘Ulrich highlighted that HR professionals must be both strategic and operational, yet the potential role conflict this could engender was not addressed.’ Caldwell reached the following conclusions on the basis of his research:

### Words of wisdom

There is the issue of ‘powerlessness’ or the marginality of HR practitioners in management decision-making processes, especially at a strategic level. The HR function has an inward-looking tendency to identify professional expertise mainly with administrative concerns over who controls HR activities, rather than questions of HR practices or who has responsibility for implementing HR policy.

Caldwell (2004: 212)

The difficulties that HR professionals face in dealing with ambiguity were well described by Guest and King.

### Words of wisdom

Much management activity is typically messy and ambiguous. This appears to apply more strongly to people management than to most other activities. By implication, the challenge lies not in removing or resolving the ambiguities in the role [of HR professionals] but in learning to live with them. To succeed in this requires skills in influencing, negotiating and learning when to compromise. For those with a high tolerance of ambiguity, the role of HR specialist, with its distinctive opportunity to contribute to the management of people in organizations, offers unique challenges; for those only comfortable if they can resolve the ambiguities, the role may become a form of purgatory.

Guest and King (2004: 421)

### The status of HR

Over the years, the HR profession has suffered from an inferiority complex. This may arise because the role of HR professionals is ill-defined (they are unsure of where they stand), their status is not fully recognized, or top management and line managers have equivocal views about their value to the organization. Tyson and Fell (1986: 68) remarked that 'the ambiguous character of their work contributes to the problems of convincing others of its value.'

Long ago, Drucker (1955: 243) observed that: 'The constant worry of all personnel administrators is their inability to prove that they are making a contribution to the organization.' Skinner (1981: 106) in his notorious *Harvard Business Review* article, 'Big hat no cattle', stated that 'the corporate role of personnel has always been problematic'; and Tyson and Fell (1986: 136) argued that: 'Classical personnel management has not been granted a position in decision-making circles because it has frequently not earned one. It has not been concerned with the totality

of the organization but often with issues which have not only been parochial but esoteric to boot.'

Watson (1996) referred to the 'perpetual marginality' of the HR function and Caldwell (2004: 212) raised the 'issue of "powerlessness" or the marginality of HR practitioners in management decision-making processes.'

Traditionally, the HR practitioner's reaction to this problem has been, in the words of Drucker (1955: 243) to 'search for a "gimmick" that will impress their management colleagues.' This was later called adopting 'the flavour of the month'. HR professionals have now become more sophisticated. They have enthusiastically supported approaches that appeal to management such as engagement policies and talent management. And in the UK, the CIPD spends a lot of time attempting to boost the status of the HR profession by stressing the strategic and business partner role of practitioners.

But research conducted by Guthrie *et al* (2011: 1681) confirmed that: 'HR departments are still often viewed, collectively, as a function that is more bureaucratic than strategic.' They noted previous research, which has shown that 'it is this role – the strategic role – in which line executives believe that HR is particularly deficient' (ibid: 1682). The following perceptive comment was made on this trend by Keegan and Francis.

### Words of wisdom

Bearing in mind the history of HR practitioners' struggles for acceptance as key organizational players it is hardly surprising that a way of discursively modelling the concept of HR as 'hard' and relating it to others' concepts such as 'business-driven agendas' and 'strategic management' has become so popular. It offers perhaps a way out of the dualism when they seek to claim a share of strategic decision making while at the same time struggling to attend to the employee-centred and administrative aspects of the role.

Keegan and Francis (2010: 878)

They also commented that: ‘Exhortations for HR practitioners to pursue strategic roles and downplay their historically embedded administrative and employee championing pose a serious threat to the integrity of HR work and claims to professional expertise’ (ibid: 894). And Farndale and Brewster (2005: 35) observed that: ‘HR has largely relied on attempting to develop a strategic role to enhance its professional standing.’

## What it means to be an HR professional

Professionalism in HR, as in other fields, can be defined generally as the conduct exhibited by people who are providing advice and services that require expertise and who meet defined or generally accepted standards of behaviour. Work done by a professional is usually distinguished by its reference to a framework of fundamental concepts that reflect the skilful application of specialized education, training and experience. It is accompanied by a sense of responsibility and an acceptance of recognized standards. HR professionals who are members of the Chartered Institute of Personnel and Development (the CIPD) are required to uphold the standards laid down by that body. More loosely, people can be described as acting ‘professionally’ when they do their work well and act with integrity.

The CIPD advocates the following approach to professionalism:

Following a worldwide study of professional HR associations, including the CIPD, it was argued by Farndale and Brewster (2005: 35, 46) that there was ‘a paradox at the heart of HR professionalism: one of the hallmarks of HRM is the attempt to align it with business strategy and to follow the interest of the owners of the business; one of the hallmarks of a profession is having its own standards that override those of the business. Most of the time, of course, these will be complementary, but the professional associations have no mechanisms in place to deal with the situations where they are not... There is no mandatory requirement for specialists to be certified, and national associations do not apply common standards of entry and performance monitoring to members. Indeed, practitioners are not legally required to be members of these professional bodies.’

## What HR professionals do

A survey by *People Management* (2018) found that, on average, the HR professionals who responded spent their workday as follows:

- |   |             |
|---|-------------|
| ● working on strategy/long-term projects        | 17 per cent |
| ● dealing with grievances and queries           | 14 per cent |
| ● in meetings                                   | 22 per cent |
| ● having informal conversations in the business | 15 per cent |
| ● on e-mails                                    | 32 per cent |

### Source review

Rather than focusing on the activities it delivers, the (HR) profession should build its credibility and trust by showing its capability and courage to challenge accepted practice and offer business leaders a range of critical perspectives on how to create sustainable organizational value through people, underpinned by a body of fundamental and internationally relevant knowledge rather than

anecdotal ‘best practice’. We propose that a principles-based approach to HR practice can elevate the definition of ‘good’ from practice to the systems level, while giving freedom to individual people management professionals to apply their professional judgement in designing bespoke ‘good’ practices in real-life scenarios.

CIPD (2015b: 12)

### Pause for thought

It is interesting that one-third of the time is spent dealing with e-mails. What does that tell us about life in organizations today?

## Criteria for success as an HR professional

- 1 Understand fundamental concepts explaining organizational and individual behavior and take action accordingly.
- 2 Develop and apply HR expertise and skills (generalist or specialist as appropriate).
- 3 Understand the business model of the organization and the context in which it operates and appreciate the key factors that affect organizational performance.
- 4 Be insight-led, clearly perceiving issues or problems which need to be tackled in order to improve organizational capability and effectiveness.
- 5 Adopt an evidence-based approach to innovation – support proposals on HR developments with hard data derived from people analytics, research, benchmarking and the analysis and evaluation of the organizational context and HR practice.
- 6 Define and offer HR innovations and practices in language that clients or customers, eg line managers, can understand.
- 7 Understand the concerns of managers and employees generally by keeping in touch (conversing with them regularly).
- 8 Respond eagerly and promptly to requests for help or advice.
- 9 Deliver the deal – generate trust by doing what was promised.
- 10 Act with integrity in accordance with firm principles relating to veracity, reliability, uprightness and honesty.

### Key learning points

#### HR professionals

HR professionals provide advice, guidance and services on all matters concerning the employment of people. The role can be mainly transactional, dealing with basic HR matters such as recruitment and selection, or largely transformational, operating strategically in order to make significant changes in how the organization functions or how its employees are treated.

#### The Ulrich model

The most celebrated delivery model was produced by Dave Ulrich. He wrote that 'HR should not be defined by what it does but by what it delivers – results that enrich the organization's value to customers, investors, and employees.' More specifically he suggested that HR can deliver in four ways: as a strategic partner, an

administrative expert, an employee champion and a change agent. This first model was later modified by Ulrich and Brockbank (2005), who defined five roles as follows:

- 1 employee advocate;
- 2 human capital;
- 3 functional expert;
- 4 strategic partner;
- 5 leader.

#### The strategic role

HR professionals have a strategic role when they are operating at a transformational level as HR directors, heads of HR centres of expertise or main HR functions or strategic business partners.

### The HR business partner role

HR business partners work alongside their line management colleagues in order to develop and implement an HR agenda which contributes to achieving the business goals of the organization or function. They share responsibility with their line management colleagues for the success of the enterprise and get involved with them in implementing business strategy and running the business.

### The partnership role of HR professionals

It is not just business partners who need to adopt a partnership approach with line managers. This applies to all HR professionals. Partnership means working with line managers to deal jointly with issues, people problems and, importantly, implementing HR strategies and new HR policies and practices.

### The innovation role

A strategic and therefore proactive approach to HRM will mean that HR specialists will need to innovate – to introduce new processes and procedures they believe will increase organizational effectiveness.

### The change agent role

The implementation of strategy means that HR specialists have to act as change agents, facilitating change by providing advice and support on its introduction and management.

### The service delivery role

For many HR people the emphasis is on transactional activities such as recruitment, training, handling day-to-day employment matters, helping to solve people problems and dealing with employment law issues.

### Carrying out the role of the HR professional

How HR professionals carry out their roles depends on the context in which they work (the size and culture of the organization, the types of activities it carries out and the requirements of senior management), their skills and disposition and, importantly, the values they adopt. They will be affected by ambiguity and questions on the status of the profession and what is involved in being a professional. It can be a difficult job to do well and the criteria for success are demanding.

### What it means to be an HR professional

Professionalism in HR as in other fields can be defined generally as the conduct exhibited by people who are providing advice and services that require expertise and who meet defined or generally accepted standards of behaviour.

### HR role of line managers

HR can initiate new policies and practices but it is line managers that have the main responsibility for implementing them.

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# 10

## The HRM role of line managers

### Introduction

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'Line managers bring HR policies to life.' This was the succinct statement made by Purcell *et al* (2003: 58) following their extensive longitudinal research. They commented that: 'Time and again in our case studies, whether interviewing senior executives or employees, the way line managers implement and enact policies, show leadership in dealing with employees and in exercising control came through as a major issue, and was often something of a concern' (ibid: 59). They also observed that: 'Employees are likely to be influenced both by the HR practices they experience and by their managers' leadership behaviour. Such responses can be positive or negative. Poorly designed or inadequate policies can be 'rescued' by good management behaviour in much the same way as 'good' HR practices can be negated by poor management behaviour or weak leadership' (ibid: 4). The role line managers play in implementing HR policies is crucial and in this chapter it is examined under the following headings:

- The people management role of line managers
- How well does devolution of HR responsibilities to line managers work?
- Factors affecting the quality of the implementation of HRM by line managers
- Dealing with the issues

### The people management role of line managers

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Line managers are there to get results. But they can only do this by seeing that their team members make

an effective contribution. The analysis conducted by Purcell *et al* (2003) identified four main people management roles:

- 1 *Implementing HR policies* – putting HR policies into operation.
- 2 *Enacting* – how they apply the policies to make them effective.
- 3 *Day-to-day leadership* – using interpersonal skills to get their team into action, handling operational issues involving people, treating employees fairly and with consideration, communicating information, providing feedback on performance, coaching employees, responding to suggestions and dealing with problems involving individuals and teams. How and when these activities are done cannot be captured in a policy handbook.
- 4 *Controlling the work of employees* – supervising employees, monitoring the quality of their work, trusting people to get on with their job and allowing them to exercise influence over how the job is done.

But line managers in practice may also have significant HR responsibilities devolved to them such as recruitment and training in addition to performance management and other duties.

### How well does devolution of HR responsibilities to line managers work?

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Questions have been raised about how well this devolution to line managers of HR responsibilities,

however desirable, works and how well line managers fulfil their people management duties, especially with regard to their contribution to the implementation of HR policies. Examples are given below of the steady stream of studies on aspects of the line manager's role in HRM, such as appraisal, involvement and incentive pay. These have noted the distinction that frequently occurs between espoused and enacted HR practices and have often explained that the gap has been caused by the line managers' lack of training, lack of interest, work overload, and conflicting priorities.

- McGovern *et al* (1997: 21) asked line managers in the seven companies they studied to 'rank in order what motivates you to be involved in personnel activities'. The first ranked answer in each case was 'personal motivation', as opposed to targets, company values, career advancement and other possible factors. The researchers noted that 'people management, either in the form of carrying out HR policies or in general, did not emerge in the list of unwritten rules or measurement priorities within any of the organizations' (ibid: 230).
- Truss (2001) observed that managers may well not transmit the articulated values of top management but reflect instead the 'informal' culture of the firm.
- Purcell *et al* (2003: 58) reported that: 'Problems of espoused policies not being enacted are quite common while questions of what priority line managers can give to people management given numerous other demands on their time remain a difficulty.' They found through their research that line managers were frequently uncertain about their skills in dealing with people, particularly in terms of managing employee behaviour or having 'difficult conversations'. The quality of the support available was important. Purcell and his colleagues suggested that line managers should seek 'proper' advice from experienced HR colleagues, not simply a course on interpersonal skills. Managers are sometimes concerned about accepting responsibility for people management issues if they feel exposed through inexperience or lack of knowledge or capability.
- Guest and King (2004), in their study of senior managers' perceptions of the HR function, highlighted a number of examples of exasperated managers who offered clear explanations of why they give low priority to initiatives emanating from the HR department, including the bureaucratic requirements and the transience of the initiatives as fads.
- Khilji and Wang (2005), in their study in Pakistani banks, noted a gap between intention and implementation with some managers choosing not to implement HR practices.
- Vermeeren (2010) conducted research in a Dutch municipality and found that the HRM activities perceived or experienced by employees will be those enacted by their supervisors. She concluded that: 'There is no significant influence of actual HRM on perceived HRM. This means that employees within a division do not perceive the same HRM activities as managers pretend to implement' (ibid: 14). She noted the important influence of line managers' leadership behaviour and observed that: 'Line managers have the task of executing organizational policies by translating them into situation-specific action directives during their interactions with employees' (ibid: 5).
- A research project carried out in 2014 by Dilys Robinson of the Institute for Employment Studies investigated how 'engaging managers' – people who inspire and motivate people to perform well – behave in their dealings with the people in their teams. The following comment made by one of these engaging managers on her approach to managing performance illustrates the approach a line manager might make to an HR policy:
 

This organization has a very structured performance management framework, as you would imagine from a big company. I try and avoid using it unless I have to; I would rather try and develop the personal relationship with someone, to understand their issue and try and improve their performance by working with them, rather than going through procedural ways of managing performance.
- Woodrow and Guest (2014) showed how sophisticated policies and practices to reduce

bullying and harassment of staff in hospitals were ignored by some line managers who chose to give priority to other aspects of their jobs rather than deal with this challenging issue. Individuals perceived that managers lacked the skills, motivation or time to implement policy effectively.

- A study by Brewster *et al* (2015) of line managers' HRM responsibilities in a number of European countries found large variations in the extent to which responsibility for HR decisions was assigned to line managers. More than half the organizations gave line managers primary responsibility for workforce expansion or reduction and for recruitment and selection.
- On the basis of his research in a major UK fashion retailer, Juan López-Cotarelo (2018: 255) suggested that: 'Line managers make an important contribution to the implementation of HRM systems through exerting their cognitive and political abilities to bring about decisions that are well suited to their local situations.' He noted that researchers have found that the main barrier to the devolution of HR responsibilities to line managers is their failure to engage fully in their HRM duties due to a lack of desire or ability, conflicting priorities or time pressures – especially because organizations do not always support them adequately in their HRM activities such as formal training or incentives.

### Pause for thought

How would you sum up the issues relating to the HR responsibilities of line managers?

## Factors affecting the quality of the implementation of HRM by line managers

Five main factors affecting the quality of the implementation of HRM by line managers were identified by Guest and Bos-Nehles (2013: 91–92):

- 1 Line managers do not have the *desire* to perform HR responsibilities. They will therefore prioritize operational issues over HR issues.
- 2 They do not have sufficient *capacity* to spend time on both operational and HR issues.
- 3 They lack sufficient HR-related *competences*. They may only have limited people management skills or may not have specialist knowledge of, for example, legal requirements.
- 4 HR professionals do not always provide line managers with the services they need (Bond and Wise, 2003), partly because they are reluctant to abandon their hold over HR responsibilities and play a new role in supporting line managers (Gennard and Kelly, 1997).
- 5 HR departments tend to worry that line managers might manage people in an inconsistent way so they try to prevent them from interpreting and adjusting HR practices to address what the managers perceive to be local requirements (Harris, 2001; Bond and Wise, 2003).

As Hope-Hailey *et al* (1997) pointed out, line managers need content-related advice on how to perform HR activities but they do not always get it.

Research by Evans (2017) in three retail firms established that HR policies were not carried out effectively if they were perceived to be optional. Where line managers had in-store HR colleagues, less ambiguity was reported. Evans commented that this highlighted the importance of HR professionals in championing and supporting the delivery of HR strategy. She also noted that HR was one of many roles for the managers – they were also responsible for store management, general line management and customer service. The complex nature of their roles led to a high workload. As a result of this, HR was deprioritized in some cases, especially when HR outcomes weren't measured.

### Pause for thought

What would you say to a line manager who was clearly neglecting his people management responsibilities?

## Dealing with the issues

### Words of wisdom

It is not just about getting good managers but about establishing the context in which they can be good managers, and providing them with the policy tools to do the job well.

Purcell *et al* (2003: 106)

The most intractable issue is the tendency of line managers to prioritize operational matters at the expense of their HR responsibilities. This is natural. Line managers are under pressure to achieve results. To deal with this problem, attention should be given to job design so that allowance is made for carrying out HR duties as well as operational ones. It would be no use encouraging managers to take more responsibility for people management if the pressures they are subjected to make it impossible. Overcoming this problem also requires leadership and education. The leadership should be provided by more senior management who can set an example with their own implementation of HR practices. They can communicate to line managers the people management values of the organization and the importance of taking those values and specific HR matters seriously, not only because this will help them to get better results but because it is a good in itself. HR professionals can help with encouragement, support and advice.

### Pause for thought

Can you think of anything else that could be done to alleviate this problem?

Hutchinson and Purcell (2003) made the following recommendations on how to improve the quality of the contribution line managers make to people management:

- Provide them with time to carry out their people management duties, which are often superseded by other management duties.
- Select them carefully with much more attention being paid to the behavioural competencies required.
- Support them with strong organizational values concerning leadership and people management.
- Encourage the development of a good working relationship with their own managers.
- Ensure they receive sufficient skills training to enable them to perform their people management activities such as performance management, not just because this will help them to get better results but because it is a good in itself.

Front-line managers need well designed HR practices to use in their people management activities in order to help motivate and reward employees and deal with performance issues.

Purcell and Hutchinson (2007: 3)

The other actions that can be taken are, first, to involve line managers in the development of HR policy so that they have their say on matters that concern them, second, to give them thorough training and guidance so that they develop the skills required, third, as pointed out by Bowen and Ostroff (2004), to supply them with clear policies and procedures concerning their HR responsibilities and how to apply them, and finally, to get HR professionals to provide them with adequate support and encouragement (possibly by appointing HR strategic business partners to work alongside line managers in formulating and implementing HR strategies and practices). A recommendation by the CIPD on the need for management development is set out below.



### Source review

Academic and practitioner literature is clear on two points: first, that employee engagement, health and wellbeing are key for the productivity, performance and success of organizations; and second, that the way that employees are managed is a vital determinant of their engagement, health and

wellbeing. This means that managers need to be equipped with the skills and behaviours both to engage and to protect the health and wellbeing of their teams. To achieve this, organizations need to provide the most effective management development possible.

CIPD (2017: 25)

### Key learning points

The people management role of line managers

'Line managers bring HR policies to life' Purcell *et al* (2003: 58).

Line managers are there to get results. But they can only do this by seeing that their team members make an effective contribution. The analysis conducted by Purcell *et al* (2003) identified four main people management roles:

- 1 implementing HR policies;
- 2 enacting;
- 3 day-to-day leadership;
- 4 controlling the work of employees.

But line managers in practice may also have significant HR responsibilities devolved to them.

How well does devolution of HR responsibilities to line managers work?

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Dealing with the issues

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- Select them carefully with much more attention being paid to the behavioural competencies required.
- Support them with strong organizational values concerning leadership and people management.
- Encourage the development of a good working relationship with their own managers.
- Ensure they receive sufficient skills training to enable them to perform their people management activities such as performance management.

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# PART III

## Human resource management processes

### PART III CONTENTS

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- 11 Evidence-based HRM
- 12 HR analytics
- 13 e-HRM
- 14 Artificial intelligence and HRM
- 15 Knowledge management
- 16 Competency-based HRM
- 17 The ethical dimension of HRM
- 18 Corporate social responsibility

### Introduction

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The HR processes covered in this part are those which deal with aspects of HRM that affect how it operates generally such as the use of evidence-based

management approaches rather than the practices such as employee resourcing and learning and development that are concerned with particular HR activities.

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## 11

# Evidence-based HRM

## Introduction

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Increasingly, it is being emphasized that people management professionals should adopt an evidence-based management approach to their work, especially when they are developing new HR strategies and policies and introducing new practices. This chapter starts with definitions of evidence-based HRM and the basic process of evidence-based management. It then describes the approach to evidence-based HRM with particular reference to people analytics, benchmarking and research.

## Evidence-based HRM defined

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It has been said (Rousseau and Barends, 2011: 221) that ‘blind faith has no place in professional practice’. Human resource management needs to be evidence-based.

Evidence-based HRM uses the information obtained from HR analytics and the evaluation of data about people and HR practices in the organization and the analysis of the information produced by benchmarking and research. The purpose is to inform decisions on HR strategies, innovations and practices and to ensure that such decisions are made by reference to the best available evidence. As observed by Reay *et al* (2009: 13), the watchwords are ‘evidence before action’.

### Words of wisdom

It looks as if the movement towards more evidence in the [HR] profession is now picking up pace – and with the growing availability of data, and rising investment in analytics capability in the function, it may now be the time to build evidence-based management into the foundation of the profession, and finally put to bed any criticism that HR is driven by gut alone.

Houghton (2016)

Evidence-based HRM is associated with the concept of evidence-based management as described below.

## Evidence-based management

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As defined by Barends *et al* (2014), evidence-based management considers data and insights that can inform evidence-based practice, a concept that stems from the view that good decisions arise from the combination of critical thinking and the conscientious,

explicit and judicious use of the best available evidence from multiple sources.

### Words of wisdom

Evidence-based management features a willingness to put aside belief and conventional wisdom – the dangerous half-truths that many embrace – and replace these with an unrelenting commitment to gather the necessary facts to make more intelligent and informed decisions.

Pfeffer and Sutton (2006: 70)

Briner *et al* (2009: 22) explained that evidence-based management is:

- something managers and practitioners do;
- about the practice of management;
- a family of related approaches to decision making;
- a way of thinking about how to make decisions;
- about using different types of information;
- about using a wide range of different kinds of research evidence depending on the problem;
- about using research evidence as just one of several sources of information;
- a means of getting existing management research out to practitioners;
- likely to help both the process and outcome of practitioner decision making;
- about questioning ideas such as ‘best practice’.

## The approach to evidence-based management

### Source review

Evidence-based management is about making decisions through the conscientious, explicit and judicious use of four sources of information: practitioner expertise and judgment, evidence from the local context, a critical evaluation of the best research evidence, and the perspectives of those people who might be affected by the decision.

Briner *et al* (2009: 19)

As described below, the essential elements of evidence-based management are (1) the use of evidence-based questions, (2) the use of the four sources of information to obtain answers to these questions, (3) the critical evaluation of the data obtained and (4) reaching a decision on the action required on the basis of the evaluated data.

### Evidence-based questions

The purpose of evidence-based questions is to establish what the situation is, what needs to be done about it and what information is required to inform decisions. Questions such as the following might be asked:

- What are we trying to do here, what’s important to this organization, how do we measure that?
- How are current practices helping or hindering what we are trying to do and what evidence do we have of this?
- How might changes improve the delivery of desired outcomes?
- How can we best implement improvements and how can we show ourselves that they are working?
- What information do we need to help us make the right decision on what to do?
- Where will that information come from and how will we obtain it?

## Sources of information

### Source review

Evidence-based management is about making decisions through the conscientious, explicit and judicious use of four sources of information: practitioner expertise and judgment, evidence from the local context, a critical evaluation of the best research evidence, and the perspectives of those people who might be affected by the decision.

Briner *et al* (2009: 19)

## Critical evaluation

Critical evaluation involves making informed judgments about the validity, relevance and usefulness of any evidence made available by establishing the degree to which it is valid and supported by the facts. Some of the evidence may simply be a matter of opinion and it is necessary to scrutinize the facts and arguments and compare them with other sources of evidence to establish if the opinions are justified or biased.

Critical thinking is necessary. This means reflecting on and interpreting data, drawing warranted conclusions and recognizing unjustified or ill-defined assumptions (see also Chapter 59).

## Reaching a decision

Decisions are reached by weighing up the evidence and answering the following questions:

- What does the evidence reveal about possible courses of action in the form of a new or revised policy or practice?
- Does the evidence provide guidance on what is likely to be the best or at least the optimum course of action?
- What are the costs of implementing the policy or practice and what are the benefits to stakeholders?
- How will the policy or practice be introduced?
- What is likely to happen if the policy or practice is introduced?

### Pause for thought

How would you characterize the essence of evidence-based management?

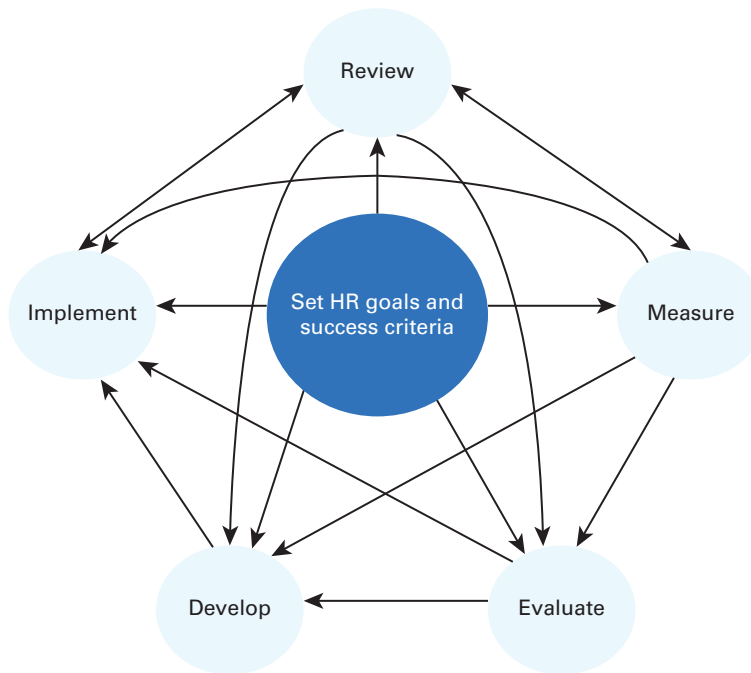
## The approach to evidence-based HRM

Evidence-based HRM involves:

- setting HR strategy goals and defining success criteria;
- conducting a review of current HR policies and practices against these criteria, using both situation-specific evidence in the organization and information from external benchmarking and research to identify key issues to address;
- using HR analytics to measure the impact of those policies and practices and evaluating their effectiveness by reference to the measures and success criteria;
- reviewing developments and applications of HR through benchmarking and the study of research findings;
- considering the issues that have been identified and the messages from benchmarking and research and developing and testing new or improved HR practices;
- implementing the HR changes and establishing a policy of continuous improvement involving measurement, review and evaluation.

A model of how these activities function is shown in Figure 11.1. This appears to describe a sequential progress in the form of a continuous cycle from goal setting, through review, measurement, evaluation, and development activities to implementation and further review. This can happen in some circumstances but it should be emphasized that the activities are not necessarily specified, or defined and managed in an orderly sequence. They are closely interlinked and they may overlap. Goal setting affects all the other activities. Similarly, those concerned with review, measurement and evaluation can take place at any

**FIGURE 11.1** A model of the inter-relationships between the components of evidence-based HRM



time (or all at once) and all of them directly influence the subsequent activities of development and implementation.

The model illustrates the different ways in which evidence-based HRM can work. Using the components of the model appropriately means applying and linking them in ways which fit the demands of the situation. It becomes a way of thinking that HR practitioners can apply to any situation or issue.

Evidence-based HRM involves the use of HR analytics, benchmarking and the study of the practical implications of HR research. It requires the application of the analytical, logical reasoning and critical thinking skills described in Chapter 59.

## HR analytics

As defined by the CIPD (2018: 1): ‘HR analytics, also known as people analytics, is the use of people data in analytical processes to solve business problems. HR analytics uses both people data, collected by HR systems (such as payroll, absence management) and business information (for example, operations performance data). At its core, HR analytics enables HR

practitioners and employers to gain insights into their workforce, HR policies and practices, with a focus on the human capital element of the workforce, and can ultimately inform more evidence-based decision making.’ HR analytics are covered in detail in Chapter 12.

## Benchmarking

Benchmarking is the process of obtaining evidence of HR practices in other organizations to provide guidance on reward initiatives and improvements. Benchmarking is carried out by studying published case studies or surveys produced by organizations such as the CIPD, e-reward, IES, or Xpert HR; participating as a member of a research club or organization with specialist expertise in human capital measurement such as PwC Saratoga or Valuentis; or conducting or commissioning a special survey.

Benchmarking sounds useful. It can generate new ideas which seem to have worked well elsewhere or it can confirm that the business is taking the right line. But it can be a waste of time. Pfeffer and Sutton (2006) refer to the ‘mindless mimicry’ involved in what they call ‘casual benchmarking’ – defined as



uncritical emulation in which ‘the logic behind what works for top performers, why it works and what will work elsewhere is barely unravelled.’ They comment that people tend to imitate ‘the most visible, the most obvious and frequently, the least important practices’. Because companies are different, ‘what one of them needs to do to be successful is different from what others need to do’. They suggest that the following questions need to be answered before starting to benchmark or putting the results into effect:

- Do sound logic and evidence indicate that the benchmarking target’s success is attributable to the practice we seek to emulate?
- Are the conditions at our company similar enough to make the learning useful?
- Why does a given practice enhance performance?
- What are the downsides of introducing the practice even if it is a good idea?

## Evidence-based HRM and research

Evidence-based HRM is driven by a spirit of enquiry, an open-minded but critical approach. Everything that can be found out on the subject should be found out. And this means absorbing any relevant lessons from research.

The main problem with evidence-based HR based on research is that there is too much evidence. A huge number of academic or quasi-academic journals exist – hundreds can be accessed on the EBSCO journals database available through the CIPD. Much of the research is esoteric or obscure, written in academic jargon by academics for academics. Some articles are pertinent but managers simply don’t have the time, even if they had the inclination, to sift through all the information to identify what is relevant to them. A few names may have percolated through such as Maslow, Herzberg and Ulrich – but the rest is silence.

Pfeffer and Sutton (2006) point out that there is not enough *good* evidence and much of it doesn’t quite apply. They mention that: ‘One hallmark of solid research is conservatism – the carefulness of the researcher to point out the specific context in which intervention A led to outcome B. Unfortunately that leaves managers wondering if the research could possibly be relevant to them.’ The perspective is generally different between practitioners and academics, as evident in the contradictory findings on

performance-related pay. The academic perspective has often been to disprove its effectiveness, yet practitioners have to review HR practice in their organization through some means and so might rightly want evidence as to what to do instead. As Churchill reputedly said of democracy, perhaps it’s the best of a bad set of alternatives. In the UK the criteria used for assessing the quality of research in universities appear to be reinforcing this academic/practitioner divide, placing great weight on pure research and publication in the top academic journals rather than applied research, teaching and application.

A further problem is the often conflicting nature of the information available from research. Academics spend a lot of time demolishing the conclusions reached by other academics or, more specifically, rubbing the methodology used to reach these conclusions. These are then replaced with conclusions reached by using their own methodology. Established dogmas that have percolated into the minds of managers who care about such things are thus excised, leaving confusion.

The use of research-based evidence requires the application of critical evaluation techniques as described in Chapter 59 and it presents problems. People may select the evidence that confirms their own prejudices and reject that which conflicts with them. They may have been brought up on a belief which becomes dogma and which contrary evidence (if they ever try to find it) fails to shake. They may adopt the easy way out. They may not have the power or influence to give the research findings effect.

But in spite of these problems, a lot can be gained by studying the surveys and research reports of such organizations as the CIPD and the Institute for Employment Studies (IES), and by consulting journals like *Employee Relations*, *The Harvard Business Review*, *The Human Resource Management Journal* and *The International Journal of Human Resource Management*. *People Management* is good at presenting the latest trends and provides a lot of anecdotal data.

### Pause for thought

How would you tackle an assignment to improve the effectiveness of performance management in an organization?

## Key learning points

### Evidence-based HRM

Evidence-based HRM uses the information obtained from the analysis and evaluation of data about people and HR practices in the organization and the analysis of the messages delivered by benchmarking and research.

The purpose is to inform decisions on HR innovations and improvements to HR policy and practice and to ensure that such decisions are made by reference to the best available evidence.

### Evidence-based management

Evidence-based management was defined by Briner *et al* (2009) as follows:

Evidence-based management is about making decisions through the conscientious, explicit and judicious use of four sources of information: practitioner expertise and judgement, evidence from the local context, a critical evaluation of the best research evidence and the perspectives of those people who might be affected by the decision.

They recommended a five-step approach:

- 1 Practitioners or managers gain understanding of the problem or issue.
- 2 Internal evidence is gathered about the issue or problem, possibly reformulating the problem and making it more specific.
- 3 External evidence is gathered from published research and benchmarking.
- 4 The views of stakeholders are obtained.
- 5 All the sources of information are examined and critically appraised.

### The approach to evidence-based HRM

This involves:

- setting HR strategy goals and defining success criteria;
- conducting a review of current HR policies and practices;
- using HR analytics to measure the impact of those policies and practices;
- considering the issues that have been identified and the messages from benchmarking and research and developing and testing new or improved HR practices;
- reviewing developments and applications of HR through benchmarking and the study of research findings;
- implementing the HR changes.

### Evidence-based HRM activities

#### HR analytics

As defined by the CIPD (2018: 1): 'HR analytics, also known as people analytics, is the use of people data in analytical processes to solve business problems.'

#### Benchmarking

Benchmarking is the process of obtaining evidence of HR practices in other organizations to provide guidance on reward initiatives and improvements. Benchmarking is carried out by studying published case studies or surveys produced by organizations such as the CIPD, e-reward, IES, or Xpert HR.

#### Analysis of research

Evidence-based HR is driven by a spirit of enquiry; an open-minded but critical approach. Everything that can be found out on the subject should be found out. And this means absorbing any relevant lessons from research.

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# 12

## HR analytics

### Introduction

The effectiveness of evidence-based HRM as discussed in the last chapter is largely dependent on information about what is happening and what is likely to happen to people and the process of people management in the organization. Providing this data and using it to make predictions is the role of HR analytics as defined in the first two sections of this chapter. In the next section the process of HR analytics is examined in terms of gathering data and using measures. The chapter is completed with descriptions of the three levels of HR analytics – descriptive, multidimensional and predictive.

#### Words of wisdom

HR analytics presents a tremendous opportunity to help organizations understand what they don't yet know... By identifying trends and patterns, HR professionals and management teams can make better strategic decisions about the workforce challenges they may soon face.

Huselid (2014)

### HR analytics defined

As defined by Marler and Boudreau (2017: 15), HR analytics is: 'An HR practice enabled by information technology that uses descriptive, visual, and statistical analyses of data related to HR processes, human

capital, organizational performance, and external economic benchmarks to establish business impact and enable data-driven decision making.'

HR analytics applies measures or metrics (these terms are generally used interchangeably although strictly speaking, metrics are decimalized measures) to provide the basis for measuring such things as employee turnover and levels of engagement, assessing the impact of HRM practices, and guiding decision making on present and future HRM activities. It is about 'data mining' – getting as much out of HR data as possible and then going on to find links, correlations and, ideally, causation, between different sets of the data, using statistical techniques.

The analytical process may involve the handling of 'big data'. The term was originated by McAfee and Brynjolfsson (2012: 63), who in a *Harvard Business Review* article, described it as data characterized by sheer volume, velocity (speed with which it can be collected) and variety (number of different sources, for example, social media). They claimed that: 'Data-driven decisions are better decisions – it's as simple as that. Using big data enables managers to decide on the basis of evidence rather than intuition. For that reason it has the potential to revolutionize management.'

HR analytics provides a basis for people management decision making. The process of identifying measures or metrics and collecting and analysing data relating to them focuses the attention of the organization on what needs to be done to find, keep, develop and make the best use of its human capital. Predictions can be made to provide guidance on the development of HR strategy and progress in achieving strategic HR goals can be monitored. In accordance with the principle that 'you cannot manage what you cannot measure', the effectiveness and impact of HR practices can be measured.

The CIPD produced the following statement of their view of the analytical and measurement processes involved in HR analytics:

### Source review

HRM needs to develop as a decision science. To do this it is necessary to develop rigorous analytical frameworks and models. Boudreau and Jesuthasan (2011) propose the LAMP (logic, analytics, measurement, process) model. The starting point here is a strategic goal or problem. The first task is to develop a logic-based intuitive answer about what the best way of achieving this goal or solving this problem might be. This is followed by the 'analytics' phase of turning the intuition into research questions or hypotheses, and coming up with a research design to answer the question or test the hypotheses. Measures are then developed in the context of the research design in order to

answer the question. Once the question has been answered, the management process to turn the insight into action may involve the regular monitoring and management of specific metrics that have been shown by the analysis to be important for performance. The overriding point is that metrics follow from analysis rather than following a standard template. Metrics and analytics are tools for uncovering how people affect organizational performance rather than providing summary measures of the contribution of people to the bottom line.

CIPD (2017a: 15)

## The purpose of HR analytics

The purpose of HR analytics has been defined by the CIPD as follows:

### Source review

HR analytics enables HR and their major stakeholders to measure and report key workforce concepts, such as performance, wellbeing, productivity, innovation and alignment. This in turn enables more effective evidence-based decisions by strategic business functions. HR analytics enables HR teams to demonstrate the impact that HR policies and processes have on workforce and organizational performance, and can be used to demonstrate return on investment and social return on investment for HR activity. Business managers are increasingly interested in how to use HR concepts more effectively, and so HR analytics is an important way in which HR teams can evaluate and improve people and business performance.

CIPD (2018)

The need is to develop a framework within which reliable information can be collected and analysed such as added value per employee, productivity and measures of employee behaviour (eg attrition and absenteeism rates, engagement levels, performance figures and accident rates). The data provides guidance to HR on future people strategy and information on the effectiveness of existing people management practices. Importantly, the data can also be used to inform line managers on how well they are carrying out their people management duties.

In more detail, the purposes to which HR analytics can be put include:

- enhancing levels of engagement;
- improving employee retention rates;
- reducing absenteeism;
- evaluating the effectiveness of different sources of recruits;
- evaluating the effectiveness of learning and development activities;
- investigating the effectiveness of performance management or performance-related pay in improving performance;
- measuring the impact of organizational development interventions;
- reducing accident rates;
- providing guidance on future HR strategy.

In each area the analysis would investigate trends and, whenever possible, the inter-relationships between different types of data and between the data and performance. This evidence could be used to reach conclusions about any action required or to evaluate the effectiveness of action already taken.

### Pause for thought

Why is HR analytics important?

## The process of HR analytics

HR analytics gathers evidence and understanding that can be put to good use. It is something that the HR function should be involved in doing. However, help in dealing with highly technical processes such as multivariate analysis for predictive analytics can be provided by analytic consultants who carry out experimental design, people data modelling (creating a model for HR data to be stored in a database), simulation and optimization to address HR issues and concerns. HR analytics involves the analysis and application of data, measures, information and knowledge as defined below:

- *data* consists of the basic facts – which as interpreted through measures contribute to information and knowledge;
- *measures or metrics* are means of recording, analysing and interpreting data;
- *information* is data which has been processed in a meaningful way; as Drucker (1988) wrote, ‘information is data endowed with meaning and purpose’;
- *knowledge* is information put to productive use; it is often intangible and it can be elusive – the task of tying it down, encoding and distributing it through knowledge management activities can be tricky.

Data is raw material; measures or metrics assemble and analyse that raw material so that conclusions can be reached on its value and significance. Thus data may be available on the number of people leaving in a period but this will be interpreted as a measure of employee turnover – the number leaving as a

percentage of the number employed. Data comes first but establishing the need for a certain measure may indicate what data is required to enable the measurement to take place.

The gathering and analysis of data is facilitated by the use of eHRM, including artificial intelligence (AI), as covered in Chapters 13 and 14.

There are a number of levels on which organizations operate with regard to data collection and management. The model in Table 12.1 illustrates this and offers some guidance for organizations starting out on the process of generating human capital data. The steps for the generation of good-quality human capital data are:

- 1 Start with basic data and analysis restricted to identifying trends and patterns and what they mean.
- 2 Demonstrate its integrity by ensuring it is accurate, reliable and of value.
- 3 Progress to higher levels of data collection and demonstrate the values of particular processes and enable managers to see how their actions can impact on performance.
- 4 Identify the drivers of business performance.

## HR analytics levels

There are three levels of HR analytics:

- 1 *Descriptive analytics*: the use of data to record a particular aspect of HR and provide information on what has been happening to, for example, labour turnover or absence rates.
- 2 *Multidimensional analytics*: the combination of different sets of data to establish any relationships (correlations) between them and, hopefully, indicate causation (eg that a particular HR initiative has caused an improvement in performance).
- 3 *Predictive analytics*: the analysis and use of historical data to predict trends and therefore provide guidance on HR strategy

### Pause for thought

Can you give any examples of the use of any of these types of analytics?

**TABLE 12.1** Levels of data collection

	Level		
	Basic	Intermediate	Higher
Action	<ul style="list-style-type: none"> <li>Collect basic input data eg absence, employee turnover.</li> <li>Identify useful data already available such as data from pay reviews, performance management, job evaluation, training, the recruitment process.</li> <li>Use this data to communicate essential information to managers about absence, turnover or accident levels, compared by department.</li> <li>Look for trends or patterns in the data and investigate their causes.</li> </ul>	<ul style="list-style-type: none"> <li>Design data collection for specific human capital needs. For example, conduct an employee attitude survey to measure satisfaction, or follow up on training activity to monitor implementation and use.</li> <li>Use this data to inform the design and implementation of people management policies and processes.</li> <li>Look for correlations between data – for example, whether high levels of job satisfaction occur when certain HR practices are in place, such as performance management, career management or flexible working.</li> <li>Communicate the value of processes to line managers and identify specific actions to improve people management.</li> </ul>	<ul style="list-style-type: none"> <li>Identify key performance indicators relating to the business strategy, and design and implement data collection processes to measure against them.</li> <li>Feed both quantitative and qualitative information into an analysis model such as a balanced scorecard.</li> <li>Provide managers with indicators on a range of measures designed to inform them on performance and progress in their department.</li> <li>Accompany this with specific actions to be taken informed by the resulting human capital data.</li> <li>Interpret and communicate data in ways that will be meaningful to a range of audiences.</li> </ul>
Outcome	<ul style="list-style-type: none"> <li>Measures of efficiency and effectiveness.</li> <li>Basic information for managers on headcount, make-up of the workforce, and so on.</li> <li>Identification of any action that might be needed as a result of these measures – for example, to reduce accident rates, to improve the diversity profile of the workforce or to reduce absence.</li> </ul>	<ul style="list-style-type: none"> <li>Measures of process.</li> <li>Information to help design the HR model that's most likely to contribute to performance.</li> <li>Communication to managers not just how to implement processes but with accompanying information on why they are important and what they can achieve.</li> </ul>	<ul style="list-style-type: none"> <li>Identification of the drivers of business performance.</li> <li>Information that will enable better-informed decision making both internally on the management of people and externally on the progress with regard to strategy.</li> </ul>

### **Descriptive analytics**

Descriptive analytics cover the following types of data:

- Basic workforce data – demographic data (numbers by job category, sex, ethnicity, age, disability), working arrangements, absence

and sickness, employee turnover, health and safety, pay.

- People development and performance data – learning and development programmes, performance management/potential assessments, skills and qualifications.



- Employee engagement data – engagement surveys
- Perceptual data – opinion surveys, focus groups, exit interviews.
- Performance data – financial, operational and customer.

A summary of HR data and its possible uses is given in Table 12.2.

## Multidimensional analytics

Multi-dimensional analytics is a form of descriptive analytics in which different sets of data or ‘variables’ are compared to show the extent to which there is any relationship between them. A ‘dependent variable’ is one that may be affected by changes in an ‘independent variable’. In effect, when planning the analysis a hypothesis is made that one or more of the

**TABLE 12.2** A summary of HR data and its possible uses

Data	Possible use: analysis leading to action
Workforce composition – gender, ethnicity, age, full-time, part-time	<ul style="list-style-type: none"> <li>● Analyse the extent of diversity</li> <li>● Assess the implications of a preponderance of employees in different age groups, eg extent of losses through retirement</li> <li>● Assess the extent to which the organization is relying on part-time staff</li> </ul>
Length of service distribution	<ul style="list-style-type: none"> <li>● Indicate level of success in retaining employees</li> <li>● Indicate preponderance of long- or short-serving employees</li> <li>● Enable analyses of performance of more experienced employees to be assessed</li> </ul>
Skills analysis/assessment – graduates, professionally/technically qualified, skilled workers	<ul style="list-style-type: none"> <li>● Assess skill levels against requirements</li> <li>● Indicate where steps have to be taken to deal with shortfalls</li> </ul>
Attrition – employee turnover rates for different categories of management and employees	<ul style="list-style-type: none"> <li>● Indicate areas where steps have to be taken to increase retention rates</li> <li>● Provide a basis for assessing levels of commitment</li> </ul>
Attrition – cost of	<ul style="list-style-type: none"> <li>● Support business case for taking steps to reduce attrition</li> </ul>
Absenteeism/sickness rates	<ul style="list-style-type: none"> <li>● Identify problems and need for more effective attendance management policies</li> </ul>
Average number of vacancies as a percentage of total workforce	<ul style="list-style-type: none"> <li>● Identify potential shortfall problem areas</li> </ul>
Total payroll costs (pay and benefits)	<ul style="list-style-type: none"> <li>● Provide data for productivity analysis</li> </ul>
Compa-ratio – actual rates of pay as a percentage of policy rates	<ul style="list-style-type: none"> <li>● Enable control to be exercised over management of pay structure</li> </ul>
Percentage of employees in different categories of contingent pay or payment-by-result schemes	<ul style="list-style-type: none"> <li>● Demonstrate the extent to which the organization believes that pay should be related to contribution</li> </ul>
Total pay review increases for different categories of employees as a percentage of pay	<ul style="list-style-type: none"> <li>● Compare actual with budgeted payroll increase costs</li> <li>● Benchmark pay increases</li> </ul>

(continued)

**TABLE 12.2** (Continued)

Data	Possible use: analysis leading to action
Average bonuses or contingent pay awards as a % of base pay for different categories of managers and employees	<ul style="list-style-type: none"> <li>Analyse cost of contingent pay</li> <li>Compare actual and budgeted increases</li> <li>Benchmark increases</li> </ul>
Employee surveys of engagement levels	<ul style="list-style-type: none"> <li>Record outcome of engagement enhancement programmes and indicate direction of future plans</li> </ul>
Outcome of equal pay reviews	<ul style="list-style-type: none"> <li>Reveal pay gap between male and female employees</li> </ul>
Personal development plans completed as a percentage of employees	<ul style="list-style-type: none"> <li>Indicate level of learning and development activity</li> </ul>
Training hours per employee	<ul style="list-style-type: none"> <li>Indicate actual amount of training activity (note that this does not reveal the quality of training achieved or its impact)</li> </ul>
Percentage of managers taking part in formal management development programmes	<ul style="list-style-type: none"> <li>Indicate level of learning and development activity</li> </ul>
Internal promotion rate (% of promotions filled from within)	<ul style="list-style-type: none"> <li>Indicate extent to which talent management programmes are successful</li> </ul>
Succession planning coverage (% of managerial jobs for which successors have been identified)	<ul style="list-style-type: none"> <li>Indicate extent to which talent management programmes are successful</li> </ul>
Percentage of employees taking part in formal performance reviews	<ul style="list-style-type: none"> <li>Indicate level of performance management activity</li> </ul>
Distribution of performance ratings by category of staff and department	<ul style="list-style-type: none"> <li>Indicate inconsistencies, questionable distributions and trends in assessments</li> </ul>
Accident severity and frequency rates	<ul style="list-style-type: none"> <li>Assess health and safety programmes</li> </ul>
Cost savings/revenue increases resulting from employee suggestion schemes	<ul style="list-style-type: none"> <li>Measure the value created by employees</li> </ul>

independent variables will impact in some way on the dependent variable. In an example given by Edwards and Edwards (2016), a dependent variable might be the customer satisfaction score achieved by sales assistants and the independent variable might be the hypothesis that this is improved by attending a customer service training course. Regression analysis as described in Chapter 61 is used to examine the relationship between the variables and indicate how changes in the level of the independent variable relate to changes in the level of the dependent variable.

The analysis may show that the independent variable has a positive effect on the dependent variable. In the example given above, this would mean

that following attendance at a training course, customer satisfaction levels go up. But this does not mean that the conclusion can be reached that course attendance *causes* higher levels of customer satisfaction. There may be other factors such as price reductions or improved merchandising.

However, even if causation cannot be established with confidence, the existence of correlation can be revealing. At least it can indicate that a positive relationship exists between an HR initiative and desirable outcomes. This can be used to justify the investment and point the way to further developments.

It may be decided when making the hypothesis prior to the analysis that there are two or more inde-

pendent variables that might affect the dependent variable. In this case multi-regression analysis can be used. If there are two or more dependent variables as well as two or more independent variables, multivariate analysis is used (see Chapter 61).

## Predictive HR analytics

Predictive HR analytics involves the analysis and use of historical HR data to analyse patterns and predict future trends. This enables evidence-based decisions to be made on HR strategy and the obtaining of information on the benefits of innovations that can be used to make out the business case for them. Predictive HR analytics have been defined as follows:

### Source review

Predictive analytics are the systematic evaluation of predictive modelling using inferential statistics to existing people-related data in order to inform judgements about possible causal factors driving key HR-related performance indicators. These predictive models can then be applied to make tangible predictions about particular results or outcomes (eg employee or organizational behaviour) that we might expect to find given certain conditions.

Edwards and Edwards (2016: 2)

As explained by Marr (2018: 78): ‘Predictive analytics uses data, statistical modelling and machine learning to predict the likelihood of future outcomes based on historical data. By understanding as much as we possibly can about the past, it is possible to identify patterns and build models for what will happen in the future.’

### Words of wisdom

Arguably, the most practical for organizational management and with the greatest potential is the emergence of predictive analytics.

Fitz-Enz and Mattox (2014)

A predictive HR analytics exercise typically makes use of multiple regression or multivariate analysis (see Chapter 61) to predict the value of a dependent variable or variables based on the value of one or more independent variables.

## Use of predictive analytics

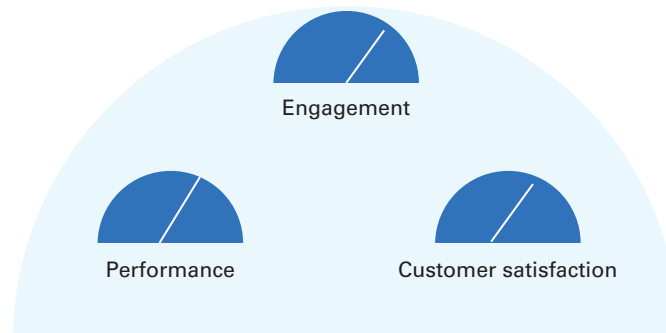
The following examples of the use of predictive analytics were given by Edwards and Edwards (2016: 74):

- Diversity – prediction of ethnic diversity across teams from base location function, group size, team leader gender, and team gender breakdown.
- Engagement – predict team level engagement.
- Employee turnover – predict team level turnover.
- Performance – use performance appraisal data and pulse survey data (pulse surveys take place several times a year) to predict individual performance in a manufacturing organization.
- Recruitment and selection – identify the factors associated with recruitment, selection and induction that predict the retention of new joiners.
- Graduates – predict graduate performance from demographic, assessment centre and induction data.

But a survey by the CIPD (2017b) found that only 5 per cent of respondents were using predictive analytics although it was more common in organizations with larger HR departments (13 per cent of those with 100+ HR employees).

## Keeping people informed

Clearly, HR analytics is pointless unless the people who use it are kept informed. They must have easy access to the data, which should be presented to them in a way that can be easily assimilated. Dashboards provide a useful way to do this. They are graphical displays using dials, ‘traffic light’ presentations and graphs to convey key performance measures on an organization’s intranet system to a wide audience so that they can be acted upon easily and swiftly. An example of a basic dashboard with just three dials is illustrated in Figure 12.1.

**FIGURE 12.1** Example of a dashboard

### Key learning points

#### HR analytics defined

HR analytics uses statistical analyses of data to provide the basis for assessing the impact of HRM practices and the contribution made by people to organizational performance to provide a basis for people management decision making.

#### What is involved?

HR analytics involves the analysis and application of data, measures, information and knowledge

#### HR analytics levels

There are three levels of HR analytics:

- Descriptive analytics: uses factual data to illustrate

particular aspects of HR such as recording employee turnover rates.

- Multidimensional analytics: combines different sets of data to establish any relationships (correlations) between them.
- Predictive analytics: analyses data to predict future trends.

#### Keeping people informed

HR analytics is pointless unless the people who use it are kept informed. They must have easy access to the data, which should be presented to them in a way that can be easily assimilated. Dashboards provide a useful way to do this.

## References

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# 13

## e-HRM

### Introduction

The use of digital technologies in people management is expanding rapidly. This chapter covers:

- The meaning of e-HRM
- The purpose of e-HRM
- The features of e-HRM
- Applications of e-HRM

### e-HRM defined

e-HRM is the use of digital technologies in the form of web-based applications involving computer hardware and software, cloud technologies, chatbots, social media, smart phones and blockchain to help deliver HRM services for management and employees. Artificial intelligence (AI) is also a component of e-HRM but because of its growing significance it is dealt with separately in Chapter 14.

Here are two other definitions:

- e-HRM is a way of implementing HR strategies, policies and practices in organizations through a conscious and directed support of and/or with the full use of web-technology-based channels (Parry and Tyson, 2011: 2).
- e-HRM consists of configurations of computer hardware, software, and electronic networking resources that enable intended or actual HRM activities (eg policies, practices and services) through individual and group-level interactions within and across

organizational boundaries (Marler and Fisher, 2013: 22).

e-HRM is also known as digital HRM. The term digital refers broadly to anything to do with computers, how they function and how they are used. Digital technology is concerned with computer-based products and solutions. In the jargon (there's a lot of it about in this field) it involves 'digitization' – the process of converting information from a physical format into a digital one, and 'digitalization' – the process of leveraging digitization to improve business processes.

Digital HRM has been defined as follows:

#### Source review

Digital HRM deals with the nature, role and contribution of technology in strategically managing talent in a digital world. It incorporates social, mobile, analytics, cloud (SMAC) and other emerging technologies for efficient and effective delivery of HR services. It covers related management trends in performing the operational, relational and transformational aspects of HR, such as the devolution of HR administration via self-service applications, shared services, and outsourcing as well as strategic aspects involving evidence based on big data, predictive analysis, artificial intelligence, and managerial insights. It is also conscious of and addresses unintended consequences of technology, including implications for information security and privacy.

Thite (2019: 3)

This is a very comprehensive definition, although in essence it suggests that the terms e-HRM and digital HRM are pretty well synonymous. The former is more commonly used and is therefore adopted in this chapter.

### Words of wisdom

Every organization requires a digital agenda to use information to win in the financial, customer, and employee marketplaces. This digital business agenda enables the organization to source information that helps the business win in their chosen financial and customer markets.

Ulrich (2019: xvi)

## Purpose of e-HRM

Basically, e-HRM is involved in the transactional activities of maintaining the organization's employee database. But, as described in this chapter, it can do much more than that. Five goals for e-HRM were listed by Parry and Tyson (2011: 7): efficiency, service delivery, strategic orientation, manager empowerment and standardization. Broadly similar goals were produced by Marler and Fisher (2013: 20), who stated that: 'Organizational goals for e-HRM investments include cost reduction through streamlining HRM operations, improved effectiveness through providing better delivery of HRM services, and transformation of the HRM function to a strategic business partner.' However, Dave Ulrich (2019: xix) broadened the agenda when he suggested that: 'Currently in most firms, technology is used to deliver administrative efficiency (phase 1), upgrade and innovate HR practices (phase 2), and deliver information (phase 3). Increasingly, technology should encourage belonging through social and emotional connections among employees in an organization and among employees and stakeholders outside an organization.'

In addition to the general purposes listed above, the benefits of technology as deployed by e-HRM are that it can generate the data and information required for HR analytics (see Chapter 12). By applying artificial intelligence algorithms it can play an important role in recruitment and selection and learning and development activities as described in Chapters 28 and 34 respectively. Other applications include:

- the operation of a talent management system that collects, stores and processes talent management information and helps to attract, identify, retain and develop talented people;
- the provision of two-way channels of communication between employees and management within the organization that, amongst other things, enable employees to get instant answers to any queries they have about their conditions of employment etc;
- the development of cloud collaboration services to improve teamwork using software such as Webex for virtual meetings, group messaging, file sharing and whiteboarding where the ability of the cloud to enable users to access data from anywhere at any time means that team members can easily input and share information – the cloud can become a brainstorming forum, allowing ideas to be exchanged and facilitating communications between team members;
- the communication of the availability of benefits to employees and the opportunity for them to select benefit plans online;
- self-service systems that enable managers to access information about their staff and interact with the system to input information, subject to compliance with GDPR requirements (see Chapter 55);
- providing employees with access to a centralized HR database that allows them to review their personal data and self-nominate for additional training and development.

The rest of this chapter is devoted to an analysis of how these purposes can be achieved by describing the main features of the different aspects of e-HRM, excluding artificial intelligence, and examining how e-HRM is being applied in key areas of people management.



## Features of e-HRM

The digital features available for e-HRM activities as described below are the basic human resource information system (HRIS) coupled with cloud technology, the analysis of big data, the use of chatbots, social media and smart phones and the more esoteric fields of gamification and block-chains. It involves the use of ‘platforms’ – bases upon which other computer applications can be built upon.

### **Human resource information system (HRIS)**

An HRIS is a computer-based system for administering HR processes and procedures. It enables the management of information by providing for the storage, processing and analysis of people data. The features of an HRIS system as described in more detail in Chapter 54 are the use of traditional software packages, cloud computing, enterprise resource planning systems (ERPs), the intranet, internal social networks, and provisions for self-service (the arrangement that allows managers and employees access to information and the facility to interact with the system to input information).

### **Cloud computing**

Cloud computing is a web-based platform that provides on-demand shared computing resources and information. Unlimited data is stored and processed in separate data centres. Services such as servers, storage and applications are delivered to an organization’s computers and devices through the internet. Cloud users can access data and software applications anywhere in the world on demand using laptops or smart phones. Multiple consumers can be served simultaneously without being concerned about the underlying software, data storage and concurrent users.

Cloud computing can be provided by an SaaS (Software-as-a-Service) system – an on-demand software delivery model in which users are charged for

accessing and managing cloud services via a network. The system stores and processes data in a standardized form which can then be configured for use in the organization. Alternatively, consumers can develop a customized cloud service for themselves, a process called PaaS (Platform-as-a-Service). Most organizations choose cloud solutions from software vendors such as Oracle, SAP and Workday.

The advantages of cloud computing are high computing power – the ability to store and process masses of data – accessibility and, potentially, lower costs. It can replace local arrangements for bought-in software packages. A further benefit provided by using cloud is that it is highly adaptive and changes can be made very quickly, although it may be costly to do so. As noted earlier, the cloud can facilitate group collaboration by enabling information and ideas to be shared easily.

### **Chatbots**

Chatbots or bots are text-based applications that carry out a ‘natural language’ conversation by accessing a database of predetermined phrases. They can be designed to convincingly simulate how a human would behave as a conversational partner. Some chatbots use sophisticated natural language processing systems, but many simpler systems scan for keywords within the input, then pull a reply with the most matching keywords or the most similar wording pattern from a database.

Chatbots are either accessed through virtual assistants such as Google Assistant and Amazon Alexa, or via messaging apps such as Facebook Messenger or WeChat. In HR they can be used to provide answers to queries from employees about conditions of employment or any other HR issue that affects them. They can also personalize learning, tailoring it to the needs of individual learners by answering questions and providing feedback.

### **Big data**

Big data consists of extremely large data sets that may be analysed computationally to reveal patterns, trends and associations.

### Words of wisdom

Data-driven decisions are better decisions – it's as simple as that. Using big data enables managers to decide on the basis of evidence rather than intuition. For that reason it has the potential to revolutionize management.

McAfee and Brynjolfsson (2012: 63)

## Social media

Social media was defined by Kaplan and Haenlein (2010) as 'a group of internet-based applications that build on the ideological and technological foundations of Web 2.0 and that allow the creation and exchange of user-generated content.' The term Web 2.0 describes websites that use technology beyond the static pages of earlier websites.

Social media uses digital technologies that allow people to connect with each other to create and share information. It involves an online digital platform or website (a social networking site) that enables people to interact via 'instant messaging' (real-time, direct text-based communication between two or more people using personal computers or other devices) or e-mail. Organizations can operate an enterprise social network (ESN), also known as an internal social network, which functions in the same way as social networks such as Facebook. Suppliers of ESNs include Chatter, Jive and Yammer. They can be used to communicate information to employees but an important and valuable feature is that they are interactive – they enable dialogues to take place between management and employees.

Social media is used extensively in recruitment and for internal employee communications, including giving a 'voice' to employees.

## Smart phones

Smart phones are in effect hand-held personal computers. As distinct from the traditional mobile, they possess extensive computing capabilities, including high-speed access to the internet using both Wi-Fi and mobile broadband; most smart phones also support Bluetooth (a wireless technology standard for exchanging data over short distances).

Smart phones use a mobile operating system and are able to process a variety of software components, known as 'apps'. They operate as communications devices by transmitting online chat, video chat, telephone calls and e-mails through the internet by Wi-Fi. They can use cloud storage.

Smart phones were used by 68 per cent of the total population in 2018 (Newzoo's Global Mobile Market Report) and this penetration is increasing steadily – the forecast usage in 2022 is 79 per cent (Statista). A survey by Deloitte in 2017 found that just over half the respondents used their smart phone for at least one work-related activity.

People can easily be reached through their smart phones by employers. This can facilitate two-way communications and can be used to deliver learning material, sometimes through specially developed apps (learning on the move). Smart phones can also be used for recruitment purposes.

## Gamification

Gamification is typically the use of video game design and operation elements to achieve the motivation of learners through competition, incentives

## CASE STUDY

SAP: Roadwarrior

SAP, the enterprise resource management firm, designed the game *Roadwarrior* to keep their sales team up to date. In *Roadwarrior*, sales professionals are required to close

deals, challenge each other and collect points to be the best sales professional. While competing and playing, employees learn about new products and methods to close deals.

Source Scholz (2019)

and rewards such as the use of ‘leader boards’ (tables listing game leaders), the award of points for achieving higher levels, and the provision of ‘badges’ (digital indications of the level of skills reached). Gamification can also be used as a recruitment aid.

## Blockchain

A blockchain is a distributed database, shared across a network. Every piece of information is mathematically encrypted and added as a new ‘block’ to the chain of historical records. Each computer node (a device such as a personal computer, or smart phone, or data point) holds a copy of the data, so there is no single point of failure. All communications or transactions are visible to anyone with access to the system. Users can choose to remain anonymous or provide proof of their identity to others. The digital nature of the system means that blockchain transactions can be tied to computational logic and programmed. Users can set up algorithms and rules that automatically trigger transactions

Blockchains enable direct, secure transactions between individual entities. Their advantages are decentralization, cryptographic security, transparency, and immutability (once a piece of information enters a blockchain it remains there permanently). Blockchains allow information to be verified and value to be exchanged without having to rely on a third-party authority.

The most familiar use of blockchains is bitcoin currency, but as noted by Iansiti and Lakhani, ‘It has the potential to become the system of record for all transactions’. Its possibilities as an e-HRM process, especially one involving dealing with employee problems, employee communications or voice are being explored. One example, quoted by Whitehouse (2018), is the blockchain-powered anti-harassment platform for the workplace offered by Vault. It allows employees to anonymously log instances of harassment and bullying, which are collated and fed (at the user’s choice) directly to the right person in HR with the aim of encouraging more victims to come forward. The use of blockchain technology makes it tamper-proof and secure, cementing the crucial trust needed for the system to work as intended. By cross-referencing reports, Vault can also ascertain whether other victims are experiencing harassment by the same perpetrator, thus encouraging more people to speak out.

## New digital and mobile tools

New digital and mobile tools such as those listed below are being offered by suppliers to support a number of key HR activities and requirements:

- *Productivity and collaboration apps.* These move well beyond traditional e-mail to improve productivity and engagement. Products such as Facebook’s Workplace, Slack, Microsoft Skype for Teams, Google G-suite, and solutions from companies such as Basecamp, Trello, Asana, and 15 Five can support collaborative teamwork and provide platforms for learning, goal alignment, performance management, and traditional HR processes.
- *Engagement and feedback apps.* New pulse survey tools are available, replacing traditional annual engagement surveys.
- *Performance management apps.* A new breed of continuous performance management products that include feedback tools has emerged from vendors such as Reflektive, BetterWorks, Zugata, HighGround, WorkBoard, and SuccessFactors.
- *Employee service platforms.* These tools offer an integrated service for employees consisting of chatbots and natural language processing with case management, content management, and easy-to-use mobile and web portals.

## e-HRM achievements

Research conducted by Parry and Tyson (2011) in 10 case study organizations established that efficiency goals were achieved by most of them. Service delivery improvements were generally achieved, supporting improved effectiveness of the HR function. The findings showed that a potential goal for e-HRM is to standardize operational procedures across an organization, but they noted that: ‘The realization of improved efficiency and effectiveness is dependent on the design and implementation of the system, and increased effectiveness and involvement in delivering the business strategy may depend on appropriate redeployment and up-skilling of HR staff’ (ibid: 352).

## CASE STUDY

### Development of HR technology

Turkish Bank DenizBank has developed a new suite of digital HR applications. Employees create personal profiles

and are able to access up-to-date company information and training facilities. The HR team can push out pulse surveys, send recognition messages and provide information to employees.

### Key learning points

#### e-HRM defined

e-HRM is the use of digital technologies in the form of web-based applications involving computer hardware and software, cloud technologies, analytics, artificial intelligence (AI), social media, smart phones and blockchain to help deliver HRM services.

#### Purpose of e-HRM

Five goals for e-HRM were listed by Parry and Tyson (2011: 7) – efficiency, service delivery, strategic orientation, manager empowerment and standardization.

#### Human resource information system (HRIS)

An HRIS is a computer-based system for administering HR processes and procedures.

#### Cloud computing

Cloud computing is a web-based platform that provides on-demand shared computing resources and information.

#### Artificial intelligence

Artificial intelligence (AI) is the use of computers to engage in human-like thought processes, such as learning, reasoning, and self-correction.

#### Big data

Big data consists of extremely large data sets that may be analysed computationally to reveal patterns, trends and associations.

#### HR analytics

HR analytics are concerned with the application of sophisticated statistical analyses to answer HR questions using people-related data.

#### Social media

Social media was defined by Kaplan and Haenlein (2010) as 'a group of internet-based applications that build on the ideological and technological foundations of Web 2.0, and that allow the creation and exchange of user-generated content.'

#### Smart phones

Smart phones are in effect hand-held personal computers. As distinct from the traditional mobile, they possess extensive computing capabilities, including high-speed access to the internet using both Wi-Fi and mobile broadband.

#### Blockchain

A blockchain is a distributed database, shared across a network.

## Applications of e-HRM

The basic application of e-HRM is a human resource information system (HRIS). e-HRM applications can operate in almost every other aspect of HRM but the major application areas are recruitment and learning and development.

In recruitment, organizations have been using corporate websites, social media and internet job boards as important recruitment sources. Recently, AI has come to the fore. Algorithms can sift CVs, profile existing high performers and apply their traits to candidates, write job descriptions that eliminate any form of biased language, and remove all trace of protected characteristics from applications.

Digital learning uses Web 2.0 technology and includes e-learning, virtual learning environments, social network learning, knowledge sharing, the use of smart phones to provide 'learning on the move' through apps, and the use of game-based learning.

Other e-HRM applications include:

- the use of AI data-mining algorithms;
- the operation of a talent management system;
- the communication of the availability of benefits to employees and the opportunity for them to select benefit plans online;
- self-service systems;
- providing employees with access to a centralized HR database.

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# 14

## Artificial intelligence and HRM

### Introduction

Artificial intelligence (AI) is the use of computers to engage in human-like thought processes, such as learning, reasoning, and self-correction. Essentially, AI enables us to do things with what has been learned. AI systems function without being explicitly programmed. They are based on the data they collect and the analysis of how the systems are used. AI can analyse data ('data mining') and handle questions by looking up an answer in a data set.

HR is a highly administrative function and potentially, AI can significantly reduce the amount of this type of work. More positively, it can generate data that informs decision making on people management issues. In this chapter, a description is given of the main components of AI and its HR applications, and consideration is given to the risks involved in using AI, the extent to which AI is used by HR, and the approach that can be adopted to introducing it.

#### Source review

Current emerging technology centres on artificial intelligence (AI), including both machine learning and set automated algorithms, and robotics. This latest era is changing the nature of work in new ways, where the technology not only assists in basic physical tasks, but also tasks that require higher cognitive functions. In addition, AI and automation can result in new integrations and co-operation possibilities and challenges, which also can create new types of jobs and services.

CIPD (2019: 10)

### The components of AI

As explained by Eubanks (2019) the term 'artificial intelligence' is actually an overarching category with four functions falling under that heading, namely:

- 1 *Machine learning*, which provides computers with the ability to learn without being explicitly programmed. Machine learning uses algorithms (sets of rules to be followed in calculations or other problem-solving operations) to spot patterns and associations in data sets and predict what will happen next or initiate an action. As explained by Marr (2018: 19) machine learning gives the AI system access to data and lets it 'learn' for itself. The more data it is given, the more it learns and the more accurate it becomes. In traditional machine learning, the learning process is supervised and the programmer tells the computer what types of things it should be looking for based on past known outcomes. In advanced machine learning, unsupervised algorithms learn from inference and not the programmer. At the end of the day, any aspect of our intelligence and intuition can be boiled down to rules we have developed through experience and can therefore be captured by an algorithm. But algorithms are only as good as the data sources they rely on.
- 2 *Natural language processing*, which is the ability of computers to understand human language and enables them to process and analyse large amounts of natural language data. Natural language processing (NLP) can



be used for text mining (analysing text data for trends and other insights), sentiment analysis (analysing quantities of data, for example e-mails, and determining the overall mood or sentiment of those involved) and speech recognition.

- 3 *Deep learning* (hierarchical learning), which takes the form of a series of machine-learning decisions where outputs from one decision inform the analysis of the next. Iterations continue until the output reaches an acceptable level of accuracy; IBM's Watson system is an example of deep learning in action.
- 4 *Neural networks*, which process information in a similar way to the human brain. Networks are composed of a large number of interconnected processing elements (neurons) working in parallel to solve a specific problem. Neural networks learn by example. They cannot be programmed to perform a specific task. Examples of the use of neural networks are facial and handwriting recognition.

## Applications for AI in HRM

According to Tata (2018), AI can provide a novel cognitive perspective in order to:

- challenge as much as inform;
- offer a different perspective;
- act as a kind of devil's advocate to manage stakeholders' participation and process their views.

The following is a summary of the specific uses of artificial intelligence in human resource management:

- *HR analytics* – gathering and analysing data and information on people and HRM processes to guide decision making.
- *Recruitment and selection* – matching candidates located in a database to job/person specifications; using natural language processing to predict which words in job advertisements will make the most impact on candidates. At Unilever, as reported by Reilly (2018), the time to hire has been cut by 75 per cent with the help of AI.
- *Talent management* – identifying eligibility for inclusion in a talent development programme (a talent pipeline) by providing information on performance histories.

### Source review

Our research shows that there is potential in principle for AI and automation to impoverish jobs, for example, deskilling them and making them less interesting and fulfilling. However, according to employers, what is much more likely is that jobs are *enriched* by AI and automation and employees are freed from mundane tasks to focus on more value-added or creative tasks. This is the case for pay, worker control and also for physical and mental wellbeing, despite an increase in the pace of work for many. These findings may relate to another trend: the tendency for AI and automation to give employees

more influence over their work. We know from an established body of research into job demands and resources that autonomy or empowerment is an important psychological 'resource' that helps people deal with pressure.

HR practitioners can use these findings to position their organizations' use of AI and automation in a way that strengthens employer brand: as well as being seen to be in the vanguard of work innovation, these technologies can be seen to enrich people's working lives and ultimately help their careers.

CIPD (2019: 27)



- *Learning and development* – developing and operating performance support systems that provide on-the-job access to learning material in the shape of information about techniques, procedures and knowledge and skill requirements with examples and advice on how they should be developed and applied. This includes coaching. For example, Sidekick, an AI-powered coaching platform, uses a mix of data points to monitor employees to identify micro-behaviour changes which require interventions such as one-on-one coaching sessions.
- *Retention management* – using data-mining algorithms to identify potential leavers so that action can be taken as required to retain them.
- *Employee sentiment analysis* – analysing large amounts of text, for example e-mails, to identify employee attitudes, moods or sentiments.
- *Probabilistic matches* – machine learning can identify data that is likely to be associated with the same person but that appears in slightly different databases. This could feature at the individual level either as a positive thirst for information or as a worrisome set of concerns.
- *Workforce scheduling* – scheduling workers onto shifts and indicating where it is best to allocate workers with specific skills.
- *Payroll* – AI algorithms can be used to check initial payroll entries and calculations.
- *Employee queries and self-service problems* – setting up chatbots (bots) to answer queries from employees on such matters as holiday and maternity leave entitlement or to provide help with problems, eg with computer systems.

### Pause for thought

What do you think is likely to be the best area to introduce AI in a typical large organization?

## CASE STUDIES

### AI at the Adecco Group

In 2018 the Adecco Group, which specializes in temporary staffing, moved into AI through its acquisition of Vetterly for its fully automated, zero-touch recruitment AI platform. The acquisition gained the algorithm needed to expand the group's capabilities by the automation of core tasks and the ability to offer innovations to clients to improve their talent recruitment and career management activities. The development programme began with listing IT-related jobs because they were the easiest to codify and, in a few months, had introduced

automated recruiting processes for the vast majority of the permanent positions with which the Adecco Group was involved.

The group is also capitalizing on the market shift towards a gig economy, driven in most part by millennials seeking freelance work. It has created YOSS (your own boss), an end-to-end digital marketplace that uses AI to match supply with demand. The platform can match freelancers with benefits and training as well as handle payment arrangements.

### Recruitment holdings

Recruitment Holdings (a Japanese staff-servicing group) uses employee data, including personality assessments, working hours and performance evaluation to compare

employees to the data of those who have previously resigned. Those at risk of resignation are interviewed by managers to identify any issues with their employment.

## Marriot hotels

The Marriott hotel chain uses a chatbot for initial interactions with job candidates by responding to standard questions, matching candidates' interests with

vacancies, and providing information on the company's culture and values.

## AI risks

An Institute for Employment Studies report (Reilly, 2018) noted the following risks involved in using AI:

- The possibility that algorithms may be racist or sexist because their construction reflects the reality of the employment situation rather than the ideal (eg Amazon and Google).
- AI can master competencies more rapidly than humans and could over time diminish human competence.
- With machine learning, there can be a problem in divining what the machine has learned and how it reached its conclusions.
- The General Data Protection Regulations (GDPR) allow applicants to discover whether automated decision making has been used and challenge an outcome if the process did not involve human participation.
- Will AI be able to explain why its decisions are optimal?
- Algorithms can seriously mislead people (like satnavs sometimes) – this may happen when in recruitment selection the system gives unimportant features too much weight or where the system uses 'kill' questions that reject candidates on the basis of a single data item, eg a criminal record.
- AI cannot replicate human intuition because we don't understand how human consciousness functions.
- AI may not capture the subtle connections between people that drive human behaviour.
- It is possible to exaggerate the competence of machines and belittle human capability – humans are especially resourceful in spotting and solving problems and using their own initiative, which machines aren't.

### Words of wisdom

AI is really good at things that human beings are quite bad at, and human beings are really good at things that AI is quite bad at. Get them together and it's a great combination.

Megan Butler quoted by Jane Sims (2019: 19)

## The extent to which AI is used by HR

### Source review

As with many functions that involve administrative tasks, HR has activities that look ripe for the picking in the use of AI. A primary candidate is recruitment, in particular sourcing and rating applicants, but there is also potential in learning and development activities and fielding employee enquiries.

However, our research suggests that there is more potential than impact to date. Applications of AI and automation to HR processes have so far been relatively uncommon and less far-reaching in their impact than for other departments, such as operations and IT. One in seven organizations (14 per cent) saw impacts on the HR function and even fewer employers introducing physical or cognitive automation reported that HR is the most affected department (7 per cent and 4 per cent respectively).

CIPD (2019: 21)

A CIPD survey of HR practitioners in 2018 found that the major reason for not using AI was the cost involved. Other reasons included lack of technical expertise, unavailability of technology and ethical concerns. Research by the CIPD (2019: 11) found that the lack of investment in AI was often ‘a distinct lack of awareness of AI and its potential’.

### Pause for thought

What ethical concerns might you have if it was proposed to use AI for applications such as sentiment analysis or sifting job applications?

## Tips for practitioners on introducing AI

The following suggestions on introducing AI were made by Peter Reilly (2018):

- clarify objectives;
- be driven by business needs not technology;
- liaise closely with IT;
- test systems before rolling out;
- maximize transparency;
- look for lots of small improvements rather than going for a big bang change.

## Ethical considerations

The use of artificial intelligence involves handling personal data, which raises ethical considerations. Data mining is all very well, but how deep should it go? To some people, including the writer, sentiment

analysis suggests that *1984* is happening in 2019. How much surveillance is necessary? How intrusive should we get? AI has the dubious potential to learn personal information that employees never intended to share with their employer.

It is essential to meet the requirements of the GDPR, which requires employers to obtain the consent of employees or job candidates to process their personal data (see Chapter 55).

It should also be remembered that algorithms have been found to replicate demographics – if the top performers are young white men, AI will pick up on behaviours and keywords that lean towards this group. Employers need to set clear guidelines around the acceptable use of AI and communicate these to managers and other employees. They need to work closely with vendors to ensure that any technology deployed aligns with the expectations of the business for fair process and compliance with GDPR.

The advice of the ICO (the Independent Commissioner’s Office) on applying AI to personal data is that organizations should:

- Be upfront about it and explain their purposes for using AI.
- If the purposes for processing are unclear at the outset, give people an indication of what is going to be done with their data. As processing purposes become clearer, update your privacy information and actively communicate this to people.
- Inform people about any new uses of personal data before you actually start the processing.
- If AI is used to make solely automated decisions about people with legal or similarly significant effects, tell them what information is being used, why it is relevant and what the likely impact is going to be.
- Consider using just-in-time notices and dashboards, which can help to keep people informed and let them control further uses of their personal data.

## Key learning points

### Definition and use of artificial intelligence (AI)

AI can significantly reduce the amount of purely administrative work HR carries out. More positively, it can generate data that can inform decision making on people management issues

### The components of AI

The term 'artificial intelligence' is actually an overarching category with four functions falling under that heading, namely: machine learning, natural language processing, deep learning and neural networks.

### Uses of artificial intelligence in human resource management

- HR analytics;
- recruitment and selection;
- talent management;
- learning and development;
- retention management;
- employee sentiment analysis;
- probabilistic matches;
- workforce scheduling;
- payroll;
- employee queries and self-service problems.

### AI risks and problems

These include:

- 'sexist' algorithms;
- difficulty of knowing how conclusions have been reached;
- data protection issues;
- AI cannot replicate human intuition or capture the subtle reactions.

### Tips for practitioners on introducing AI

The following suggestions on introducing AI were made by Peter Reilly (2018):

- clarify objectives;
- be driven by business needs not technology;
- liaise closely with IT;
- test systems before rolling out;
- maximize transparency;
- look for lots of small improvements rather than going for a big bang change.

### Ethical considerations

The use of artificial intelligence involves handling personal data, which raises ethical considerations.

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# 15 Knowledge management

## Introduction

Knowledge management is concerned with storing and sharing the wisdom, understanding and expertise accumulated in an enterprise about its processes, techniques and operations. It treats knowledge as a key resource. It was defined by Tan (2000: 10) as: 'The process of systematically and actively managing and leveraging the stores of knowledge in an organization.' As Ulrich (1998: 126) remarked: 'Knowledge has become a direct competitive advantage for companies selling ideas and relationships.'

There is nothing new about knowledge management. Hansen *et al* (1999: 106) observed that: 'For hundreds of years, owners of family businesses have passed on their commercial wisdom to children, master craftsmen have painstakingly taught their trades to apprentices, and workers have exchanged ideas and know-how on the job.' But they also commented that: 'As the foundation of industrialized economies has shifted from natural resources to intellectual assets, executives have been compelled to examine the knowledge underlying their business and how that knowledge is used' (*ibid*: 106).

Knowledge management is more concerned with people and how they acquire, exchange and spread knowledge than it is about information technology. That is why it has become an important area for HR practitioners, who are in a strong position to exert influence in this aspect of people management. It is associated with intellectual capital theory (see Chapter 4) in that it refers to the notions of human, social and organizational or structural capital. It is also linked to organizational learning (see Chapter 33).

Knowledge management should be based on an understanding of the concept of knowledge; this is

therefore dealt with in the first section of this chapter. In subsequent sections knowledge management is described in more detail, strategies for developing its practice are described, and consideration is given to the role of HR.

### Words of wisdom

Knowledge is the most critical competitive asset that a firm possesses.

Grant (1996: 109)

## The concept of knowledge

Knowledge is defined as what people understand about things, concepts, ideas, theories, procedures and practices. It can be described as know-how or, when it is specific, expertise. A distinction was made by Ryle (1949) between 'knowing how' and 'knowing that'. 'Knowing how' is the ability of a person to perform tasks, and 'knowing that' is holding pieces of knowledge in one's mind. According to Blackler (1995: 1023): 'Rather than regarding knowledge as something that people have, it is suggested that knowing is better regarded as something that they do.' He also noted that: 'Knowledge is multifaceted and complex, being both situated and abstract, implicit and explicit, distributed and individual, physical and mental, developing and static, verbal and encoded' (*ibid*: 1032–33).

Nonaka (1991) suggested that knowledge is held either by individuals or collectively. In Blackler's

(1995) terms, embodied or embraced knowledge is individual and embedded, and cultural knowledge is collective. It can be argued (Scarborough and Carter, 2000) that knowledge emerges from the collective experience of work and is shared between members of a particular group or community.

### Explicit and tacit knowledge

Nonaka (1991) and Nonaka and Takeuchi (1995) stated that knowledge is either explicit or tacit. Explicit knowledge can be codified – it is recorded and available and is held in databases, in corporate intranets and intellectual property portfolios. Tacit knowledge exists in people’s minds. It is difficult to articulate in writing and is acquired through personal experience. As suggested by Hansen *et al* (1999), it includes scientific or technological expertise, operational know-how, insights about an industry and business judgement. The main challenge in knowledge management is how to turn tacit knowledge into explicit knowledge.

## Knowledge management defined

Knowledge management is about getting knowledge from those who have it to those who need it in order to improve organizational effectiveness. It was defined by Scarborough *et al* (1999: 1) as ‘any process or practice of creating, acquiring, capturing, sharing and using knowledge, wherever it resides, to enhance learning and performance in organizations.’ They suggested that it focuses on the development of firm-specific knowledge and skills that are the result of organizational learning processes. Knowledge management deals with both stocks and flows of knowledge. Stocks include expertise and encoded knowledge in computer systems. Flows represent the ways in which knowledge is transferred from people to people or from people to a knowledge database.

Knowledge management identifies relevant information and then disseminates it so that learning can take place. It promotes the sharing of knowledge by linking people with people and by linking them to information so that they learn from recorded experiences. As explained by Blake (1988),

the purpose of knowledge management is to capture a company’s collective expertise and distribute it to wherever it can achieve the biggest payoff. This is in accordance with the resource-based view of the firm, which suggests that the source of competitive advantage lies within the firm (ie in its people and their knowledge), not in how it positions itself in the market. A successful company is a knowledge-creating company.

Knowledge is possessed by organizations and people in organizations. Organizational operational, technical and procedural knowledge can be stored in databanks and found in reports, libraries, policy documents, manuals and presentations. It can also be moved around the organization through information systems and by meetings, workshops, courses, ‘masterclasses’, written publications and ‘communities of practice’, defined by Wenger and Snyder (2000: 139) as ‘groups of people informally bound together by shared expertise and a passion for joint enterprise’. The intranet provides an additional and very effective medium.

People possess knowledge that has been acquired through their own experiences at work. But it will not necessarily be shared formally or even informally with their colleagues and crucial knowledge could be lost if it remains locked up in the minds of employees, or taken elsewhere by them if they leave the organization. An important issue in knowledge management is how knowledge can be identified and distributed.

In the information age, knowledge rather than physical assets or financial resources is the key to competitiveness. Knowledge management allows companies to make the best use of their employees’ creativity and expertise (Mecklenburg *et al*, 1999).

### Words of wisdom

Managing knowledge inevitably means managing both the company’s proprietary technologies and systems (which don’t walk out of the door at the end of the day) and the people (who do).

Boxall and Purcell (2000: 197)



## Knowledge management strategies

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Two approaches to knowledge management strategy have been identified by Hansen *et al* (1999): the codification strategy and the personalization strategy.

### **The codification strategy**

Knowledge is carefully codified and stored in databases where it can be accessed and used easily by anyone in the organization. Knowledge is explicit and is codified using a ‘people-to-document’ approach. The strategy is therefore document-driven. Knowledge is extracted from the person who developed it, made independent of that person and reused for various purposes. It is stored in an electronic repository for people to use, and allows people to search for and retrieve codified knowledge without having to contact the person who originally developed it. This strategy relies largely on information technology to manage databases and also on the use of the intranet.

### **The personalization strategy**

Knowledge is closely tied to the person who has developed it and is shared mainly through direct person-to-person contacts. This ‘person-to-person’ approach means providing for tacit knowledge to be passed on. The exchange is achieved by creating networks and encouraging face-to-face communication between people by informal conferences, workshops, communities of practice, brainstorming and one-to-one sessions.

Hansen *et al* (1999) proposed that the choice of strategy should be contingent on the organization: what it does and how it does it. Thus consultancies such as Ernst & Young, using knowledge to deal with recurring problems, may rely on codification so that recorded solutions to similar problems are easily retrievable. Strategy consultancy firms such as McKinsey or Bains, however, rely on a personalization strategy to help them to tackle the high-level strategic problems they are presented with that demand the provision of creative, analytically rigorous advice. They need to channel individual

expertise and they find and develop people who are able to use a person-to-person knowledge-sharing approach. Experts can be identified who can be approached by e-mail, telephone or personal contact.

The research conducted by Hansen *et al* (1999) established that companies that use knowledge well adopt either the codification or the personalization strategy predominantly and use the other strategy to support their first choice. They pointed out that those who try to excel at both strategies risk failing at both.

## Knowledge management issues

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The strategies referred to above do not provide easy answers. The issues that need to be addressed in developing knowledge management practices are discussed below.

### **The pace of change**

One of the main issues in knowledge management is how to keep up with the pace of change and identify what knowledge needs to be captured and shared.

### **Relating knowledge management strategy to business strategy**

As Hansen *et al* (1999) showed, it is not knowledge per se but the way it is applied to strategic objectives that is the critical ingredient in competitiveness. They suggested that ‘competitive strategy must drive knowledge management strategy’ and that management have to answer the question: ‘How does knowledge that resides in the company add value for customers?’ (ibid: 114).

### **Technology and people**

Technology may be central to companies adopting a codification strategy, but for those following a personalization strategy, IT is best used in a supportive role. Hansen *et al* (1999: 113) commented that:



In the codification model, managers need to implement a system that is much like a traditional library – it must contain a large cache of documents and include search engines that allow people to find and use the documents they need. In the personalization model, it's more important to have a system that allows people to find other people.

Scarborough *et al* (1999) suggested that technology should be viewed as a means of communication rather than as a means of storing knowledge. Knowledge management is more about people than technology. Research by Davenport (1996) established that managers get two-thirds of their information from face-to-face or telephone conversations.

There is a limit to how much tacit knowledge can be codified. In organizations relying more on tacit than explicit knowledge, a person-to-person approach works best, and IT can only support this process; it cannot replace it.

### The significance of process

Blackler (1995) emphasized that a preoccupation with technology may mean that too little attention is paid to the processes (social, technological and organizational) through which knowledge combines and interacts in different ways. The key processes are the interactions between people. This is the social capital of an organization – ‘the network of relationships [that] constitute a valuable resource for the conduct of social affairs’ (Nahpiet and Ghoshal, 1998: 243). Social networks can be particularly important in ensuring that knowledge is shared. Trust is also required – people are not willing to share knowledge with those they do not trust.

The culture of the company may inhibit knowledge sharing. The norm may be for people to keep knowledge to themselves as much as they can because ‘knowledge is power’. An open culture will encourage people to share their ideas and knowledge.

### Knowledge workers

Knowledge workers, as defined by Drucker (1993), are individuals who have high levels of education and specialist skills combined with the ability to apply these skills to identify and solve problems. As Argyris (1991: 100) commented, they are: ‘The nuts and bolts of management... increasingly consist of guiding and integrating the autonomous but interconnected work

of highly skilled people.’ Knowledge management is about the management and motivation of knowledge workers who create knowledge and will be the key players in sharing it.

## The contribution of HR to knowledge management

HR can make an important contribution to knowledge management simply because knowledge is shared between people; it is not just a matter of capturing explicit knowledge through the use of IT. The role of HR is to see that the organization has the intellectual capital it needs. The resource-based view of the firm emphasizes, in the words of Cappelli and Crocker-Hefter (1996: 7), that ‘distinctive human resource practices help to create unique competences that differentiate products and services and, in turn, drive competitiveness.’

HR can contribute by providing advice on culture management, organization design and development, and by establishing learning and communication programmes and systems. There are 10 ways of doing this:

- 1 Help to develop an open culture in which the values and norms emphasize the importance of sharing knowledge.
- 2 Promote a climate of commitment and trust.
- 3 Advise on the design and development of organizations that facilitate knowledge sharing through networks, teamwork and communities of practice.
- 4 Advise on resourcing policies and provide resourcing services that ensure that valued employees who can contribute to knowledge creation and sharing are attracted and retained.
- 5 Advise on methods of motivating people to share knowledge and rewarding those who do so.
- 6 Help in the development of performance management processes that focus on the development and sharing of knowledge.
- 7 Develop processes of social learning, ie learning from other people by social interaction, that will generate and assist in disseminating knowledge.

- 8 Set up and organize workshops, conferences, seminars, communities of practice and symposia that enable knowledge to be shared on a person-to-person basis.
- 9 In conjunction with IT, develop systems for capturing and, as far as possible, codifying explicit and tacit knowledge.
- 10 Generally, promote the cause of knowledge management with senior managers to encourage them to exert leadership and support knowledge management initiatives.

### Pause for thought

How would you convince a CEO that knowledge management is important and that the HR function could have an important role in promoting it?

### Key learning points

#### The purpose and significance of knowledge management

Knowledge management is about getting knowledge from those who have it to those who need it in order to improve organizational effectiveness.

#### Knowledge management strategies

*The codification strategy* – knowledge is carefully codified and stored in databases where it can be accessed and used easily by anyone in the organization. Knowledge is explicit and is codified using a ‘people-to-document’ approach.

*The personalization strategy* – knowledge is closely tied to the person who has developed it and is shared mainly through direct person-to-person contacts. This is a ‘person-to-person’ approach that involves ensuring that tacit knowledge is passed on.

#### Knowledge management systems

- Creating an intranet.
- Creating ‘data warehouses’.
- Using decision support systems.
- Using ‘groupware’, ie information communication technologies such as e-mail or discussion bases.
- Creating networks or communities of practice or interest of knowledge workers.

#### Knowledge management issues

- The pace of change.
- Relating knowledge management strategy to business strategy.
- IT is best used in a supportive role.
- Attention must be paid to the processes (social, technological and organizational) through which knowledge combines and interacts in different ways.
- The significance of knowledge workers must be appreciated.

#### The contribution HR can make to knowledge management

- Help to develop an open culture that emphasizes the importance of sharing knowledge.
- Promote a climate of commitment and trust.
- Advise on the design and development of organizations that facilitate knowledge sharing.
- Ensure that valued employees who can contribute to knowledge creation and sharing are attracted and retained.
- Advise on methods of motivating people to share.
- Help in the development of performance management processes that focus on the development and sharing of knowledge.

- Develop processes of social learning that will generate and assist in disseminating knowledge.
- Set up and organize workshops, conferences and communities of practice and symposia that enable knowledge to be shared on a person-to-person basis.
- In conjunction with IT, develop systems for capturing and, as far as possible, codifying explicit and tacit knowledge.
- Generally, promote the cause of knowledge management with senior managers.

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# 16

# Competency-based HRM

## Introduction

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Competency-based HRM is about using the notion of competency and the results of competency analysis to inform and improve HR processes, especially those concerned with recruitment and selection, learning and development, and performance and reward management. It has an important part to play in a number of HR activities. This chapter covers:

- The meaning of competency
- Competency frameworks
- Approaches to using competencies
- The applications of competency-based HRM
- Keys to success in using competencies
- Competency and emotional intelligence

## Competency defined

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The term ‘competency’ refers to an underlying characteristic of a person that results in effective or superior performance. The leading figure in defining and popularizing the concept of competency was Boyatzis (1982). He conducted research that established that there was no single factor but a range of factors that differentiated successful from less successful performance. These factors included personal qualities, motives, experience and behavioural characteristics. Since his contribution, three types of competencies have been identified: behavioural competencies, technical competencies and NVQs/SNVQs.

## *Behavioural competencies*

Behavioural competencies define behavioural expectations, ie the types of behaviour required to deliver results under such headings as teamworking, communication, leadership and decision making and are sometimes known as ‘soft skills’. Criterion-referencing, ie comparing one measure or situation with a criterion in the form of another measure or outcome, may be used to determine the relationship between them. They can be set out in a ‘competency framework’, which contains definitions of the behavioural competencies used for all employees in an organization or for particular occupations such as managers. Guidelines on defining behavioural competencies are provided in Chapter 63.

## *Technical competencies*

Technical competencies define what people have to know and be able to do (knowledge and skills) in order to carry out and meet performance expectations and are sometimes known as ‘hard skills’. They are related to either generic roles (groups of similar roles), or to individual roles (‘role-specific competencies’). They are not usually part of a behavioural-based competency framework, although the two are linked when considering and assessing role demands and requirements.

The terms ‘technical competencies’ and ‘competences’ are closely related, although the latter has a particular and more limited meaning when applied to NVQs/SNVQs, as discussed below. Guidelines on defining technical competencies are provided in Chapter 61.

## NVQ/SNVQ competences

The concept of competence was conceived in the UK as a fundamental part of the process of developing standards for NVQs/SNVQs. These specify minimum standards for the achievement of set tasks and activities expressed in ways that can be observed and assessed with a view to certification. An element of competence in NVQ language is a description of something that people in a work area should be able to do. They are assessed on being competent or not yet competent. No attempt is made to assess the level of competence.

### Pause for thought

What is the difference, if any, between behavioural competencies and emotional intelligence?

## Competency frameworks

Competency frameworks provide the basis for the use of competencies in areas such as recruitment and selection, learning and development, and performance management. The 10 most popular headings are:

- 1 team orientation;
- 2 communication;
- 3 people management;
- 4 customer focus;
- 5 results orientation;
- 6 problem solving;
- 7 planning and organizing;
- 8 technical skills;
- 9 leadership;
- 10 business awareness.

A framework will include definitions of each competency heading as in the example given in Table 16.1.

**TABLE 16.1** Example of a basic competency framework

<b>Achievement/ results orientation</b>	The desire to get things done well and the ability to set and meet challenging goals, create own measures of excellence and constantly seek ways of improving performance.
<b>Business awareness</b>	The capacity continually to identify and explore business opportunities, understand the business opportunities and priorities of the organization and constantly to seek methods of ensuring that the organization becomes more businesslike.
<b>Communication</b>	The ability to communicate clearly and persuasively, orally or in writing.
<b>Customer focus</b>	The exercise of unceasing care in looking after the interests of external and internal customers to ensure that their wants, needs and expectations are met or exceeded.
<b>Developing others</b>	The desire and capacity to foster the development of members of his or her team, providing feedback, support, encouragement and coaching.
<b>Flexibility</b>	The ability to adapt to and work effectively in different situations and to carry out a variety of tasks.
<b>Leadership</b>	The capacity to inspire individuals to give of their best to achieve a desired result and to maintain effective relationships with individuals and the team as a whole.

(continued)

**TABLE 16.1** (Continued)

<b>Planning</b>	The ability to decide on courses of action, ensuring that the resources required to implement the actions will be available and scheduling the programme of work required to achieve a defined end result.
<b>Problem solving</b>	The capacity to analyse situations, diagnose problems, identify the key issues, establish and evaluate alternative courses of action and produce a logical, practical and acceptable solution.
<b>Teamwork</b>	The ability to work cooperatively and flexibly with other members of the team with a full understanding of the role to be played as a team member.

**TABLE 16.2** Example of competency framework definition with positive and negative indicators

<b>Competency heading</b>	Manage continuous improvement.
<b>Competency definition</b>	Constantly seeking ways of improving the quality of services, the relevance and appeal of those services to the needs of customers and clients, and their effectiveness.
<b>Competency requirement</b>	Set targets for improvement. Develop and implement programmes for managing change. Contribute to the development of quality assurance and control processes and ensure that they are implemented.
<b>Positive indicators</b>	Encourage the development of new ideas and methods, especially those concerned with the provision of quality. Conscious of the factors that enable change to take place smoothly. Discuss ideas with colleagues and customers and formulate views on how to improve services and processes.
<b>Negative indicators</b>	Doesn't try anything that hasn't been done before. Complacent, believes that there is no room for improvement. Follows previous practices without considering whether there is any need to change.

Some frameworks illustrate these definitions with descriptions of acceptable behaviour, which may be expressed as positive or negative indicators as shown in Table 16.2.

## Using competencies

A number of approaches to using competencies are adopted, as described below.

### *The 'menu' approach*

A 'menu' approach selects competencies that are relevant to generic or individual roles. Some organizations

provide guidelines on the number of competencies to be selected (eg four to eight) and others combine their core framework with a menu so that users are required to select the organization-wide core competencies but can add a number of optional ones.

### *Role-specific competencies*

Role-specific competencies are also used by some organizations for generic or individual roles. These may be incorporated in a role profile in addition to a statement of key result areas. This approach is adopted in performance management processes, in recruitment person specifications and in the preparation of individual learning programmes.

## Graded competencies

A further, although less common, application of competencies is in graded career or job family structures (career or job families consist of jobs in a function or occupation such as marketing, operations, finance, IT, HR, administration or support services that are related through the activities carried out and the basic knowledge and skills required, but in which the levels of responsibility, knowledge, skill or competence needed differ). In such families, the successive levels in each family are defined in terms of competencies as well as the key activities carried out.

## Applications of competency-based HRM

The main areas in which competencies are used are:

- recruitment and selection;
- learning and development;
- performance management;
- reward management.

### Recruitment and selection

Competencies are used in many organizations as a basis for person specifications set out under competency headings developed through role analysis. The competencies defined for a role are used as the framework for recruitment and selection, and competency-based interviews are structured around the competencies listed in the specification.

### Learning and development

Role profiles, which are either generic (covering a range of similar jobs) or individual (role-specific), can include statements of the competencies required. These are used to assess the levels of competency achieved by individuals and so identify their learning and development needs. Learning events can be based on competency analysis related to an organization's competency framework.

Competencies are also used in development centres, which help participants build up their understanding of the competencies they require now and

in the future so that they can plan their own self-directed learning programmes.

### Performance management

Competencies in performance management are used to ensure that performance reviews do not simply focus on outcomes but also consider the behavioural aspects of how the work is carried out that determine those outcomes. Performance reviews conducted on this basis are used to inform personal improvement and development plans and learning programmes.

#### Pause for thought

How do you assess the level of performance with regard to a behavioural competency such as leadership?

### Reward management

Competency-related pay relates additional awards to assessments of competency but it has never become popular. However, more frequent use is made of contribution-related pay, which provides for people to be rewarded according to both the results they achieve and their level of competence.

## Developing a competency framework

A competency framework should be as simple to understand and use as possible. The language should be clear and jargon-free. Without clear language and examples it can be difficult to assess the level of competency achieved. When defining competencies, especially if they are used for performance management or competency-related pay, it is essential to ensure that they can be assessed. They must not be vague or overlap with other competencies and they must specify clearly the sort of behaviour that is expected and the level of technical or



functional skills (competencies) required to meet acceptable standards. It is helpful to address the user directly ('you will...') and to give clear and brief examples of how the competency needs to be performed.

Developing a behavioural competency framework that fits the culture and purpose of the organization and provides a sound basis for a number of key HR processes is not to be undertaken lightly. It requires a lot of hard work, much of it concerned with involving staff and communicating with them to achieve understanding and buy-in. The steps required are described below.

### Step 1. Programme launch

Decide on the purpose of the framework and the HR processes for which it will be used. Make out a business case for its development, setting out the benefits to the organization in such areas as improved performance, better selection outcomes, more focused performance management, employee development and reward processes. Prepare a project plan that includes an assessment of the resources required and the costs.

### Step 2. Involvement and communication

Involve line managers and employees in the design of the framework (steps 3 and 4) by setting up a task force. Communicate the objectives of the exercise to staff.

### Step 3. Framework design – competency list

First, get the task force to draw up a list of the core competencies and values of the business – what it should be good at doing and the values it believes should influence behaviour. This provides a foundation for an analysis of the competencies required by people in the organization. The aim is to identify and define the behaviours that contribute to the achievement of organizational success, and there should be a powerful link between these people competencies and the organization's core competencies.

The list can be drawn up by brainstorming. The list should be compared with examples of other competency frameworks, to avoid replicating other lists. It is essential to produce a competency framework

that fits and reflects the organization's own culture, values, core competencies and operations, but referring to other lists will help to clarify the conclusions reached in the initial analysis and serve to check that all relevant areas of competency have been included. When identifying competencies, care must be taken to avoid bias because of sex or race.

### Step 4. Framework design – definition of competencies

Care needs to be exercised to ensure that definitions are clear and unambiguous and that they will serve their intended purpose. If, for example, one of the purposes is to provide criteria for conducting performance reviews, then it is necessary to be certain that the way the competency is defined, together with supporting examples, will enable fair assessments to be made. The following questions can be used to test the extent to which a competency is valid and can be used:

- Can you describe the competency in terms that others understand and agree with?
- Can you observe it being demonstrated or failing to be demonstrated?
- Can you measure it?
- Can you influence it in some way, eg by training, coaching or some other method of development?

It is also important at this stage to ensure that definitions are not biased.

### Step 5. Define uses of the competency framework

Define exactly how it is intended that the competency framework should be used, covering such applications as recruitment and selection, learning and development, performance management and reward.

### Step 6. Test the framework

Test the framework by gauging the reactions of a balanced selection of line managers and other employees to ensure that they understand it and believe that it is relevant to their roles. Also pilot-test the framework in live situations for each of its proposed applications.

## Step 7. Finalize the framework

Amend the framework as necessary following the tests and prepare notes for guidance on how it should be used.

## Step 8. Communicate

Let everyone know the outcome of the project – what the framework is, how it will be used and how people will benefit. Group briefings and any other suitable means should be used.

## Step 9. Train

Give line managers and HR staff training in how to use the framework.

## Step 10. Monitor and evaluate

Monitor and evaluate the use of the framework and amend it as required.

## Keys to success in using competencies

- The competencies should reflect the organization's values and its needs, as established by analysis, to determine the behaviours that will lead to high performance.
- Frameworks should not be overcomplex.
- There should not be too many headings in a framework – seven or eight will often suffice.
- The language used should be clear and jargon-free.
- Competencies must be selected and defined in ways that ensure that they can be assessed by managers – the use of 'behavioural indicators' is helpful.
- Frameworks should be regularly updated.

### Key learning points

#### Competency-based HRM

Competency-based HRM is about using the notion of competency and the results of competency analysis to inform and improve HR processes, especially those concerned with recruitment and selection, learning and development, and performance and reward management.

#### Competency defined

The term 'competency' refers to an underlying characteristic of a person that results in effective or superior performance. The different types of competencies are:

- Behavioural competencies define behavioural expectations, ie the type of behaviour required to deliver results under such headings as teamworking, communication, leadership and decision making.

- Technical competencies define what people have to know and be able to do (knowledge and skills) to carry out their roles effectively.
- NVQ/SNVQ competencies specify minimum standards for the achievement of set tasks and activities expressed in ways that can be observed and assessed with a view to certification.

#### The contents of competency frameworks (the 10 most popular headings)

- 1 Team orientation.
- 2 Communication.
- 3 People management.
- 4 Customer focus.
- 5 Results orientation.
- 6 Problem solving.

- 7 Planning and organizing.
- 8 Technical skills.
- 9 Leadership.
- 10 Business awareness.

#### Uses of competencies

- Recruitment and selection.
- Learning and development.
- Performance management.
- Reward.

#### How to develop a competency framework

- Decide on the purpose of the framework and the HR processes for which it will be used.
- Make out a business case for its development, setting out the benefits.
- Prepare a project plan that includes an assessment of the resources required and the costs.
- Involve line managers and employees in the design of the framework.

- Communicate the objectives of the exercise to staff.
- Draw up a list of the core competencies of the business.
- Define the competencies for inclusion in a competency framework.
- Test and finalize and communicate framework.

#### Keys to success in using competencies

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- Frameworks should be regularly updated.

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# 17

# The ethical dimension of HRM

## Introduction

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The theme of this chapter is the importance of recognizing that there is an ethical dimension to human resource management. As Boxall *et al* (2007: 5) observed: ‘While HRM does need to support commercial outcomes (often called “the business case”), it also exists to serve organizational needs for social legitimacy.’ This means exercising social responsibility, ie being concerned for the interests (wellbeing) of employees and acting ethically with regard to the needs of people in the organization and the community.

To grasp this ethical dimension it is necessary to understand the nature and principles of ethics, the ethical role of HR and the ethical guidelines they can use. It is also necessary to know about approaches to resolving ethical dilemmas. These issues are covered in this chapter under the following headings:

- The meaning and concerns of ethics
- The nature of ethical decisions and judgements
- The ethical concepts of deontology, utilitarianism, stakeholder theory and discourse theory
- The significance of the concepts of equity, justice and fair dealing
- HRM ethical guidelines
- How to resolve ethical dilemmas
- The ethical role of HR

### Words of wisdom

It is only by recognizing the moral presuppositions of business theory, refining them, testing them by living differently, and revising them that we can invent and reinvent better ways to live.

Freeman (1994: 412)

## The meaning and concerns of ethics

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Ethics is defined by the *Compact Oxford Dictionary* as being ‘related to morals, treating of moral questions’, and ethical is defined as ‘relating to morality’. Morality is defined as ‘having moral qualities or endowments’ and moral is defined as ‘of or pertaining to the distinction between right and wrong’. Petrick and Quinn (1997: 42) wrote that ethics ‘is the study of individual and collective moral awareness, judgement, character and conduct’. Hamlin *et al* (2001: 98) noted that ethics is concerned with rules or principles that help us to distinguish right and wrong.

Ethics and morality are sometimes treated as being synonymous, although Beauchamp and Bowie (1983: 1–2) suggested that they are different: ‘Whereas morality is a social institution with a history and code of

learnable rules, ethical theory refers to the philosophical study of the nature of ethical principles, decisions and problems.' Clearly, ethics is concerned with matters of right and wrong and therefore involves moral judgements. Even if ethics and morality are not the same, the two are closely linked. As Clegg *et al* (2007: 111) put it: 'We understand ethics as the social organizing of morality.' Simplistically, ethics could be described as being about behaviour while morality is about beliefs.

Ethics is concerned with making decisions and judgements about what is the right course of action to take. It can be described in terms of a framework that sets out different approaches and can be extended to embrace particular concepts that affect and guide ethical behaviour, namely equity, justice and fair dealing. These approaches and concepts are discussed below.

## The nature of ethical decisions and judgements

As defined by Jones (1991: 367), an ethical decision is one that is morally acceptable to the larger community. He also noted that: 'A moral issue is present where a person's actions, when freely performed, may harm or benefit others. In other words, the action or decision must have consequences for others and must involve choice, or volition, on the part of the actor or decision maker' (ibid: 367). Clegg *et al* (2007: 112) emphasized that: 'Ethical decisions emerge out of dilemmas that cannot be managed in advance through rules.' People have to make choices. Foucault (1997: 284) asked: 'What is ethics, if not the practice of freedom?'

### Words of wisdom

Ethics is not about taking statements of morality at face value; it is a critical and challenging tool. There are no universally agreed ethical frameworks... Different situations require ethical insight and flexibility to enable us to encapsulate the

grounds upon which competing claims can be made. Decisions are judgements usually involving choices between alternatives, but rarely is the choice between right and wrong... Moral disagreement and judgements are concerned with attitudes and feelings, not facts.

Winstanley and Woodall (2000a: 8–9)

## Ethical frameworks

The ethical concepts of deontology, utilitarianism, stakeholder theory and discourse theory, as described below, provide frameworks that can be used to evaluate HRM policies and practices.

### Deontological theory

Deontological (from the Greek for 'what is right') theory maintains that some actions are right or wrong irrespective of their consequences. It is associated with Kant's notion of the categorical imperative, which contains two main propositions: (a) that one should follow the principle that what is right for one person is right for everyone, and thus you must do to others as you would be done by; and (b) in the words of Rawls (1973: 183): 'We must treat persons solely as ends and not in any way as means.'

### Utilitarianism

Utilitarianism is the belief that the highest principle of morality is to maximize happiness, the overall balance of pleasure against pain. Actions are justified when they result in the greatest good to the greatest number. As Sandel (2010: 33) explained, utilitarianism says that 'the morality of an action depends solely on the consequences it brings about; the right thing to do will be whatever brings about the best state of affairs.' In other words, actions should be judged in terms of their results. This can be interpreted as supporting the dubious principle

that the end justifies the means – torture is all right as long as it prevents terrorism (NB even if this argument were accepted, the effectiveness of torture as a means of preventing terrorism is highly questionable). Utilitarianism has been criticized first because it fails to respect individual rights, and second because, as Michael Sandel explained, it implies that all moral judgements can be translated into a single currency of value, but there is no such thing as a ‘util’.

### Stakeholder theory

In accordance with the ideas of Freeman (1984), stakeholder theory states that the organization should be managed on behalf of its stakeholders: its owners, employees, customers, suppliers and local communities. As Legge (1998: 22) described it, management must act in the interests of the stakeholders as their agent, and also act in the interests of the organization to ensure the survival of the firm, safeguarding the long-term stakes of each group.

### Discourse ethics

Foucault (1972) defined discourse as the taken-for-granted ways that people are collectively able to make sense of experience. Discourse ethics, as explained by Winstanley and Woodall (2000a: 14), suggests that ‘the role of ethicists is not to provide solutions to ethical problems, but rather to provide a practical process and procedure which is both rational and consensus enhancing, through which issues can be debated and discourse can take place.’

#### Pause for thought

If asked, what arguments would you present for an ethical approach to HRM?

## Fairness

Fairness is treating people in ways that recognize what is due to them. It involves being even-handed, just and consistent and acting with consideration

and without bias. To be unfair to someone is to deal with them less favorably than others or to treat them arbitrarily without considering their needs. Fairness is associated with what is known as procedural justice as described later in this chapter, which is concerned with the perceptions employees have about how they are treated and the fairness with which company policies are put into practice.

## Equity theory

Equity theory, as formulated by Adams (1965), is concerned with the perceptions people have about how they are being treated as compared with others. To be dealt with equitably is to be treated fairly in comparison with another group of people (a reference group) or a relevant other person. Equity involves feelings and perceptions and it is always a comparative process. It is not synonymous with equality, which means treating everyone the same and which would be inequitable if they deserve to be treated differently.

## Justice

Justice is the process of treating people in a way that is inherently fair, right and proper. The concept of ‘justice as fairness’ proposed by Rawls (1973: 348) states that ‘natural duties and obligations arise only in virtue of ethical principles.’

#### Words of wisdom

First: every person is to have the equal right to the most extensive basic liberty comparable with a similar liberty for others.

Second: social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone’s advantage, and (b) attached to positions and offices open to all.

Rawls (1973: 60)

There are four types of justice: procedural justice, distributive justice, social justice and natural justice.

### Procedural justice

Procedural justice (Adams, 1965; Leventhal, 1980) involves treating people in ways that are fair, consistent, transparent and properly consider their views and needs. In organizations, it is concerned with the perceptions employees have about the fairness with which company procedures are being operated in such areas as performance appraisal, promotion and discipline (fair process).

#### Source review

The five factors that affect perceptions of procedural justice:

- 1 The viewpoint of employees is given proper consideration.
- 2 Personal bias towards employees is suppressed.
- 3 The criteria for decisions are applied consistently to all employees.
- 4 Employees are provided with early feedback about the outcome of decisions.
- 5 Employees are provided with adequate explanations of why decisions have been made.

Tyler and Bies (1990)

### Distributive justice

Distributive justice (Adams, 1965; Leventhal, 1980) means ensuring that people are rewarded equitably in comparison with others in the organization and in accordance with their contribution, and that they receive what was promised to them (management 'delivers the deal').

### Social justice

Social justice is based on the concepts of human rights and equality. Rawls (1973: 3–4) rejected the principle of utilitarianism when he asserted that in

society: 'Each person possesses an inviolability founded on justice that even the welfare of society as a whole cannot override. For this reason justice denies that the loss of freedom for some is made right by a greater good shared by others.' In organizations, social justice means relating to employees generally in ways that recognize their natural rights to be treated justly, equitably and with respect.

### Natural justice

According to the principles of natural justice, employees should know the standards they are expected to achieve and the rules to which they are expected to conform. In a discipline process they should be given a clear indication of where they are failing or what rules have been broken and, except in cases of gross misconduct, they should be given a chance to improve before disciplinary action is taken.

## HRM ethical guidelines

The guidelines set out below relate to how employees are treated in general and in the HRM activities of organization development, recruitment and selection, learning and development, performance management, reward management and employee relations. They also relate to employment practices concerning the work environment, employee wellbeing, equal opportunities, managing inclusion and diversity, handling disciplinary matters and grievances, job security and redundancy.

### General guidelines

- Recognize that the strategic goals and values of the organization should embrace the rights and needs of employees as well as those of the business.
- Recognize that employees are entitled to be treated as full human beings with personal needs, hopes and anxieties.
- Do not treat employees simply as means to an end or mere factors of production.
- Relate to employees generally in ways that recognize their natural rights to be treated justly, equitably and with respect.



## Organization development (OD)

- Agree in advance with clients and individuals the goals, content and risks of an OD programme.
- Make explicit any values or assumptions used in the programme.
- Obtain the maximum involvement of all concerned in the programme so that they understand the processes involved and how they can benefit from them.
- Work with clients to plan and implement change to the benefit of all stakeholders.
- Enable individuals to continue with their development on completing the programme.
- Protect confidentiality.

## Recruitment and selection

- Treat candidates with consideration – applications should be acknowledged, candidates should be kept informed without undue delay of decisions made about their application, and they should not be kept waiting for the interview.
- Avoid intrusive or hectoring questioning in interviews.
- Do not put candidates under undue stress in interviews.
- Do not criticize any aspect of the candidate's personality or experience.
- Use relevant selection criteria based on a proper analysis of job requirements.
- Give candidates reasonable opportunity to present their case and to ask questions.
- Avoid jumping to conclusions about candidates on inadequate evidence or as a result of prejudice.
- Give accurate and complete information to candidates about the job, prospects, security and terms and conditions of employment.
- Only use properly validated tests administered by trained testers.
- Do not use discriminating or biased tests.
- Monitor tests for impact and unintended bias.

- Ensure that candidates are not unfairly disadvantaged by testing processes.
- Give candidates feedback on test results unless there are compelling reasons why feedback should not be given.
- Ensure that selection decisions are free of discrimination or bias on the grounds of sex, sexual orientation, race, age or disability.
- Give unsuccessful candidates the reason for the decision if they request it.

## Learning and development

- Respect individual rights for dignity, self-esteem, privacy and autonomy.
- Recognize that it is necessary and legitimate to provide individuals with learning opportunities that enable them to gain the knowledge and skills required to perform well in their jobs and develop their potential. But note that individuals should still be allowed autonomy to choose the extent to which they pursue learning and development programmes beyond this basic requirement.
- Accept that while the organization has the right to conduct learning and development activities that enhance performance, individuals also have the right to be provided with opportunities to develop their own knowledge, skills and employability.
- Ensure that people taking part in learning events feel 'psychologically safe' in accordance with the view expressed by Schein (1993: 91) that: 'To make people feel safe in learning, they must have a motive, a sense of direction, and the opportunity to try out new things without the fear of punishment.'
- Avoid manipulating people to accept imposed organizational values.

## Performance management

Performance management ethical principles have been defined by Winstanley and Stuart-Smith (1996) as follows:

- *Respect for the individual* – people should be treated as ‘ends in themselves’ and not merely as ‘means to other ends’.
- *Mutual respect* – the parties involved in performance management should respect each other’s needs and preoccupations.
- *Procedural fairness* – the procedures incorporated in performance management should be operated fairly in accordance with the principles of procedural justice.
- *Transparency* – people affected by decisions emerging from performance management processes should have the opportunity to scrutinize the basis upon which decisions were made.

### Reward management

- Generally apply the principles of procedural and distributive justice.
- Ensure that reward policies and practices are fair, equitable and transparent and that they are applied consistently.
- Reward people according to their contribution.
- Ensure that people know in general the basis upon which rewards are provided and in particular how their own reward package is determined.
- Maintain reasonable and defensible pay differentials.
- Ensure that equal pay is provided for work of equal value.
- Base decisions about performance pay or bonuses on fair and equitable criteria.
- Avoid bonus schemes that encourage undesirable behaviour.
- Do not pay less than the living wage.

### Employment relations

- Deliver the deal.
- Be open to employees’ input and responsive to justifiable questions and concerns about employment policies and practices.

- Provide genuine opportunities and channels for employees to express their views and influence decisions on matters that affect them.
- Negotiate in good faith.
- Recognize that the interests of management and employees do not necessarily coincide and develop and implement employment relations policies accordingly.

### Employment practices

- Create a healthy, safe and fulfilling work environment.
- Promote the wellbeing of employees by improving the quality of working life provided for them, enhancing work-life balance and developing family-friendly policies.
- Take particular care to minimize the stress to which employees may be subjected.
- Provide equal opportunities for all with regard to recruitment and selection, learning and development, talent management, career progression and promotion.
- Manage inclusion and diversity by creating an environment where different kinds of people can thrive and succeed and by recognizing and respecting their differences.
- Handle disciplinary matters according to the principles of natural justice.
- Recognize that people may have legitimate grievances and respond to them promptly, fully and sympathetically.
- Preserve job security as far as possible and take alternative action to avoid compulsory redundancies.
- If compulsory redundancy is unavoidable, do whatever is possible to alleviate the distress by, for example, helping people to find work.
- Do not allow whistle-blowers who expose wrongdoing to be penalized.

### Pause for thought

Do you think guidelines like these, but modified to suit the circumstances and needs of the organization, should be produced in an organization? If so, how would you persuade the organization's leaders that this is a good idea and if you succeeded, what approach would you adopt to developing them?

## Ethical dilemmas

'Ethics will be enacted in situations of ambiguity where dilemmas and problems will be dealt with without the comfort of consensus or certitude' (Clegg *et al*, 2007: 109). Bauman, quoted in Bauman and Tester (2001: 44), commented that: 'Morality concerns choice first of all – it is the predicament human beings encounter when they must make a selection amongst various possibilities.' And Derrida (1992) observed that ethical responsibility can exceed rational calculation.

### Resolving ethical dilemmas

As Adam Smith (1759) wrote in *The Theory of Modern Sentiments*: 'When ethically perplexed, the question we should always ask is: would a disinterested observer, in full possession of the relevant facts, approve or disapprove of our actions?' This guidance is just as compelling and relevant today.

Woodall and Winstanley (2000: 285) suggested that 'being ethical is not so much about finding one universal principle to govern all action, but more about knowing how to recognize and mediate between often unacknowledged differences of view.' By definition, an ethical dilemma is one that will be difficult to resolve. There may be all sorts of issues surrounding the situation, some of which will be unclear or contentious. The extent to which people react or behave rationally may be limited by their capacity to understand the complexities of the situation they are in and affected by their emotional reactions to it (the

concept of bounded rationality). This was explained by Rosemary Harrison as follows:

### Words of wisdom

Some of the factors that militate against a purely 'rational' approach include confused, excessive, incomplete or unreliable data, incompetent processing or communicating of information, pressures of time, human emotions, and differences in individuals' cognitive processes, mental maps and reasoning capacity.

Harrison (2009: 331)

Faced with factors such as these, the process of ethical dilemma resolution can be hard going. There is no 'one right way' to deal with an ethical issue, but an approach based on systematic questioning, analysis and diagnosis to get at the facts and establish the issues involved is more likely to produce a reasonably satisfactory outcome than one relying purely on 'gut feeling'. The following checklist – used judiciously and selectively according to the circumstances – can provide a basis for such questioning and analysis.

- What are the known facts about the situation and is it possible that there are facts or circumstances that have not come to light, and if so what can be done to uncover them?
- In disciplinary or conduct cases, to what extent does the conduct contravene the organization's code of ethical conduct (if one exists) or any other relevant organizational policy guidelines and rules?
- In disciplinary cases, are there any mitigating circumstances?
- Have different versions or interpretations of the facts and circumstances been offered and, if so, what steps can be taken to obtain the true and full picture?
- Do the facts as established and confirmed justify the proposed action?

- Is the proposed action in line with both the letter and the spirit of the law?
- Is the proposed action and any investigations leading to it consistent with the principles of natural, procedural or distributive justice?
- Will the proposed action benefit the organization and if so how?
- Is there any risk of the proposed action doing harm to the organization's reputation for fair dealing?
- Will the proposed action be harmful to the individual affected or to employees generally in any way and if so how?

## The ethical role of HR

Legge (1998: 20–21) commented that: 'In very general terms I would suggest that the experience of HRM is more likely (but not necessarily) to be viewed positively if its underlying principles are ethical.' HR professionals have a special responsibility for guarding and promoting core values in the organization on how people should be managed and treated. They need to take action to achieve fair dealing. This means treating people according to the principles of procedural, distributive, social and natural justice, and seeing that decisions or policies that affect them are transparent in the sense that they are known, understood, clear and applied consistently.

Kochan (2007: 600) suggested that: 'HR derives its social legitimacy from its ability to serve as an effective steward of a social contract in employment relationships capable of balancing and integrating the interests and needs of employers, employees and the society in which these relationships are embedded.' But he also noted that most HR professionals have 'lost any semblance of credibility as stewards of the social contract because most HR professionals have lost their ability to seriously challenge or offer an independent perspective on the policies and practices of the firm' (ibid: 604). And Parkes and Davis (2013: 2427) pointed out the risk that the HR role can become 'rather passive, favouring communicating standards rather than actively promoting ethical behaviour'.

To overcome this problem and thus fulfill an ethical role, Winstanley and Woodall (2000b: 7) remarked that: 'HR professionals have to raise awareness of ethical issues, promote ethical behaviour, disseminate

ethical practices widely among line managers, communicate codes of ethical conduct, ensure people learn about what constitutes ethical behaviours, manage compliance and monitor arrangements.'

There are three approaches that HR can adopt. The first is to ensure that HR policies and the actions taken to implement them meet acceptable ethical standards. HR can press for the production of a value statement that indicates how the organization intends to treat its employees. Value statements may be set out under such headings as care and consideration for people, belief that people should be treated justly and equitably, and belief that the views of employees about matters that concern them should be listened to.

This requires advocacy skills to persuade management to adopt and act on these policies and the courage and determination to make out the ethical case even when management favours a conflicting business case. But value statements are meaningless until the values are put into practice ('values in use'); the ethical role of HR involves helping to ensure that this takes place.

Second, HR practitioners can act as role models, leading by example and living and breathing good ethical behaviour. As a respondent to the survey conducted by Parkes and Davis (2013: 2426) commented: 'If HR does not act ethically, how can it expect employees to do so?'

The third approach, and the hardest, is to challenge unethical behaviour on the part of management. Such behaviour can take many forms, including management tolerance for exploitation, harassment and bullying; the lack of a whistle-blowing policy that provides routes for reporting malpractice; the unjust treatment of whistleblowers; and performance management criteria that emphasize organizational gain over all else. The latter was the case at the Royal Bank of Scotland (RBS) before the financial crisis, where the performance management concentrated on target achievement, ignoring behaviour. The courage to challenge is less likely to be forthcoming in organizations where the culture is one of command and control – and obedience is expected to whatever is dictated by management (features of the pre-crash RBS culture). Power, politics and culture shape norms of behaviour and, as Herb Kelleher (the CEO of Southwest Airlines) put it, culture is 'what people do when no one is looking' (reported by Lee, 1994). One respondent to the Parkes and Davis survey (2013: 2425) commented: 'It can be difficult on a personal level to be speaking out – HR do not have the power'.

Another said: ‘Speaking out can be career suicide’. It is too easy in these circumstances for HR to be mere bystanders. Neil Roden, former head of HR at RBS, explained HR’s position in relation to the financial debacle at the bank as follows: ‘I’m not absolving myself totally... (but) I can’t see what HR could have done... I wasn’t running the bank... the CEO makes the decisions, not me. HR is a support function, no more’ (HR Magazine, 2010).

An HR director who is a member of an executive board can question decisions from an ethical viewpoint but if the comments are not heeded then the director will either have to accept the decision or resign. It is important to challenge – and the

courage to do so is listed by the CIPD as one of the qualities required by an HR professional. But it is difficult and there may be limits to what HR can do. If HR professionals cannot do anything about the way their organization does things they either have to carry on and do whatever they can in other less confrontational ways, or they must leave.

### Pause for thought

Would you resign in these circumstances? If not, why not?

## Key learning points

### Ethics and morality defined

Ethics is defined by the *Compact Oxford Dictionary* as being ‘related to morals, treating of moral questions’, and ethical is defined as ‘relating to morality’. Morality is defined as ‘having moral qualities or endowments’ and moral is defined as ‘of or pertaining to the distinction between right and wrong’. Simplistically, ethics could be described as being about behaviour while morality is about beliefs.

Ethics is concerned with making ethical decisions and judgements. It can be described in terms of an ethical framework that sets out different approaches and can be extended to embrace particular concepts that affect and guide ethical behaviour, namely equity, justice and fair dealing. An ethical decision is one that is morally acceptable to the larger community.

### Ethical concepts

The ethical concepts of deontology, utilitarianism, stakeholder theory and discourse theory provide frameworks that can be used to evaluate HRM policies and practices.

An important role for HR professionals is to do whatever they can to embed the consistent application of ethical values in the organization so that they can become values in use rather than simply professed values in a code of practice or values statement.

### Ethical guidelines

Ethical guidelines relate to how employees are treated in general, and to the major HRM activities of

organization development, recruitment and selection, learning and development, performance management, reward management, employee relations, and employment practices concerning the work environment, employee wellbeing, equal opportunities, managing diversity, handling disciplinary matters and grievances, job security and redundancy.

### Handling ethical dilemmas

There is no ‘one right way’ to deal with an ethical dilemma but an approach based on systematic questioning, analysis and diagnosis to get at the facts and establish the issues involved is more likely to produce a reasonably satisfactory outcome than one relying purely on ‘gut feeling’. An ethical dilemma is one that will be difficult to resolve. There may be all sorts of issues surrounding the situation, some of which will be unclear or contentious.

### The role of HR

HR professionals have a special responsibility for guarding and promoting core values in the organization on how people should be managed and treated generally. They are particularly concerned with values relating to just and fair treatment. They can act as role models and challenge unethical practices. But challenging can be difficult.



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# 18

# Corporate social responsibility

## Introduction

The notion that businesses should act in a socially responsible way has been around for some time.

### Words of wisdom

The business man is only tolerable so long as his gains can be held to bear some relation to what, roughly and in some sense, his activities have contributed to society.

J M Keynes (1923)

The aim of this chapter is to explore what it means to act responsibly. This involves the exercise of corporate social responsibility (CSR).

HR professionals, because of the ethical dimension of their function (as described in Chapter 17), have an important role to play in furthering CSR. CSR was justified by the CIPD as a relevant and important HR activity as follows:

HR professionals need to marshal the arguments in favour of CSR, as set out in this chapter, to overcome any overt or covert resistance. They must be able to advise on CSR strategies and how they can be implemented. This is not an easy task and suggestions on the approaches that can be adopted are made in the concluding section of the chapter.

## Corporate social responsibility defined

Corporate social responsibility (CSR) is exercised by organizations when they conduct their business in an ethical way, taking account of the social, environmental and economic impact of how they operate, and going beyond compliance. Environmental issues are particularly important. Wood (1991: 695) observed that: 'The basic idea of corporate social responsibility is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes.' As Baron (2001: 11) noted, CSR involves 'providing to others benefits beyond those generated by economic transactions with the firm or required by law.'

### Source review

CSR needs to be embedded in an organization's culture to make a change to actions and attitudes, and the support of the top team is critical to success. HR already works at communicating and implementing ideas, policies, cultural and behavioural change across organizations. Its role in influencing attitudes and links with line managers and the top team means it is ideally placed to do the same with CSR.

CIPD (2009: 1)



McWilliams *et al* (2006: 1) stated that CSR refers to the actions taken by businesses ‘that further some social good beyond the interests of the firm and that which is required by law’. CSR has also been described by Husted and Salazar (2006: 76) as being concerned with ‘the impact of business behaviour on society’ and by Porter and Kramer (2006: 83) as a process of integrating business and society. The latter argued that to advance CSR: ‘We must root it in a broad understanding of the interrelationship between a corporation and society while at the same time anchoring it in the strategies and activities of specific companies.’

CSR is concerned generally with how companies function and this includes how they manage their people. The CIPD (2003: 5) emphasized that ‘the way a company treats its employees will contribute directly to the picture of a company that is willing to accept its wider responsibilities.’

CSR policy may be expressed in a value statement that sets out the organization’s core values under such headings as:

- care and consideration for people;
- care for the environment;
- competence;
- competitiveness;
- customer service;
- innovation;
- performance;
- quality;
- teamwork.

But espoused values are pointless unless they become values in use and this needs concerted action by management working with employees and supported by HR.

## CASE STUDY

### Lloyds Banking Group

The Lloyds Banking Group was recognized by Business in the Community as the Responsible Business of the Year in 2018. The Group’s *Helping Britain Prosper Plan* sets out 22 specific targets designed to tackle some of the social and economic issues that matter most to Britain and its people, businesses and communities. It includes targets attached to addressing Britain’s housing needs, helping people to save for their

## Strategic CSR defined

Strategic CSR is about deciding initially the degree to which the firm should be involved in social issues and then creating a corporate social agenda – considering what social issues to focus on and to what extent. As Porter and Kramer (2006: 85) noted: ‘It is through strategic CSR that the company will make the greatest social impact and reap the greatest business benefits.’ They also observed that strategy is always about choice – organizations that ‘make the right choices and build focused, proactive and integrated social initiatives in concert with their core strategies will increasingly distance themselves from the pack’ (*ibid*: 91).

CSR strategy needs to be integrated with the business strategy but it is also closely associated with HR strategy. This is because it is concerned with socially responsible behaviour which respects the interests of stakeholders both outside and within the firm – with society generally and with the internal community. In the latter case this means creating a working environment where personal and employment rights are upheld and HR policies and practices provide for the fair and ethical treatment of employees.

## CSR activities

CSR activities as listed by McWilliams *et al* (2006) include incorporating social characteristics or features into products and manufacturing processes, adopting progressive HRM practices, achieving higher levels of environmental performance through recycling and pollution abatement, and supporting community organizations.

future, supporting start-ups and tackling disadvantage through four independent charitable foundations. In 2016, the company set up a £1 billion Green Loan initiative to incentivize commercial real estate to become more energy efficient. As a result, more than 5 million square feet of Britain’s real estate became more energy efficient in 2017.

## The rationale for CSR

Stakeholder theory, as first propounded by Freeman (1984), suggests that managers must satisfy a variety of constituents (eg workers, customers, suppliers, local community organizations) who can influence firm outcomes. According to this view, it is not sufficient for managers to focus exclusively on the needs of shareholders or the owners of the business. Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that non-financial stakeholders perceive to be important.

The rationale for CSR, as defined by Hillman and Keim (2001), is based on two propositions. First, there is a moral imperative for businesses to ‘do the right thing’ without regard to how such decisions affect firm performance (the social issues argument); second, firms can achieve competitive advantage by tying CSR activities to primary stakeholders (the stakeholders argument). Their research in 500 firms implied that investing in stakeholder management may be complementary to shareholder value creation and could indeed provide a basis for competitive advantage as important resources and capabilities are created that differentiate a firm from its competitors. However, participating in social issues beyond the direct stakeholders may adversely affect a firm’s ability to create shareholder wealth. Strong arguments for CSR were made by Porter and Kramer (2006).

- *The moral appeal* – the argument that companies have a duty to be good citizens. The US business association Business for Social Responsibility (2007) asks its members ‘to achieve commercial success in ways that honour ethical values and respect people, communities and the natural environment.’
- *Sustainability* – an emphasis on environmental and community stewardship. This involves meeting the needs of the present without compromising the ability of future generations to meet their own needs.
- *Licence to operate* – every company needs tacit or explicit permission from government, communities and other stakeholders to do business.
- *Reputation* – CSR initiatives can be justified because they improve a company’s image, strengthen its brand, enliven morale and even raise the value of its stock.

Moran and Ghoshal (1996: 45) contended that ‘what is good for society does not necessarily have to be bad for the firm, and what is good for the firm does not necessarily have to come at a cost to society. Value creation, rather than value appropriation, lies at the heart of effective firm strategies.’

## The opposing view

The opposing view is that businesses are there to make a profit, not to exercise social responsibility. The marketing expert Theodore Levitt (1958: 41), in a notorious article in the *Harvard Business Review* on the dangers of social responsibility, posed the questions: ‘Are top executives being taken in by pretty words and soft ideas? Are they letting the country in for a nightmare return to feudalism by forgetting that they must be businessmen first, last and almost always?’ He did write that CSR can be used as ‘a way of maximizing the lifetime of capitalism by taking the wind out of its critics’ sails’ (ibid: 43). But, writing as an unstructured capitalist, he suggested that: ‘The essence of free enterprise is to go after profit in any way that is consistent with its own survival as an economic system’ (ibid: 44).

The Chicago monetarist Milton Friedman (1962: 133–34) questioned the ability of business managers to pursue the social interest. He asked:

If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is? Can they decide how great a burden they are justified in placing on themselves or their stockholders to serve that social interest?

In 1970 Friedman argued that the social responsibility of business is to maximize profits within the bounds of the law. He maintained that the mere existence of CSR was an agency problem within the firm in that it was a misuse of the resources entrusted to managers by owners, which could be better used on value-added internal projects or returned to the shareholders.

These outspoken views may no longer be supported so openly but they still exist and are still acted on. There is much evidence that CSR is not on the agenda – for example, UK banks that made money by selling worthless investments or insurance policies and then failed to respond adequately to complaints. And, less egregiously, a glance at the

‘Your Problems’ column in the *Observer* reveals plenty of instances of businesses indulging in anti-social behaviour. It is necessary, therefore, to have a convincing case for the benefits of CSR.

### Pause for thought

How would you counter those arguments?

## Benefits of CSR

Benefits from CSR listed by the CIPD (2003: 4) include ‘offering distinctive positioning in the market place, protecting reputation, building credibility and trust with customers and employees, redefining corporate purpose or mission and securing the company’s licence to operate.’

Research into the relationship between CSR and firm performance conducted by Russo and Fouts (1997) found that there was a positive relationship between environmental performance and financial performance. Hillman and Keim (2001) established that if the socially responsible activity were directly related to primary stakeholders, then investments may benefit not only stakeholders but also result in increased shareholder wealth. However, participation in social issues beyond the direct stakeholders may adversely affect a firm’s ability to create such wealth.

## The basis for developing a CSR strategy

The basis for developing a CSR strategy is provided by the following competency framework from the CSR Academy (2006), which is made up of six characteristics:

- *Building capacity* – building the capacity of others to help manage the business effectively. For example, suppliers understand the business’s approach to the environment and employees can apply social and environmental concerns in their day-to-day roles.
  - *Questioning business as usual* – individuals continually questioning the business in relation to a more sustainable future and being open to improving the quality of life and the environment.
  - *Stakeholder relations* – understanding who the key stakeholders are and the risks and opportunities they present. Working with them through consultation and taking their views into account.
  - *Strategic view* – ensuring that social and environmental views are included in the business strategy so that they are integral to the way the business operates.
  - *Harnessing diversity* – respecting that people are different, which is reflected in fair and transparent business practices.
- To develop and implement a CSR strategy based on these principles it is necessary to:
- understand the business and social environment in which the firm operates;
  - understand the business and HR strategies and how the CSR strategy should be aligned to them;
  - know who the stakeholders are (including top management) and find out their views on and expectations of CSR;
  - produce and deliver persuasive arguments in favour of CSR: if all else fails suggest that there is room for enlightened self-interest that involves doing well by doing good;
  - identify the areas in which CSR activities might take place by reference to their relevance in the business context of the organization and an evaluation of their significance to stakeholders;
- *Understanding society* – understanding how business operates in the broader context and knowing the social and environmental impact that the business has on society.

- prioritize as necessary on the basis of an assessment of the relevance and significance of CSR to the organization and its stakeholders and the practicalities of introducing the activity or practice;
- draw up the strategy and make the business case for it to top management and the stakeholders;
- obtain approval for the CSR strategy from top management and key stakeholders;
- communicate information on the whys and wherefores of the strategy, comprehensively and regularly;
- provide training to employees on the skills they need in implementing the CSR strategy;
- measure and evaluate the effectiveness of CSR.

### Key learning points

#### The meaning of CSR

CSR activities include incorporating social characteristics or features into products and manufacturing processes, adopting progressive HRM practices, achieving higher levels of environmental performance through recycling and pollution abatement, and advancing the goals of community organizations.

#### The rationale for CSR

There are two arguments for CSR (Hillman and Keim, 2001): first, there is a moral imperative for businesses to 'do the right thing' without regard to how such decisions affect firm performance (the social issues argument); second, firms can achieve competitive advantage by tying CSR activities to primary stakeholders (the stakeholders argument).

#### Developing a CSR strategy

- Identify the areas in which CSR activities might take place by reference to their relevance in the business context of the organization and an evaluation of their significance to stakeholders.
- Prioritize as necessary on the basis of an assessment of the relevance and significance of CSR to the organization and its stakeholders and the practicalities of introducing the activity or practice.
- Draw up the strategy and make the case for it to top management and the stakeholders to obtain their approval.
- Communicate information on the strategy, comprehensively and regularly.
- Provide training to employees on the skills they need to use in implementing the CSR strategy.

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# PART IV

# Organization

## PART IV CONTENTS

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- 19** Organizational behaviour
- 20** Organization design
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- 22** Job design
- 23** Organization development

## Introduction

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Human resource management is concerned with the behaviour of people who work in organizations. It is involved in the design and development of organizations and in the design of work systems and jobs that can maximize organizational performance levels and provide a satisfying employee experience.

People management policies and practices therefore need to be based on an understanding of how organizations function and an appreciation of the factors associated with organization, work system and job design and the approaches that can be used to develop organizational effectiveness.

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# 19

# Organizational behaviour

## Introduction

Organizational behaviour is the term used to describe how organizations function with regard to their people, structure, processes and culture. It is concerned with the characteristics of people and how they act in organizations, individually or in groups. Organizational behaviour theory is based on the main behavioural science theories, which have been proved by research. Like all proven theories it provides insights into good practice. Thus it provides guidance on the design of organizations, work systems, jobs, and the process of organization development. It also provides the conceptual framework for approaches to achieving the motivation, commitment and engagement of people.

An understanding of how organizations function and how people behave in them is important to HR professionals, indeed to all managers.

### Words of wisdom

Managers perform their jobs within complex social systems called organizations. In many senses, the task of the manager is to influence behaviour in a desired direction, usually towards the accomplishment of a specific task or performance goal. Given this definition of the managerial role, skills in the diagnosis of patterns of organizational behaviour become vital. Specifically, the

manager needs to understand the patterns of behaviour that are observed, predict in what direction behaviour will move (particularly in the light of managerial action), and use this knowledge to control behaviour over the course of time.

Nadler and Tushman (1980: 30)

This chapter covers:

- What is meant by organizational behaviour
- The sources and applications of organizational behaviour theory
- How organizations function
- Organizational culture
- Organizational climate
- Organizational processes
- Characteristics of people
- The factors that affect individual behaviour
- Implications for HR specialists

## Organizational behaviour defined

Organizational behaviour was defined by Huczynski and Buchanan (2007: 843) as the term used to describe ‘the study of the structure, functioning, and performance of organizations and the behaviour of groups and individuals within them.’

### Source review

Characteristics of organizational behaviour:

- It is a way of thinking – about individuals, groups and organizations.
- It is multidisciplinary – it uses principles, models, theories and methods from other disciplines.
- There is a distinctly humanistic orientation – people and their attitudes, perceptions, learning capacities, feelings and goals are of major importance.
- It is performance-oriented – it deals with the factors affecting performance and how it can be improved.
- The use of scientific method is important in studying variables and relationships.
- It is applications-oriented in the sense of being concerned with providing useful answers to questions that arise when managing organizations.

Ivancevich *et al* (2008: 11)

## The sources and applications of organizational behaviour theory

Organizational behaviour theory is based on behavioural science disciplines. These are defined as the fields of enquiry dedicated to the study of human behaviour through sophisticated and rigorous methods. The ways in which they contribute to different aspects of organizational behaviour theory and how they in turn influence HRM practices are illustrated in Figure 19.1.

## How organizations function

An organization is an entity that exists to achieve a purpose through the collective efforts of the people who work in or for it. Organizing is the process of

making arrangements in the form of defined or understood responsibilities and relationships to enable those people to work cooperatively together. Organizations can be described as systems that, as affected by their environment, have a structure that has both formal and informal elements.

Organizations operate through a process of governance which has three dimensions: the exercise of authority, decision making, and accountability at the top for performance and behaviour.

Organization structures are frameworks for getting things done. Traditional formal structures were based on laid-down hierarchies (lines of command) represented in organization charts, and use was made of closely defined job descriptions. But to varying extents, organizations operate informally as well as formally by means of a network of roles and relationships that cut across formal organizational boundaries and lines of command. Organization structures can evolve almost spontaneously as circumstances change and new activities have to be carried out.

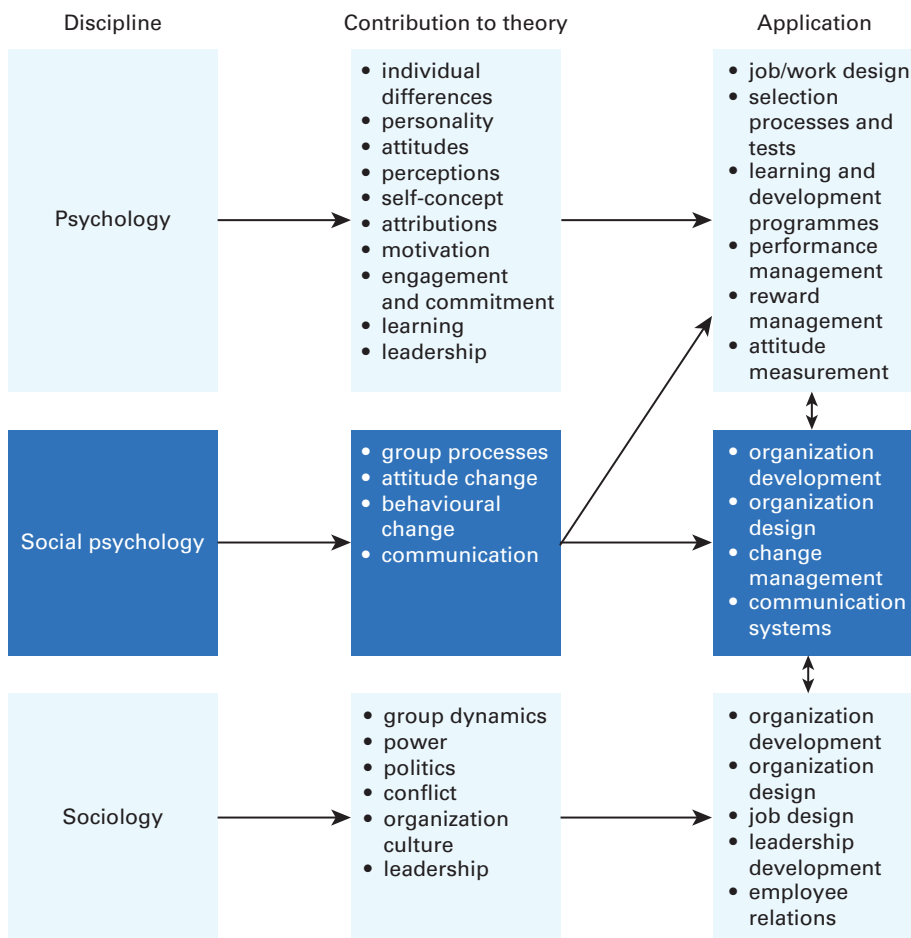
### Words of wisdom

An organization does not make decisions; its role is to provide a framework, based on established criteria, within which decisions can be fashioned in an orderly fashion.

Alfred P Sloan Jr (1972)

## Factors affecting how organizations function

The processes that take place in organizations – interaction and networking, leadership, group behaviour, the exercise of power and the use of politics – may well have much more effect on how organizations function than can be shown in a defined organization chart supported by elaborate job descriptions and an organization manual. Moreover, the way in which an organization functions will be largely contingent on its purpose, technology, methods of working and external environment. A number of theories have been developed, summarized in Table 19.1, to explain how organizations function, culminating in the contingency and process schools that now predominate.

**FIGURE 19.1** The sources and applications of organization behaviour theory**TABLE 19.1** Schools of organization theory

School	Leading exponents	Summary of theory
The classical school	Taylor (1911), Fayol (1916), Urwick (1947)	Organizations need control, measurement, order and formality to function well. They have to minimize the opportunity for unfortunate and uncontrollable informal relations, leaving room only for the formal ones.
The human relations school	Barnard (1938), Roethlisberger and Dickson (1939)	Barnard emphasized the importance of the informal organization – the network of informal roles and relationships that, for better or worse, strongly influences the way the formal structure operates. In their analysis of the Hawthorne studies, Roethlisberger and Dickson stressed the importance of informal groups and decent, humane leadership.

(continued)

**TABLE 19.1** (Continued)

School	Leading exponents	Summary of theory
The behavioural science school	Argyris (1957), Herzberg <i>et al</i> (1957), McGregor (1960), Likert (1961), Schein (1965)	A humanistic point of view is adopted that is concerned with what people can contribute and how they can best be motivated.
The bureaucratic model	Weber (1908) translated in 1947	Max Weber coined the term 'bureaucracy' as a label for a type of formal organization in which impersonality and rationality are developed to the highest degree. Bureaucracy, as he conceived it, was the most efficient form of organization because it was logical and because personalized relationships and non-rational, emotional considerations do not get in its way.
The socio-technical model	Emery (1959), Trist <i>et al</i> (1963)	In any system of organization, technical or task aspects are interrelated with the human or social aspects. The emphasis is on interrelationships between, on the one hand, the technical processes of transformation carried out within the organization and, on the other hand, the organization of work groups and the management structures of the enterprise.
The systems school	Miller and Rice (1967) Bertalanffy (1968)	Organizations should be treated as open systems that are continually dependent upon and influenced by their environments. The basic characteristic of the enterprise as an open system is that it transforms inputs into outputs within its environment. The principle of equifinality states that in an open system a goal can be reached in many ways.
The contingency school	Burns and Stalker (1961), Woodward (1965), Lawrence and Lorsch (1969)	Members of the contingency school analysed a variety of organizations and concluded that their structures and methods of operation are a function of the circumstances in which they exist. They do not subscribe to the view that there is one best way of designing an organization or that simplistic classifications of organizations as formal or informal, bureaucratic or non-bureaucratic are helpful.
The process school	Pascale (1990), Ghoshal and Bartlett (1995)	Rather than seeing organizations as a hierarchy of static jobs, members of the process school think of them as a portfolio of dynamic processes that overlay and often dominate the vertical, authority-based processes of the hierarchical structure. The emphasis is on 'horizontal tasks', collaboration and networking across units rather than on 'vertical tasks' within functional units. Hence the concept of the 'boundaryless organization'.

## Types of organization structures

The main types of organization structures are:

*Unitary* – there is one structure covering all activities.

*Divisionalized* – an organization that divides its main activities into different units based upon the product, the markets served, the skills involved or geographical areas.

*Lattice* – an alternative term for an organic organization, see below.

*Line and staff* – a traditional organization based on the military model in which a hierarchy of ‘line managers’ carry out the fundamental operations such as manufacturing, sales or customer service while the ‘staff’ functions such as finance and personnel provide them with services, advice and support.

*Mechanistic* – a formal organization that is hierarchical with rigid chains of command and control, distinct departments and tightly defined and specialized jobs (usually a characteristic of a line and staff organization).

*Organic* – a relatively informal organization with a non-hierarchical, flat structure where the emphasis is on horizontal processes, the elimination of boundaries between functions, teamwork and flexible roles (also known as a lattice organization).

*Matrix organization* – an organization that consists of a functional structure with a number of different disciplines and a project structure consisting of project teams drawn from the disciplines.

*Network organization* – a collection of interrelated organizations that extends beyond the boundaries of any single organization.

*Virtual organization* – an organization that mainly uses electronic means for its members to interact with one another, thus minimizing face-to-face contacts.

### Words of wisdom

The needs of large-scale organizations have to be satisfied by common people achieving uncommon performances.

Drucker (1955: 124)

## Organizational culture

The culture of an organization has been described by Deal and Kennedy (2000: 4) as ‘the way we do things around here’. It is more complex than that, as other definitions given below indicate. But this simplistic definition at least demonstrates that it is an all-pervading notion that affects the way in which people behave and has to be taken into account as a contingency factor in any programme for developing organizations and HR policies and practices. Organizational culture offers a shared system of meanings which is the basis for communications and mutual understanding. If these functions are not fulfilled in a satisfactory way, culture may significantly reduce the effectiveness of an organization. This is why it is important for HR specialists to understand the concept of organizational culture and how it affects organizations.

### Organizational culture defined

Organizational or corporate culture is the pattern of values, norms, beliefs, attitudes and assumptions that may not have been articulated but which shape the ways in which people in organizations behave and things get done. ‘Values’ refer to what is believed to be important about how people and organizations behave. ‘Norms’ are the unwritten rules of behaviour.

This definition emphasizes that organizational culture is concerned with the subjective aspect of what goes on in organizations. It refers to abstractions such as values and norms that pervade the whole or part of a business, which may not be defined, discussed or even noticed. Nevertheless, culture can have a significant influence on people’s

behaviour. The following are some other definitions of organizational culture:

- A strong culture is a system of informal rules that spells out how people are to behave most of the time (Deal and Kennedy, 2000: 15).
- The culture of an organization refers to the unique configuration of norms, values, beliefs and ways of behaving that characterize the manner in which groups and individuals combine to get things done (Eldridge and Crombie, 1974: 89).
- Organizational culture offers a shared system of meanings that is the basis for communications and mutual understanding (Furnham and Gunter, 1993: 70–71).
- Culture is a pattern of basic assumptions – invented, discovered or developed by a given group as it learns to cope with the problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to these problems (Schein, 1990: 110).

### **How organizational culture develops**

The values and norms that are the basis of culture are formed in four ways. First, by the leaders in the organization, especially those who have shaped it in the past. Schein (1990) indicates that people identify with visionary leaders – how they behave and what they expect. They note what such leaders pay attention to and treat them as role models. Second, as Schein also points out, culture is formed around critical incidents – important events from which lessons are learnt about desirable or undesirable behaviour. Third, culture develops from the need to maintain effective working relationships among organization members that establish values and expectations. Finally, culture is influenced by the organization's environment, which may tend to be dynamic or unchanging.

### **Culture and change**

Culture evolves over time and responds to the impact of change as a result of shared experiences

following the change. Schein (1984) suggested that this is a learning process which takes place either through the trauma model, in which members of the organization learn to cope with a threat originating from change, for example by the erection of defence mechanisms, or by means of the positive reinforcement model, where things that seem to work become embedded and entrenched. Learning takes place as people adapt to and cope with external pressures, including those involving change, and as they develop successful approaches and mechanisms to handle new internal challenges, processes and technologies in their organization. Where culture has developed over long periods of time and has become firmly embedded it may be difficult to change quickly, if at all, unless a traumatic event occurs.

### **The diversity of culture**

The development process described above may result in a culture that characterizes the whole organization. But there may be different cultures within organizations. For example, the culture of an outward-looking marketing department may be substantially different from that of an internally focused manufacturing function. There may be some common organizational values or norms, but in some respects these will vary between different work environments.

### **The components of culture**

Organizational culture can be described in terms of values, norms, artefacts and management or leadership style.

#### **Values**

Values are beliefs in what is best or good for the organization and what should or ought to happen. The 'value set' of an organization may only be recognized at top level, or it may be shared throughout the business, in which case the business could be described as value-driven.

The stronger the values the more they will influence behaviour. This does not depend upon their having been articulated. Implicit values that are deeply embedded in the culture of an organization and are reinforced by the behaviour of management

can be influential, while espoused values that are mere rhetoric and are not reflected in managerial behaviour may have little or no effect. When values are acted on, they are called ‘values in use’. Examples are listed below:

- care and consideration for people;
- competence;
- competitiveness;
- customer service;
- innovation;
- performance;
- quality;
- teamwork.

Values may be expressed through norms and artefacts, as described below. They may also be expressed through the media of language (organizational jargon), rituals, stories and myths.

## Norms

Norms are the unwritten rules of behaviour, the ‘rules of the game’ that provide informal guidelines on how to behave. Norms tell people what they are supposed to be doing, saying, believing, even wearing. They are never expressed in writing – if they were, they would be policies or procedures. They are passed on by word of mouth or behaviour and can be enforced by the reactions of people if they are violated. They can exert very powerful pressure on behaviour because of these reactions – we control others by the way we react to them. Typical norms are:

- How managers treat the members of their teams (management style) and how the latter relate to their managers. The prevailing work ethic, eg ‘work hard, play hard’, ‘come in early, stay late’, ‘if you cannot finish your work during business hours you are obviously inefficient’, ‘look busy at all times’, ‘look relaxed at all times’.
- Status – how much importance is attached to it; the existence or lack of obvious status symbols.
- Ambition – naked ambition is expected and approved of, or a more subtle approach is the norm.
- Performance – exacting performance standards are general; the highest praise that

can be given in the organization is to be referred to as ‘very professional’.

- Power – recognized as a way of life; executed by political means, dependent on expertise and ability rather than position; concentrated at the top; shared at different levels in different parts of the organization.
- Politics – rife throughout the organization and treated as normal behaviour; not accepted as overt behaviour.
- Loyalty – expected, a cradle-to-grave approach to careers; discounted, the emphasis is on results and contribution in the short term.
- Anger – openly expressed; hidden, but expressed through other, possibly political, means.
- Approachability – managers are expected to be approachable and visible; everything happens behind closed doors.
- Formality – a cool, formal approach is the norm; forenames are/are not used at all levels; there are unwritten but clearly understood rules about dress.

## Artefacts

Artefacts are the visible and tangible aspects of an organization that people hear, see or feel and which contribute to their understanding of the organization’s culture. Artefacts can include such things as the working environment, the tone and language used in e-mails, letters or memoranda, the manner in which people address each other at meetings or over the telephone, the welcome (or lack of welcome) given to visitors and the way in which receptionists deal with outside calls. Artefacts can be very revealing.

## Management style

The approach managers use to deal with people – their management or leadership style – is a significant part of the culture of an organization. Management style can be described in terms of the following extremes:

- charismatic ↔ non-charismatic
- autocratic ↔ democratic
- controller ↔ enabler
- transactional ↔ transformational



Most managers adopt an approach somewhere between the extremes. Some will vary it according to the situation or their feelings at the time; others will stick to the same style whatever happens. Every manager has his or her own style but this will be influenced by the organizational culture, which may produce a prevailing management style that represents a behavioural norm for managers that is generally expected and adopted.

## Classifying organizational culture

There have been many attempts to classify or categorize organizational cultures as a basis for analysis and for taking action to support or change them. Most of these classifications are expressed in four dimensions; three of the best-known ones are summarized below. Note that following the lead of Harrison, there is much common ground between them.

### Source review

#### Organization ideologies

- *Power-oriented* – competitive, responsive to personality rather than expertise.
- *People-oriented* – consensual, management control rejected.
- *Task-oriented* – focus on competency, dynamic.
- *Role-oriented* – focus on legality, legitimacy and bureaucracy.

Harrison (1972)

### Source review

#### Culture typology

- The *power culture* is one with a central power source that exercises control. There are few rules or procedures and the atmosphere is competitive, power-oriented and political.
- The *role culture* in which work is controlled by procedures and rules and the role, or job

description, is more important than the person who fills it. Power is associated with positions not people.

- The *task culture* in which the aim is to bring together the right people and let them get on with it. Influence is based more on expert power than on position or personal power. The culture is adaptable and teamwork is important.
- The *person culture* in which the individual is the central point. The organization exists only to serve and assist the individuals in it.

Handy (1981)

### Source review

#### Classification of cultures

- *Power culture* in which leadership resides in a few and rests on their ability and tends to be entrepreneurial.
- *Role culture* in which power is balanced between the leader and the bureaucratic structure. The environment is likely to be stable and roles and rules are clearly defined.
- *Achievement culture* in which personal motivation and commitment are stressed and action, excitement and impact are valued.
- *Support culture* in which people contribute out of a sense of commitment and solidarity.

Schein (1984)

## Appropriate cultures

It is not possible to say that one culture is better than another, only that a culture is to a greater or lesser extent appropriate in the sense that it is relevant to the needs and circumstances of the organization and helps rather than hinders its performance. Embedded cultures can exert considerable influence on organizational behaviour so if there is an appropriate and effective culture it would therefore be desirable to take steps to support or reinforce it. If the culture is

inappropriate attempts should be made to determine what needs to be changed and to develop and implement plans for change. A culture will be more effective if it is consistent in its components and shared amongst organizational members, and if it makes the organization unique, thus differentiating it from other organizations.

### Pause for thought

Think of your own organization or one you know. Using your preferred system of categorization, to which one of the classifications in it do you think it belongs?

## Organizational climate

As defined by Harrison and Shirom (1999: 263), organizational climate refers to the perceptions of an organization's members of organizational features such as decision making, leadership and norms about work. Bowen and Ostroff (2004) observed that an important element in organizational climate is the group or bundle of people management practices as perceived by employees. Ivancevich *et al* (2008: 528) described organizational climate as: 'A set of properties of the work environment, perceived directly or indirectly by the employees, that is assumed to be a major force in influencing employee behaviour.'

The term 'organizational climate' is sometimes confused with 'organizational culture' and there has been much debate on what distinguishes one from the other. In Denison's (1996) analysis of this issue, he suggested that 'culture' refers to the deep structure of organizations, which is rooted in the values, beliefs and assumptions held by organizational members. In contrast, 'climate' refers to those aspects of the environment that are consciously perceived by organizational members. Rousseau (1988) stated that climate is a perception and is descriptive. Perceptions are sensations or realizations experienced by an individual. Descriptions are what a person reports of these sensations.

The debate about the meanings of these terms can become academic. It is easiest to regard organizational climate as how people perceive (see and feel about) the culture existing in their organization. French *et al*

(1985) distinguish between the actual situation (ie culture) and the perception of it (ie climate).

### Words of wisdom

The way line managers enact HR practices will be influenced by their leadership behaviour and that of senior management in establishing an appropriate organizational climate, and an important element in that climate will be the group or bundle of people management practices as perceived by employees.

Bowen and Ostroff (2004)

## Organizational processes

A number of social processes take place in organizations that affect how they function. These are: interaction and networking, communication, group behaviour, role behaviour, leadership, power, politics and conflict.

### Interaction and networking

Interactions between people criss-cross the organization, creating networks for getting things done and exchanging information that is not catered for in the formal structure. 'Networking' is an increasingly important process in flexible and delayed organizations where more fluid interactions across the structure are required between individuals and teams. Networking means that people canvass opinion and enlist support to promote their projects or ideas. In this way they may get more done than by going through formal channels. People also get things done in organizations by creating alliances – getting agreement on a course of action with other people and joining forces to put the proposed action into effect.

### Communications

The communications processes used in organizations have a marked effect on how it functions, especially if they take place through the network,

which can then turn into the 'grapevine'. E-mails encourage the instant flow of information (and sometimes produce information overload) but may inhibit face-to-face interactions, which are often the best ways of doing things.

## Group behaviour

Organizations consist of groups or teams of people working together. They may be set up formally as part of the structure or they may be informal gatherings. A group can be a permanent or a temporary feature in an organization. Interactions take place within and between groups and the degree to which these processes are formalized varies according to the organizational context.

Formal groups or teams are created by organizations to achieve a defined purpose. People are brought together with the necessary skills to carry out the tasks and a system exists for directing, coordinating and controlling the group's activities. Informal groups are set up by people in organizations who have some affinity for one another. It could be said that formal groups satisfy the needs of the organization while informal groups satisfy the needs of their members.

Groups develop an ideology that affects the attitudes and actions of their members and the degree of satisfaction they feel. If the group ideology is strong and individual members identify closely with the group, it will become increasingly cohesive. Group norms or implicit rules will be evolved that define what is acceptable behaviour and what is not. This is described as a 'reference group', which consists of the group of people with whom an individual identifies. The individual accepts the group's norms and, if in doubt about what to do or say, reference is made to these norms or to other group members before action is taken. Most people in organizations belong to a reference group and this can significantly affect the ways in which they behave.

Four stages of group development were identified by Tuckman (1965):

- 1 *Forming*, when there is anxiety, dependence on the leader and testing to find out the nature of the situation and the task, and what behaviour is acceptable.
- 2 *Storming*, where there is conflict, emotional resistance to the demands of the task,

resistance to control and even rebellion against the leader.

- 3 *Norming*, when group cohesion is developed, norms emerge, views are exchanged openly, mutual support and cooperation increase and the group acquires a sense of its identity.
- 4 *Performing*, when interpersonal problems are resolved, roles are flexible and functional, there are constructive attempts to complete tasks and energy is available for effective work.

The term 'group dynamics' was coined originally by Kurt Lewin (1947) to mean the improvement of group processes in organization development programmes through various forms of training, eg team building, interactive skills training, T-groups. The term is now often used to describe the ways in which groups are formed and group members interact.

## Role behaviour

When faced with any situation such as carrying out a job, people enact a role in order to manage that situation. The concept of a role indicates that in a sense, people at work are always acting a part; they are not simply reciting the lines but instead are interpreting them in relation to the context in which they work.

Role theory, as formulated by Katz and Kahn (1966) states that the roles people play at work exist in relation to other people – their role set. The members of the role set have expectations about the roles their fellow members should play, and if they live up to these expectations, they will have successfully performed the role. Performance in a role is a function of the situation individuals are in (the organizational context and the direction or influence exercised from above or by other people). Stress and inadequate performance result when roles are ambiguous (unclear), when they are incompatible with what individuals believe is expected of them and what other people, eg line managers, expect, and when conflict arises between the different roles an individual might have to carry out, eg at work and at home.

## Leadership

Organizations largely function by means of managers and supervisors who exercise leadership in order to get their teams into action and ensure that they

achieve the results expected of them. Goleman (2000) reported that a study by Hay McBer of 3,871 executives, selected from a database of more than 20,000 executives worldwide, established that leadership had a direct impact on organizational climate, and that climate in turn accounted for nearly one-third of the financial results of organizations. The conclusion from research conducted by Higgs (2006) was that leadership behaviour accounts for almost 50 per cent of the difference between change success and failure. Research by Northouse (2006) into 167 US firms in 13 industries established that over a 20-year period, leadership accounted for more variations in performance than any other variable. Leadership skills are described in Chapter 68.

### Power

Organizations exist to get things done; in the process of doing this, people or groups exercise power. Directly or indirectly, the use of power in influencing behaviour is a pervading feature of organizations, whether it is exerted by managers, specialists, informal groups or trade union officials. It is a way of achieving results, but it can be misused.

### Politics

Political behaviour is an inevitable feature of organizational life. The aim of organizational politicians is to get their own way by influencing people to accept their point of view without going through the usual channels or relying on their authority. Some individuals genuinely believe that the best way to get something done is by using political means, especially when they are frustrated by the normal decision processes. Others unashamedly pursue their own ends. Political behaviour can be harmful when it is underhand and devious, but it can sometimes help to enlist support and overcome obstacles to getting results. All managers need political skills, as described in Chapter 72, but, because of the nature of their role, such skills are particularly important for HR specialists.

### Conflict

Conflict is also inevitable in organizations because they function by means of adjustments and compromises

among competitive elements in their structure and membership. Conflict also arises when there is change, because it may be seen as a threat to be challenged or resisted, or when there is frustration. Conflict is not always deplorable; it can be a result of progress and change and it can be used constructively.

## Characteristics of people

The development of HR processes and the design of organizations are often predicated on the belief that everyone is the same and that they will behave rationally when faced with change or other demands. But the behaviour of people differs because of their characteristics and individual differences and it is not always rational.

The management of people would be much easier if everyone were the same, but they aren't. As classified by Mischel (1968), personal characteristics can vary as follows.

- *Competencies* – abilities and skills.
- *Constructs* – the conceptual frameworks which govern how people perceive their environment.
- *Expectations* – what people have learnt to expect about their own and others' behaviour.
- *Values* – what people believe is important.
- *Self-regulatory plans* – the goals people set themselves and the plans they make to achieve them.

These characteristics are affected by environmental or situational variables, which include the type of work individuals carry out; the culture, climate and management style in the organization; the social group within which they work; and the 'reference groups' individuals use for comparative purposes (eg comparing conditions of work or pay between one category of employee and another).

The personal characteristics that affect people's behaviour at work, as discussed below, are their ability, attributions, intelligence, personality, attitudes, emotions and emotional intelligence.

### Ability

Ability is the quality possessed by people that makes an action possible. Abilities have been analysed by

Burt (1954) and Vernon (1961). They classified them into two major groups: V:ed – verbal, numerical, memory and reasoning abilities; and K:m – spatial and mechanical abilities, as well as perceptual (memory) and motor skills relating to physical operations such as eye/hand coordination and mental dexterity.

They also suggested that overriding these abilities there is general mental ability (GMA), which accounts for most variations in performance. Following a meta-analysis of 85 years of research findings, Schmidt and Hunter (1998) established that GMA was the most valid predictor of future performance and learning for selecting people without previous experience.

Cognitive ability is the capacity of an individual to perform the various mental activities most closely associated with learning and problem solving.

## Attribution theory

Attribution is the process by which individuals explain the causes of behaviour and events. The way people make attributions affects their behaviour. Kelley's (1973) attribution theory details the process for making attributions not only to other people but to situational factors as well. According to his covariation model, an individual can make confident attributions about cause-effect relationships in situations depending on:

- the degree of distinctiveness – the event-effect is highly observable;
- consistency – the event-effect presents itself the same across time and modality (the attitude adopted to a situation); and
- consensus – there is agreement among individuals' views of the event-effect relationship.

## Intelligence

Intelligence has been variously defined as:

- the capacity to solve problems, apply principles, make inferences and perceive relationships (Argyle, 1989: 53);
- the capacity for abstract thinking and reasoning with a range of different contents and media (Toplis *et al*, 2004: 20);

- what is measured by intelligence tests (Wright and Taylor, 1970: 31).

The last, apparently tautological definition is not facetious. As an operational definition, it can be related to the specific aspects of reasoning, inference, cognition (ie knowing, conceiving) and perception (ie understanding, recognition), which intelligence and cognitive ability tests attempt to measure.

General intelligence (GI) consists of a number of mental abilities that enable a person to succeed at a wide variety of intellectual tasks that use the faculties of knowing and reasoning. It can be measured by an intelligence test and is sometimes expressed as an intelligence quotient (IQ), which is the ratio of an individual's mental age to the individual's actual age as measured by an intelligence test.

The concept of emotional intelligence (as described later) stresses that emotional maturity – in the sense of the ability to identify, assess and manage the emotions of one's self and others – is also important.

## Personality

Personality has been defined by Huczynski and Buchanan (2007: 138) as: 'The psychological qualities that influence an individual's characteristic behaviour patterns in a stable and distinctive manner.' Personality is organized into patterns that are, to some degree, observable and measurable and involves both common and unique characteristics – every person is different from every other person in some respects but similar to other people in other respects. Personality is a product of both nature (hereditary) and nurture (the pattern of life experience). Personality can be described in terms of traits or types.

## Traits

Traits are predispositions to behave in certain ways in a variety of different situations. The leading model of personality traits is the following 'big five' classification (Costa and McCrae, 1992; Digman, 1990):

- 1 *Openness* – inventive/curious or consistent/cautious.
- 2 *Conscientiousness* – efficient/organized or easy-going/careless.



- 3 *Extraversion* – outgoing/energetic or solitary/reserved.
- 4 *Agreeableness* – friendly/compassionate or cold/unkind.
- 5 *Neuroticism* – sensitive/nervous or secure/confident.

The assumption that people are consistent in the ways they express these traits is the basis for making predictions about their future behaviour. We all attribute traits to people in an attempt to understand why they behave in the way they do. But people do not necessarily express the same trait across different situations or even the same trait in the same situation. Different people may exhibit consistency in some traits and exhibit considerable variability in others.

## Types

Type theories of personality identify a number of types of personality that can be used to categorize people and may form the basis of a personality test. The types may be linked to descriptions of various traits. One of the most widely used type theories is that of Jung (1923). He identified four major preferences:

- relating to other people – extraversion or introversion;
- gathering information – sensing (dealing with facts that can be objectively verified) or intuitive (generating information through insight);
- using information – thinking (emphasizing logical analysis as the basis for decision making) or feeling (making decisions based on internal values and beliefs);
- making decisions – perceiving (collecting all the relevant information before making a decision) or judging (resolving the issue without waiting for a large quantity of data).

This is the basis of personality tests such as the Myers-Briggs Types Indicator.

Types should be distinguished from traits. As Huczynski and Buchanan (2007: 142) put it: ‘Type approaches fit people into categories possessing common behaviour patterns. A personality trait, on the other hand, is an enduring behaviour that occurs in a variety of settings. While individuals belong to types, traits belong to individuals.’

## Attitudes

An attitude can broadly be defined as a settled mode of thinking. Attitudes are evaluative. They are developed through experience but they are less stable than traits and can change as new experiences are gained or influences absorbed. Within organizations they are affected by cultural factors (values and norms); the behaviour of management (management style); policies such as those concerned with pay, recognition, promotion and the quality of working life; and the influence of the ‘reference group’ (the group with whom people identify). Sometimes there may be a discrepancy between attitudes and behaviour, ie someone may believe in one thing – such as being fair to people – but act differently. This is called ‘cognitive dissonance’.

## Emotions

Emotions are feelings that arouse people and therefore influence their behaviour such as anger, fear, sadness, joy, anticipation and acceptance. The mildest forms of emotions are called ‘moods’, which are low-intensity, long-lasting emotional states.

## Emotional intelligence

The notion of emotional intelligence was first defined by Salovey and Mayer (1990), who proposed that it involves the capacity to perceive emotion, integrate emotion in thought, understand emotion and manage emotions effectively. Goleman (1995) popularized the concept. He defined emotional intelligence as: ‘The capacity for recognizing our own feelings and those of others, for motivating ourselves, for managing emotions well in ourselves as well as others.’ He suggested that its four components are:

- 1 *Self-management* – the ability to control or redirect disruptive impulses and moods and regulate own behaviour coupled with a propensity to pursue goals with energy and persistence. The six competencies associated with this component are self-control, trustworthiness and integrity, initiative, adaptability – comfort with ambiguity, openness to change and strong desire to achieve.
- 2 *Self-awareness* – the ability to recognize and understand your moods, emotions and drives

as well as their effect on others. This is linked to three competencies: self-confidence, realistic self-assessment and emotional self-awareness.

- 3 *Social awareness* – the ability to understand the emotional make-up of other people, and skill in treating people according to their emotional reactions. This is linked to six competencies: empathy, expertise in building and retaining talent, organizational awareness, cross-cultural sensitivity, valuing diversity, and service to clients and customers.
- 4 *Social skills* – proficiency in managing relationships and building networks to get the desired result from others and reach personal goals, and the ability to find common ground and build rapport. The five competencies associated with this component are: leadership, effectiveness in leading change, conflict management, influence/communication, and expertise in building and leading teams.

According to Goleman, it is not enough to have a high IQ; emotional intelligence is also required. Since Goleman's contribution, three major models of emotional intelligence, as summarized by Clarke (2007), have dominated thinking in this area:

- 1 *Personality models* have become the most popular theory of emotional intelligence following Goleman. Here, emotional intelligence is viewed as comprising a range of emotional dispositions as well as competencies, from individual traits to a number of learnt capabilities. These are all contained within the components of emotional intelligence listed above.
- 2 *Mixed models* comprise aspects of personality as well as abilities to perceive emotional intelligence and manage emotions.
- 3 *The ability model* views emotional intelligence more narrowly as a set of four cognitive abilities that involve the capacity to identify, reason with, and utilize emotions effectively.

As Clarke comments, the first two models have come under criticism in terms of the ambiguity associated with the areas included and the measurement approaches employed. The ability model has received more positive commentary as possessing greater validity.

The notion that there is more to being effective as a manager or working with people than having a high IQ is persuasive. What matters is how that intelligence is used, especially when relating to people. The term 'emotional intelligence' has become a convenient and recognizable label for this requirement: someone who is poor at dealing with people is described as lacking in emotional intelligence.

But doubts have been expressed about the notion of emotional intelligence. Edwin Locke, a distinguished occupational psychologist and researcher, made the following observation:

### Words of wisdom

The concept of emotional intelligence has now become so broad and the components so variegated that no one concept could possibly encompass or integrate all of them, no matter what the concept was called; it is no longer even an intelligible concept. What is the common or integrating element in a concept that includes: introspection about emotions, emotional expression, non-verbal communication with others, empathy, self-regulation, planning, creative thinking and the direction of attention? There is none.

Locke (2005: 426)

Mayer *et al* (2008) described it as mere 'pop psychology'. Dulewicz and Higgs (1999) have produced a detailed analysis of how the elements attributed to emotional intelligence overlap with the typical behavioural competencies included in competency frameworks such as sensitivity, flexibility and adaptability.

### Pause for thought

What do you think the concept of emotional intelligence has to offer?



## Implications for HR specialists

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The main implications of organizational behaviour theory for HR specialists are summarized below.

### **How organizations function**

When involved in organization design bear in mind that, while the highly structured classical model with clearly defined roles and lines of control and communication may appear to be the ideal solution, in practice organizations function differently. It is necessary to take into account the process school and think of the organization as a portfolio of dynamic processes that overlay and often dominate the vertical, authority-based processes of the hierarchical structure. Similarly, organizational development activities should be based on an analysis and understanding of these dynamic processes.

### **Organizational culture**

While it may not be possible to define an ideal culture or to prescribe how it can be developed, it can at least be stated with confidence that embedded cultures exert considerable influence on organizational behaviour and therefore performance. If there is an appropriate and effective culture it is desirable to take steps to support or reinforce it. If the culture is inappropriate, attempts should be made to determine what needs to be changed and to develop and implement plans for change (approaches to culture management are described in Chapter 23). HR innovations need to take account of the culture in which they will operate; they are likely to fail if they are countercultural.

### **Organizational climate**

The perceptions of employees about the organization and their experiences in it, which form the organization climate, need to be assessed and understood so that action can be taken to deal with negative factors. Diagnostics (diagnostic tools), as described in Chapter 23, can be used for this purpose.

### **Organizational processes**

The social processes of interaction and networking, communication, group behaviour, leadership, power, politics and conflict need to be understood and considered when considering ways of improving organizational effectiveness (the ability of an organization to achieve its goals by making effective use of the resources available to it). Social and political factors can affect how HR decisions are made and how well they are implemented.

### **Individual characteristics**

To manage people effectively, it is necessary to appreciate the factors that affect how they behave at work and act accordingly. These characteristics are their ability, attributions, intelligence, personality, attitudes, emotions and emotional intelligence. It is also necessary when developing and implementing HR policies and practices to bear in mind the ways in which people are motivated, the factors that affect commitment and engagement, and decision-making, nudge and self-determination theories.

When designing jobs, preparing learning and development programmes, assessing and counselling staff, developing reward systems and dealing with grievances and disciplinary problems, it should be remembered that all people are different. What fulfils or motivates one person may not fulfil or motivate another. Abilities, aptitudes and intelligence differ widely and it is necessary to take particular care in fitting the right people in the right jobs and giving them the right training. Personalities, attitudes and emotions also differ. It is important to focus on how to manage diversity. This should take account of individual differences, which will include any issues arising from the employment of women, people from different ethnic groups, those with disabilities and older people.

### **Judgements on personality**

Personality should not be judged or measured simplistically in terms of stereotyped traits. People are complex, they change, and account has to be taken of this. The problem for HR specialists and managers in general is that, while they have to accept and understand these differences and take full account of them, they have ultimately to proceed on the

basis of fitting them to the requirements of the situation, which are essentially what the organization needs to achieve. There is a limit to the extent to which an organization that relies on collective effort to achieve its goals can adjust itself to the specific needs of individuals. But the organization has to appreciate that individuals have rights as well as duties and understand that the pressures it places on people can result in stress and can therefore be counterproductive.

### Pause for thought

Can you think of any more implications for HR specialists provided by organizational behaviour theory?

## Key learning points

People perform their roles within complex systems called organizations. The study of organizational behaviour focuses on how this happens.

### Organizational behaviour defined

Organizational behaviour was defined by Huczynski and Buchanan (2007) as the term used to describe 'the study of the structure, functioning, and performance of organizations and the behaviour of groups and individuals within them.'

### The sources and applications of organizational behaviour theory

Organizational behaviour theory is based on the main behavioural science disciplines. These are defined as the fields of enquiry dedicated to the study of human behaviour through sophisticated and rigorous methods.

### How organizations function

An organization is an entity that exists to achieve a purpose through the collective efforts of the people who work in or for it.

Organizing is the process of making arrangements in the form of defined or understood responsibilities and relationships to enable those people to work cooperatively together.

Organizations can be described as systems that, as affected by their environment, have a structure that has both formal and informal elements.

Organization structures are frameworks for getting things done.

Traditional formal structures were based on laid-down hierarchies (lines of command) represented in organization charts, and use was made of closely defined job descriptions. But to varying extents, organizations operate informally as well as formally by means of a network of roles and relationships that cut across formal organizational boundaries and lines of command.

### Organizational culture

The culture of an organization has been described by Deal and Kennedy (2000: 4) as 'the way we do things around here'. Organizational or corporate culture is the pattern of values, norms, beliefs, attitudes and assumptions that may not have been articulated but which shape the ways in which people in organizations behave and the ways in which things get done.

### How organizational culture develops

The values and norms that are the basis of culture are formed in four ways:

- By the leaders in the organization, especially those who have shaped it in the past.
- Around critical incidents – important events from which lessons are learnt about desirable or undesirable behaviour.
- From the need to maintain effective working relationships among organization members; this establishes values and expectations.

- Influenced by the organization's environment; the external environment may be relatively dynamic or unchanging.

### The components of culture

Organizational culture can be described in terms of values, norms, artefacts and management style.

### Classifying organizational culture (Harrison, 1972)

- Power-oriented – competitive, responsive to personality rather than expertise.
- People-oriented – consensual, management control rejected.
- Task-oriented – focus on competency, dynamic.
- Role-oriented – focus on legality, legitimacy and bureaucracy.

### Appropriate cultures

It is not possible to say that one culture is better than another, only that a culture is to a greater or lesser extent appropriate in the sense that it is relevant to the needs and circumstances of the organization and helps rather than hinders its performance.

### Organizational climate

As defined by Harrison and Shirom (1999), organizational climate refers to 'members' perceptions of organizational features such as decision making, leadership and norms about work'.

### Organizational processes

A number of social processes take place in organizations that affect how they function. These are: interaction and networking, communication, group behaviour, role behaviour, leadership, power, politics and conflict.

### Personal characteristics

The personal characteristics that affect people's behaviour at work are their ability, intelligence, personality, attitudes, emotions and emotional intelligence.

### Emotional intelligence

Emotional intelligence is a combination of skills and abilities such as self-awareness, self-control, empathy and sensitivity to the feelings of others. Someone with high levels of emotional intelligence should be able to relate to people effectively.

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# 20 Organization design

## Introduction

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The structure of an organization is a framework for getting things done. Its design requires decisions on how the work carried out in the organization should be divided between individuals and groups of people and how the relationships between them should function. The aim is to ensure that people work effectively together to achieve the overall purpose of the organization.

The basic question of ‘Who does what?’ is answered by line managers but HR specialists are also involved because they are there to help the business make the best use of its people. HR professionals contribute to organization design or redesign activities by using their understanding of the factors affecting organizational behaviour and their knowledge of the business as a whole.

The design or redesign of organizations happens all the time in response to changes in work arrangement and systems and the launch of new activities. But organization design is also affected by macro trends including those concerned with technology, the availability of people and the effect of political changes such as Brexit.

There is a considerable body of organization design theory as summarized in the first section of this chapter. This makes it quite clear that organization design is not, as is often assumed, an approach based on accepted principles that produces an inevitable ‘best’ result, although as listed in the second section, there are a number of guidelines that can be taken into account even if they are not followed slavishly. But as explained in the third section of the chapter there is always organizational choice. Ultimately, the ways in which an organization functions and therefore its structure (or sometimes

its lack of structure) are contingent on its context. This consists of its business model, the people who work in the organization, the interests of the other stakeholders and the systems and techniques it uses to achieve its purpose. However, it is useful to adopt a logical and systematic approach to organizational design in the light of an awareness of the conditions required for success as considered in the last two sections of the chapter.

### Words of wisdom

The multiplicity of variables impinging on any one organizational situation is so great that data on all of them sufficient to predict the precise outcome of that multiple relationship would never in practice be forthcoming.

Charles Handy (1985: 13)

## Organization design theory

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Organization design theories propose that those concerned with organization design should recognize that:

- Organizations are open systems consisting of a number of interrelated parts and transferring inputs into outputs (systems theory: Miller and Rice, 1967; Bertalanffy, 1968).



- There are usually a number of ways to achieve a goal so there are therefore usually a number of ways in which to structure an organization (the principle of equifinality: Bertalanffy, 1968).
- An organization's structure will be dependent on the circumstances in which it exists such as its purpose, technology, size and environment – this means that ideal structures do not exist and it is most important to achieve 'best fit' (contingency theory: Lawrence and Lorsch, 1969).
- Organizations consist of a portfolio of dynamic processes that overlay the authority-based processes of the hierarchical structure – the emphasis is on 'horizontal tasks', collaboration and networking across units rather than on 'vertical tasks' within functional units (process theory: Ghoshal and Bartlett, 1995).

## Organization design guidelines

Organization design is always an empirical and evolutionary process for which absolute principles cannot be laid down. But there are a number of broad guidelines that should be taken into account even if they are not followed slavishly.

### *Allocation of work*

Related activities should be grouped logically together into functions and departments. Unnecessary overlap and duplication of work, either horizontally or vertically within a hierarchy, should be avoided.

A matrix organization may be developed in which multidisciplinary project teams are created specially to accomplish a specified task but the members of those teams are responsible on a continuing basis to a functional leader who allocates them to projects, assesses their performance, provides rewards and deals with training and career development needs.

Close attention should be given to the processes within the business. These are the interconnected sequences of activities that convert inputs into outputs. Thus, 'order fulfilment' is a process that starts with

an order as its input and results in an 'output': the delivery of the ordered goods. The organization design should ensure that the flow of such processes can proceed smoothly, efficiently and effectively.

The work that needs to be done and accountabilities for results should be defined and agreed with teams and individual jobholders.

Matters requiring a decision should be dealt with as near to the point of action as possible by individuals or self-managing teams. Managers should not try to do too much themselves, nor should they supervise too closely.

### *Levels in the structure*

Too many levels of management and supervision inhibit communication and teamwork and create extra work (and unnecessary jobs). The aim should be to reduce the number of levels to a minimum. However, the elimination of middle managers and wider spans of control mean that more attention has to be paid to improving teamwork, delegation and methods of integrating activities.

### *Span of control*

There are limits to the number of people anyone can manage or supervise well, but these vary considerably between different jobs. Most people can work with a far greater span of control than they imagine, as long as they are prepared to delegate more effectively, to avoid becoming involved in too much detail, and to develop good teamwork among the individuals reporting to them. In fact, wide spans of control are beneficial in that they can enhance delegation and better teamwork and free the higher-level manager to spend more time on policy making and planning.

Limited spans of control encourage managers to interfere too much with the work going on beneath them and therefore constrain the scope that should be given to their subordinates to grow with their jobs.

### *One person, one boss*

Generally speaking, individuals should be accountable only to one boss for the results they achieve, to avoid confusion on operational matters. But in a project-based or matrix organization, individuals



might be responsible to their project leader for contributing to the outcome of the project while also being responsible to their departmental manager or the head of their discipline for the continuing requirements of their role and for achieving agreed standards of overall performance.

Individuals in functional roles such as finance or HR may be directly responsible to a line manager but may also have a 'dotted line' relationship of responsibility to the head of their function on policy matters.

## Decentralization

Authority to make decisions should be delegated as close to the action as possible.

## Optimize the structure

Develop an ideal organization by all means, but also remember that it may have to be modified to fit in the particular skills and abilities of key individuals.

## Relevance to purpose and context

The organization has to be developed to meet the needs of its situation. In today's conditions of turbulence and change, this inevitably means a tendency towards more decentralized and flexible structures, with greater responsibility given to individuals and an extension of the use of task forces and project teams to deal with opportunities or threats. This implies an informal, non-bureaucratic, organic approach to organization design – the form of the organization will follow its function, not the other way around.

The organization may be largely based on multi-disciplinary project teams, as in a matrix organization, or greater emphasis will be placed on ensuring that flows of work involved in the key business processes are properly catered for rather than the creation of a traditional formal and hierarchical structure.

## Organizational choice

There is never one best way of organizing anything. There is always a choice. It is necessary to bear in mind that structural requirements in organizations

or organizational units will vary widely according to what they are there to do and the activities they have to carry out. That is why there are no absolute principles. It all depends. Burns and Stalker (1961) established in their study of electronic companies in Scotland that in stable conditions a highly structured or 'mechanistic' organization will emerge that has specialized functions, clearly defined jobs, strict administrative routines and a hierarchical system of exercising control. However, when the environment is volatile, a rigid system of ranks and routines will inhibit the organization's speed and sensitivity of response. In these circumstances the structure is, or should be, 'organic' in the sense that it is a function of the situation in which the enterprise finds itself rather than conforming to any predetermined and rigid view of how it should operate.

Child (1972) explained that in making such choices the leadership group (the dominant coalition) had to be persuaded to influence the organization structure through an essentially political process. He called this process 'strategic choice'. Choice analysis regards debate and negotiation in the social networks existing in organizations as integral to decision making on organizational structures.

### Pause for thought

Are design issues always under the control of management? If not, what are the implications?

As noted by Parker *et al* (2001: 418): 'Organizations... differ from the rather static and inflexible enterprises of earlier times. Greater flexibility is required to enable the rapid delivery of low-cost, high-quality and customized products, and to provide increasingly powerful and demanding customers with seamless service.' They also noted that the use of teamworking and other flexible forms of working continues to grow, distinctions between departments are disappearing as organizations become more integrated, and IT has changed and is changing the way in which work is conducted. These considerations may indicate that a hierarchical

**TABLE 20.1** Mechanistic and organic design

	Mechanistic design	Organic design
Structure	Formal Hierarchical (command and control) Distinct functional units	Informal Flat, lean and flexible – horizontal processes Lattice structure
Work	Tightly defined jobs Minimal scope in jobs for decision making Closely controlled work groups	Flexible roles Enriched roles with more autonomy Self-managed teams

and rigid structure is inappropriate and a more flexible approach is required. As noted by Cummings and Worley (2005: 516), this means that the traditional ‘mechanistic’ approach to organization design may be replaced by an ‘organic’ approach as shown in Table 20.1.

In accordance with systems theory and the principle of equifinality (the premise that multiple organizational forms are equally effective), Huczynski and Buchanan made the following suggestion:

### Words of wisdom

It is not necessary to specify in detail the organization structure and the duties of each member. If an organization can develop its own method of operating and change that as circumstances require, then it will be necessary only to detail the basic and most significant aspects. This approach to organization design is called ‘minimum critical specification’.

Huczynski and Buchanan (2007: 89)

## The approach to organization design

In exercising organizational choice, an organizational review, as described below, will help in the

evaluation of the alternatives, but the law of the situation, as described originally by Mary Parker Follett (1924), should prevail. This states that the work that people are required to do depends on the objective requirements of the situation. The final choice will depend upon the context and circumstances of the organization – as Lupton (1975) pointed out, it is important to achieve best fit.

Organizations may evolve organically without any conscious attempt to design them. But if a deliberate design programme is planned this should be based on the evidence that can be produced by an organization review which may cover the whole organization or part of it (a strategic business unit, a function or a department). A review of the whole organization should be conducted in the following stages:

- 1 *Activity analysis* to establish what work is done and what needs to be done. Two questions need to be answered: (i) Are all the activities required properly catered for? (ii) Are any unnecessary activities being carried out?
- 2 *Structural analysis* to determine how activities are grouped together; the number of levels in the hierarchy; the extent to which authority is decentralized to divisions and strategic business units (SBUs); where functions such as finance, HR, IT and research and development are placed in the structure (eg as central functions or integrated into divisions or SBUs); the relationships that exist between different units and functions (with particular attention being given to the way in which they communicate and cooperate with one another). Attention would be paid to such issues as:

- the logic of the way in which activities are grouped (this may be in accordance with function, product, market or location) and decentralized;
  - the span of control of managers (the number of separate functions or people they are directly responsible for);
  - any overlap between functions or gaps leading to the neglect of certain activities or duplication;
  - the existence of unnecessary departments, units, functions or layers of management;
  - the clarity with which individual responsibilities and accountabilities are defined.
- 3 *Diagnosis* to identify (on the basis of the activities and structural analyses) the reasons for any structural or system problems facing the organization or function.
  - 4 The *choice* in the light of the analyses and diagnosis of how the business or part of it should be designed or revised.
  - 5 A *plan* to implement any revisions to the structure, possibly in phases.

A review of part of an organization would take place in broadly similar stages.

### Pause for thought

Can you think of any recent developments in technology, society and the economy that have had an impact on the ways in which organizations function and are designed?

## Successful organization design

Organizations are not static things. Changes are constantly taking place in the business itself, in the environment in which the business operates, and in the people who work in the business. There is no such thing as an ideal organization. The most that can be done is to optimize the processes involved,

remembering that whatever structure evolves it will be contingent on the circumstances. An important point to bear in mind is that organizations consist of people working more or less cooperatively together. Inevitably, and especially at managerial levels, the organization may have to be adjusted to fit the particular strengths and attributes of the people available. The result may not conform to the ideal, but it is more likely to work than a structure that ignores the human element. It may be desirable to have an ideal structure in mind, but it is also desirable to modify it to meet particular circumstances, as long as there is awareness of any potential problems that may arise.

### Words of wisdom

A great many problems in organizational design stem from the assumption that organizations are all alike; mere collections of component parts to which elements of structure can be added and deleted at will, a sort of organizational bazaar.

Mintzberg (1991: 332)

The worst sin that organization designers can commit is that of imposing their own ideology on the organization. Their job is to be eclectic in their knowledge, sensitive in their analysis of the situation, and deliberate in their approach to the evaluation of alternatives.

### Pause for thought

One of the pioneers of management theory and practice in the UK, Lyndall Urwick, was adamant that organization structures should never be adjusted to fit round the particular characteristics of people. Should this advice be accepted or ignored?

Research conducted by Whittington and Molloy (2005) indicated that to achieve success in organization design it is necessary to:

- obtain top management support, especially personal commitment and political support;
- avoid piecemeal, uncoordinated change initiatives by making a strategic business case that anticipates implications across the entire organization;
- achieve substantive, rather than tokenistic, employee involvement in the change process, moving beyond communication to active engagement;
- invest in communications with external stakeholders, including customers, suppliers and financial stakeholders;
- involve HR professionals closely, right from the start – involving HR has been proved to positively impact on a range of performance outcomes;
- maintain effective project management disciplines;
- build skilled change management teams – with the right mix of experience and abilities – that can work together.

### Words of wisdom

Organizational decisions depend on information, estimates and expectations that ordinarily differ appreciably from reality.

Cyert and March (1963)

## Key learning points

### Organization design theories

The main organization design theories are systems theory, the principle of equifinality, contingency theory and process theory.

### Organization design guidelines

There are a number of organization design guidelines that should be taken into account, although they should not be followed slavishly.

### Aims of organization design

The overall aim of organization design is to optimize the arrangements for conducting the affairs of the business or function and thus achieve the 'best fit' between the structure and what the business or function is there to do.

### Organizational choice

There is never one best way of organizing anything. There is always a choice.

### Organization analysis

The starting point for an organization review is an analysis of the existing circumstances, structure and processes of the organization and an assessment of the strategic issues that might affect it in the future.

### Organization diagnosis

The aim of the diagnosis is to establish, on the basis of the analysis, the reasons for any structural problems facing the organization or function.

### Successful organization design

Organizations are not static things. Changes are constantly taking place in the business itself, in the environment in which the business operates, and in the people who work in the business. There is no such thing as an 'ideal' organization. The most that can be done is to optimize the processes involved, remembering that whatever structure evolves it will be contingent on the circumstances of the organization.

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# 21

## Work design

### Introduction

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Work design is concerned with developing the systems of work carried out in the organization – the processes, practices and technology used to get things done by people. Work design is closely associated with job design in that the latter is conducted within the context of the system of work.

This chapter starts with two background sections – a review of what is happening in the world of work and a short history of how the approach to work design has developed. The next section deals with the approach to work design. The final two sections describe the fundamental work design process of smart working and the more recent associated concept of agile working.

### What is happening to work?

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The nature of work is changing. Organizations are functioning more flexibly. They tend to specialize more and are organized organically, ie they are relatively informal with the emphasis on lateral processes and networking – a ‘lattice structure’ – which is often flat, ie non-hierarchical without many layers of management. There has been a shift away from large-scale industrial production, with a dramatic decline in manufacturing jobs and a rise in service work. There has been a significant increase in the number of employers that an individual employee expects to work for during his or her career.

The demographics of the workforce have changed in the direction of an increased proportion of women, greater ethnic diversity, more educated employees and an ageing workforce. There has been a growth in the number of employees engaged in

‘knowledge work’ – for example, professional services and new product and service development. More flexible working is taking place, with an increasing proportion of part-timers. A persistent ‘bad-jobs’ trap exists in the UK with too many workers in low-skill, low-wage jobs being unable to progress out of these jobs. And the gig economy is thriving.

#### Pause for thought

What do you think the impact of all these changes will be on the employee experience of work?

### Work design – a short history

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Work design began with the concept of the division of labour originated by Adam Smith (1776). Much later came ‘Taylorism’, the scientific management movement pioneered by Taylor (1911), which was based on the belief that the most efficient way to do tasks was to move the responsibility for how to do the work from the individual employee to engineers or managers. The next step was ‘Fordism’, the moving assembly line introduced by Henry Ford in 1914. Thereafter, the practice of work simplification became embedded in organizations and to a large extent still exists.

The first move away from this situation was provided by the concept of job enrichment popularized

by Herzberg (1968), who referred to it as ‘vertical job loading’. This was reinforced by job design theory (Hackman and Oldham, 1974) as discussed in Chapter 22.

More recently, the concept of ‘smart working’ has emerged. This was followed by the concept of ‘agile working’. Essentially, these mean developing and managing a flexible and quickly responsive work environment in order to release employees’ energy and drive business performance. More recently, there have been major developments in automation and the use of artificial intelligence.

However, before describing these developments it is first necessary to examine the overall approaches to work system design.

## The approach to work system design

Work system design is concerned with how the various processes required to make a product or provide a service should operate together. It deals with the set of related activities that combine to give a result that customers want. The structure of the system describes the relations between different operations.

Importantly, work system design must take account of what needs to be done to maximize the contribution and meet the needs of the people who will be working in the system. This is the focus of the concepts of smart and agile working.

A work system may be centred on activities such as manufacturing, chemical processing, information processing, supply, distribution, transport, the provision of public services or customer service. There is usually a choice between different processes within the work system which will include automation. As the design of the work system affects costs, quality and productivity it is important to provide the best match between the product or service and the process used to make or deliver it. Work system design is affected by the extent to which the organization is process-centred and it will involve the technique of process planning as described on the next page.

## Process-centred organizations

Process-centred organizations avoid focusing too closely on the design of a rigid work system but instead concentrate on the stream of products or services and the processes required to ensure that work flows smoothly to the ultimate satisfaction of the customer or client. They have the following features:

- The focus is on horizontal processes that cut across organizational boundaries.
- The overriding objective will be to maintain a smooth flow of work between functions and to achieve synergy by pooling resources from different functions in task forces or project teams.
- The organization will not be based on the old hierarchical ‘command and control’ structure, ie one that consists of a functional structure with a number of different disciplines. Instead it will be a ‘lattice’, or ‘matrix’ organization. A lattice organization is one with a non-hierarchical, flat structure where the emphasis is on horizontal processes, the elimination of boundaries between functions and teamwork; a matrix organization is one that consists of a functional structure with a number of different disciplines and a project structure consisting of project teams drawn from the disciplines.
- There may still be designated functions for, say, manufacturing, sales and distribution, but the emphasis will be on how these areas work together on multifunctional projects to deal with demands such as product/market development.
- Belief in and reliance on teamwork.
- Expansion of traditional jobs and increased emphasis on flexible roles, with employees making decisions and dealing with all types of customer issues.
- Access to all types of information and knowledge throughout the organization.
- Quality and continuous improvement will be regarded as a common responsibility shared between managers and staff from each function.



## Process planning

Work system design covers the planning of processes such as flexible manufacturing systems (computer numerical control machines controlled by a central computer, allowing fast and easy changes between products) and supply chain management (the control of products from the original suppliers of materials through to the final customers). It may involve facility layout – the physical arrangement of equipment, offices, rooms, work stations (including ‘hot desks’ – individual desks shared between several people) and other resources. It will also consider the use of automation and artificial intelligence.

Process planning may determine how manufacturing or the provision of a service should be divided into a series of stages such as machines in a production line, each of which uses resources and adds value.

## Requirements to be met in work system design

When designing a work system it is necessary to see that it will:

- fit work requirements for efficiency and flexibility;
- ensure the smooth flow of processes or activities, or of materials from supplier to customer;
- facilitate the effective use of resources and the control of waste;
- as far as possible enable employees to gain fulfillment from their work by providing scope for variety, challenge and autonomy;
- encourage cooperative effort through teamworking;
- provide a good work environment in terms of working conditions;
- take account of the need to provide a healthy and safe system of work (‘build health and safety into the system’) bearing in mind the need to minimize stress and pay attention to ergonomic considerations in the design of equipment and work stations to eliminate or at least significantly reduce the risk of such conditions as repetitive strain injury;

- take account of environmental considerations;
- operate generally in accordance with the principles of ‘smart working’.

## Smart working

As defined by the CIPD (2008: 4), smart working is: ‘An approach to organizing work that aims to drive greater efficiency and effectiveness in achieving job outcomes through a combination of flexibility, autonomy and collaboration, in parallel with optimizing tools and working environments for employees.’ The CIPD (2014a) reported that their survey revealed that smart working was named as one of the top tactics to improve productivity by 56 per cent of organizations in the UK, including 60 per cent of organizations in the public sector.

The characteristics of smart working as established by the CIPD research were:

- flexibility in work locations and hours;
- self-management – a high degree of autonomy and a philosophy of empowerment;
- the use of virtual teams (work groups that mainly uses electronic means for members to interact with one another);
- focus on outcome-based indicators of performance;
- high-performance working;
- use of more advanced communications technology;
- hot-desking and working from home;
- ways of working that are underpinned by or drive high-trust working relationships;
- alignment of smart working with business objectives.

These significant characteristics of flexible working, high-performance working and lean manufacturing are described below.

## Flexible working

Flexible working is a pattern of working practice or working hours that deviates from the standard or normal arrangement. The aim is to provide for

greater operational flexibility, improve the use of employees' skills and capacities, increase productivity and reduce employment costs. Flexible working has become increasingly important as a means of enhancing operational effectiveness. It is examined in detail in Chapter 32.

### High-performance working

High-performance working was defined by Combs *et al* (2006) as the sum of the processes, practices and policies put in place by employers to enable employees to perform to their full potential. They referred to employee participation and flexible working arrangements as examples of such systems that have a direct impact on ways of working and therefore flow through to job design.

Sung and Ashton (2005) defined high-performance work practices as a set or 'bundle' of 35 complementary work practices covering three broad areas:

- 1 High employee involvement work practices – eg self-directed teams, quality circles and sharing/access to company information.
- 2 Human resource practices – eg sophisticated recruitment processes, performance appraisals, mentoring and work redesign.
- 3 Reward and commitment practices – eg various financial rewards, family-friendly policies, job rotation and flexible hours.

High-performance work design requires management to define what it needs in the form of effective methods of production and the results expected from its introduction. It involves introducing a high-performance work system (see Chapter 6) and multitasking – job demarcation lines are eliminated as far as possible and encouragement and training are provided for employees to acquire new skills.

Self-managed teams are set up with full responsibility for planning, controlling and monitoring the work.

### Lean manufacturing

Lean manufacturing or lean production, often known simply as 'Lean', is a process improvement methodology developed by Toyota in Japan. Lean focuses on reducing waste and ensuring the flow of production in order to deliver value to customers. It concentrates initially on the design of the process so that waste can be minimized during manufacture. It then examines operations in order to identify opportunities to improve the flow of production, remove wasteful practices and engage in continuous improvement or Kaizen (an important feature of Lean). Various tools are available such as 'FiveS', which is a workplace methodology that uses a list of five words starting with the letter 'S' (sorting, straightening, systematic cleaning, standardizing and sustaining). Reference to these enables a dialogue to take place with employees on how work should be done and continuous improvement achieved.

But as noted by the CIPD (2008: 11), the success of Lean depends not so much on the tools but on its approach to work. Lean is implemented by communities of people who carry out and supervise the work and may include stakeholders such as customers. Lean team members are encouraged to think flexibly and be adaptable to change. They have a sense of ownership of what they do and achieve.

#### Pause for thought

What part can HR play in introducing and managing smart working?

## CASE STUDIES

### Work organization at W L Gore

W L Gore, which is best known for its GORE-TEX® fabrics, has a non-hierarchical, flat organization structure (a 'lattice' structure). There are no traditional organization

charts, no ranks or job titles and no chains of command nor predetermined channels of communication. What is important when recruiting new people is that they have

the right fit with Gore's culture. There are no rigid job specifications. Instead, associates make a commitment to contribute individually and collectively to work areas or projects according to their skills. Individuals are encouraged to take an interest in a wide variety of job areas or projects. Provided the core responsibilities within their role are carried out, associates can then stretch and build on their role to suit their interests, aspirations and the business needs. Gore's 'lattice'

structure gives associates the opportunity to use their own judgement, take ownership of work areas and access the resources they need for projects to be successful. Gore's core values and ways of working are built on the principles of 'smart working'. Its unique culture, which fosters creativity, self-motivation, participation and equality, has proved to be a key contributor to associate satisfaction and retention.

## Smarter working in the UK Civil Service

The smarter working programme in the UK Civil Service was initiated under the heading of 'The Way We Work' (TW3 for short). It was designed to help realize the Civil Service Reform Plan's aim of 'Creating a decent working environment for all staff, with modern workplaces enabling flexible working, substantially improving IT tools and streamlining security requirements to be less burdensome to staff.' It was emphasized that for managers: 'This means moving away from managing by presence to managing by outcome and using different ways of keeping in contact with the team, assessing workloads and monitoring performance.' For the team, it was stated that: 'This means greater sharing of schedules with colleagues and managers, filing information so that it can be accessed by others and updating each other on work in progress.'

The top tips for smart working were given as:

- let others know where and when you are working;
- make sure the reporting structure is clear;
- share calendars and schedules;
- use electronic document management rigorously to make sure work is easily accessible to everyone;
- be flexible about flexible working so no one is disadvantaged by the choices of others;
- develop an etiquette for online communications and virtual meetings;
- signpost availability for phone contact or online discussion;
- be fair and considerate about using space in the office;
- support each other to succeed together.

**Source** UK Civil Service (2016)

## Agile working

The concept of agile working has come to the fore fairly recently. It is closely related to that of smart working but with a greater emphasis on the need to respond quickly to the new demands made on organizations in today's turbulent conditions. It was defined by the CIPD as follows:

### Source review

Agile working is the ability to stay open to new directions and be continually proactive, helping to assess the limits or indeed risks of existing approaches and ensuring that leaders and followers have an agile and change-ready mindset to enable them and ultimately the organization to keep moving, changing, adapting.

CIPD (2014b: 5)

The characteristics of the ‘agile’ business as noted by the CIPD include a high-performance culture, flexibility of management practices and resources, and organizational structures that support collaboration, rapid decision making and execution. The CIPD also noted that ‘agile manufacturing’ has developed as a production technology that enhances ‘lean’ manufacturing by a greater emphasis on adaptability of change, for example, through its

potential for fast customization of products, as opposed to mass manufacturing and optimizations in Lean. Agile does not exist in isolation and uses many principles of Lean (such as continuous improvement), but applies those to the process and the way of working as a whole, rather than to the product. Agile teams rely on self-organization, iterations, customer centricity, knowledge sharing, collaboration, and mutual trust.

## CASE STUDY

### The work agility programme at Deloitte

The aim of this programme at Deloitte, the business advisory firm, is to increase the agility around how its people organize their working lives. It includes a range of options around when and where its people work, and includes ‘Time Out’ – the right to request a block of four weeks’ unsalaried leave each year, without reason or justification.

Deloitte recognized the need to create a culture where output matters more than ‘presenteeism’, and where its

people feel trusted to work in a way that suits both them and the business.

As stated by the Head of Client Service HR at Deloitte, the programme ‘requires a shift in mindset from the traditional 9 to 5 with an hour for lunch, which is rarely a reality, to much more nimble thinking that recognizes nothing is static... It’s about finding a fair and flexible balance of what works for the firm and the team as well as the individual.’

### Pause for thought

What do you think the concept of agile work adds to that of smart work?

## Automation

Automation has been with us for some time but with the development of artificial intelligence techniques it is becoming increasingly important. It is defined as the performance of tasks or activities by machines, including robots and computers, rather than humans. This means not only that physical tasks can be carried out better and more cheaply than humans, but also that tasks can be performed

involving cognitive activity, especially by means of artificial intelligence. These tasks can include information acquisition, information analysis, decision and action selection and implementation.

According to McKinsey (2019), with today’s technology, 45 per cent of activities people are paid to do could be automated, and 60 per cent of jobs could have 30 per cent or more of their activities automated.

A survey by the CIPD (2019) in association with PA Consultants established that the most commonly cited reasons for introducing automation were:

- to improve the quality of goods and services (38 per cent);
- to deliver goods or services more cheaply (33 per cent) or to reduce overall costs (32 per cent);
- to keep up with competitors (32 per cent) or the wider industry (32 per cent).

## The role of HR in work design

HR professionals should be able to make an important contribution to work design based on their

understanding of the ways in which people can best be used in work systems to their own benefit as well as that of the organization. But as the CIPD observed, this doesn't always happen.

### Source review

Of the departments we listed in our survey, HR is the least likely to be involved in investment decisions on AI and automation (being involved in 55 per cent of cases). HR is especially unlikely to be involved when the technology is being used for cognitive tasks (50 per cent), which is interesting given that these changes may have greater implications for skill sets required in organizations. There is a strong argument to be made that HR should be involved in decisions that affect roles

and therefore should be an instrumental part of decision making on applications of AI and automation. For this reason, HR should look to develop the skills and abilities to advise on where AI or automation could provide skills augmentation. Their role should ensure that the implementation of these technologies enables the design of new organizational structures that deliver a more satisfying employee experience.

CIPD (2019: 13)

### Key learning points

#### Work design

Work design is the creation of systems of work and a working environment that enhance organizational effectiveness and productivity, ensure that the organization becomes 'a great place in which to work' and are conducive to the health, safety and wellbeing of employees.

#### Work system design

Work system design is concerned with how the processes required to make a product or provide a service should operate. It deals with the set of related activities that combine to give a result that customers want. The structure of the system describes the relations between different operations.

#### Smart working

The CIPD (2008: 4) defined smart working as: 'An approach to organizing work that aims to drive greater efficiency and effectiveness in achieving job outcomes

through a combination of flexibility, autonomy and collaboration, in parallel with optimizing tools and working environments for employees.'

#### Flexible working

Flexible working is a pattern of working practice or working hours that deviates from the standard or normal arrangement.

#### High-performance working

High-performance working was defined by Combs *et al* (2006) as the sum of the processes, practices and policies put in place by employers to enable employees to perform to their full potential.

#### Lean manufacturing

A process improvement methodology developed by Toyota. 'Lean' focuses on minimizing waste and ensuring the flow of production in order to deliver value to customers.

## Agile working

The characteristics of the 'agile' business as noted by the CIPD include a high-performance culture, flexibility of management practices and resources, and organizational structures that support collaboration, rapid decision making and execution.

## Automation

Automation has been with us for some time but with the development of artificial intelligence techniques it is becoming increasingly important. It is defined as the performance of tasks or activities by machines, including robots and computers, rather than humans.

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# 22

## Job design

### Introduction

#### Words of wisdom

If you want someone to do a good job, give them a good job to do.

Frederick Herzberg (quoted by Dowling, 1971)

Herzberg's aphorism is well known. But what is 'a good job'? The purpose of this chapter is to answer this question by examining the process of job design as an important means of creating 'good' jobs. This is done by an initial look at the concept of job quality, then by describing the process of designing jobs and finally by considering the ways in which workers in effect design their own jobs using 'job crafting'.

### Job quality

The concept of job quality is about the characteristics of jobs that meet the needs of workers. It is concerned with the factors that influence the creation of 'good jobs' and thus lead to job satisfaction, feelings of wellbeing, and enhanced levels of motivation, engagement and performance.

The term 'job quality' has come to the fore fairly recently as a means of developing the earlier notions of the quality of working life (QWL) and meaningful work. The QWL movement (Wilson, 1973) advocated making work 'meaningful' through the design of jobs that would incorporate sufficient flexibility, breadth and challenge to ensure individuals are motivated, excessive and prolonged stress is minimized, and wherever possible job security is assured to sustain good-quality work for employees.

As defined by Fairlie (2011: 509), meaningful work involves 'having a purpose or goals, autonomy, control, challenge, achievement, competence, mastery, commitment, engagement, generativity, service to others, self-realization, growth and fulfilment.'

### The dimensions of job quality

#### Words of wisdom

A good job, like a good life, consists of multiple dimensions that an individual values. The relative importance of these dimensions is not necessarily the same for everyone or even for the same person at different times

Clark (2015: 4)

#### Source review

Whether a job is considered to be good or bad depends on a large number of characteristics of one's work and working conditions, including: how much money and fringe benefits one receives from the job; the degree of job security; the extent to which jobs enable a person to use her skills and to develop further skills; the amount of flexibility allowed in working hours and schedules; and the degree to which workers are able to participate in decisions and to exercise autonomy and control over their work activities.

Findlay *et al* (2013: 444)



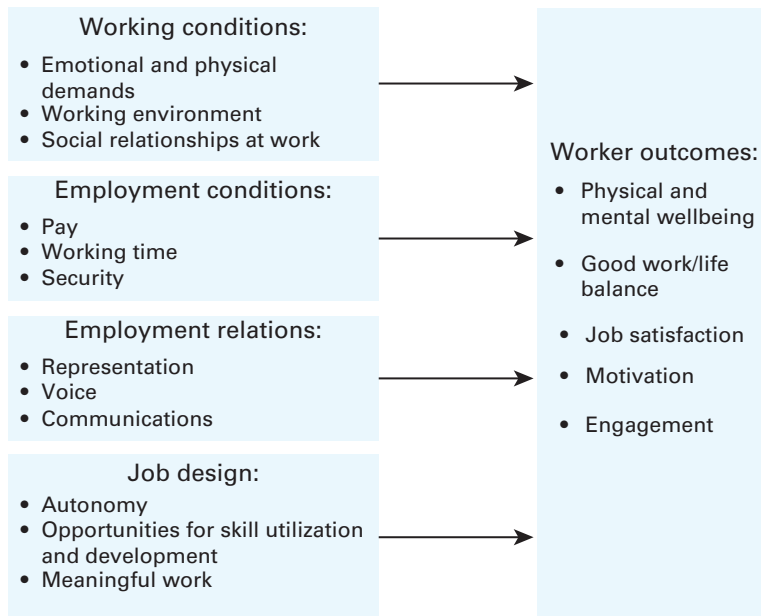
The European Foundation for the Improvement of Living and Working Conditions (Eurofound) model showing the dimensions and outcomes of job quality is shown in Figure 22.1.

The CIPD (2018: 18) stated that: ‘Good-quality jobs allow individuals to develop and deploy their skills and offer some degree of challenge commensurate to the demands of the job and the capabilities of the individual. Similarly, good-quality jobs, in terms of both tasks and work organization, offer opportunities for task discretion and control. Another crucial element of job quality is the extent to which individuals can have their voice heard and represented and can participate in relevant decision making.’ The CIPD (2018) identified six key dimensions of job quality:

- 1 *Pay and other rewards*: including objective aspects such as wage level, type of payment (for example, fixed salary, performance pay) and non-wage fringe benefits (such as employer-provided pension and health cover) and subjective aspects (such as satisfaction with pay).
- 2 *Intrinsic characteristics of work*: including objective aspects (such as skills, autonomy, control, variety, work effort) and subjective aspects (such as meaningfulness, fulfilment, social support and powerfulness).
- 3 *Terms of employment*: including objective aspects (such as contractual stability and opportunities for training, development and progression) and subjective aspects (such as perception of job security).
- 4 *Health and safety*: including physical and psycho-social risks.
- 5 *Work-life balance*: including working time arrangements such as duration, scheduling and flexibility, as well as work intensity.
- 6 *Representation and voice*: including employee consultation, trade union representation and employee involvement in decision making.

The CIPD has produced a Job Quality Index based on these dimensions.

**FIGURE 22.1** Model of job quality



**Source** Adapted from Eurofound (2013: 7)

## Enhancing job quality

The various dimensions of job quality can be enhanced by actions in the areas of organization and work design, employment practices, learning and development, reward management, employment relations and employee wellbeing as described in other parts of this handbook. But an important element in job quality is job design, as considered in the next section of this chapter.

## The principles and practice of job design

Job design specifies the contents, methods and relationships of jobs in order to meet work requirements for productivity, efficiency and quality and satisfy the personal needs of the job holder. Job design can be something that managers do and employees experience. In practice, however, employees can and should have quite a lot of influence on what they do and how they do it. This process has been described as ‘job crafting’ and is examined in the concluding section of the chapter.

Job design can be conducted formally when reorganization, the development of a new work system or the introduction of a new activity takes place. It also happens informally whenever line managers make on-the-spot decisions on how work should be carried out. But the principles of job design as set out below still apply in the latter circumstances. Even though job standardization is inevitable in certain jobs, such as manufacturing lines or call centre operator roles, it is still necessary to take account of these principles.

### Words of wisdom

Jobs are created by people for people. Whether deliberately or by default, choices are made about which tasks to group together to form a job, the extent to which job holders should follow prescribed

procedures in completing those tasks, how closely the job incumbent will be supervised, and numerous other aspects of the work. Such choices are the essence of job design.

Wall and Clegg (1998: 265)

Specifying the content of a job starts from work requirements because that is why the job exists. When the tasks to be done have been determined, preferably through systematic job analysis (see Chapter 63), it is then necessary to consider how the jobs can be set up to provide the maximum degree of intrinsic motivation for those who have to carry them out. This involves considering the factors that contribute to job quality and make jobs ‘meaningful’ as discussed earlier in this chapter. It also means fulfilling the social responsibilities of the organization to the people who work in it by improving the quality of their working life.

The factors affecting the principles and practice of job design are:

- the distinction between jobs and roles;
- the characteristics of jobs;
- task structure;
- method of working;
- intrinsic motivation.

## Jobs and roles

Although the terms jobs and roles are often used interchangeably, a distinction can be made between them. A job is an organizational unit consisting of a group of defined tasks or activities to be carried out or duties to be performed. A role is the part played by individuals and the patterns of behaviour expected of them in fulfilling their work requirements. Jobs are mainly about tasks, roles are mainly about people. This distinction means that while jobs may be designed to fit work and people requirements, roles are developed informally as people carry out their work. It can also be said that roles are created

according to the strengths and limitations of the people who fill them.

## **The characteristics of jobs**

There are three fundamental characteristics shared by all jobs:

- 1 Job range – the number and variety of activities or operations a job holder carries out.
- 2 Job depth – the amount of discretion a job holder has to decide job activities and job outcomes.
- 3 Job relationships – the interpersonal relationships between job holders and their managers and co-workers. Jobs should never be considered in isolation. All job holders belong to formal or informal groups and the interrelationships that exist in such groups should be considered when looking at the content of an individual job.

## **Task structure**

Job design requires the assembly of a number of tasks into a job or a group of jobs. An individual may carry out one main task that consists of a number of interrelated elements or functions. Or task functions may be allocated to a team working closely together in a manufacturing ‘cell’ or customer service unit, or strung along an assembly line. In more complex jobs, individuals may carry out a variety of connected tasks (multitasking), each with a number of functions, or these tasks may be allocated to a team of workers or be divided between them. In the latter case, the tasks may require a variety of skills that have to be possessed by all members of the team (multiskilling) in order to work flexibly. Complexity in a job may be a reflection of the number and variety of tasks to be carried out, the different skills or competencies to be used, the range and scope of the decisions that have to be made, or the difficulty of predicting the outcome of decisions.

The internal structure of each task consists of three elements: planning (deciding on the course of action, its timing and the resources required), executing (carrying out the plan) and controlling (monitoring performance and progress and taking corrective action when required). A completely integrated job

includes all these elements for each of the tasks involved. The worker, or group of workers, having been given objectives such as output, quality and cost targets, decides on how the work is to be done, assembles the resources, performs the work, and monitors progress and the achievement of targets. Responsibility in a job is measured by the amount of authority that someone has to do all of these things.

The ideal arrangement from the point of view of motivation and engagement is to provide for fully integrated jobs containing all three task elements. In practice, management and team leaders are often entirely responsible for planning and control, leaving the worker responsible for execution. To a degree, this is inevitable, but one of the aims of job design is often to extend the responsibility of workers into the functions of planning and control. This can involve empowerment – giving individuals and teams more responsibility for decision making and ensuring that they have the training, support and guidance to exercise that responsibility properly.

## **Method of working**

Job design needs to consider the method of working in the sense of how the dimensions of the job will be defined. There are two approaches. The first and most common is fixed-time working in which the amount of time the employee is normally expected to work (ie excluding overtime) is defined. The second approach is output-based working which requires the employee to work towards an agreed output. A survey by the CIPD (2014) found that only 5 per cent of respondents adopted the latter approach.

## **Intrinsic motivation**

The case for using job design techniques is based on the premise that effective performance and genuine satisfaction in work follow mainly from the intrinsic content of the job. This is related to the fundamental concept that people are motivated when they are provided with the means to achieve their goals. Work enables people to earn money, which as an extrinsic reward satisfies basic needs and is instrumental in providing ways of satisfying higher-level needs. But work also provides intrinsic rewards related to achievement, responsibility and the opportunity to use and develop skills that are more under the control of the worker.

### Words of wisdom

To varying degrees work has become fractionated, deskilled, and tightly controlled; planning the work is often separated from implementing it. So jobs differ in how much they enable workers to use and develop their skills and knowledge, which affects their involvement, self-esteem, and the challenge obtained from the work itself.

Walton (1974: 12)

### Pause for thought

What do you think 'a good job' looks like?

## Principles of job design

The basic principles of job design were set out by Gallie (2007) who identified five core dimensions of job quality: skill level; the degree of task discretion or autonomy; the opportunities for skill development; job security; and the extent to which jobs are compatible with work-family balance. Autonomy is important. The theory of self-determination developed by Deci and Ryan (2000) argues that human beings have inherent needs to decide for themselves what they are going to do (along with needs for competence and relatedness to other people). Earlier theories consisted of the concept of job enrichment and the job characteristics model. More recently the job demands-resources model has been proposed as a means of classifying key job attributes as a basis for job design.

## Job enrichment

Job enrichment aims to maximize the interest and challenge of work by providing the employee with a job that has these characteristics:

- it is a complete piece of work in the sense that the worker can identify a series of tasks or activities that end in a recognizable and definable product;
- it affords the employee as much variety, decision-making responsibility and control as possible in carrying out the work;
- it provides direct feedback through the work itself on how well the employee is doing his or her job.

As described by Herzberg (1968), job enrichment is not just increasing the number or variety of tasks (job enlargement), nor is it the provision of opportunities for job rotation (moving between different jobs). These approaches may relieve boredom, but they do not result in positive increases in motivation.

### Words of wisdom

Job enrichment provides the opportunity for the employee's personal growth.

Herzberg (1968: 59)

## The job characteristics model

The most influential model for job design has been the job characteristics model developed by Hackman and Oldham (1974). They identified five core job characteristics:

- 1 *Skill variety*: the degree to which a job requires an employee to perform activities that challenge his or her skills and abilities.
- 2 *Task identity*: the degree to which the job requires completion of an identifiable piece of work.
- 3 *Task significance*: the degree to which the job outcome has a substantial impact on others.
- 4 *Autonomy*: the degree to which the job gives an employee discretion in scheduling work and determining how it is performed.

The concept of ‘supported autonomy’ refers to the provision of freedom for employees to manage their work within certain boundaries (policies and expected behaviours) but with support available as required.

- 5 **Feedback:** the degree to which an employee gets information about the effectiveness of his or her efforts – with particular emphasis on feedback directly related to the work itself rather than from a third party (for example, a manager).

Hackman and Oldham explained that if the design of a job satisfied the core job characteristics the employee would perceive that the work was worthwhile, would feel responsible for the work and would know if the work had been completed satisfactorily. The outcome of this would be high-quality work performance and high job satisfaction as a result of intrinsic motivation.

## The job demands-resources model

The job demands-resources model based on research by Demerouti *et al* (2001) and Crawford *et al* (2010) classifies job attributes and other related work experiences into two broad categories. These are: (1) job demands that can be challenging (eg complexity, responsibility, workload) or a hindrance (eg role ambiguity, conflict and overload), and (2) job resources (eg autonomy, supervisory support, feedback, access to information, development opportunities). Challenging demands and job resources are positively related to engagement levels and hindrance demands are negatively related.

## Job design practice

The approaches to job design emerging from these concepts are:

- 1 Combine tasks to create natural work units for which there is an identifiable end result.
- 2 Provide as much variety as possible.
- 3 Enhance autonomy by giving employees as much freedom as possible to make decisions, determine their own methods of work and exercise control over what they do.

- 4 Enable employees to obtain direct feedback on how well they are doing from the work itself.
- 5 Design jobs to minimize the risk of errors and to impose a degree of self-checking by employees to ensure highest possible quality standards
- 6 Provide opportunities to enhance existing skills and learn new ones.
- 7 Provide the resources required to do a good job, including supervisory support.
- 8 Ensure that job responsibilities are clearly defined and understood to avoid role ambiguity.
- 9 Review job demands to ensure that they are not excessive and therefore negatively affect work/life balance and lead to undue stress and even burnout.
- 10 Review working conditions and ergonomic factors to ensure that they provide for the physical wellbeing of employees.

## Responsibility for job design

Any line manager or specialist who is involved in deciding what work needs to be done and what work system should be adopted – and this means pretty well all managers – is responsible for designing jobs. But wherever possible the process should be shared with the employees concerned who will, after all, have to carry out the work and may in any case be more knowledgeable about what needs to be done. Managers and indeed employees need to be aware of the principles of good job design and how to put these into practice. The role of HR – an important one – is to provide advice and guidance on this whenever the need arises. The learning and development function can play a part by including job design in its management and leadership development programmes.

### Pause for thought

You are drawing up a leadership development programme for potential managers. What would you include about job design and how would you convey its importance?

## Job crafting

As mentioned above, employees can and should be involved in designing their jobs wherever possible

but in practice they also do it for themselves. This process has been called ‘job crafting’ and it was defined by the writers who produced the seminal work on the subject as follows:

### Source review

We use the term ‘job crafting’ to capture the actions individuals take to shape, mould and modify their jobs. Job crafters are individuals who actively compose what their job is physically, by changing a job’s task boundaries, what their job is cognitively, by changing the way they think about relationships among job tasks, *and* what their job is relationally, by the interactions and relationships they have with others at work.

Wrzesniewski and Dutton (2001: 180)

Wrzesniewski and Dutton suggested that the motivation for job crafting arises from the needs of people to shape the meaning of their work by (1) asserting some control over it (ie increase their job satisfaction by achieving more autonomy), (2) improving their self-image and (3) extending and improving their relationships with others. Job crafting

can be beneficial both for the individual and the organization but it can be harmful for the business if it results in too much deviation from the tasks that are an inherent and essential part of the job. Managers need to recognize that it happens and this can be a good thing but they must not allow it to get out of hand.

### Key learning points

#### Job quality

The concept of job quality refers to the characteristics of jobs within their work environment that contribute to feelings of employee satisfaction and lead to enhanced levels of motivation and engagement.

#### Job design

Job design specifies the contents of jobs in order to satisfy work requirements and meet the personal needs of the job holder, thus increasing levels of employee engagement.

#### Job design principles

The basic principles of job design were set out by Gallie (2007) who identified five core dimensions of job quality: skill level; the degree of task discretion or autonomy; the opportunities for skill development; job

security; and the extent to which jobs are compatible with work-family balance.

#### Jobs and roles

A job is an organizational unit consisting of a group of defined tasks or activities to be carried out or duties to be performed. A role is the part played by individuals and the patterns of behaviour expected of them in fulfilling their work requirements. Jobs are about tasks, roles are about people.

#### Job enrichment

Job enrichment aims to maximize the interest and challenge of work by providing the employee with a job that has these characteristics:

- it is a complete piece of work in the sense that the worker can identify a series of tasks or activities that end in a recognizable and definable product;



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- it provides direct feedback through the work itself on how well the employee is doing his or her job.

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complexity, responsibility, workload) and (2) job resources (eg autonomy, supervisory support, feedback, access to information, development opportunities).

### Responsibility for job design

Any line manager or specialist who is involved in deciding what work needs to be done and what work system should be adopted is responsible for designing jobs. The role of HR is to provide advice and guidance whenever the need and the opportunity arise.

### Job crafting

Employees can and should be involved in designing their jobs wherever possible but in practice they can also do it for themselves. This process has been called 'job crafting'.

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# 23 Organization development

## Introduction

Organization, work and job design are basic processes involved in running an enterprise. Organization development helps to ensure that they function well. In this chapter, organization development is defined and its somewhat chequered history is described, from its origins as ‘OD’ to the more focused and business-like approaches adopted today. This leads to a discussion of organization development strategy and an examination of organization development in practice, involving the use of diagnostics as the basis for preparing organization development programmes.

## Organization development defined

Organization development is a systematic approach to improving organizational capability, which is concerned with process – how things get done. As expressed by Beer (1980: 10), OD operates as: ‘A system-wide process of data collection, diagnosis, action planning, intervention and evaluation.’

Organization development in its traditional form as OD was later defined by Rowlandson (1984: 90) as ‘an intervention strategy that uses group processes to focus on the whole culture of an organization in order to bring about planned change.’ More recently, the CIPD (2018: 1) defined it as a ‘planned and systematic approach to enabling sustained organization performance through the involvement of its people.’

## The nature of organization development

Organization development in its original version, when it was commonly referred to as ‘OD’, was based on behavioural science concepts (see Chapter 19). It was practised through what were called ‘interventions’.

However, during the 1980s and 1990s, a number of other approaches were introduced. Further changes occurred in the following decade during which a more strategic focus was adopted and more business-focused activities such as smart working and high-performance working came to the fore. It is these changes that led to the broader definition produced by the CIPD.

Organization development used to be the province of specialized consultants who tended to practise it as a mystery, with HR playing a supporting role if it played any role at all. But the close relationship between HR and organization development has been spelt out as follows.

### Source review

To remain competitive in today’s global marketplace, organizations must change. One of the most effective tools to promote successful change is organization development (OD). As HR increasingly focuses on building organizational learning, skills and workforce productivity, the

effective use of OD to help achieve company business goals and strategies is becoming a broad HR competency as well as a key strategic HR tool. While there are variations regarding the definition of OD, the basic purpose of organization development is to increase an organization's effectiveness through planned interventions related to the organization's processes (often company-wide), resulting in improvements in productivity, return on investment and employee satisfaction.

HR Magazine (2007: 1)

The CIPD (2018) described the aims and characteristics of organization development as follows:

- 1 Organization development focuses on maximizing the value gained from the organization's resources.
- 2 Organizational development focuses on an organization's strategy, goals and core purpose.
- 3 Where an organization's main competitive advantage is delivered through their people, organization development will involve applying behavioural science knowledge and practice, such as leadership, group dynamics and work design.
- 4 Organization development is related to change management in the sense that many developments are implemented using change management practices, but also because it is a kind of planned, ongoing, systematic change activity that aims to institutionalize continual improvement within organizations.

## The story of organization development

There are three chapters in the story of organizational development: the original version of the 1960s and '70s, the extensions and modifications to the original approach in the 1980s and '90s, and the new look at organization development of the 2000s.

### The first chapter – the original version

Organization development emerged as the 'OD' movement in the 1960s. It was based on the strong humanistic values of its early founders, who wanted to improve the conditions of people's lives in organizations by applying behavioural science knowledge. Its origins can be traced to the writings of behavioural scientists such as Lewin (1947, 1951) on group dynamics (the improvement of group processes through various forms of training), and change management. Other behavioural scientists included Maslow (1954) who produced his needs theory of motivation, Herzberg *et al* (1957) who wrote about the motivation to work, and Argyris (1957) who emphasized the need to plan for integration and involvement. McGregor (1960) produced his 'Theory Y', which advocated the recognition of the needs of both the organization and the individual on the basis that, given the chance, people will not only accept but seek responsibility. Likert (1961) added his theory of supportive relationships.

The two founders of the organization development movement were Beckhard (1969) who probably coined the term, and Bennis (1969) who, according to Buchanan and Huczynski (2007: 575), described OD as a 'truth, trust, love and collaboration approach'. Ruona and Gibson summarized early approaches to OD as follows:

#### Source review

Early OD interventions can be categorized as primarily focusing on individuals and interpersonal relations. OD was established as a social philosophy that emphasized a long-term orientation, the applied behavioural sciences, external and process-oriented consultation, change managed from the top, a strong emphasis on action research and a focus on creating change in collaboration with managers.

Ruona and Gibson (2004: 53)

As originally conceived, OD programmes aimed to increase the effectiveness of the various processes that take place in organizations, especially those relating to the ways in which people work together. It was also concerned with improving the quality of people's working lives. The original OD philosophy was that of humanism – the belief that human factors are paramount in the study of organizational behaviour. This had its roots in the conclusions reached from the Hawthorne studies of 1924 to 1932 (Mayo, 1933; Roethlisberger and Dickson, 1939) that the productivity of workers increases when someone they respect takes an interest in them. The focus then turned to the needs of people as individuals and in groups with an emphasis on process – how people worked together and how this could be improved. Much of the thinking about OD was influenced by developments in behavioural science.

The assumptions and values of OD were that:

- Most individuals are driven by the need for personal growth and development as long as their environment is both supportive and challenging.
- The work team, especially at the informal level, has great significance for feelings of satisfaction, and the dynamics of such teams have a powerful effect on the behaviour of their members.
- Organizations can be more effective if they learn to diagnose their own strengths and weaknesses.
- Managers often do not know what is wrong and need special help in diagnosing problems, although the outside 'process consultant' ensures that decision making remains in the hands of the client.

OD during this time was practised predominantly by external consultants working with senior managers. Personnel specialists were not involved to any great extent. OD programmes consisted then of 'interventions' such as those listed below. In OD jargon an intervention is a planned activity designed to improve organizational effectiveness or manage change. The following are the traditional OD interventions; they still feature in current programmes:

- *Process consultation* – helping clients to generate and analyse information that they

can understand and, following a thorough diagnosis, act upon. The information relates to organizational processes such as inter-group relations, interpersonal relations and communications.

- *Change management* – often using the techniques advocated by Lewin (1951), which consisted of processes of managing change by unfreezing, changing and freezing, and force-field analysis (analysing and dealing with the driving forces that affect transition to a future state).
- *Action research* – seeking transformative change through the simultaneous process of taking action and doing research, which are linked together by critical reflection.
- *Survey feedback* – a variety of action research in which data is systematically collected about the system through attitude surveys and workshops leading to action plans.
- *Appreciative enquiry* – a methodology that does not focus entirely on finding out what is wrong in order to solve problems. Instead it adopts the more positive approach of identifying 'best practices' – what is working well – and using that information as a basis for planning change. It can be associated with action research.
- *Group dynamics* – improving the ways in which people work together by means of programmes for increasing the effectiveness of groups through various forms of training which aim to increase sensitivity, diagnostic ability and action skills.
- *Personal interventions* – developing interpersonal skills through such processes as transactional analysis (an approach to understanding how people behave and express themselves through transactions with others), behaviour modelling (the use of positive reinforcement and corrective feedback to change behaviour) and neurolinguistic programming or NLP (teaching people to programme their reactions to others and develop unconscious strategies for interacting with them).

## The second chapter – criticisms of the original version of OD and new approaches

The OD movement as originally conceived and practised was characterized by what Buchanan and Huczynski (2007: 559) called ‘quasi-religious values’. It had, they claimed, some of the features of a religious movement, which is one reason why it has survived as a concept in spite of the criticisms that began to be levelled at it in the 1980s. Weidner (2004: 39) wrote that: ‘OD was something that practitioners felt and lived as much as they *believed*’ (original emphasis).

One of the earliest critics of OD was McLean (1981: 4) who noted ‘the moral and ethical misgivings concerned with the development of what might be regarded as a sophisticated science of manipulation.’ He cited a comment by Strauss (1976) that at times OD is little more than abstract moralization.

### Words of wisdom

It is becoming increasingly apparent that there exists a considerable discrepancy between OD as practised and the prescriptive stances taken by many OD writers... The theory of change and change management which is the foundation of most OD programmes is based on oversimplistic generalizations which offer little specific guidance to practitioners faced with the confusing complexity of a real change situation.

McClellan (1981: 13)

Armstrong (1984: 113) commented that: ‘Organization development has lost a degree of credibility in recent years because the messianic zeal displayed by some practitioners has been at variance with the circumstances and real needs of the organization.’ Burke (1995: 8) stated that ‘in the mid-1970s, OD was still

associated with T-groups, participative management and consensus, Theory Y, and self-actualization – the soft human, touchy-feely kinds of activities.’

An even more powerful critic was Legge (1995: 212), who observed that the OD rhetoric fitted the era of ‘flower power’ and that: ‘OD was seen, on the one hand as a form of devious manipulation, and on the other as “wishy-washy” and ineffectual.’ She noted ‘the relative lack of success of OD initiatives in effecting major and lasting cultural change, with the aim of generating commitment to new values in the relatively small number of organizations in which it was tried’ (ibid: 213), and produced the following devastating critique:

### Words of wisdom

In order to cope with an increasingly complex and changing environment, many of the initiatives were, in retrospect, surprisingly inward looking, involving schemes of management development, work system design, attempts at participation, almost as a good in their own right, without close attention as to how they were to deliver against market-driven organizational success criteria. The long-term nature of OD activities, combined with difficulties in clearly establishing to sceptics their contribution to organizational success criteria (and within a UK culture of financial short-termism) rendered the initiatives at best marginal... and at worst to be treated with a cynical contempt.

Legge (1995: 213)

Weidner (2004: 37) commented that: ‘Unfortunately, after sixty years – despite the best efforts and intentions of many talented people – OD finds itself increasingly at the margins of business, academe, and practice. The field continues to affirm its values, yet has no identifiable voice.’ The main criticisms of

OD, as noted by Marsh *et al* (2010: 143), were that it was: ‘Oriented to process and tools rather than results... where techniques are considered to be ends in themselves rather than a means to deliver organizational performance.’

### Pause for thought

How valid do you think these criticisms are?

## The third chapter – culture management

During the 1980s and '90s an alternative approach emerged, that of culture management, which aimed at achieving cultural change as a means of enhancing organizational capability. Culture change or culture management programmes started with an analysis of the existing culture, which may involve the use of a diagnostic such as the ‘Organizational Culture Inventory’ devised by Cooke and Lafferty (1989). The desired culture is then defined – one that enables the organization to function effectively and achieve its strategic objectives. As a result, a ‘culture gap’ is identified, which needs to be filled. This analysis of culture identifies behavioural expectations so that HR processes can be used to develop and reinforce them.

This sounds easier than it really is. Culture is a complex and often hard to define notion and it is usually strongly embedded and therefore difficult to change. Anthony (1990: 4) argued that: ‘The management of culture... purports to define the meaning of people’s lives so that they become concomitant with the organization’s view of itself. [It is] the adjustment of human meaning for organizational ends.’ He also observed that: ‘Published cases do exist of organizations within which major changes in culture have been successfully accomplished and shown to persist but they are rare’ (ibid: 5). However, culture management became a process in its own right and OD consultants jumped on the bandwagon.

Culture management involves change management, another important item in the OD toolkit. But as Caldwell (2003: 132) argued: ‘It is assumed

within most OD models that change can be planned in a “rational” or linear manner, and that the change agent can facilitate this group process, although there is little evidence to support this illusion of “manageability”.’

Other movements in this period that could be described as organization development activities but exist as distinct entities included total quality management (TQM), the Japanese approach of continuous improvement and quality circles. TQM aims to ensure that all activities within an organization happen in the way they have been planned in order to meet the defined needs of customers. Its approach is holistic – quality management is not a separate function to be treated in isolation, but is an integral part of all operations. Continuous improvement – or in Japanese, Kaizen – refers to activities that continuously improve all functions and involve all employees from the CEO to the assembly line workers. Quality circles are groups of volunteers engaged in related work who meet regularly to discuss and propose ways of improving working methods under a trained leader.

Another approach more closely related to OD and culture management that emerged at this time was organizational transformation. This was defined by Cummings and Worley (2005: 752) as: ‘A process of radically altering the organization’s strategic direction, including fundamental changes in structures, processes and behaviours.’

## The fourth chapter – changing the focus

Organization-wide approaches to improving overall capability emerged in the 1990s that were not part of what was conventionally known as OD. These included high-performance working through high-performance work systems, high-commitment management, high-involvement management and performance management. The development of these processes in the 2000s led to a radically changed view of what constituted organization development.

Another significant change in the 2000s was the shift to a strategic perspective. As noted by Cummings and Worley (2005: 12): ‘Change agents have proposed a variety of large-scale or strategic-change models; each of these models recognizes that strategic change involves multiple layers of

the organization and a change in its culture, is driven from the top by powerful executives, and has important effects on performance.’ They commented that the practice of organization development therefore went far beyond its humanistic origins.

There was also more emphasis on associating organization design with organization development. Marsh *et al* (2010) suggested that organization design and organization development need to be merged into one HR capability, with organization design taking precedence. They considered that this should all be brought in-house as a necessary part of the business model innovation process. But as they observed: ‘We do not believe that the field of organization development has passed its sell-by

date. Far from it. It just needs to be repositioned as an HR capability’ (ibid: 143).

However, Weidner (2004: 37) made the following more pessimistic comment about OD: ‘Unfortunately, after sixty years – despite the best efforts and intentions of many talented people – OD finds itself increasingly at the margins of business, academe, and practice. The field continues to affirm its values, yet has no identifiable voice.’ OD ‘interventions’ still have a role to play in improving performance but as part of an integrated business and HR strategy planned and implemented by HR in conjunction with senior management, with or without outside help.

The CIPD has emphasized the importance of the contribution of organization development specialists supported by line managers and HR.

### Source review

Organization development specialists play a critical role in working with line leaders and HR practitioners to develop the organization to achieve its goals. The specialists have expertise in navigating complexity to unpick what the organization is trying to achieve; diagnose underlying issues, challenges, opportunities; and to select the best approaches to develop the organization moving forward. Employees are often at the centre of changes to the organization that follow

and HR practitioners need to have a solid understanding of the relationship between organization development, organizational strategy and the HR agenda. They should leverage their HR expertise and knowledge of the organization to question assumptions, help surface non-obvious problems/issues, diagnose barriers/enablers to execution, and manage change effectively.

CIPD (2018)

### Pause for thought

It can be argued that organization development as advocated by the CIPD is too idealistic to be of much practical significance. Do you agree?

## Organization development strategy

Organization development strategy is founded on the aspiration to improve organizational capability,

which is broadly the capacity of an organization to function effectively in order to achieve desired results. It has been defined more specifically by Ulrich and Lake (1990: 40) as ‘the ability to manage people for competitive advantage’. It is concerned with mapping out intentions on how the work system should be developed in line with the concepts of smart and agile working, on how the organization should be structured to meet new demands, on system-wide change in fields such as reward and performance management, on how change should be managed, on what needs to be done to improve organizational processes involving people such as job design, teamwork, communications and participation, and on how the organization can acquire, retain, develop and engage the talent it needs. These intentions will be converted into actions on work systems development, structure design, the redesign



of jobs and, possibly, OD-type interventions. The latter could take the form of action research, survey feedback and programmes for improving group processes and interpersonal skills, as described earlier in this chapter. The strategy can involve processes of integrated strategic change, as described below, and will be based on organizational diagnosis leading to the design of an organization development programme, as considered in the following sections.

### **Integrated strategic change**

The process of integrated strategic change as conceived by Worley *et al* (1996) can be used to formulate and implement organization development strategies. The steps required are:

- 1 Strategic analysis – a review of the organization's strategic orientation (its strategic intentions within its competitive environment) and a diagnosis of the organization's readiness for change.
- 2 Develop strategic capability – the ability to implement the strategic plan quickly and effectively.
- 3 Integrate individuals and groups throughout the organization into the processes of analysis, planning and implementation to maintain the firm's strategic focus, direct attention and resources to the organization's key competencies, improve coordination and integration within the organization and create higher levels of shared ownership and commitment.
- 4 Create the strategy, gain commitment and support for it and plan its implementation.
- 5 Implement the strategic change plan, drawing on knowledge of motivation, group dynamics and change processes, dealing with issues such as alignment, adaptability, teamwork and organizational and individual learning.
- 6 Allocate resources, provide feedback and solve problems as they arise.

### **The consulting cycle**

The framework for organization development is provided by the consulting cycle which has five stages:

- 1 Initiation
  - discussion with management (the client) to identify issues that need to be addressed;
  - initial diagnosis of any problems;
  - definition and agreement of objectives and deliverables;
  - project planning.
- 2 Diagnosis
  - choice of diagnostic tools;
  - conduct diagnosis;
  - analyse results.
- 3 Project planning
  - decide on type of intervention(s);
  - prepare project programme;
  - allocate resources.
- 4 Conduct programme
  - carry out interventions;
  - draw up and agree proposals on any further action required.
- 5 Implement
  - implement agreed actions;
  - evaluate effectiveness and if necessary propose further action.

### **Organizational diagnosis**

The practice of organization development is based on an analysis and diagnosis of the circumstances of the organization, the strategic, operational or process issues that are affecting the organization and its ability to perform well. As defined by Manzini (1988: *ix*): 'An organizational diagnosis is a systematic process of gathering data about a business organization – its problems, challenges, strengths and limitations – and analysing how such factors influence its ability to interact effectively and profitably with its business environment.' This involves the use of the diagnostic cycle with associated analytical and diagnostic tools, which enable those concerned with development to identify areas of concern that can be dealt with in an organization development programme.

## The diagnostic cycle

The diagnostic cycle as described by Manzini (1988: 11) consists of:

- data gathering;
- analysis;
- feedback;
- action planning;
- implementation;
- evaluation.

## Analytical tools

The two most used analytical tools are SWOT analysis and PESTLE analysis. A SWOT analysis is a 'looking in' and 'looking out' approach that covers the internal organizational factors of strengths and weaknesses and the external factors of opportunities and threats. PESTLE analysis is an environmental scanning tool that covers the following factors: political, economic, social, technological, legal and environmental.

## Diagnostics

Diagnostics are tools such as questionnaires or checklists that gather information about a business or on the opinions and attitudes of employees in order to identify issues and problems that can be dealt with in an organization development programme. They enable those concerned with organization development to understand what is happening and why it is happening so that they can do something about it. Diagnostics can be used to assess overall organizational effectiveness in the shape of general strategic, business and operational issues, or they can deal with more specific areas of concern such as a review of the organization's ideology, culture or climate, or a survey of levels of engagement or commitment. Examples of the approach used by various diagnostic instruments are given below.

## Organizational ideology questionnaire (Harrison, 1972)

This questionnaire deals with the four orientations defined by Harrison (power, role, task and self) and is completed by ranking statements according to

views on what is closest to the organization's actual position. The following are examples of statements:

- a good boss is strong, decisive and firm but fair;
- a good subordinate is compliant, hard-working and loyal;
- people who do well in the organization are shrewd and competitive, with a strong need for power;
- the basis of task assignment is the personal needs and judgements of those in authority;
- decisions are made by people with the most knowledge and expertise about the problem.

## Organizational culture inventory (Cooke and Lafferty, 1989)

This instrument assesses organizational culture under 12 headings:

- 1 *Humanistic-helpful* – organizations managed in a participative and person-centred way.
- 2 *Affiliative* – organizations that place a high priority on constructive relationships.
- 3 *Approval* – organizations in which conflicts are avoided and interpersonal relationships are pleasant – at least superficially.
- 4 *Conventional* – conservative, traditional and bureaucratically controlled organizations.
- 5 *Dependent* – hierarchically controlled and non-participative organizations.
- 6 *Avoidance* – organizations that fail to reward success but punish mistakes.
- 7 *Oppositional* – organizations in which confrontation prevails and negativism is rewarded.
- 8 *Power* – organizations structured on the basis of the authority inherent in members' positions.
- 9 *Competitive* – a culture in which winning is valued and members are rewarded for out-performing one another.
- 10 *Competence/perfectionist* – organizations in which perfectionism, persistence and hard work are valued.

- 11 *Achievement* – organizations that do things well and value members who set and accomplish challenging but realistic goals.
- 12 *Self-actualization* – organizations that value creativity, quality over quantity, and both task accomplishment and individual growth.

### Typical dimensions of organizational climate questionnaire (Koys and De Cotiis, 1991)

- *Autonomy* – the perception of self-determination with respect to work procedures, goals and priorities.
- *Cohesion* – the perception of togetherness or sharing within the organization setting.
- *Trust* – the perception of freedom to communicate openly with members at higher organizational levels about sensitive or personal issues with the expectation that the integrity of such communications will not be violated.
- *Resource* – the perception of time demands with respect to task completion and performance standards.
- *Support* – the perception of the degree to which superiors tolerate members' behaviour, including willingness to let members learn from their mistakes without fear of reprisal.
- *Recognition* – the perception that members' contributions to the organization are acknowledged.
- *Fairness* – the perception that organizational policies are not arbitrary or capricious.
- *Innovation* – the perception that change and creativity are encouraged, including risk-taking into new areas where the member has little or no prior experience.

### Employee surveys

Employee surveys, also known as attitude or opinion surveys, can be used as a diagnostic tool. They are a formal method of obtaining the views of

employees on such matters as their work, their pay, how they are treated, their views about the company and their managers, how well they are kept informed, the opportunities for learning and career development, and their working environment and facilities.

Surveys can be conducted by external providers, for example the IES engagement survey, the Gallup engagement survey and the Saratoga engagement and commitment matrix. They are often conducted annually but with the help of AI 'pulse surveys' (health checks that happen frequently throughout the year) are increasingly being used.

## Organization development programmes

The traditional OD programme was behavioural science-based and almost entirely devoted to interpersonal relationships, organizational processes and culture change in the broadest sense. There may still be a need for such interventions today but organization development is now a more eclectic affair – anything can be included under the organization development heading as long as it contributes to organizational effectiveness. As set out in Table 23.1 there is a choice of activities or interventions and some examples are given of approaches to a major organization development initiative, namely culture change.

These activities can be combined in many ways so that they become mutually supporting. Ones such as culture change and team building can include traditional OD interventions such as action learning, survey feedback and group dynamics. It can be argued that change management is not a separate organization development activity but is a fundamental part of all such activities. Each of those listed above involves change, which has to be managed using the change management skills described in Chapter 66. The following examples of culture change activities drawn from research conducted by the CIPD (2011) illustrate the range of activities covered under the broad heading of culture change:

*Arts Council England Interventions* focused on the organizational structure, embedding the new values and demonstrating leadership commitment for the culture change.

**TABLE 23.1** Organization development activities and interventions

Organization development activity or intervention	Brief description	Objective
Business model innovation	The process followed by an organization to develop a new business model or change an existing one.	To obtain insight into the business issues facing the organization, leading to plans for practical interventions that address those issues.
Change management	The process of planning and introducing change systematically.	To achieve the smooth implementation of change.
Culture change	The process of changing the organization's culture with regard to its features of values, norms and beliefs. Any significant change in people policies or practices can impact on these features and this impact needs to be assessed and managed.	To improve organizational effectiveness – the ability of an organization to achieve its goals by making effective use of the resources available to it.
Engagement, enhancement of	The development of improved levels of job and organizational engagement.	To ensure that people are committed to their work and the organization and motivated to achieve high levels of performance.
High-performance working	Developing work system processes, practices and policies to enable employees to perform to their full potential.	To impact on the performance of the organization through its people in such areas as productivity, quality, levels of customer service, growth and profits.
Knowledge management	Storing and sharing the wisdom, understanding and expertise accumulated in an organization about its processes, techniques and operations.	To get knowledge from those who have it to those who need it in order to improve organizational effectiveness.
Lean	A process improvement methodology that focuses on continuous improvement, reducing waste and ensuring the flow of production.	To deliver value to customers.
Organizational learning	The acquisition and development of knowledge, understanding, insights, techniques and practices.	To facilitate performance improvement and major changes in strategic direction.
Organization design	The process of deciding how organizations should be structured in terms of the ways in which the responsibility for carrying out the overall task is allocated to individuals and groups of people and how the relationships between them function.	To ensure that people work effectively together to achieve the overall purpose of the organization.
Performance management	A systematic process for the agreement of performance expectations and review of how they have been met.	To improve organizational performance by developing the performance of individuals and teams.

*(continued)*

**TABLE 23.1** (Continued)

Organization development activity or intervention	Brief description	Objective
Smart working	An approach to organizing work through a combination of flexibility, autonomy and collaboration, in parallel with optimizing tools and working environments for employees.	To drive greater efficiency and effectiveness in achieving job outcomes.
Agile working	The emphasis is on flexibility of management practices and resources and adaptability to change.	To support rapid decision making and execution.
Team building	Using interactive skills training techniques to improve the ways in which people in teams work together (the responsibility of leaders for teambuilding is described in Chapter 68).	To increase group cohesion, mutual support and cooperation.
Total reward	The combination of financial and non-financial rewards available to employees. It involves integrating the various aspects of reward.	To blend the financial and non-financial elements of reward into a cohesive whole so that together they make a more powerful and longer-lasting impact on job satisfaction and performance.

*Children's Trust Southampton Interventions* focused on the organization's structure, developing values to support the strategy and structure.

*London Borough of Barnet Interventions* centred on establishing a Lean team to drive the project. Front-line staff were at the heart of the process, which involves them identifying what's wrong with the service and how things could be improved.

*National Police Improvements Agency* activities include a restructuring of the top management team, a review of existing processes, the involvement of stakeholders and a focus on retaining respect for past ways of working.

*NP Paribas* focused activities on the organization's structure, processes, values and the importance of leadership.

*Visa Europe* established a culture change programme that was called 'peak performance'. The process focused on the

individual and helping each individual to recognize how their own values and aspirations could be connected with those of the organization in a mutually beneficial way.

## Conclusions on organization development

Organization development is no longer solely the preserve of external process consultants with behavioural science backgrounds. Instead it is a territory frequently inhabited by business-oriented people based in the organization and acting, in effect, as internal consultants. They include HR specialists who are there not just because they know about HRM but because they are familiar with how businesses operate, where people management fits in and the factors that affect employee commitment and engagement.

The organization development processes with which internal specialists and their colleagues are concerned will be determined by the outcome of

diagnostic reviews. Because these outcomes will always be different, organizational development programmes will always be different. There is no such thing as a standard 'OD' approach, as was formerly

the case. A number of approaches are available, but which to use and how to use them is a matter of choice depending on the facts of the situation. This is why the initial analysis and diagnosis is so important.

## Key learning points

### Organization development defined

Organization development in its traditional form as 'OD' was defined by Rowlandson (1984: 90) as 'an intervention strategy that uses group processes to focus on the whole culture of an organization in order to bring about planned change.' The CIPD (2010: 1) defined organization development as a 'planned and systematic approach to enabling sustained organization performance through the involvement of its people.'

### Strategic nature of organization development

The strategic nature of organization development as an integral part of HRM arises because it can play a significant role in the implementation of business strategy.

### Assumptions and values of OD

The assumptions and values of OD as originally conceived were that:

- Most individuals are driven by the need for personal growth and development as long as their environment is both supportive and challenging.
- The work team, especially at the informal level, has great significance for feelings of satisfaction and the dynamics of such teams have a powerful effect on the behaviour of their members.
- OD programmes aim to improve the quality of working life of all members of the organization.
- Organizations can be more effective if they learn to diagnose their own strengths and weaknesses.
- Managers often do not know what is wrong and need special help in diagnosing problems, although the outside 'process consultant' ensures that decision-making remains in the hands of the client.

### OD interventions

OD interventions include process consultation, change management, action research, survey feedback, group dynamics and personal interventions.

### Criticisms of OD

The main criticisms of OD, as noted by Marsh *et al* (2010: 143), were that it was 'Oriented to process and tools rather than results... where techniques are considered to be ends in themselves rather than a means to deliver organizational performance.'

### Organization development strategy

Organization development strategy is based on the aspiration to improve organizational capability, which is broadly the capacity of an organization to function effectively in order to achieve desired results.

### The practice of organization development

The practice of organization development is based on an analysis and diagnosis of the circumstances of the organization, the strategic, operational or process issues that are affecting the organization and its ability to perform well. This involves the use of diagnostic tools.

### Organization development programmes

The traditional OD programme was behavioural science-based and almost entirely devoted to interpersonal relationships, organizational processes and culture change in the broadest sense. There may still be a need for such interventions today but the emphasis now is on much more focused activities to do with high-performance working, Lean manufacturing, smart working and the enhancement of levels of engagement.



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# PART V

## Factors affecting the behaviour of people at work

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### Introduction

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A preoccupation shared by all those involved in managing people is how to get the best out of them. ‘The best’ may be difficult to define. It could be high performance. Or it could be discretionary behaviour (the choice made by people to exercise additional effort, care, innovation and productive behaviour in their jobs). It could be doing more than is contracted for so that the words ‘it’s not in my job description’ or ‘this is above my pay grade’ are seldom if ever heard. It could be cooperating fully with managers and colleagues or showing loyalty to the organization. It could be any combination of these.

Getting the best out of people is primarily the responsibility of managers and team leaders by exercising effective leadership. But it is also the concern

of HR specialists who can help to create a work environment conducive to high performance and can introduce policies and practices that encourage people to do everything expected of them if not more. HR can also provide any advice and help managers to fulfil their people management responsibilities.

To do this, managers and HR specialists need to take into account the general factors that affect how people behave at work, as described in Chapter 19 – namely, ability, intelligence, personality, attitudes, emotions and emotional intelligence. But they should also be aware of the following more specific factors that influence behaviour and therefore performance:

- *Motivation* – the strength and direction of behaviour and the factors that influence people to behave in certain ways.

- *Commitment* – the strength of an individual's identification with, and involvement in, an organization.
- *Engagement* – a situation in which people are committed to their work and the organization and are motivated to achieve high levels of performance.

These are examined in the three chapters of this part.

Of the three constructs (a construct is a conceptual framework that explains how people perceive and react to their environment), motivation is a long-standing one that has been extensively researched and written about since the earlier part of the 20th century. Motivation theory has been used and is still used to inform decisions on how to get more effort and better performance from employees, for example the use of performance-related pay. The importance of the construct of commitment emerged later, notably in the contribution of Richard Walton (1985) whose seminal article in the *Harvard Business Review* advocated for the adoption of a commitment strategy rather than one based on control. The most recent construct is that of engagement, which was first presented in a 1990 *Academy of Management Journal* article by William Kahn. He defined engagement as 'the harnessing of organization members' selves to their work roles' (1990: 694).

The construct of engagement contains elements of motivation and commitment. It also embraces the notion of organizational citizenship behaviour (OCB), which is positive discretionary behaviour at work that goes beyond role requirements.

It can be difficult to disentangle the concepts of motivation, commitment and engagement, although an attempt to do so is made in the three chapters of this part. Simplistically, it could be argued that when motivation is extrinsic, ie when things are done to or for people in order to motivate them, such as through pay or recognition, the aim is to make a direct impact on individual performance. In contrast, both commitment and engagement are states of being that can be affected by managerial actions. They are not so direct or immediate as the direct instruments used in the motivation strategies aimed at individuals. Engagement and commitment strategies may be more about taking action that affects employees collectively such as improvements in the work environment.

Three other aspects of the behaviour of people at work are considered in this part. The first of these is job satisfaction, ie the attitudes and feelings that people have about their jobs. This is associated with motivation and engagement but it could be regarded as an outcome of engagement rather than a constituent of it. Whether or not job satisfaction improves performance is considered in Chapters 24 and 26. Second, the relationship between money and motivation is examined in Chapter 24. This is important because it affects policies and practices concerned with the use of pay as an incentive or reward. Third, reference is made in Chapter 26 to the dark side of engagement – burnout – how it happens and what can be done about it. In addition the increasingly popular concept of 'the employee experience' and its relationship to engagement is examined in Chapter 26.

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# 24

# Motivation

## Introduction

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Motivation is the force that energizes, directs and sustains behaviour. High performance is achieved by well-motivated people who are prepared to exercise discretionary effort, ie independently do more than is expected of them. Hunter *et al* (1990) found through their research that even in fairly basic roles, the difference in value-added discretionary performance between ‘superior’ and ‘standard’ performers was 19 per cent. For highly complex jobs it was 48 per cent.

The earliest approaches to understanding human motivation date from the time of the Greek philosophers and focused on the concept of hedonism as a principle driving force in behaviour. Individuals were seen as directing their efforts to seeking pleasure and avoiding pain. This principle was later refined and further developed in the works of philosophers such as John Locke and Jeremy Bentham in the 17th and 18th centuries. Motivation theory as we know it today started in the earlier part of the 20th century with the contributions of the exponents of scientific management (instrumentality theory). In the middle years of that century the behavioural scientists entered the field and began to develop the ‘content’ or ‘needs’ theory of motivation. The main process theories such as expectancy theory emerged in the 1960s and ’70s.

The aims of this chapter are to explore the meaning of motivation, define the two main types of motivation – intrinsic and extrinsic – describe the three main theories of motivation – instrumentality, content and process – and outline approaches to motivation strategy.

## The meaning of motivation

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The term ‘motivation’ derives from the Latin word for movement (*movere*). A motive is a reason for doing something. Motivation is the strength and direction of behaviour and the factors that influence people to behave in certain ways. People are motivated when they expect that a course of action is likely to lead to the attainment of a goal and a valued reward – one that satisfies their needs and wants. The term ‘motivation’ can refer variously to the goals that individuals have, the ways in which individuals choose their goals and the ways in which others try to change their behaviour. Locke and Latham (2004: 388) observed that: ‘The concept of motivation refers to internal factors that impel action and to external factors that can act as inducements to action.’

As described by Arnold *et al* (1991) the three components of motivation are:

- 1 *Direction* – what a person is trying to do.
- 2 *Effort* – how hard a person is trying.
- 3 *Persistence* – how long a person keeps on trying.

Well-motivated people engage in positive discretionary behaviour – they decide to make an effort. Such people may be self-motivated, and as long as it means they are going in the right direction to attain what they are there to achieve, this is the best form of motivation. But additional motivation provided by the work itself, the quality of leadership, and various forms of recognition and reward build on self-motivation and help people to make the best use of their abilities and to perform well. There are two types of motivation, as described below.

## Intrinsic motivation

Intrinsic motivation takes place when individuals feel that their work is important, interesting and challenging and that it provides them with a reasonable degree of autonomy (freedom to act), opportunities to achieve and advance, and scope to use and develop their skills and abilities. It can be described as motivation by the work itself. It is not created by external incentives. Deci and Ryan (1985) suggested that intrinsic motivation is based on the need to be competent and self-determining (that is, to have a choice). Michael Sandel (2012: 122) remarked that: ‘When people are engaged in an activity they consider intrinsically worthwhile, offering money may weaken their motivation by “crowding out” their intrinsic interest or commitment.’

Intrinsic motivation can be enhanced by job design. Katz (1964) suggested that jobs should in themselves provide sufficient variety, complexity, challenge and skill to engage the abilities of the worker. Hackman and Oldham (1974) in their job characteristics model identified the five core characteristics of jobs that result in intrinsic motivation, namely: skill variety, task identity, task significance, autonomy and feedback. Pink (2009) stated that there are three steps that managers can take to improve motivation:

- 1 *Autonomy* – encourage people to set their own schedule and focus on getting work done not how it is done.
- 2 *Mastery* – help people to identify the steps they can take to improve and ask them to identify how they will know they are making progress.
- 3 *Purpose* – when giving instructions explain the why as well as the how.

Intrinsic motivation is associated with the concept of employee engagement, as explained in Chapter 26.

## Extrinsic motivation

Extrinsic motivation occurs when things are done to or for people in order to motivate them. These include rewards such as incentives, increased pay, praise or promotion; and punishments such as disciplinary action, withholding pay, or criticism.

Extrinsic motivators can have an immediate and powerful effect, but it will not necessarily last long.

The intrinsic motivators, which are concerned with the ‘quality of working life’ (a phrase and movement that emerged from this notion), are likely to have a deeper and longer-term effect because they are inherent in individuals and the work – and are not imposed from outside in such forms as incentive pay.

The three main areas of motivation theory as described below explain the ways in which intrinsic and extrinsic motivation take place.

### Pause for thought

Andrzej Huczynski and David Buchanan wrote: ‘We each have a different reason for getting out of bed in the morning. Our motives are major determinants of our behaviour. If we understand your motives (a desire for more leisure time), we can influence your behaviour (take a day’s holiday if you finish that assignment).’

Fine, but how can we be sure that we understand anybody’s motives?

Huczynski and Buchanan (2007)

## Instrumentality theory

Instrumentality theory states in effect that rewards and punishments are the best instruments with which to shape behaviour. It assumes that people will be motivated to work if rewards and penalties are tied directly to their performance; thus the awards are contingent upon effective performance. Instrumentality theory has its roots in the scientific management methods of Taylor (1911: 121) who wrote: ‘It is impossible, through any long period of time, to get workmen to work much harder than the average men around them unless they are assured a large and a permanent increase in their pay.’

This theory provides a rationale for financial incentives such as performance-related pay, albeit a dubious one. Motivation using this approach has been and still is widely adopted. It may be successful

in some circumstances, eg piece work, but – for reasons explained in Chapter 40 – merit or performance pay is flawed.

Instrumentality theory relies exclusively on a system of external controls and does not recognize a number of other human needs. It also fails to appreciate the fact that the formal control system can be seriously affected by the informal relationship existing between workers.

### Pause for thought

The carrot and stick approach to motivation

Daniel Pink wrote: 'At the heart of the carrot and stick approach are two elegant and simple ideas: *Rewarding an activity will get you more of it. Punishing an activity will get you less of it.*

Carrots and sticks can produce precisely the *opposite* of their intended aims. Methods designed to increase motivation can dampen it. Actions aimed at increasing creativity can reduce it. Programmes to promote good deeds can make them disappear, meanwhile, instead of restraining negative behaviour, rewards and punishments can often set it loose – and give rise to cheating, addiction, and desperately myopic thinking.'

If, as Daniel Pink suggests, you should not rely on incentives to provide motivation, what should you rely on?

Pink (2008)

## Content theory

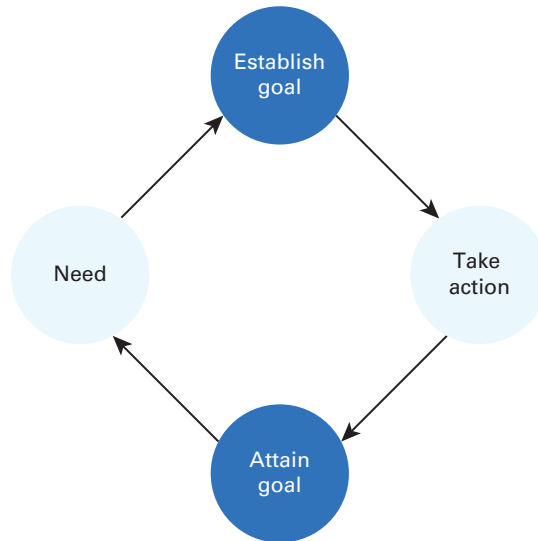
The aim of the content or needs theories produced by Maslow, Alderfer, McClelland, Herzberg, and Deci and Ryan was to identify the factors

associated with motivation. The theory focuses on the content of motivation in the shape of needs. Its basis is the belief that an unsatisfied need creates tension and a state of disequilibrium. To restore the balance a goal is identified that will satisfy the need, and a behaviour pathway is selected that will lead to the achievement of the goal and the satisfaction of the need. Behaviour is therefore motivated by unsatisfied needs. A content theory model is shown in Figure 24.1. Content theory, as the term implies, indicates the components of motivation but it does not explain how motivation affects performance – a necessary requirement if the concept is to provide guidance on HR policy and practice. This is the role of process theory, as will be discussed later.

### Maslow's hierarchy of needs

The best-known classification of needs is the one formulated by Maslow (1954). He suggested that there are five major need categories that apply to people in general, starting from the fundamental physiological needs and leading through a hierarchy of safety, social and esteem needs to the need for self-fulfilment, the highest need of all. When a lower need is satisfied the next highest becomes dominant and the individual's attention is turned to satisfying this higher need. The need for self-fulfilment, however, can never be satisfied. 'Man is a wanting animal'; only an unsatisfied need can motivate behaviour and the dominant need is the prime motivator of behaviour. Psychological development takes place as people move up the hierarchy of needs, but this is not necessarily a straightforward progression. The lower needs still exist, even if temporarily dormant as motivators, and individuals constantly return to previously satisfied needs.

Maslow's needs hierarchy has an intuitive appeal and has been very popular. But it has not been verified by empirical research such as that conducted by Wahba and Bridwell (1979), and it has been criticized for its apparent rigidity – different people may have different priorities and the underpinning assumption that everyone has the same needs is invalid. It is difficult to accept that needs progress steadily up the hierarchy and Maslow himself expressed doubts about the validity of a strictly ordered hierarchy. But he did emphasize that the higher-order needs are more significant.

**FIGURE 24.1** The process of motivation according to content theory

### ERG theory (Alderfer)

Alderfer (1972) produced a more convincing and simpler although less well-known theory, which postulated three primary categories of needs:

- 1 *Existence needs* such as hunger and thirst – pay, fringe benefits and working conditions are other types of existence needs.
- 2 *Relatedness needs*, which acknowledge that people are not self-contained units but must engage in transactions with their human environment – acceptance, understanding, confirmation and influence are elements of the relatedness process.
- 3 *Growth needs*, which involve people in finding the opportunities to be what they are most fully and to become what they can. This is the most significant need.

### McClelland's achievement motivation

An alternative way of classifying needs was developed by McClelland (1961), who based it mainly on studies of managers. He identified three needs, of which the need for achievement was the most important:

- 1 The need for *achievement*, defined as the need for competitive success measured against a personal standard of excellence.
- 2 The need for *affiliation*, defined as the need for warm, friendly, compassionate relationships with others.
- 3 The need for *power*, defined as the need to control or influence others.

### Herzberg's two-factor model

The two-factor model of motivation developed by Herzberg (1957, 1966) was based on an investigation into the sources of job satisfaction and dissatisfaction of accountants and engineers who were asked what made them feel exceptionally good or exceptionally bad about their jobs. According to Herzberg, this research established that there were two factors that affected feelings of satisfaction or dissatisfaction. Motivating factors or 'satisfiers' relate to the job content and consist of the need for achievement, the interest of the work, responsibility and opportunities for advancement. These needs are the intrinsic motivators. He summed this up in the phrase 'motivation by the work itself'.

Hygiene factors relate to the job context, including such things as pay and working conditions. 'Hygiene' is used in the medical sense of the term,



meaning preventative and environmental. In themselves, hygiene factors neither satisfy nor motivate and they serve primarily to prevent job dissatisfaction, while having little effect on positive job attitudes. Pay is not a satisfier but if it is inadequate or inequitable it can cause dissatisfaction. However, its provision does not provide lasting satisfaction.

Herzberg's two-factor theory in effect identifies needs but it has been attacked by, for example, Opsahl and Dunnette (1966). The research method has been criticized because no attempt was made to measure the relationship between satisfaction and performance. It has been claimed that the two-factor nature of the theory is an inevitable result of the questioning method used by the interviewers. It has also been suggested that wide and unwarranted inferences have been drawn from small and specialized samples and that there is no evidence to suggest that the satisfiers do improve productivity. The underpinning assumption that everyone has the same needs is invalid. Denise Rousseau (2006: 263), in her presidential address to the US Academy of Management, summed up these views as follows: 'Herzberg's long discredited two-factor theory is typically included in the motivation section of management textbooks, despite the fact that it was discredited as an artefact of method bias over 30 years ago.'

In spite of these objections, the Herzberg two-factor theory continues to thrive; partly because it is easy to understand and seems to be based on real-life rather than academic abstractions, and partly because it convincingly emphasizes the positive value of the intrinsic motivating factors and highlights the need to consider both financial and non-financial factors when developing reward systems. It is also in accord with a fundamental belief in the dignity of labour and the Protestant ethic – that work is good in itself. Herzberg's strength as a proselytizer rather than a researcher meant that he had considerable influence on the job enrichment movement, which sought to design jobs in a way that would maximize the opportunities to obtain intrinsic satisfaction from work and thus improve the quality of working life.

### **Comment on content theories**

Shields (2007: 74) observed that content theories share some common shortcomings. His criticisms were that they incorrectly assume:

- the existence of a universally applicable set of human needs;
- that according to Maslow (1954), needs conform to a simple ordered hierarchy of need importance, when in reality, needs seem to operate in a more flexible, less ordered and predictable way;
- that the link between needs and behaviours is direct and automatic, rather than mediated by human consciousness, values and choice.

In addition, he pointed out that content theories 'underestimate the motivational potency of extrinsic rewards, including financial rewards'.

## **Process theory**

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In process theory, the emphasis is on the psychological or mental processes and forces that affect motivation, as well as on basic needs. It is also known as cognitive theory because it refers to people's perceptions of their working environment and the ways in which they interpret and understand it. The main process theories are concerned with reinforcement, expectancy, goals, equity and cognitive evaluation. Two other theories – flow and the AMO model – are not usually classified as process theories but their approach to analysing human behaviour has similarities to the recognized theories so they are included under this heading.

### **Reinforcement theory**

This is the oldest and least complex of the process theories. It is based on 'the law of effect' as formulated by Thorndike (1911), which states that over time people learn about the relationships between their actions and the consequences of them and this understanding guides their future behaviour. In other words, if they believe that something has worked previously then they will do it again. It was later developed by Hull (1943, 1951).

Skinner (1953) and others later built on these principles with the notion of 'operant conditioning', which was influenced by the work of Pavlov and his salivating dogs. As Shields (2007: 76) put it: 'Positive reinforcement of desired behaviour elicits more of the same; punishment of undesired behaviour (negative reinforcement) elicits less of the same.'



Reinforcement models continue to thrive today as explanatory vehicles for understanding work motivation and job performance, and as a justification of performance pay.

But reinforcement theory can be criticized for taking an unduly mechanistic view of human nature. It implies that people can be motivated by treating them as machines – by pulling levers. In assuming that the present choices of individuals are based on an understanding of the outcomes of their past choices, reinforcement theory ignores the existing context in which choices are made. In addition, motivational theories based on the principle of reinforcement pay insufficient attention to the influence of expectations – no indication is given of how to distinguish in advance which outcomes would strengthen responses and which would weaken them. Above all, they are limited because they imply, in Allport's (1954) vivid phrase, a hedonism of the past.

## Expectancy theory

Expectancy theory states that motivation will be high when people know what they have to do in order to get a reward, expect that they will be able to get the reward, and expect that the reward will be worthwhile.

The concept of expectancy was originally contained in the valency-instrumentality-expectancy (VIE) theory that was formulated by Vroom (1964). Valency stands for value; instrumentality is the belief that if we do one thing it will lead to another; and expectancy is the probability that action or effort will lead to an outcome.

The strength of expectations may be based on past experiences (reinforcement), but individuals are frequently presented with new situations – a change in job, payment system, or working conditions imposed by management – where past experience is an inadequate guide to the implications of the change. In these circumstances, motivation may be reduced.

Motivation is only likely when a clearly perceived and usable relationship exists between performance and outcome, and the outcome is seen as a means of satisfying needs. This explains why extrinsic financial motivation – for example, an incentive or bonus scheme – works only if the link (line of sight) between effort and reward is clear and the value of the reward is worth the effort. It also

explains why intrinsic motivation arising from the work itself can be more powerful than extrinsic motivation. Intrinsic motivation outcomes are more under the control of individuals, who can place greater reliance on their past experiences to indicate the extent to which positive and advantageous results are likely to be obtained by their behaviour. Expectancy theory also emphasizes the role of both person and situational variables as pointed out by Nadler and Lawler:

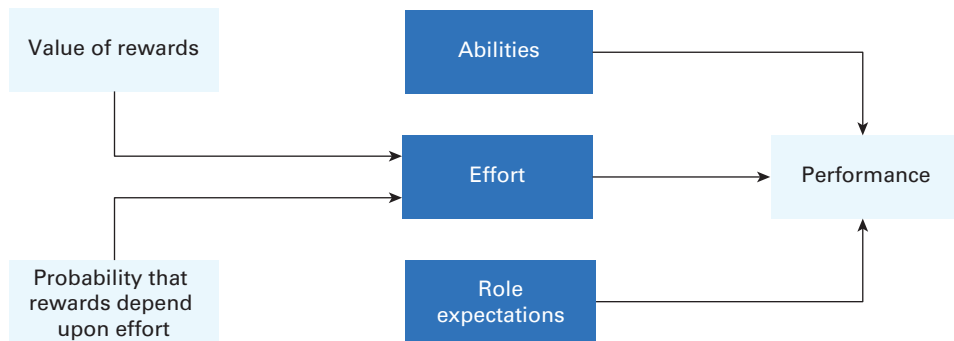
### Words of wisdom

Behaviour is determined by a combination of forces in the individual and forces in the environment. Neither the individual nor the environment alone determines behaviour.

Nadler and Lawler (1979: 217)

This theory was developed by Porter and Lawler (1968) into a model shown in Figure 24.2, which follows Vroom's ideas by suggesting that there are two factors determining the effort that people put into their jobs: first, the value of the rewards to individuals in so far as they satisfy their needs for security, social esteem, autonomy and self-actualization; second, the probability that rewards depend on effort, as perceived by individuals – in other words, their expectations about the relationships between effort and reward. Thus, the greater the value of a set of awards and the higher the probability that receiving each of these rewards depends upon effort, the greater the effort that will be put forth in a given situation.

But, as Porter and Lawler emphasized, mere effort is not enough. It has to be effective effort if it is to produce the desired performance. The two variables additional to effort that affect task achievement are: (1) ability – individual characteristics such as intelligence, knowledge, skills; (2) role perceptions – what the individual wants to do or thinks they are required to do. These are good from the viewpoint of the organization if they correspond with what it thinks the individual ought to be doing.

**FIGURE 24.2** Motivation model

**SOURCE** Porter and Lawler (1968)

They are poor if the views of the individual and the organization do not coincide.

Alongside goal theory (see below), expectancy theory has become the most influential motivation theory, particularly as it affects performance and reward management. But reservations have been expressed about it. House *et al* (1974) remarked that: ‘Evidence for the validity of the theory is very mixed.’ They also established that there were a number of variables affecting expectations that make it difficult to predict how they function. These are:

- Leadership behaviour – the function of the leader in clarifying expectations, guiding, supporting and rewarding subordinates.
- Individual characteristics – the subjects’ perception of their ability to perform the required task.
- Nature of the task – whether accomplishing the task provides the necessary reinforcements and rewards.
- The practices of the organization – its reward and control systems and how it functions.

Research conducted by Behling and Starke (1973) established that individuals:

- make crucial personal decisions without clearly understanding the consequences;
- do not in practice consistently evaluate their order of preference for alternative actions;
- have to assign two values when making a decision – its desirability and its

achievability – but they tend to be influenced mainly by desirability – they let their tastes influence their beliefs;

- may be able to evaluate the extrinsic rewards they expect but may find it difficult to evaluate the possibility of achieving intrinsic rewards;
- may find it difficult to distinguish the benefits of one possible outcome from another.

They concluded that: ‘Expectancy theory can account for some of the variations in work effort but far less than normally attributed to it’ (ibid: 386).

Shields (2007: 80) commented that a problem with expectancy theory is that it assumes that ‘behaviour is rational and premeditated when we know that much workplace behaviour is impulsive and emotional.’

However, in spite of these objections, the simple message of expectancy theory – that people will be motivated if they expect that their behaviour will produce a worthwhile reward – is compelling. And it provides a useful tool to assess the effectiveness of motivating devices such as performance-related pay.

## Goal theory

Goal theory, as developed by Latham and Locke (1979), following their research states that motivation and performance are higher when individuals are set specific goals, when goals are demanding but accepted, and when there is feedback on performance. Goals must be clearly defined. Participation

in goal setting is important as a means of getting agreement to the setting of demanding goals. Feedback is vital in maintaining motivation, particularly towards the achievement of even higher goals. Goal theory has had considerable influence on performance and reward management practices.

However, the universality of goal theory has been questioned. For example, Pintrich (2000) noted that people have different goals in different circumstances and that it is hard to justify the assumption that goals are always accessible and conscious. And Harackiewicz *et al* (2002) warned that goals are only effective when they are consistent with and match the general context in which they are pursued. But support for goal theory was provided by Bandura and Cervone (1983), who emphasized the importance of self-efficacy (a belief in one's ability to accomplish goals).

### **Equity theory**

Equity theory, as defined by Adams (1965), is concerned with the perceptions people have about how they are being treated as compared with others. He proposed that employees assess the fairness or otherwise of their rewards (outcomes) in relation to their effort or qualifications (inputs) and that they do this by comparing their own input/output ratio against that of other individuals. If the input/output ratio is perceived to be unfavourable, they will feel that there is reward inequity.

Equity theory explains only one aspect of the processes of motivation and job satisfaction, although it may be significant in terms of morale and, possibly, of performance.

### **Social learning theory**

Social learning theory, as developed by Bandura (1977), combines aspects of both reinforcement and expectancy theory. It recognizes the significance of the basic behavioural concept of reinforcement as a determinant of future behaviour but also emphasizes the importance of internal psychological factors, especially expectancies about the value of goals and the individual's ability to reach them. The term 'reciprocal determinism' is used to denote the concept that while the situation will affect individual behaviour, individuals will simultaneously influence the situation.

### **Cognitive evaluation theory**

Cognitive evaluation theory contends that the use of extrinsic rewards may destroy the intrinsic motivation that flows from inherent job interest. It was formulated by Deci and Ryan (1985). Referring to their research, they stated that: 'Rewards, like feedback, when used to convey to people a sense of appreciation for work well done, will tend to be experienced informationally and will maintain or enhance intrinsic motivation. But when they are used to motivate people, they will be experienced controllingly and will undermine intrinsic motivation.'

Deci *et al* (1999) followed up this research by carrying out a meta-analysis of 128 experiments on rewards and intrinsic motivation to establish the extent to which intrinsic motivation was undermined by rewards. The results of the study indicated that for high-interest tasks, rewards had significant negative effects on what the researchers called 'free-choice measures', which included the time spent on the task after the reward was removed.

But as noted by Gerhart and Rynes (2003: 52): 'The vast majority of research on this theory has been performed in school rather than work settings, often with elementary school-aged children.' But that did not stop other commentators such as Daniel Pink assuming that the results were equally significant for working adults. It is interesting to note that research in industry conducted by Deci and Ryan (1985), while it found that financial incentives did decrease intrinsic motivation in high-control organizational cultures, also established that in organizations with the opposite high-involvement culture, intrinsic and extrinsic motivation were both increased by monetary incentives. Context is all important. Moreover, a meta-analysis of 145 studies conducted by Cameron *et al* (2001) led to the conclusion that rewards do not inevitably have negative effects on intrinsic motivation.

### **Self-determination theory**

As formulated by Deci and Ryan (2000), this theory states that individuals are motivated by the innate need to achieve three fundamental goals: striving for competence, autonomy and relatedness. These are associated with inherent growth tendencies that lead to effort and commitment.

### Words of wisdom

The fullest representations of humanity show people to be curious, vital and self-motivated. At their best they are agentic and inspired, striving to learn, extend themselves, master new skills and apply their talents responsibly.

Deci and Ryan (2000: 268)

### Flow

The concept of flow was originated by Mihály Csikszentmihályi (1990), who described it as the mental state of someone who is fully focused and immersed in an activity and enjoys doing it. It can be described as fully focused motivation. According to Csikszentmihályi, the flow experience is characterized by immediate feedback, feeling that you have the potential to succeed and feeling so engrossed in the experience that other needs become negligible. The notion of flow usefully encapsulates a number of familiar concepts from the fields of motivation, engagement and job design theory

### The AMO model

The AMO model, as developed by Boxall and Purcell (2003), states that performance depends on the individual's ability, motivation and opportunity. Employees must have the ability to perform well and the motivation to do so, while organizations must ensure that they are given the opportunity to perform. Boxall and Purcell (2016: 155) formulated the AMO framework as  $P = f(A, M, O)$  and explained that 'Individuals perform when they have:

- the ability (A) to perform (they *can do* the job because they have the necessary knowledge, skills and aptitudes);
- the motivation (M) to perform (they *will do* the job because they want to do it or feel they must do it); and
- the opportunity (O) to perform (their work structure and environment provide the

necessary support and avenues for expression).'

They also noted that someone's ability, motivation and opportunity to perform would depend on two groups of factors: (1) the individual's experience, intelligence, health personality etc, and (2) the situational factors of HR policies and practices orientated to creating 'AMO' and related variables in the production system and the organizational context.

The AMO model provides a useful basis for identifying the factors that influence performance and taking action accordingly as explained in Figure 6.3 in Chapter 6.

### Comment on process theories

Process theories are not based on suspect assumptions about the universality of needs, as are content theories. Process theories emphasize the importance of individual decision making on work behaviour. As pointed out by Shields (2007: 85), 'they acknowledge the importance of social and job context as co-determinants of motivational strength while those other than reinforcement theory also highlight the importance of self-efficacy, task or goal clarity and motivational learning'.

## Summary of motivation theories

The main motivation theories are summarized in Table 24.1.

### Pause for thought

'Motivation is based on growth needs. It is an internal engine, and its benefits show up over a long period of time. Because the ultimate reward in motivation is personal growth, people don't need to be rewarded incrementally.'

Herzberg (1991)

If you agree with this proposition, what use can an individual manager make of it?

**TABLE 24.1** Summary of motivation theories

Category	Type	Theorist(s)	Summary of theory	Implications
Instrumentality	Taylorism	Taylor (1911)	If we do one thing it leads to another. People will be motivated to work if rewards and punishments are directly related to their performance.	Basis of crude attempts to motivate people by incentives. Often used as the implied rationale for performance-related pay although this is seldom an effective motivator.
Reinforcement	The motivation process	Hull (1951)	As experience is gained in satisfying needs, people perceive that certain actions help to achieve goals while others are unsuccessful. The successful actions are repeated when a similar need arises.	Provides feedback which positively reinforces effective behaviour.
Content (needs) theory	Hierarchy of needs	Maslow (1954)	People are motivated by their needs which are translated into goals for them to attain. The content of motivation is therefore those needs and the goals they generate to which people aspire.	Focuses attention on the various needs that motivate people and the notion that a satisfied need is no longer a motivator. The concept of a hierarchy has no practical significance.
Two-factor model	Related to needs theory	Herzberg <i>et al</i> (1957)	Two groups of factors affect job satisfaction: (1) those intrinsic to the work itself; (2) those extrinsic to the job (extrinsic motivators or hygiene factors) such as pay and working conditions.	Identifies a number of fundamental needs. It also indicates that satisfaction from a pay increase (extrinsic motivation) does not last long.
Process/cognitive theory	Expectancy theory	Vroom (1964), Porter and Lawler (1968)	Effort (motivation) depends on the likelihood that rewards will follow effort and that the reward is worthwhile.	For a reward system to be effective, there must be a link between effort and reward (line of sight), the reward should be achievable and it should be worthwhile.
	Goal theory	Latham and Locke (1979)	Motivation will improve if people have demanding but agreed goals and receive feedback.	Influences performance management and learning and development practices.

(continued)

**TABLE 24.1** (Continued)

Category	Type	Theorist(s)	Summary of theory	Implications
	Equity theory	Adams (1965)	People are better motivated if treated equitably.	Need to have equitable reward and employment practices.
	Flow	Csikszentmihályi (1990)	The mental state of someone who is focused on work and enjoys doing it.	Emphasis on feedback setting goals and job design.

## Motivation and job satisfaction

Job satisfaction can be defined as the attitudes and feelings people have about their work. Positive and favourable attitudes towards the job indicate job satisfaction. Negative and unfavourable attitudes towards the job indicate job dissatisfaction. It can be distinguished from morale, which is a group rather than individual variable, related to the degree to which group members feel attracted to their group and want to remain a member of it.

### The factors that affect job satisfaction

Levels of job satisfaction or dissatisfaction are influenced by:

- *The intrinsic motivating factors.* These relate to job content, especially the five dimensions of jobs identified by Hackman and Oldham (1974): skill variety, task identity, task significance, autonomy and feedback (the job characteristics model).
- *The quality of supervision.* The Hawthorne studies (Roethlisberger and Dixon, 1939) resulted in the claim that supervision is the most important determinant of worker attitudes. Elton Mayo (1933) believed that a man's desire to be continuously associated in work with his fellows is a strong, if not the strongest human characteristic.

- *Success or failure.* Success obviously creates satisfaction, especially if it enables individuals to prove to themselves that they are using their abilities to the full. And it is equally obvious that the reverse is true of failure.

### Job satisfaction and performance

It is a commonly held and not unreasonable belief that an increase in job satisfaction results in improved performance. The whole human relations movement led by Mayo (1933) and supported by the Roethlisberger and Dixon (1939) research was based on the belief that productivity could be increased by making workers more satisfied, primarily through pleasant and supportive supervision and by meeting their social needs. But research by Katz *et al* (1950) and Katz *et al* (1951) found that the levels of satisfaction with pay, job status or fellow workers in high-productivity units were no different to those in low-productivity units.

Meta-analysis by Brayfield and Crockett (1955) of a number of studies concluded that there was little evidence of any simple or appreciable relationship between satisfaction and performance. A later review of research by Vroom (1964) found that the median correlation between job satisfaction and job performance for all these studies was only 0.14, which is not high enough to suggest any marked relationship between them. Spector (1997) came to the same conclusion. Indeed, it can be argued that it is not increases in satisfaction that produce improved performance but improved performance that increases satisfaction. This was confirmed by data on the link between job satisfaction and performance



for 177 store managers, analysed by Christen *et al* (2006). It was established that store managers' performance increased their job satisfaction but that job satisfaction had no impact on job performance.

## Motivation and money

Money, in the form of pay or some other sort of remuneration, is regarded by many people as the most obvious extrinsic reward. Money seems to provide the carrot that most people want.

Doubts were cast on the effectiveness of money by Herzberg (1968), which, although unsupported by his research, have some degree of face validity. He claimed that while the lack of money can cause dissatisfaction, its provision does not result in lasting satisfaction. There is something in this, especially for people on fixed salaries or rates of pay who do not benefit directly from an incentive scheme. They may feel good when they get an increase; apart from the extra money, it is a highly tangible form of recognition and an effective means of helping people to feel that they are valued. But this feeling of euphoria can rapidly die away. Other causes of dissatisfaction from Herzberg's list of hygiene factors, such as working conditions or the quality of management, can loom larger in some people's minds when they fail to get the satisfaction they need from the work itself. However, it must be re-emphasized that different people have different needs and wants. Some will be much more motivated by money than others. What cannot be assumed is that money motivates everyone in the same way and to the same extent. Thus it is naive to think that the introduction of a performance-related pay scheme will miraculously transform everyone overnight into well-motivated, high-performing individuals.

Nevertheless, money is a powerful force because it is linked directly or indirectly to the satisfaction of many needs. Money may in itself have no intrinsic meaning, but it acquires significant motivating power because it comes to symbolize so many intangible goals. It acts as a symbol in different ways for different people, and for the same person at different times.

But do financial incentives motivate people? The answer is yes, for those people who are strongly motivated by money and whose expectations are that they will receive a worthwhile financial reward. But less confident employees may not respond to incentives that they do not expect to achieve. It can also

be argued that extrinsic rewards may erode intrinsic interest – people who work just for money could find their tasks less pleasurable and may not, therefore, do them so well. What we do know is that a multiplicity of factors is involved in performance improvements and many of those factors are interdependent.

Money can therefore provide positive motivation in the right circumstances not only because people need and want money but also because it serves as a highly tangible means of recognition. But badly designed and managed pay systems can demotivate. Another researcher in this area was Jaques (1961), who emphasized the need for such systems to be perceived as being fair and equitable. In other words, the reward should be clearly related to effort or level of responsibility and people should not receive less money than they deserve compared with their fellow workers. Jaques called this the 'felt-fair' principle.

## Conclusions on motivation theory

Instrumentality and reinforcement theories provide a simplistic explanation of how motivation works. Needs and content theories are more sophisticated but have their limitations.

### Words of wisdom

Although the ideas developed by Maslow, Herzberg and Deci have had considerable appeal to many people, the prevailing view in the academic literature is that the specific predictions of these theories is not supported by empirical evidence. On the other hand it would be a mistake to underestimate the influence that these theories have had on research and practice. Pfeffer, Kohn and others continue to base their argument regarding the ineffectiveness of money as a motivator on such theories.

Gerhart and Rynes (2003: 53)



And Steers *et al* (2004) contended that: ‘Motivation theories that were discredited long ago still permeate textbooks’. They were referring mainly to Maslow and Herzberg.

But, needs theory still offers an indication of the factors that motivate people and content theory provides some useful explanations of how motivation takes place. And while instrumentality and reinforcement theories may be simplistic they still explain some aspects of how rewards affect motivation and performance and they continue to exert

subliminal influence on the beliefs of some managers about the power of incentives to motivate people.

## Motivation strategies

Motivation strategies aim to create a working environment and to develop policies and practices that will provide for higher levels of performance from employees. The factors affecting them and the HR contribution are summarized in Table 24.2.

**TABLE 24.2** Motivation strategies

Factors affecting motivation strategies	The HR contribution
The complexity of the process of motivation means that simplistic approaches based on instrumentality or needs theory are unlikely to be successful.	Avoid the trap of developing or supporting strategies that offer prescriptions for motivation based on a simplistic view of the process or fail to recognize individual differences.
People are more likely to be motivated if they work in an environment in which they are valued for what they are and what they do. This means paying attention to the basic need for recognition.	Encourage the development of performance management processes that provide opportunities to agree expectations and to recognize accomplishments.
Extrinsic motivators such as incentive pay can have an immediate and powerful effect, but it will not necessarily last long. The intrinsic motivators, which are concerned with the ‘quality of working life’ (a phrase and movement which emerged from this concept), are likely to have a deeper and longer-term effect because they are inherent in individuals and the work they do and not imposed from outside in such forms as performance-related pay.	<ul style="list-style-type: none"> <li>• Develop total reward systems which provide opportunities for both financial and non-financial rewards to recognize achievements. Bear in mind, however, that financial rewards systems are not necessarily appropriate and the lessons of expectancy, goal and equity theory need to be taken into account in designing and operating them.</li> <li>• Pay particular attention to recognition as a means of motivation and developing intrinsic motivation through job design.</li> </ul>
Some people will be much more motivated by money than others. It cannot be assumed that money motivates everyone in the same way and to the same extent.	Avoid the introduction of a performance-related pay scheme in the belief that it will miraculously transform everyone overnight into well-motivated, high-performing individuals.
Recognition should be given to the need for work which provides people with the means to achieve their goals, a reasonable degree of autonomy, and scope for the use of skills and competences.	Advise on processes for the design of jobs which take account of the factors affecting the motivation to work, providing for job enrichment in the shape of variety, decision-making responsibility and as much control as possible in carrying out the work.

(continued)

**TABLE 24.2** (Continued)

Factors affecting motivation strategies	The HR contribution
The need for the opportunity to grow by developing abilities and careers.	<ul style="list-style-type: none"> <li>• Provide facilities and opportunities for learning through such means as personal development planning processes as well as more formal training.</li> <li>• Develop career planning processes.</li> </ul>
The cultural environment of the organization in the shape of its values and norms will influence the impact of any attempts to motivate people by direct or indirect means.	Advise on the development of a culture which supports processes of valuing and rewarding employees.
Motivation will be enhanced by leadership which sets the direction, encourages and stimulates achievement and provides support to employees in their efforts to reach goals and improve their performance generally.	<ul style="list-style-type: none"> <li>• Devise competency frameworks which focus on leadership qualities and the behaviours expected of managers and team leaders.</li> <li>• Ensure that leadership potential is identified through performance management and assessment centres.</li> <li>• Conduct leadership development programmes.</li> </ul>

### Key learning points

#### The process of motivation

Motivation is goal-directed behaviour. People are motivated when they expect that a course of action is likely to lead to the attainment of a goal and a valued reward – one that satisfies their needs and wants.

#### Types of motivation

The two basic types are intrinsic and extrinsic motivation.

#### Motivation theories

There are a number of motivation theories that, in the main, are complementary to one another. The most

significant theories are those concerned with expectancy, goal setting, equity and cognitive evaluation, which are classified as process or cognitive theories.

#### Motivation strategies

Motivation strategies aim to create a working environment and to develop policies and practices that will provide for higher levels of performance from employees. They include the design of intrinsically motivating jobs and leadership development programmes and the development of total reward systems and performance management processes.

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# 25

# Commitment

## Introduction

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Commitment represents the strength of an individual's identification with, and involvement in, an organization. It is a concept that has played an important part in HRM philosophy. As Guest (1987: 503) suggested, HRM policies are designed to 'maximize organizational integration, employee commitment, flexibility and quality of work'. Beer *et al* (1984: 20) identified commitment in their concept of HRM as a key dimension because it 'can result not only in more loyalty and better performance for the organization, but also in self-worth, dignity, psychological involvement, and identity for the individual'. This chapter starts with a definition of commitment and comments on the related concepts of mutuality and mutual gains. It continues with sections on commitment and engagement, the factors affecting commitment and developing a commitment strategy. The chapter ends with a critical evaluation of the concept.

## The meaning of organizational commitment

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Commitment refers to attachment and loyalty. It is associated with the feelings of individuals about their organization. Mowday (1998) stated that it is characterized by an emotional attachment to one's organization that results from shared values and interests. The three characteristics of commitment identified by Mowday *et al* (1982) are:

- 1 A strong desire to remain a member of the organization.
- 2 A strong belief in and acceptance of the values and goals of the organization.
- 3 A readiness to exert considerable effort on behalf of the organization.

Appelbaum *et al* (2000: 183) rephrased this definition as: 'Organizational commitment is a multi-dimensional construct that reflects a worker's: identification with the organization (loyalty), attachment to the organization (intention to stay), and willingness to expend effort on the organization's behalf (discretionary effort).' An alternative, although closely related definition of commitment emphasizes the importance of behaviour in creating commitment. Three features of behaviour are important in binding individuals to their acts: the visibility of the acts, the extent to which the outcomes are irrevocable, and the degree to which the person undertakes the action voluntarily. Commitment, according to Salancik (1977) can be increased and harnessed to obtain support for organizational ends and interests through such ploys as participation in decisions about actions.

## Mutuality and commitment

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Mutuality is a state that exists when management and employees are interdependent and both benefit by achieving mutual gains from this interdependency. The importance of mutuality and its relationship to commitment was spelt out by Walton as follows:

### Source review

The new HRM model is composed of policies that promote mutuality – mutual goals, mutual influence, mutual respect, mutual rewards, mutual responsibility. The theory is that policies of mutuality will elicit commitment which in turn will yield both better economic performance and greater human development.

Walton (1985a: 64)

Walton's theme was that improved performance would result if the organization moved away from the traditional control-oriented approach to workforce management, which relies upon establishing order, exercising control and achieving efficiency. He proposed that this approach should be replaced by a commitment strategy that would enable workers 'to respond best – and most creatively – not when they are tightly controlled by management, placed in narrowly defined jobs, and treated like an unwelcome necessity, but, instead, when they are given broader responsibilities, encouraged to contribute and helped to achieve satisfaction in their work' (Walton, 1985b: 77). He described the commitment-based approach as follows:

### Words of wisdom

Jobs are designed to be broader than before, to combine planning and implementation, and to include efforts to upgrade operations, not just to maintain them. Individual responsibilities are expected to change as conditions change, and teams, not individuals, often are the organizational units accountable for performance. With management hierarchies relatively flat and differences in status

minimized, control and lateral coordination depend on shared goals. And expertise rather than formal position determines influence.

Walton (1985b: 79)

Expressed like this, a commitment strategy sounds idealistic ('the American dream' as Guest [1990] put it) but it does not appear to be a crude attempt to manipulate people to accept management's values and goals, as some have suggested. In fact, Richard Walton did not describe it as being instrumental in this manner. His prescription was for a broad HRM approach to the ways in which people are treated, jobs are designed and organizations are managed. He believed that the aim should be to develop mutuality.

However, a review by Guest (1991) of the mainly North American literature, reinforced by the limited UK research available, led him to the conclusion that: 'High organizational commitment is associated with lower labour turnover and absence, but there is no clear link to performance.' Swailes (2002: 164) confirmed that: 'Despite the best efforts of researchers... the evidence for a strong positive link between commitment and performance remains patchy.'

It is probably unwise to expect too much from commitment as a means of making a direct and immediate impact on performance. It is not the same as motivation. It is possible to be dissatisfied with a particular feature of a job while retaining a fairly high level of commitment to the organization as a whole. But it is reasonable to believe that strong commitment to work may result in conscientious and self-directed application to do the job, regular attendance, the need for less supervision and a high level of discretionary effort. Commitment to the organization will certainly be related to the intention to stay there.

## The mutual gains perspective

The mutual gains perspective states that organizations should pursue employment policies that

produce benefits for both employees and themselves. It is influenced by social exchange theory which states that feelings of loyalty and commitment and discretionary effort are a social reciprocity by employees to a good employer. It is related to Walton's notion of mutuality.

### Words of wisdom

The term mutual gains is appropriate because it conveys a key message: achieving and sustaining competitive advantage from human resources requires the strong support of multiple stakeholders... employees must commit their energies to meeting the economic objectives of the enterprise. In return, owners must share the economic returns with employees and invest those returns in such a way as promotes the long-run economic security of the workforce.

Kochan and Osterman (1994: 46)

As Peccei *et al* (2013: 21) point out: 'The mutual gains model hypothesizes that HRM has a positive impact on both employee wellbeing and organizational performance.'

The mutual gains perspective extends beyond the concept of mutuality to its application in employment relations as a factor in achieving partnership between management and trade unions and as a framework for collective bargaining (see Chapter 44).

## Commitment and engagement

The notion of commitment as described above appears to be very similar if not identical to that of organizational engagement which focuses on attachment to, or identification with, the organization as a whole. Are there any differences?

Some commentators have asserted that commitment is a distinct although closely linked entity. As cited by Buchanan (2004: 19), the US Corporate Executive Board divides engagement into two aspects of commitment: (1) rational commitment, which occurs when a job serves employees' financial, developmental or professional self-interest; and (2) emotional commitment, which arises when workers value, enjoy and believe in what they do and has four times the power to affect performance as its more pragmatic counterpart. The Corporate Executive Board (2004: 1) indicated that engagement is 'the extent to which employees commit to someone or something in their organization, how hard they work, and how long they stay as a result of that commitment.' Wellins and Concelman (2005: 1) suggested that 'to be engaged is to be actively committed'.

### Words of wisdom

Organizational commitment is an important facet of the state of engagement when it is conceptualized as positive attachment to the larger organizational entity and measured as a willingness to exert energy in support of the organization, to feel pride as an organizational member, and to have personal identification with the organization.

Macey and Schneider (2008: 8–9)

Clearly organizational engagement and commitment are closely associated, and commitment was included by the Institute for Employment Studies in its model (see Chapter 26) as an element of engagement. Appelbaum *et al* (2000: 183) noted that: 'The willingness to exert extra effort is the aspect of organizational commitment that has been shown to be most closely related to an employee's job performance.' Robinson *et al* (2004: 7) suggested that the closest relationship of commitment to engagement was 'affective commitment, ie the satisfaction people



get from their jobs and their colleagues and their willingness to go beyond the call of duty for the sake of the organization.’ Salanova *et al* (2005) saw commitment as part of engagement but not equivalent to it.

The analysis of the concept of commitment as undertaken in this chapter is based on a considerable body of work exploring its nature and significance, and therefore helps to illuminate the somewhat elusive notion of engagement as discussed in Chapter 26. But there are problems with the notion of commitment, as considered in the last section of this chapter.

## Factors affecting commitment

Kochan and Dyer (1993) indicated that the factors affecting the level of commitment in what they called ‘mutual commitment firms’ were as follows:

- *Strategic level*: supportive business strategies, top management value commitment and effective voice for HR in strategy making and governance.
- *Functional (human resource policy) level*: staffing based on employment stabilization, investment in training and development and contingent compensation that reinforces cooperation, participation and contribution.
- *Workplace level*: selection based on high standards, broad task design and teamwork, employee involvement in problem solving and a climate of cooperation and trust.

The research conducted by Purcell *et al* (2003) identified the following key policy and practice factors that influence levels of commitment:

- received training last year;
- satisfied with career opportunities;
- satisfied with the performance appraisal system;
- think managers are good in people management (leadership);
- find their work challenging;
- think their firm helps them achieve a work-life balance;
- satisfied with communication or company performance.

## Developing a commitment strategy

A commitment strategy can be based on the high-commitment model incorporating policies and practices in areas of HR such as job design, learning and development, career planning, performance management, reward management, participation, communication and employee wellbeing. HR should play a major part in developing a high-commitment organization. The 10 steps that can be taken are:

- 1 Advise on methods of communicating the values and aims of management and the achievements of the organization so that employees are more likely to identify with the organization as one they are proud to work for.
- 2 Emphasize to management that commitment is a two-way process; employees cannot be expected to be committed to the organization unless management demonstrates that it is committed to them and recognizes their contribution as stakeholders.
- 3 Impress on management the need to develop a climate of trust by being honest with people, treating them fairly, justly and consistently, keeping its word, and showing willingness to listen to the comments and suggestions made by employees during processes of consultation and participation.
- 4 Develop a positive psychological contract (the set of reciprocal but unwritten expectations that exist between individual employees and their employers) by treating people as stakeholders, relying on consensus and cooperation rather than control and coercion, and focusing on the provision of opportunities for learning, development and career progression.
- 5 Advise on the establishment of partnership agreements with trade unions that emphasize unity of purpose, common approaches to working together and the importance of giving employees a voice in matters that concern them.
- 6 Recommend and take part in the achievement of single status for all

employees (often included in a partnership agreement) so that there is no longer an ‘us and them’ culture.

- 7 Encourage management to declare a policy of employment security and ensure that steps are taken to avoid involuntary redundancies.
- 8 Develop performance management processes that provide for the alignment of organizational and individual objectives.
- 9 Advise on means of increasing employee identification with the company through rewards related to organizational performance (profit sharing or gainsharing) or employee share ownership schemes.
- 10 Enhance employee job engagement, ie identification of employees with the job they are doing, through job design processes that aim to create higher levels of job satisfaction (job enrichment).

## Critical evaluation of the concept of commitment

A number of commentators have raised questions about the concept of commitment. These relate to three main problem areas: (1) the imprecise nature of the term, (2) its unitary frame of reference, and (3) commitment as an inhibitor of flexibility.

### *The imprecise nature of the term*

Guest (1987: 513) raised the question of what commitment really means as follows:

The case for seeking high commitment among employees seems plausible but the burgeoning research on the topic has identified a number of problems. One of these concerns the definition of the concept. The first issue is – commitment to what? Most writers are interested in commitment to the organization, but others have examined career commitment and job commitment. Once the general concept of commitment is utilized, then union commitment, workgroup commitment and family commitment should also be considered. The possibility of multiple and perhaps competing commitments creates a more complex set of issues.

### *Unitary frame of reference*

The concept of commitment, especially as put forward by Walton (1985b), can be criticized as being simplistic, even misguided, in adopting a unitary frame of reference that assumes that organizations consist of people with shared interests. It has been suggested by people such as Cyert and March (1963), Mangham (1979) and Mintzberg (1983) that an organization is really a coalition of interest groups where political processes are an inevitable part of everyday life.

Legge (1989: 38) also raised this question in her discussion of strong culture as a key requirement of HRM, which she criticized because it implies ‘a shared set of managerially sanctioned values... that assumes an identification of employee and employer interests’. As Coopey and Hartley (1991: 21) put it: ‘Commitment is not an all-or-nothing affair (though many managers might like it to be) but a question of multiple or competing commitments for the individual.’ A pluralist perspective recognizes the legitimacy of different interests and is more realistic.

It could be argued that values concerned with performance, quality, service, equal opportunity and innovation are not wrong because they are managerial values. But pursuing a value such as innovation could work against the interests of employees by, for example, resulting in redundancies. And flexibility may sound a good idea but, beyond the rhetoric, as Sisson (1994: 5) observed, the reality may mean that management can do what it wants. It would be quite reasonable for any employee encouraged to behave in accordance with a value supported by management to ask, ‘What’s in it for me?’ It can also be argued that the imposition from above of management’s values on employees without their having any part to play in discussing and agreeing them is a form of coercion.

### *Commitment and flexibility*

It was pointed out by Coopey and Hartley (1991: 22) that: ‘The problem for a unitarist notion of organizational commitment is that it fosters a conformist approach which not only fails to reflect organizational reality, but can be narrowing and limiting for the organization.’ They argued that if employees are expected and encouraged to commit themselves tightly to a single set of values and goals they will not be able to cope with the ambiguities

and uncertainties that are endemic in organizational life in times of change. Conformity to 'imposed' values will inhibit creative problem solving, and high commitment to present courses of action will increase both resistance to change and the stress that invariably occurs when change takes place.

If commitment is related to tightly defined plans, this will become a real problem. To avoid it, the emphasis should be on overall strategic directions. These would be communicated to employees with the proviso that changing circumstances will require their amendment. In the meantime, however, everyone can at least be informed in general terms where the organization is heading and, more specifically, the part they are expected to play in helping the organization to get there and, if they can be involved in the decision-making processes on matters that affect them (including management's values for performance, quality and customer service), so much the better.

Values need not necessarily be restrictive. They can be defined in ways that allow for freedom of choice within broad guidelines. In fact, the values themselves can refer to such processes as flexibility, innovation and responsiveness to change. Thus, far from inhibiting creative problem solving, they can encourage it. But they will not do so if they are imposed from above. Employees need to have a say in defining the values they are expected to support.

### Pause for thought

What do you think the concept of mutuality can add to the practice of HRM?

## Key learning points

### The meaning of commitment

Commitment refers to attachment and loyalty. It is associated with the feelings of individuals about their organization. The three characteristics of commitment identified by Mowday *et al* (1982) are:

- 1 A strong desire to remain a member of the organization.
- 2 A strong belief in and acceptance of the values and goals of the organization.
- 3 A readiness to exert considerable effort on behalf of the organization.

### Commitment and mutuality

In his seminal *Harvard Business Review* article, Richard Walton (1985a) stated that 'eliciting employee commitment will lead to enhanced performance [and] the evidence shows this belief to be well founded'. The importance of commitment was highlighted by Walton.

His theme was that improved performance would result if the organization moved away from the traditional control-oriented approach to workforce management, which relies upon establishing order, exercising control and achieving efficiency. He proposed that this approach should be replaced by a commitment strategy.

### The mutual gains perspective

The mutual gains perspective states that organizations should pursue employment policies that produce benefits for both employees and themselves.

### Engagement and commitment

Organizational engagement and commitment are closely associated. Commitment was included by the IES in its model as an element of engagement. But commitment is a somewhat wider concept in that it is concerned with both job engagement and organizational engagement.

The factors affecting the level of commitment

- *Strategic level*: supportive business strategies, top management value commitment and effective voice for HR in strategy making and governance.
- *Functional (human resource policy) level*: staffing based on employment stabilization, investment in training and development and contingent compensation that reinforces cooperation, participation and contribution.
- *Workplace level*: selection based on high standards, broad task design and teamwork, employee involvement in problem solving and a climate of cooperation and trust.

HR's role in enhancing commitment

HR should play a major part in developing a high-commitment organization. The 10 steps it can take are:

- 1 Advise on methods of communicating the values and aims of management.
- 2 Emphasize to management that commitment is a two-way process.

- 3 Impress on management the need to develop a climate of trust.
- 4 Develop a positive psychological contract.
- 5 Advise on the establishment of partnership agreements with trade unions.
- 6 Recommend and take part in the achievement of single status for all employees.
- 7 Encourage management to declare a policy of employment security.
- 8 Develop performance management processes.
- 9 Advise on means of increasing employee identification with the company.
- 10 Enhance employee job engagement through job design processes.

Problems with the concept of commitment

There are four main problem areas: (1) the imprecise nature of the term, (2) its unitary frame of reference, (3) commitment as an inhibitor of flexibility, and (4) the extent to which high commitment does in practice result in improved organizational performance.

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# 26

## Employee engagement

### Introduction

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Engagement takes place when people are enthusiastic about their work and the organization and are motivated to achieve high levels of performance. According to the CIPD (2012: 13): ‘Engagement has become for practitioners an umbrella concept for capturing the various means by which employers can elicit additional or discretionary effort from employees – a willingness on the part of staff to work beyond contract. It has become a new management mantra.’ The notion that individuals can be ‘personally’ engaged in their work was first proposed by Kahn (1990) in his seminal article in the *Academy of Management Journal*.

Reilly and Brown (2008) noted that the terms ‘job satisfaction’, ‘motivation’ and ‘commitment’ are generally being replaced now in business by ‘engagement’ because it appears to have more descriptive force and face validity. Truss *et al* (2013) suggested that ‘engagement may constitute the mechanism through which HRM practitioners impact individual and organizational performance.’

This chapter starts with an analysis of the meaning of employee engagement and continues with an assessment of its components, drivers and outcomes. This is followed by a discussion of ‘burnout’ (a state of complete exhaustion at work) the possibility of which should be taken into account in pursuing the engagement strategies described at the end of the chapter. The chapter ends with a critical evaluation of the concept.

### The meaning of employee engagement

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Kahn (1990: 894) defined employee engagement as ‘the harnessing of organization members’ selves to their work roles; in engagement, people employ and express themselves physically, cognitively, and emotionally during role performances.’ There have been dozens of definitions since the explosion of interest in the concept during the 2000s, which perhaps explains its somewhat elusive nature. Harter *et al* (2002: 269) stated that engagement was ‘the individual’s involvement and satisfaction with as well as enthusiasm for work.’ Saks (2006: 602) defined employee engagement as ‘a distinct and unique construct consisting of cognitive, emotional and behavioural components that are associated with individual role performance.’ He distinguished between ‘job engagement’ (performing the work role) and organizational engagement (performing the role as a member of the organization).

A later definition was produced by Macey *et al* (2009: 7) who defined engagement as ‘an individual’s purpose and focused energy, evident to others in the display of personal initiative, adaptability, effort and persistence directed towards organizational goals.’

Alfes *et al* (2010: 5) saw engagement as having three core facets:

- *intellectual engagement* – thinking hard about the job and how to do it better;
- *affective engagement* – feeling positively about doing a good job;
- *social engagement* – actively taking opportunities to discuss work-related improvements with others at work.



## Job or organizational engagement or both

The term ‘engagement’ can be used in a specific job-related way to describe what takes place when people are interested in and positive – even excited – about their jobs, exercise discretionary behaviour and are motivated to achieve high levels of performance. Truss *et al* (2006: ix) stated that: ‘Put simply, engagement means feeling positive about your job.’ They went on to explain that: ‘The engaged employee is the passionate employee, the employee who is totally immersed in his or her work, energetic, committed and completely dedicated’ (ibid: 1).

Organizational engagement focuses on attachment to or identification with the organization as a whole. The Conference Board (2006) defined employee engagement as the heightened connection that employees feel for their organization. Robinson *et al* (2004: 9) emphasized the organizational aspect of engagement when they referred to it as ‘a positive attitude held by the employee towards the organization and its values’. This definition of organizational engagement resembles the traditional notion of commitment.

Perhaps the most illuminating and helpful approach to the definition of engagement is to recognize that it involves both job and organizational engagement as suggested by Saks (2006) and Balain and Sparrow (2009).

### Pause for thought

What, if anything, is the difference between organizational engagement and job engagement? Does it matter?

## The theory of engagement

Saks thought that a strong theoretical rationale for engagement was provided by social exchange theory; he described it as follows:

### Words of wisdom

Social exchange theory argues that obligations are generated through a series of interactions between parties who are in a state of reciprocal interdependence. A basic tenet of social exchange theory is that relationships evolve over time into trusting, loyal and mutual commitments as long as the parties abide by certain ‘rules’ of exchange... [These] usually involve reciprocity or repayment rules such that the actions of one party lead to a response or actions by the other party.

Saks (2006: 603)

He argued that one way for individuals to repay their organization is through their level of engagement. In other words, employees will choose to engage themselves to varying degrees and in response to the resources they receive from their organization. This is consistent with the description of engagement by Robinson *et al* (2004) as a two-way relationship between the employer and the employee.

As discussed below, the concept of engagement can be further explored in terms of its make-up (its components), its antecedents (the forces that drive it), and its outcomes.

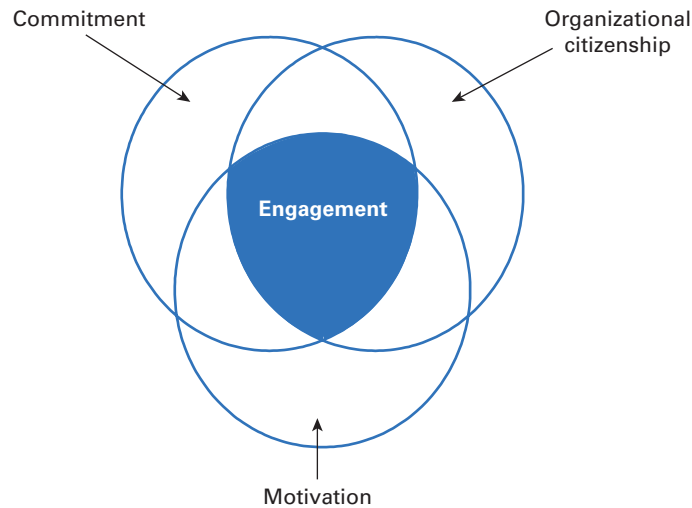
### Pause for thought

What do you think the concept of engagement has to offer organizations?

## The components of employee engagement

Engagement can be regarded as having three overlapping components: motivation and commitment



**FIGURE 26.1** IES model of employee engagement

Source Armstrong *et al* (2010)

as defined in Chapters 24 and 25 and organizational citizenship behaviour (OCB) as defined below. A model of engagement containing these components produced by the Institute for Employment Studies (Armstrong *et al*, 2010) is shown in Figure 26.1. Work or job engagement is also associated with job satisfaction. These components of engagement are considered below.

### Engagement and commitment

The concepts of commitment and organizational engagement are closely related, although Robinson *et al* (2004) stated that while engagement contains many of the elements of commitment it is not a perfect match. They suggested that the term commitment does not reflect sufficiently two aspects of engagement – its two-way nature, and the extent to which engaged employees are expected to have positive attitudes about their job. However, Storey (2007: 8) referred to the concept of employee engagement as ‘a term that broadly equates with the notion of high commitment’.

Yalabik *et al* (2013: 2803) proposed that ‘affective commitment’ (ie an emotional attachment to the organization and identification and involvement with it) is an antecedent of work engagement.

### Engagement and motivation

The motivation element in engagement is intrinsic. Macey *et al* (2009: 67) commented that: ‘When the work itself is meaningful it is also said to have intrinsic motivation. This means that it is not the pay or recognition that yields positive feelings of engagement but the work itself.’ They also pointed out that engaged employees ‘feel that their jobs are an important part of what they are’ (ibid: 127).

### Engagement and organizational citizenship behaviour

Organizational citizenship behaviour (OCB), as originally defined by Organ (1988), is employee behaviour that goes above and beyond the call of duty and contributes to organizational effectiveness. It is discretionary and not explicitly recognized by the employing organization’s formal reward system.

As Little and Little (2006) observed, OCB is an outcome of the attitudes of job satisfaction and organizational commitment. It is similar to the definitions in the engagement literature of being respectful of and helpful to colleagues and willingness to go the extra mile or work longer hours, try harder, accomplish more and speak positively about the

organization. They noted that this desirable behaviour has been shown to be related more to the work situation than to individual dispositions.

## Engagement and job satisfaction

Job satisfaction was defined by Locke (1976: 1304) as ‘a pleasurable or positive emotional state resulting from the appraisal of one’s job and job experiences.’ Engaged employees are likely to be satisfied with their jobs.

Job satisfaction, like commitment, is regarded by Yalabik *et al* (2013: 2805) as an antecedent of work engagement. It has been shown to be related to other attitudes and behaviours. Positively, it is related to organizational commitment, job involvement, organizational citizenship behaviours and mental health. Negatively, it is related to turnover and stress.

## Engagement and the employee experience

The term ‘the employee experience’ as considered in more detail in Chapter 30 is associated with that of engagement. The employee experience refers to everything that people encounter, observe and feel during the course of their employment. Having a good experience will enhance engagement and taking steps to enhance engagement as described later in this chapter will enhance the employee experience. When managing this experience the aim is to make it positive at each stage and ensure that employees feel valued for what they do.

## Drivers of employee engagement

To be able to do anything about engagement it is necessary to understand the factors that affect it. Crawford *et al* (2014: 59–62) listed the following drivers:

- *Job challenge* – this takes place when the scope of jobs is broad, job responsibility is high and there is a high work load. It enhances engagement because it creates potential for accomplishment and personal growth.

- *Autonomy* – the freedom, independence and discretion allowed to employees in scheduling their work and determining the procedures for carrying it out. It provides a sense of ownership and control over work outcomes.
- *Variety* – jobs which allow individuals to perform many different activities or use many different skills.
- *Feedback* – providing employees with direct and clear information about the effectiveness of their performance.
- *Fit* – the existence of compatibility between an individual and a work environment (eg, job, organization, manager, co-workers) that allows individuals to behave in a manner consistent with how they see or want to see themselves.
- *Opportunities for development* – these make work meaningful because they provide pathways for employee growth and fulfilment.
- *Rewards and recognition* – these represent both direct and indirect returns on the personal investment of one’s time in acting out a work role.

In addition, the quality of leadership exercised by line managers is an important driver. Hakanen *et al* (2006) established through their research into teachers’ burnout that supervisory support is positively related to employee engagement, as is involvement in decision making and day-to-day control over tasks and schedules. Macey and Schneider (2008) argued that when leaders have clear expectations, are fair, and recognize good performance they will have positive effects on employee engagement by engendering a sense of attachment to the job. Research by MacLeod and Clarke (2009) confirmed that line managers played a key part in promoting engagement by providing clarity of purpose, appreciating employees’ effort and contribution, treating their people as individuals and ensuring that work is organized efficiently and effectively so that employees feel they are valued, and equipped and supported to do their job.

Macey *et al* (2009: 11) emphasized the work environment and the jobs people do. They noted that: ‘Engagement requires a work environment that does not just demand more but promotes information

sharing, provides learning opportunities and fosters a balance in people's lives, thereby creating the bases for sustained energy and personal initiative.'

## Outcomes of engagement

Stairs and Galpin (2010) asserted that high levels of engagement result in:

- lower absenteeism and higher employee retention;
- increased employee effort and productivity;
- improved quality and reduced error rates;
- increased sales;
- higher profitability, earnings per share and shareholder returns;
- enhanced customer satisfaction and loyalty;
- faster business growth; and
- higher likelihood of business success.

But they did not produce convincing evidence to support those claims.

Alfes *et al* (2010: 2) suggested that engaged employees perform better, are more innovative than others, are more likely to want to stay with their employers, enjoy greater levels of personal wellbeing and perceive their workload to be more sustainable than others.

### Words of wisdom

In engagement, organization members harness their full selves in active, complete work role performance by driving personal energy into physical, cognitive and emotional labours. Engaged employees are described as being psychologically fully *there*, attentive, feeling, connected, integrated and focused in their role performances.

Rich *et al* (2010: 619)

## Engagement strategy

To enhance engagement the CIPD (2018) suggested that people strategies should pay attention to:

- fair treatment of employees and support for wellbeing;
- empowering employees to shape their jobs;
- effective channels for employee voice;
- good people management skills;
- performance management systems that motivate and provide opportunities for professional development;
- communications to reinforce purpose and vision and keep employees informed.

Jenkins and Delbridge (2013) proposed that in line with Storey's (1989) contrast between 'hard' and 'soft' HRM it was possible to distinguish between hard and soft management approaches to enhancing engagement. In their case studies of two companies, one adopted a soft approach that centred on work design and promoting positive workplace conditions and relationships between management and employees. Enhanced employee engagement was seen as a positive outcome – productivity was not the primary goal. In the other case, a 'hard' approach concentrated on directly increasing employee effort to improve organizational performance. In the company using a soft approach, high levels of engagement were reported, while in the other company, high levels of employee disengagement were evident.

To enhance employee engagement, employers have to address issues concerning both aspects of engagement – job and organizational engagement. These are interrelated and any actions taken to enhance either aspect will be mutually supporting. However, it is useful to consider what can be done specifically in each area, bearing in mind the particular circumstances and needs of the organization.

## Enhancing job engagement

An Institute for Employment Studies (IES) review of engagement (Robertson-Smith and Markwick, 2009) established that there was a generic emphasis on six managerial practices; good-quality line management,

two-way communication, effective internal cooperation, a focus on development, commitment to employee wellbeing and clear, accessible HR policies and practices.

A Kings College London survey in 2012 reported by Guest (2014) found that typical actions to promote engagement included more effective leadership and more learning and development opportunities. But he noted (*ibid*: 229) that: ‘None of these actions... is in any way uniquely linked to employee engagement and all would fit equally well with steps to enhance organizational commitment or employee involvement.’ HR is concerned with developing and implementing policies and practices dealing with job design, learning and development, performance management and reward that are valuable generally as well as in terms of their contribution to increasing levels of engagement as described below. But the most important contribution is made by line managers.

### The role of line managers

Line managers play a key role in enhancing job engagement. According to Coffman and Gonzalez-

Molina (2002: 130), to increase levels of engagement they should:

- make employees aware of their individual strengths;
- provide continuous feedback on how those strengths are being used;
- ‘clear the path’ so that employees can do what they do best without unnecessary distractions;
- build trust by showing commitment to the employee’s success;
- challenge people within areas of their distinctive strengths;
- focus upon particular skills and knowledge in order to build talent into strength;
- give employees ownership and creation of their outcomes.

Research by Lewis *et al* (2012) for the CIPD resulted in the production of the competency framework for employee engagement management set out in Table 26.1.

**TABLE 26.1** Employee engagement management competency framework

Competency	Description
Autonomy and empowerment	Trusts and involves employees
Development	Helps to develop employees’ careers
Feedback, praise and recognition	Gives positive feedback and praise and rewards good work
Individual interest	Shows concern for employees
Availability	There when needed
Personal manner	Positive approach, leads by example
Ethics	Treats employees fairly
Reviewing and guiding	Helps and advises employees
Clarifying expectations	Sets clear goals and defines what is expected
Managing time and resources	Ensures resources are available to meet workload
Following processes and procedures	Understands and explains processes and procedures

**Source** Adapted from Lewis *et al* (2012: 9)

## Job design

Job design as described in Chapter 22 is an important factor in enhancing engagement. Macey *et al* (2009: 69) commented that: ‘People come to work for pay but get engaged at work because the work they do is meaningful.’ Intrinsic motivation and therefore increased engagement can be generated by the work itself if it provides interest and opportunities for achievement and self-fulfilment.

### Words of wisdom

Finding the right people for the right roles is not just a matter of matching people in skills, but also in values and interests. In this way performance drives engagement as much as engagement drives performance, which means that people will love their jobs more when they are given the chance to perform highly and feel proud about what they do at work.

Chamorro-Premuzic (2017: 85)

## Learning and development programmes

Learning and development programmes can ensure that people have the opportunity and are given the encouragement to learn and grow in their roles. This includes the use of policies that focus on role flexibility – giving people the chance to develop their roles by making better and extended use of their talents. It also means going beyond talent management for the favoured few and developing the abilities of the core people on whom the organization depends.

The strategy should also cover career development opportunities and how individuals can be given the guidance, support and encouragement they need if they are to fulfil their potential and achieve a successful career with the organization in tune with their talents and aspirations. The actions

required to provide men and women of promise with a sequence of learning activities and experiences that will equip them for whatever level of responsibility they have the ability to reach should be included in the strategy.

## Developing engagement through performance management

Performance management processes as described in Chapter 37 can be used to define individual goals and responsibilities, offer feedback on performance and provide the basis for developing skills and planning career development. Although the organization can create a performance management system, its effectiveness will depend on the interest and competence of line managers.

## Developing engagement through reward

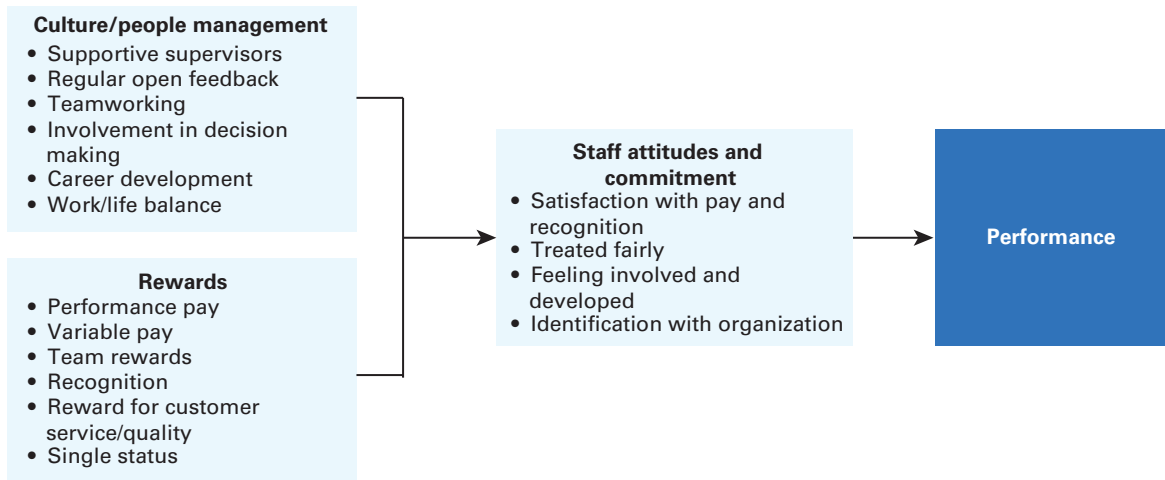
Reilly and Brown (2008) suggested that appropriate reward practices and processes, both financial and non-financial and managed in combination (ie a total reward approach), can help to build and improve employee engagement, and that badly designed or executed rewards can hinder it. Their model, based on research of how reward policies influence performance through engagement, is shown in Figure 26.2.

## Enhancing organizational engagement

The approaches that can be used to enhance organizational engagement consist of: (1) high-involvement management; (2) providing more scope for employee voice; (3) developing ‘the big idea’; and (4) tackling the work environment.

## High-involvement management

Organizational engagement can be developed through high-involvement management – a term first used by Lawler (1986) to describe management systems based on commitment and involvement, as opposed to the old bureaucratic model based on control.

**FIGURE 26.2** How reward policies influence performance through engagement

Source Reilly and Brown (2008)

The underlying hypothesis is that employees will increase their involvement with the company if they are given the opportunity to manage and understand their work. Lawler claimed that high-involvement practices worked well because they acted as a synergy and had a multiplicative effect.

High-involvement management means treating employees as partners in the enterprise, whose interests are respected. It also means providing employees with a voice, as discussed below.

### Employee voice

Employee voice policies enable employees to effectively communicate their concerns to management. Rees *et al* (2013: 2781) suggested that there is a direct relationship between the effectiveness of such policies and levels of employee engagement. They invoked social exchange theory, which states that employees engage in reciprocal relationships that can develop into trusting, loyal and mutual commitments when certain 'rules of exchange' are observed. Employees will demonstrate positive attitudes and behaviours when they perceive that their employer values them and their contribution. They will demonstrate higher levels of performance if the work environment is one in which employees have a voice in the sense that they can share their concerns, opinions and ideas with their employers.

### The 'big idea'

A basis for building organizational engagement was established by the longitudinal research in 12 companies conducted by Professor John Purcell and his colleagues (Purcell *et al*, 2003: 13). They found that the most successful companies had 'the big idea'. This was 'a clear sense of mission underpinned by values and a culture expressing what a firm is and its relationship with its customers and employees.'

### The work environment

Increasing organizational engagement through the work environment means developing a culture that encourages positive attitudes to work, promotes interest and excitement in the jobs people do, reduces stress, recognizes the importance of social interaction and, crucially, is concerned about employee wellbeing (see Chapter 50). For example, Lands' End, the clothing company, believes that staff who are enjoying themselves, who are being supported and developed and who feel fulfilled and respected at work, will provide the best service to customers.

It was suggested by Guest (2009) that engagement can be achieved through effective leadership of a strong, positive culture that ensures the enactment of organizational values; through strong management that supports employees' work and wellbeing;



through careful design of systems and jobs to enable employees to contribute through full use of their knowledge and skills; through effective employee voice; and through provision of appropriate resources, tools and information to perform effectively.

### Words of wisdom

Finding the right people for the right roles is not just a matter of matching people in skills, but also in values and interests. In this way performance drives engagement as much as engagement drives performance, which means that people will love their jobs more when they are given the chance to perform highly and feel proud about what they do at work.

Chamorro-Premuzic (2017: 85)

## Burnout

There is a negative side to engagement – burnout, defined by Maslach and Jackson (1981: 99) as ‘a syndrome of emotional exhaustion and cynicism’. Burnout can take place when individuals are placed under too much pressure to perform. It is sometimes called disengagement. Workaholics who put themselves under too much pressure can suffer burnout.

Burnout is a response to high stress caused by excessive job demands, which include attempting to meet challenging, relentless and unreachable standards. It is more likely to happen when workers have no control over their work environment. Burnout can result in failure, absenteeism or leaving the organization.

To avoid the pursuit of engagement resulting in burnout and disengagement, managements need to ensure that employees are not put under too much pressure, are provided with support when required and are recognized for what they can achieve with

the resources they have available (including their own skills and ability to exert effort). Alfes *et al* (2010) concluded that a responsible approach to engagement requires a work environment that does not just demand more from people but fosters a balance in their lives.

## Measuring engagement

Engagement surveys provide the basis for the development and implementation of engagement strategies. A review by Vance (2006) of a number of such surveys identified the following common themes:

- pride in employer;
- satisfaction with employer;
- job satisfaction;
- opportunity to perform well at challenging work;
- recognition and positive feedback for one’s contributions;
- personal support from one’s supervisor;
- effort above and beyond the minimum;
- understanding the link between one’s job and the organization’s mission;
- prospects for future growth with one’s employer;
- intention to stay with one’s employer.

The most commonly used measure within the research community has been the one associated with the definition of engagement as ‘a positive, fulfilling, work-related state of mind’. This is known as the Utrecht Work Engagement Scale (UWES), which captures feelings of vigour, eg ‘At my work, I feel that I am bursting with energy’, dedication, eg ‘I am enthusiastic about my job’, and absorption, eg ‘I am immersed in my work’.

There is a developing field of other ways to measure engagement. There are several measures associated with the definition of engagement as the authentic expression of one’s preferred self at work. The most recent of these is Soane *et al*’s (2012) nine-item ISA engagement measure that captures three components: intellectual engagement, eg ‘I focus hard on my work’, social engagement, eg ‘I share the same work values as my colleagues’, and affective



engagement, eg 'I feel positive about my job'. In their study, the ISA measure seemed to be more powerful than the UWES in predicting performance indicators.

However, as the CIPD (2017) pointed out, commonly used engagement measures are actually measuring subjective perceptions of aspects of working.

The important thing to do with an engagement survey, as with any form of employee survey, is to ensure that proper use is made of it through the 'triple-A' approach: Analysis, Assessment and Action. It is also important to inform employees of the results of the survey in full and involve them in assessing those results and agreeing actions.

## CASE STUDY

### Land Registry – modernizing the public sector

The Land Registry is a government executive agency employing 300 people. Engaging and enthusing its staff has been a challenge. The Swansea site was an underperforming office within an otherwise successful organization. Today it is one of the most productive Land Registry offices as a result of a planned high-engagement working change process.

The change process focused on the engagement of individuals at all levels. An internal project board masterminded a series of staff surveys and conferences. Senior management team away-days and line management training and coaching to improve performance management and the development of soft skills were all resourced in-house. Training initially focused on senior management team development, so they could understand and lead the changes, building middle management skills so that they could lead change and create an atmosphere in which employees could have confidence in an open appraisal process, and team building and development. Service to customers was always at the centre of the process. Personal development

plans, based on Land Registry's national core competency framework, provided the opportunity to discuss knowledge, skills and 'most importantly' attitudes. The framework bands nine competencies in five main performance areas:

- 1 *Delivering results*: planning and organizing the workload; and dealing effectively with/managing change.
- 2 *Effective teamwork*: contributing to the team's performance; and building and leading a team.
- 3 *Knowledge and experience*: acquiring and applying technical/specialist knowledge.
- 4 *Providing a quality service*: meeting customers' needs; and anticipating problems and achieving solutions.
- 5 *Personal effectiveness*: communicating effectively; and showing initiative and determination.

Each of these competencies can be demonstrated at four levels, from entry to senior management level.

## Critical evaluation of the concept of employee engagement

David Guest defined the benefits of engagement as follows:

### Words of wisdom

Employee engagement will be manifested in positive attitudes (for example job satisfaction, organizational commitment and identification with the organization)

and behaviour (low labour turnover and absence and high citizenship behaviour) on the part of employees; and evidence of perceptions of trust, fairness and a positive exchange within a psychological contract where two-way promises and commitments are fulfilled.

Guest (2009: 1)

He later remarked that: ‘One of the attractions of engagement is that it is clearly a good thing. Managers are attracted to the concept because they like the idea of having engaged employees and dislike the prospect of having disengaged employees’ (2014: 231). But he warned that: ‘The risk must be that it [employee engagement] will soon join the pantheon of laudable aspirations with which we can all agree, including happiness, quality, growth and sustainability; goals that most of us would like to pursue, concepts that some people think we can measure, but goals that will remain ultimately elusive in many if not most cases’ (ibid: 233).

Difficulties with the concept of engagement include:

- 1 *The problem of definition.* Definitions of engagement vary widely. Some, for example Robinson *et al* (2004) and the Conference Board (2006) define it in terms of engagement with the organization. Others such as Truss *et al* (2006) and Macey *et al* (2009) define it in terms of engagement with the job. Yet others – Saks (2006) and Balain and Sparrow (2009) – refer to both engagement with the job and engagement with the organization. In their influential report on employee engagement, MacLeod and Clarke (2009: 8) stated that: ‘There is no one agreed definition of employee engagement – during the course of this review we have come across more than 50 definitions. Without a clear definition it will
- be difficult for an organization to adopt a coherent approach to managing engagement.’
- 2 *The problem of measurement.* Unless you know what you are measuring, ie what engagement is, you can’t measure it. This reduces the validity of engagement surveys, which provide the basis for most analyses of engagement levels in organizations.
- 3 *The problem of redundancy.* It was noted by Briner (2014) that: ‘Existing accounts of engagement describe it in terms of a whole range of very well-known and in some cases historic ideas including organizational commitment, job satisfaction, motivation, organizational identification, discretionary behaviour, citizenship behaviours, positive moods, emotions and job satisfaction.’ Because of this, Fletcher and Robinson (2014) suggested that engagement in its current form is a redundant concept.
- 4 *The problem of impact on performance.* Sparrow (2014: 102) warned against over-confident claims that high engagement results in high performance. He suggested that it is possible that being in a well-performing unit makes employees engaged, not the other way round. In other words, ‘reverse causation’. And Purcell (2014: 248) noted that: ‘The one particular difficulty that advocates of employee engagement have is showing conclusive and causal evidence between engagement and performance.’ This was confirmed in an extensive study by Briner (2014).
- 5 *The problem of idealism.* Keenoy (2014: 198) referred to the message delivered by employee engagement prescriptions as ‘motherhood and apple pie’ and suggested that the term engagement could be replaced by job involvement, empowerment, high performance management or ‘any of the other putative solutions’ to the problem of getting employees to be more productive.

### Words of wisdom

In engagement, organization members harness their full selves in active, complete work role performance by driving personal energy into physical, cognitive and emotional labours.

Engaged employees are described as being psychologically fully *there*, attentive, feeling, connected, integrated and focused in their role performances.

Rich *et al* (2010: 619)

Bakker (2009) provided evidence of the psychological disposition of engaged employees: low neuroticism, high extraversion, cheerfulness, sociability, conscientiousness, emotional stability, habitually careful, reliable, hardworking, well organized. But Purcell made the following point:

#### Source review

The central problem is that the fully engaged employee, as revealed in these descriptions and characteristics, is a rare breed. Why then do we pay so much attention to what must be unobtainable for the majority of staff? It seems to describe a perverse picture of the world of work. It comes as no surprise to find that measures of work engagement rarely find that more than a third of employees are fully engaged.

Purcell (2014: 243)

The problems set out above may mean that engagement programmes can be matters of faith. They could involve doing a number of seemingly useful and necessary things but the hoped-for results are not guaranteed. However, that does not mean that the attempt should not be made.

Even if actions to enhance engagement along the lines suggested earlier in this chapter result in only a few employees with all these characteristics, it could still be worthwhile to have a number of people with more of the characteristics than they had before. Even if it is an act of faith to pursue enhancement programmes and expect them to significantly improve performance, it is a worthwhile act of faith because there is at least a fair chance that it will. And even if the contents of the programmes are no more or less than good people management practice they are worthwhile in themselves, irrespective of their impact on engagement. The relatively new term of employee engagement may mean no more than the traditional and well-established terms of motivation, commitment and organizational citizenship behaviour. But it does seem to provide an attractive and useful portmanteau term for these concepts that can lead to worthwhile action. So long as you do it, it doesn't matter what you call it.

### Pause for thought

Keenoy (2014: 213) wrote: 'It is simply not possible to fix the identity of 'engagement' in any fashion.' What's your view?

### Key learning points

The meaning of employee engagement

Engagement happens when people are committed to their work and the organization and are motivated to achieve high levels of performance. It has two

interrelated aspects: (1) job engagement, which takes place when employees exercise discretionary effort because they find their jobs interesting, challenging and rewarding; and (2) organizational engagement, when they identify with the values and purpose of their

organization and believe that it is a great place in which to work and to continue to work.

### Components of engagement

The components of engagement are commitment, organizational citizenship behaviour, motivation and job satisfaction.

### Theory of engagement

Engagement will have behavioural outcomes leading to what can be described as an 'engaged employee'. A strong theoretical rationale for engagement is provided by social exchange theory.

### Drivers of engagement

Macey *et al* (2009) emphasized the importance of the work environment and the jobs people do. Alfes *et al* (2010) established that the main drivers of engagement are meaningful work (the most important), senior management vision and communication, positive perceptions of one's line manager, and employee voice – employees having a say in matters that concern them.

### Enhancing engagement

Line managers play a key role in enhancing job engagement with the support of organizational initiatives in the areas of job design; learning programmes, including leadership development for line managers; and performance and reward management systems.

The approaches that can be used to enhance organizational engagement include: (1) high-involvement management; (2) developing 'the big idea'; and (3) tackling the work environment.

### Burnout

Burnout can take place when individuals are placed under too much pressure to perform. It is sometimes called disengagement.

### Measuring engagement

Engagement surveys provide the basis for the development and implementation of engagement strategies.

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# PART VI

## People resourcing

### PART VI CONTENTS

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- 28 Recruitment and selection
- 29 Talent management

### Introduction

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People resourcing, often called ‘employee resourcing’ or simply ‘resourcing’, is the term used to describe the employment activities of workforce planning and recruitment and selection that ensure the organization has the people it needs.

Resourcing is a vital organizational activity that recognizes that the strategic capability of a firm depends on its resource capability in the shape of people (the resource-based view).

Employee resourcing is not just about recruitment and selection. It is concerned with any means available to meet the firm’s need for certain skills and behaviours. A strategy to ensure the organization has the talented people it needs (a talent management strategy) may start with recruitment and selection but would extend into learning and development to enhance abilities and skills and modify behaviours, and into succession planning. Performance management processes can be used to identify development needs (skills and behaviours) and motivate people to make the most effective use of their abilities. Competency

frameworks and profiles can be prepared to define the skills and behaviours required and can be used in selection, employee development and employee reward processes. Efforts can be made to develop an attractive employer brand (the image of the organization as an employer) so as to enhance the employee experience. The aim should be to develop a reinforcing bundle of practices along these lines.

The philosophy behind the strategic approach to resourcing is that it is people who implement the strategic plan. As Quinn Mills (1983) put it, the process is one of ‘planning with people in mind’.

Strategic resourcing involves the integration of business and resourcing strategies and is based on an understanding of the direction in which the organization is going and the determination of:

- the numbers of people required to meet business needs;
- the skills and behaviour required to support the achievement of business strategies;
- the need to create a talent pool of people with high potential as part of a talent management strategy;

- the impact of organizational restructuring as a result of rationalization, decentralization, delayering, acquisitions, mergers, product or market development, or the introduction of new technology;
- plans for changing the culture of the organization in such areas as ability to deliver, performance standards, quality, customer service, teamworking and flexibility, which indicate the need for people with different attitudes, beliefs and personal characteristics.

Strategic resourcing emphasizes the need to find people whose attitudes and behaviour are likely to fit what management believes to be conducive to success. This tendency has its dangers. Innovative and adaptive organizations need non-conformists, even mavericks, who can ‘buck the system’. If managers recruit people ‘in their own image’ there is the risk of staffing the organization with conformist clones and of perpetuating a dysfunctional culture – one that may have been successful in the past

but is no longer appropriate in the face of new challenges.

The resourcing strategies that emerge from the process of strategic resourcing exist to provide the people and skills required to support the business strategy, but they should also contribute to the formulation of that strategy. HR directors have an obligation to point out to their colleagues the human resource opportunities and constraints that will affect the achievement of strategic plans. In mergers or acquisitions, for example, the ability of management within the company to handle the new situation and the quality of management in the new business will be important considerations.

Strategic resourcing is concerned with defining the numbers and types of people required to meet present and future business needs and planning how to satisfy those requirements (workforce planning) as dealt with in Chapter 27. It also involves the development of the employer brand and the employee value proposition as described in Chapter 28 and the operation of talent management programmes (see Chapter 29).

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# 27

# Workforce planning

## Introduction

Organizations need to know how many people and what sort of people they need to meet present and future business requirements. As noted by Peter Reilly (2015: 1): ‘Workforce planning is in essence a simple concept: it is about matching the organization’s demand for labour with the supply of labour over time.’

The purpose of this chapter is to describe how workforce planning operates, bearing in mind that it is not as straightforward as it was presented when the notion of ‘manpower planning’ became popular in the 1960s and ’70s. Workforce planning, or human resource planning as it used to be called, may be well established in the HRM vocabulary but it does not seem to be embedded as a key HR activity.

The chapter starts with a definition of workforce planning and continues with a discussion of its aims and the issues involved, including its link with business planning. The final section of the chapter describes the processes used, namely scenario planning, demand and supply forecasting and action planning.

### Words of wisdom

Companies that have the people in place to meet their performance objectives are well equipped to implement their business plans successfully. If, however, the right people are unavailable... the plans themselves may require revision. Many companies would

have spared themselves embarrassing marketplace failures if they had first recognized that the human resource implications of their strategic plans were unrealizable.

Quinn Mills (1985: 105)

## Workforce planning defined

The process of workforce planning is to establish an organization’s people requirements so that plans can be made to satisfy them. The following definition was produced by the CIPD.

### Source review

Workforce planning is a process of analysing the current workforce, determining future workforce needs, identifying the gap between the present and the future, and implementing solutions so that an organization can accomplish its mission, goals, and strategic plan. It’s about getting the right number of people with the right skills employed in the right place at the right time, at the right cost and on the right contract to deliver an organization’s short- and long-term objectives.

CIPD (2018)

Workforce planning may be conducted as an overall approach to establishing and satisfying people requirements covering all major employee categories and skills. However, it frequently concentrates on key categories of staff, for example, doctors, nurses and other health workers in the National Health Service, skilled operatives in a manufacturing company, sales staff in a retail store or drivers in a transport company.

Rothwell (1995: 194) distinguished between HR planning in the hard sense – ‘to serve as an indicator of the likely match or mismatch of the supply and demand for the right number of people with appropriate skills’ – and HR planning in the soft sense – ‘to alert the organization to the implications of business strategy for people development, culture and attitudes as well as numbers and skills’. The CIPD (2010a: 4) made a similar distinction between ‘hard’ and ‘soft’ workforce planning. As the report on their research commented:

Hard workforce planning is about numbers. In the past this often revolved around using past trends to predict the future, matching supply and demand for labour with the result that plans were often out of date before the ink was dry. Now there is more emphasis on management information that can help understand cause and effect of certain phenomena.

Soft workplace planning focuses on general issues relating to the supply of and demand for people and how they are deployed.

The precursor to workforce planning – manpower planning as conceived in the 1960s – was almost entirely about numbers in the shape of quantitative demand and supply forecasts. It was the failure in many organizations to produce accurate forecasts and therefore prepare meaningful plans that led to its decline if not fall. Workforce planning today covers a wider range of activities such as succession planning, smart working, flexible working and talent planning, and is not such a numbers game.

## Incidence of workforce planning

The CIPD Annual Survey of Resourcing and Talent Planning (2010b) found that 61 per cent of organizations conducted workforce planning, although it was most common in the public services sector and

in larger organizations: 20 per cent of organizations planned for less than one year, 41 per cent for one to two years and only 2 per cent for more than five years. The research established that the top five planning activities were:

- 1 succession planning – 62 per cent;
- 2 flexible working – 53 per cent;
- 3 demand/supply forecasting – 53 per cent;
- 4 skills audit/gap analysis – 49 per cent;
- 5 talent management – 42 per cent.

### Pause for thought

The proportion of organizations that go in for workforce planning is not very high. Why might this be the case?

## The link between workforce and business planning

Workforce planning is an integral part of business planning. The strategic planning process defines projected changes in the types of activities carried out by the organization and the scale of those activities. It identifies the core competences that the organization needs to achieve its goals and therefore its skill and behavioural requirements.

Workforce planning interprets these plans in terms of people requirements. But it may influence the business strategy by drawing attention to the ways in which people could be developed and deployed more effectively to further the achievement of business goals. It will also address issues concerning the supply of suitable people that might affect the achievement of business objectives.

## Reasons for workforce planning

Research conducted by the Institute for Employment Studies (Reilly, 1999) established that there were

three main reasons why organizations engaged in workforce planning:

- 1 Planning for substantive reasons, that is, to have a practical effect by optimizing the use of resources and/or making them more flexible, acquiring and nurturing skills that take time to develop, identifying potential problems and minimizing the chances of making a bad decision.
- 2 Planning because of the process benefits, which involves understanding the present in order to confront the future, challenging assumptions and liberating thinking, making explicit decisions that can later be challenged, standing back and providing an overview and ensuring that long-term thinking is not driven out by short-term focus.
- 3 Planning for organizational reasons, which involves communicating plans so as to obtain support/adherence to them, linking HR plans to business plans so as to influence them, (re)gaining corporate control over operating units and coordinating and integrating organizational decision making and actions.

## Workforce planning issues

The main difficulties faced by those involved in quantitative (hard) workforce planning are the impact of change and trying to predict the future. Many organizations therefore adopt a short-term approach and deal with deficits or surpluses of people as they arise. This problem is compounded by what Rothwell (1995) referred to as the shifting kaleidoscope of policy priorities and strategies within organizations. It sounds like a good idea to adopt an integrated approach to workforce and business planning but it won't work well if business plans are volatile, vague, misleading or non-existent, as they easily can be. Beardwell (2007: 62) commented that HR plans should be treated as 'tentative, flexible, and reviewed and modified on a regular basis'. Cappelli (2009: 10) noted that: 'The competitive environment for businesses is so changeable, and firms adjust their own strategies and practices so frequently that these estimates [of the demand for talent] are rarely accurate and they get much worse the farther out one goes.'

This problem will not be so acute in a stable marketplace, with largely passive (and static) customers, and with scope for long-term forecasting. But these are rare conditions today, even in the public sector where workplace planning has thrived for a long time.

It can be said that workforce planning is more art than science. Perhaps the accuracy of demand and supply forecasts is less important than the overall understanding of what the organization needs in the way of people, which can be generated by a systematic approach to planning.

### Pause for thought

Do you agree that workforce planning is more art than science? Can it be made more scientific and if so how?

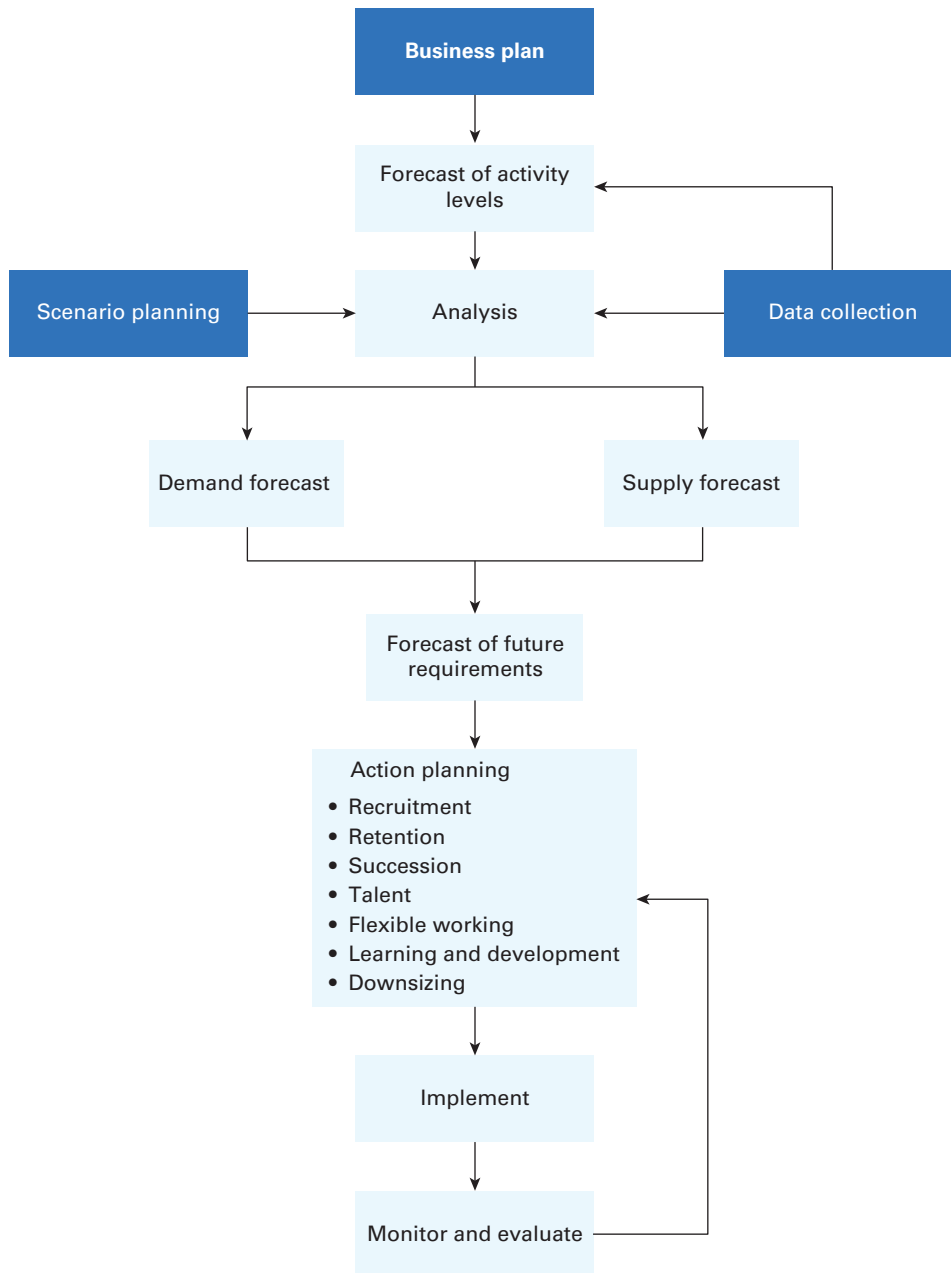
## Systematic workforce planning

A flow chart of the process of workforce planning is shown in Figure 27.1. This identifies the main planning activities described below. Although these are referred to as separate areas, they are interrelated and can overlap. For example, demand forecasts may be prepared on the basis of assumptions about the productivity of employees. But a forecast of the supply of suitable people will also have to consider productivity trends and how they might affect the supply.

The business plan provides the basis for the workforce plan insofar as it sets out what the organization intends to do in terms of activities and the scale of those activities.

### Forecast activity levels

Forecasts of future activity levels flow from the business plan, which will have implications for the demand for people. Activity level forecasts will also be affected by external factors, for example

**FIGURE 27.1** Workforce planning flow chart

demographic and political policy trends, especially in the public sector. Data will need to be collected and analysed for this purpose.

## Scenario planning

Scenario planning involves an assessment of changes in the business and its environment which are likely to affect the organization. The aim is to produce a picture of where the organization might be heading and to predict the possible situations that may have to be dealt with in the future.

## Data collection

The information used in workforce planning can be collected under the following headings:

- *Qualitative internal data:* business information on product/market developments, proposed work system and organizational changes; HR information on people (skills, performance, etc).
- *Quantitative internal data:* workforce data on turnover, absence, demographics, skills audits, etc.
- *Qualitative external data:* PESTLE analysis covering the following factors: political, economic, social, technological, legal and environmental.
- *Quantitative external data:* labour market – demographics, skills availability.

## Analysis

The analysis stage brings all the information together from the business plan, the activity forecast, scenarios and internal and external data to provide the basis for demand and supply forecasts.

## Demand forecasting

Demand forecasting is the process of estimating the future numbers of people required and the likely skills and competences they will need. The basis of the forecast is the annual budget and longer-term business plan, translated into activity levels for each function and department. In a manufacturing company the sales budget would be translated into a

manufacturing plan, giving the numbers and types of products to be made in each period. From this information the number of hours to be worked by each skill category to make the quota for each period would be computed.

Details are required of any organizational and work plans that would result in increased or decreased demands for employees. Examples are setting up a new regional organization, creating a new sales department, decentralizing a head office function to the regions, plans for new methods of working, additional outsourcing, increasing productivity and reducing employment costs. The demand forecasting methods for estimating the numbers of people required are described below.

## Managerial judgement

The most typical method of forecasting used is managerial judgement. This simply requires managers to sit down, think about their future workloads, and decide how many people they need. It may be quite unscientific and misleading.

Forecasting might be done on a ‘bottom-up’ basis with line managers submitting proposals for agreement by senior management. Alternatively, a ‘top-down’ approach can be used, in which company and departmental forecasts are prepared by top management, possibly acting on advice from the HR department. These forecasts are reviewed and agreed with departmental managers. A less directive approach is for top management to prepare planning guidelines for departmental managers, setting out the planning assumptions and the targets they should try to meet.

Perhaps the best way of using managerial judgement is to adopt both the ‘bottom-up’ and ‘top-down’ approaches. Guidelines for departmental managers should be prepared, indicating broad company assumptions about future activity levels that will affect their departments. Targets are also set where necessary. Armed with these guidelines, departmental managers prepare their forecasts to a laid-down format. They are encouraged to seek help at this stage from the personnel or work study departments. Meanwhile, the HR department, in conjunction as necessary with planning and work study departments, prepares a company forecast. The two sets of forecasts can then be reviewed by a human resource planning committee consisting of functional heads. This committee reconciles with departmental



managers any discrepancies between the two forecasts and submits the final amended forecast to top management for approval. This is sometimes called the ‘right-angle method.’

### Ratio-trend analysis

Ratio-trend analysis is carried out by analysing existing ratios between an activity level and the number of employees working on that activity. The ratio is applied to forecast activity levels to determine an adjusted number of people required. Account can be taken of possible improvements in productivity that would affect the ratio. The analysis may be extended to cover employees connected to but not directly involved in the activity – the indirect workers who provide support to the direct workers responsible for carrying out the activity. The existing ratio of directs to indirects would be applied to the forecast number of directs needed to deal with the new activity levels to forecast the number of indirects needed.

### Work study techniques

Work study techniques are used in association with activity level forecasts to calculate how long operations should take and the number of people required. For direct workers they can be combined with ratio-trend analysis to calculate the number of indirect workers needed.

### Forecasting skill and competency requirements

Forecasting skill and competency requirements is largely a matter of managerial judgement. This judgement should, however, be exercised on the basis of an analysis of the impact of projected product/market developments and the introduction of new technology such as artificial intelligence applications, information technology and computerized manufacturing.

### Supply forecasting

Supply forecasting measures the number of people likely to be available from within and outside the organization. The internal supply analysis covers the following areas:

- existing number of people employed by occupation, skill and potential;

- potential losses to existing resources through attrition (employee turnover);
- potential changes to existing resources through internal promotions;
- changes to the organization structure, new methods of working (including flexible working), more part-time working and different working hours;
- effect of increases in productivity;
- sources of supply from within the organization – existing employees and the outputs of talent management or training programmes.

The external supply analysis examines the local and national labour markets to assess implications for the availability of future people requirements. It will also take account of environmental changes as revealed by scenario planning.

### Forecast of future requirements

To forecast future requirements it is necessary to analyse the demand and supply forecasts to identify any deficits or surpluses. The analysis can be made with the help of spreadsheets. The basic data can be set out as follows:

1	Current number employed	700
2	Annual level of turnover	10 per cent
3	Expected losses during year	70
4	Balance at end year	630
5	Number required at end year	750
6	Number to be obtained	$(5 - 4) = 120$ during year

The data on the number of employees required may be modified by reference to the impact of any productivity plans, organizational changes, new methods of working or revision of role responsibilities.

### Action planning

Action plans to satisfy future requirements are derived from the broad resourcing strategies and the more detailed analysis of demand and supply factors. However, the plans often have to be short term and flexible because of the difficulty of making firm predictions about workforce requirements in times

of rapid change. The planning activities start with the identification of internal resources available now or that could be made available through learning and development programmes. They continue with plans for recruitment and retention, succession and talent management, the reduction of employee turnover and absenteeism, flexible working, outsourcing, productivity improvement and the revision of role responsibilities.

Learning and development programmes may be prepared to provide for future skill requirements. Regrettably, but sometimes inevitably, plans for downsizing may be necessary, but these can aim to avoid compulsory redundancies by such means as recruitment freezes.

Consideration has to be given to the likelihood of the demand requirements being met by the use of the existing mix of employees. If this is problematic, alternative approaches will have to be explored. This may involve deploying different types of workers or changing working arrangements. A core of key workers may be maintained while on the periphery more use may be made of part-time or home workers. Some businesses could employ 'gig' workers – freelancers or people on short-term contracts – or workers on zero-hours contracts. More work could be sub-contracted or outsourced and increasing use made of management consultants. This more flexible 'core/periphery' approach characterizes what has been described as the 'flexible' firm (see Chapter 32).

## Implementation

The implementation of the action plans will provide a challenge. A flexible approach involving quick responses is needed to cope with unforeseeable changes in people requirements.

## Monitoring and evaluation

Because of unpredictable events, the implementation of action plans does not always run smoothly. It is necessary to monitor progress carefully, evaluate the effects and, as required, amend the action plan.

## Approach to workforce planning

Peter Reilly (2015) suggested that the real problem with workforce planning is its execution. Organizations get the concept but find it hard to put into practice. He believes that HR should keep workforce planning as simple as possible, concentrating on the essential data needed for the task. HR should identify important business problems (such as expansion, downsizing or relocation) and work backwards from there as to what it is necessary to know to plan the resource implications. The focus of workforce planning should be on key employment groups determined by their labour market scarcity and impact on organizational performance.

## CASE STUDIES

### Buckinghamshire County Council

Business need drove the workforce planning project at Buckinghamshire County Council. This recognized that current workforce planning practices would not meet the challenge of the Care Standards Act 2000, or of future service delivery. One of the main issues in working with children and families was recruiting and retaining qualified social workers. There were insufficient numbers of social workers in post. Turnover levels among established and new employees were high.

The council therefore decided to align strategy and workforce planning in social care for children and families. The workforce plan was developed with the input of a team of representatives from social care for children and families. It was recognized that workforce planning was essential to anticipate future areas of skills shortages. This council is now in a position to anticipate skills shortages and has dealt with them innovatively and immediately.

The workforce plan looked at short- and long-term planning. Short-term planning covered immediate action on recruitment and promotion. Long-term planning covered

activities that may span the next five years. Workforce planning allowed for an assessment of skills and an exploration of the levels employees need to work at.

### Plymouth Primary Care Trust

The trust set up a multidisciplinary team drawn from the workforce planning and development department, finance and public health teams within the organization to introduce workforce planning across the whole organization. The trust's 230 managers and budget holders were then invited to an awareness programme to introduce the Six Steps Workforce Planning Methodology developed by the NHS Workforce Projects Team (2009). The steps are:

- 1 Define the plan.
- 2 Map service change.
- 3 Define the required workforce.
- 4 Understand workforce availability.
- 5 Plan to deliver the required workforce.
- 6 Implement, monitor and refresh.

Managers were informed that, using this framework, they would be required to produce plans over a one-year, two-year and five-year timescale. The guide was applied by asking each manager to define their workforce plan, outline forces for change, assess demand, assess

supply, undertake a gap analysis and subsequent action planning, and carry out implementation and a review of the plans.

It was found that while some managers were skilled in workforce planning, the majority needed support to link together the financial, workforce and planning elements of the process. The outcomes were:

- trust-wide workforce planning, using electronic staff record and planning tools;
- workforce planning is now part of day-to-day trust business;
- detailed workforce plans across clinical and non-clinical directorates;
- increased awareness of financial position, age profiles, and workforce risk assessment;
- the development of a more efficient workforce by reviewing skill mix and succession planning;
- integration of workforce planning into the corporate management programme.

### Siemens (UK)

Workforce planning at Siemens (UK), the engineering and technology services company, involves obtaining answers to three fundamental questions: What do we have? What do we want? How do we fill the gap?

At the highest level, the corporate people strategy gives the context for workforce planning, the key objective of which is to ensure that Siemens has the right level of capability to execute business strategy. In essence, the process of workforce planning is one in which the business strategy converges with the people strategy.

The workforce planning process starts with a review of the current workforce derived from SAP data [SAP is a business software system] and onto this is overlaid the likely attrition. Future requirements are identified by means of a dialogue between HR business partners and business unit managers. This enables the skills in each job family to be matched to business initiatives and provides the basis for the workforce forecast.

## Key learning points

### Workforce planning defined

The following definition of workplace planning was produced by the CIPD (2010a: 4): 'Workforce planning is a core process of human resource management that is shaped by the organizational strategy and ensures the right number of people with the right skills, in the right place at the right time to deliver short- and long-term organizational objectives.'

### Incidence of workforce planning

The CIPD (2010a) research revealed that workforce planning in one form or another is taking place in many organizations.

### Link to business planning

Workforce planning is an integral part of business planning.

### The rationale for workforce planning

Workforce planning provides a basis for a systematic approach to assessing the number and type of people needed and, having taken into account information on the supply of labour and environmental scanning, for the preparation of recruitment, retention, management succession and talent management plans. Workforce

planning is important because it encourages employers to develop clear and explicit links between their business and HR plans and to integrate the two more effectively.

### Workforce planning issues

The main difficulties faced by those involved in workforce planning are the impact of change and predicting the future.

### Approaches to workforce planning

- Business planning.
- Forecast activity levels.
- Scenario planning.
- Data collection.
- Analysis.
- Demand forecasting.
- Supply forecasting.
- Forecast of future requirements.
- Action planning.
- Implementation.
- Monitoring and evaluation.

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# 28

## Recruitment and selection

### Introduction

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Recruitment is the process of finding and engaging the people the organization needs. Selection is that part of the recruitment process concerned with deciding which applicants or candidates should be appointed to jobs.

It is not easy to get it right. According to Groyberg *et al* (2009), usually about a third of promising new hires depart within three years of being recruited. And it can be costly, especially for senior staff. The 2017 CIPD survey of resourcing and talent planning found that the average recruitment cost of filling a vacancy for a director or senior manager was £6,000 while for other employees it was £2,000. The aim of this chapter is to describe ways in which an effective recruitment and selection process can be operated in the following 10 stages:

- 1 Defining requirements
- 2 Attracting candidates
- 3 Sifting applications
- 4 Interviewing/assessment centres
- 5 Testing
- 6 Assessing candidates
- 7 Obtaining references
- 8 Checking applications
- 9 Offering employment
- 10 Following up

### Defining requirements

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The number and categories of people required may be set out in formal workforce plans from which are de-

rived detailed recruitment plans, eg for graduates. But requirements are frequently expressed as ad hoc demands for people because of the creation of new posts, expansion into new activities or areas, or the need for a replacement. These short-term demands may put HR under pressure to deliver candidates quickly.

Requirements should be defined in the form of role profiles or job descriptions and person specifications. These provide the information required to post vacancies on the company's website, the internet or a social network site such as LinkedIn, draft advertisements, brief agencies or recruitment consultants and assess candidates by means of interviews and selection tests.

### Role profiles

Role profiles define the overall purpose of the role, its reporting relationships and the responsibilities involved. For recruiting purposes, the profile is extended to include information on terms and conditions (pay, benefits and hours of work), on special requirements such as mobility, travelling or unsocial hours, and on learning, development and career opportunities. The recruitment role profile provides the basis for a person specification.

### Person specifications

Person specifications, also known as recruitment or job specifications, define the knowledge, skill and abilities (competences) required – what the job holder is expected to know and be able to do. They may also define the behavioural competencies required to carry out the job. They usually list anything that the job holder will be expected to achieve in specified areas, eg develop new markets or

products; improve sales, productivity or levels of customer service; or introduce new systems or processes.

It is advisable not to overstate what is required. Perhaps it is natural to go for the best, but setting an unrealistically high level for candidates increases the problems of attracting applicants and results in dissatisfaction among recruits when they find their talents are not being used. Understating what is wanted can, of course, be equally dangerous, but it happens less frequently.

The requirements defined in a person specification are a fundamental feature of the selection process, which becomes more of a person-based than a job-based approach. They are used as the basis for structured and competency-based interviews and provide guidance on which selection techniques such as psychological testing or assessment centres are most likely to be useful.

The following is an example of a person specification.

### Person specification: HR recruitment officer

#### Knowledge of:

- all aspects of recruitment;
- sources of recruits;
- different media for use in recruiting;
- relevant test instruments (OPQ qualified).

#### Skills and abilities in:

- interviewing techniques;
- test administration;
- role analysis;
- use of social media and AI.

#### Behavioural competencies:

- able to relate well to others and use interpersonal skills to achieve desired objectives;

- able to influence the behaviour and decisions of people on matters concerning recruitment and other HR or individual issues;
- able to cope with change, to be flexible and to handle uncertainty;
- able to make sense of issues, identify and solve problems and 'think on one's feet';
- focus on achieving results;
- able to maintain appropriately directed energy and stamina, to exercise self-control and to learn new behaviours;
- able to communicate well, orally and on paper.

## Attracting candidates

The process of attracting candidates involves the following steps:

- analyse the strengths and weaknesses of the organization as an employer;
- develop the employer brand and employee value proposition;
- analyse the requirement;
- consider how the requirement should be satisfied.

## Analyse recruitment strengths and weaknesses

The analysis should cover such matters as the national or local reputation of the organization, pay, employee benefits and working conditions, the intrinsic interest of the job, security of employment, opportunities for education and training, career prospects, and the location of the office or plant. The analysis could make use of an employee survey to obtain the views of existing employees and should take account of the opinions expressed in



Glassdoor (the business that publishes reviews of organizations as employers based on the views of their employees). It is also advisable to identify organizations that are in the same market for talent so that the employment offer is competitive.

Candidates are, in a sense, selling themselves, but they are also buying what the organization has to offer. If, in the latter sense, the labour market is a buyer's market, then the company selling itself to candidates must study their wants and needs in relation to what it can provide. The study can be used to develop the employee brand (the image presented by an organization as a good employer) and the employee value proposition (what an organization has to offer that prospective employees would value and that would help to persuade them to join the business) as described below. The outcome of the analysis can contribute to the recruitment material used on corporate websites and in advertisements and brochures to help make the organization 'an employer of choice'.

### Words of wisdom

Finding the right people for the right roles is not just a matter of matching people in skills, but also in values and interests.

Chamorro-Premuzic (2017: 85)

## Employer brand

An employer brand is the image presented by an organization as a good employer – 'a great place to work'. A positive brand will help the business to become an employer of choice thus attracting better applicants for jobs. The key feature of the brand will be the reputation of the company as an employer – the way people are treated, the provision of a fair deal, opportunities for growth, work-life balance, leadership, the quality of management and involvement with colleagues. But the reputation of the organization in terms of how it does business, the quality of its products or services, its core values as revealed by its actions, and how and why it is successful are also important.

The concept of the employer brand is associated with that of the employee experience which covers everything that people encounter, observe and feel during the course of their employment from its beginning and onwards. The aim is to make this experience positive at each stage and ensure that employees feel valued for what they do.

To develop an employer brand it is necessary to:

- Define the desirable features of the brand on the basis of an examination and review of each of the areas that are likely to affect people's perceptions of the organization.
- Analyse what the best candidates need and want and take this into account in deciding what should be offered and how it should be offered.
- Develop an employer value proposition which conveys what the company has to offer people (described in more detail below).
- Use social media to present information on what the company is like to work for – this can be linked to company websites and career sites and made available through mobile apps; the aim is to steer people to the company's career website so that they click on and apply for relevant jobs.
- Use what is called 'recruitment content marketing' to create and maintain the social media presentations – this means (1) defining objectives, eg increase brand awareness, increase traffic to career site by x per cent; (2) identifying the target audience in terms of job titles, skills and locations; and (3) deciding on content such as images, photographs, video and written text which will achieve objectives for the target audience.
- Benchmark the approaches of other organizations (the *Sunday Times* list of the 100 best companies to work for is useful) to obtain ideas about what can be done to enhance the brand and therefore compete with them but focus on developing a unique proposition rather than replicating what other organizations offer.
- Check Glassdoor data – the reports made by present and ex-employees on what they feel about working for the organization recorded on the Glassdoor website – and act accordingly.

## CASE STUDY

### Developing an employer brand at the Ordnance Survey

The Ordnance Survey was finding it difficult to recruit technological and commercial staff of the right calibre and it was therefore decided to deal with the problem by conducting an employer branding exercise.

#### Objectives

The objectives of the exercise were to:

- improve external perceptions of Ordnance Survey as an employer;
- get recruitment campaigns 'right first time';
- reduce recruitment costs;
- attract and recruit high-quality people, especially in technology and commercial areas;
- unlock people's potential to deliver great performance;
- match the employee experience to the organization's strong corporate brand.

#### The research programme

The employee research company ORC was engaged to conduct internal and external research and consultation. The external research covered four other large employers

with which Ordnance Survey compared well. It also included in-depth interviews with recruitment consultants, short-service leavers and those who had been offered a post but not taken it up. Internal research took the form of focus groups, interviews and consultation with recent joiners. The key messages from this external and internal research were fed into the brand development workshop.

#### The brand development workshop

The workshop consisted of a cross-section of staff who discussed the attributes of Ordnance Survey and the ways in which it presented them. Action groups met to consider particular aspects of the organization and its policies and how the brand could be developed. The focus was on the 'touchpoints' at which existing and potential employees engaged with the organization. The aim was to create something compelling and achievable with regard to each of these key elements. A leadership development programme was conducted that included looking at the employer brand.

#### Outcome

The employer brand created by this process was used as a centre point to inform and shape the people strategy and is aligned to the business strategy.

### Employee value proposition

An organization's employee value proposition consists of what it offers to prospective or existing employees that they will value and that will persuade them to join or remain with the business. It will include remuneration – which is important but can be overemphasized compared with non-financial factors. The latter may be crucial in attracting and retaining people and include the reputation of the organization, the degree to which it acts responsibly, respects diversity and inclusion, and provides work-life balance and opportunities for personal and professional growth. The aim is to become a

firm that people want to work for and to stay with, one in which the employee experience is a good one. The conclusions of John Purcell and his colleagues on this subject following their research were as follows:

#### Words of wisdom

What seems to be happening is that successful firms are able to meet people's needs both for a good job and to work 'in a

great place'. They create good work and a conducive working environment. In this way they become an 'employer of choice'. People will want to work there because their individual needs are met – for a good job with prospects linked to training, appraisal and working with a good boss who listens and gives some autonomy but helps with coaching and guidance.

Purcell *et al* (2003: 72)

To develop an employee value proposition it is necessary to analyse what the organization has to offer people by reference to:

- its reputation as a business and as an employer;
- its working environment;
- its approach to inclusion and diversity;
- its approach to work-life balance;
- its approach to employee wellbeing;
- its location;
- the career opportunities available;
- the scope that it provides for learning new skills;
- the terms and conditions of employment it offers including pay and employee benefits.

It is advisable to monitor how the employer brand is being perceived. This can be done by listening to and recording any comments by applicants and contacts with newly joined employees. It is worth keeping an eye on Glassdoor, the employee review site, to see how the organization is regarded by its staff.

### **Analyse the requirement – producing the recruitment specification**

Analysing the requirement involves establishing what jobs have to be filled and by when. Reference is

made to an existing role profile and person specification or, if not available or out of date, new ones are drawn up. The information on knowledge, skill and ability (KSA) and competency requirements are analysed to determine the education, qualifications and experience needed to perform the job. In effect, this produces a recruitment specification that will inform the choice of the source or sources of candidates and the basis upon which candidates will be assessed in interviews or tests. If not included in a role profile the terms and conditions of the job (pay and benefits) and any special demands on job holders are defined.

Finally, refer to the analysis of strengths and weaknesses to assess what it is about the job or the organization that is likely to attract good candidates, so that the most can be made of these factors when reaching potential applicants. Also think about what might put them off, for example the location of the job, so that objections can be anticipated. Analyse previous successes or failures to establish what does or does not work. Consider at this stage whether a 'realistic job preview' during interviews might be desirable. This would spell out any challenges the job will present, for example a lot of travelling.

### **Consider how the requirement should be satisfied**

Consideration should first be given to internal candidates. In addition, it is worth trying to persuade former employees to return to the organization or obtaining suggestions from existing employees (referrals). These can be encouraged by offering rewards when a referral results in a vacancy being filled. Talent banks that record candidate details can be maintained and referred to at this stage.

Candidate relationship management systems can also be used. These allow recruiters to maintain a pool of potential candidates that can be brought in for consideration at short notice. While this can be done manually through phone calls or e-mails, dedicated candidate relationship management systems can automate the process, making it easier to aggregate candidates from various channels, know each candidate's level of interest and sort candidates for specific jobs.

If these approaches do not work, use will have to be made of one of the sources of candidates such as online recruiting, social media, advertising, recruitment agencies or consultants as described in the next section of this chapter.

## Sourcing candidates

There are many different sources of candidates. The use of different ones by respondents to the 2017 CIPD *Survey of Recruitment and Talent Planning* is shown in Table 28.1. When selecting the source or, better, sources, consideration should be given to which are more likely to attract the type of person wanted and when using the selected source(s) the invitation to apply or the advertisement should be tailored to fit the type of candidates wanted.

Note the considerable use of online recruiting in the form of corporate websites, professional and social networking sites (social media) and job boards, and the relatively small use of national newspapers.

General considerations affecting the use of online recruitment and descriptions of the main sources of candidates are set out below.

### Online recruitment

Online or e-recruitment uses the internet to advertise or 'post' vacancies, provides information about jobs and the organization and enables e-mail communications to take place between employers and candidates. The latter can apply for jobs online and can e-mail application forms and CVs to employers or agencies. Tests can be completed online.

The advantages of online recruiting are that it can reach a wider range of possible applicants. It is quicker and cheaper than traditional methods of advertising, more details of jobs and firms can be supplied on the site, and CVs can be matched and applications submitted electronically. Consider using it in conjunction with other recruitment methods to maximize response.

### Social media

Social media consists of online platforms such as LinkedIn, Facebook, Twitter, or blogs that apply Web 2.0 technologies for networking or sharing

**TABLE 28.1** Sources of candidates (CIPD survey 2017)

Source	Percentage of respondents
Own corporate website	74
Professional networking sites, eg LinkedIn	60
Commercial job boards	58
Recruitment consultants	52
Social media networking sites eg Facebook	40
Specialist journals/trade press	28
Links with schools/colleges/universities	28
Encourage speculative applications/word of mouth	27
Local newspaper	21
Search consultants	20
Jobcentre Plus	15
National newspapers	12
Previous employees	10

information or opinions. They can be used to search for recruits and find out more about them online.

By far the most popular site for recruiters is LinkedIn, classified by the CIPD as a professional networking site. LinkedIn Recruiter enables employers to search for potential candidates by sector, job level, specialism and location and then to contact them directly. It can be used to identify and provide details of possible recruits from the target audience by entering the job title, company name and key words. A Boolean search, which combines key words with operators such as AND, NOT and OR can be used to produce more specific and relevant results. LinkedIn is most effective when the target audience and the key words appropriate for that audience are known. It is best to personalize direct approaches, whether in e-mails or invitations

to connect. It is also necessary to be selective about the number and type of jobs that are publicized – it is easy to overwhelm people’s feeds and inboxes.

Other social media networking sites such as Facebook and Twitter can also be used to promote the employer brand and make contacts. They can be even more effective when combined together or with LinkedIn. Such cross-platform sharing and messaging takes account of the fact that each social network has a slightly different audience and can widen the field of potential recruits.

Another approach is provided by ‘matching’ technology, which takes the principles of online dating into job searching. Candidates are asked to make a list of the values that matter to them, which are then matched by the service provider to potential employers for whom those values are important.

## CASE STUDY

### Examples of the use of social media for recruiting

At CERN, the world’s largest particle physics laboratory, extensive use has been made of social media for recruiting purposes. All job vacancies are advertised on LinkedIn, Facebook and Twitter. These networks provide much more than simple job boards in that they are used as communication tools to interact with the audience, with candidates and with people who are not necessarily candidates but may know people who may want to apply. Appropriate use is made of each medium. For example, Facebook is used to host a weekly question and answer session between one of CERN’s recruiters and anyone who wants to submit a

question, whereas the professional network LinkedIn provides a forum for more specialized discussions.

T-Mobile International has created a Facebook site for graduate recruitment. Potential graduate recruits established an individual presence on this invitation-only site. The site was used to provide information on selection procedures and processes, for example criteria and timetables, and to allow the potential recruits to communicate with each other. As well as T-Mobile’s IT department, an internal ‘brand ambassador’ was involved in design throughout.

## Use of AI

AI can revolutionize recruitment, especially in larger organizations.

### Words of wisdom

Algorithms deploying sophisticated machine learning are reshaping recruitment faster than any other part of HR. That’s not

surprising to technologists: recruitment (and not just in the Googleplex) is full of routinized actions, relies on analysing swathes of data, and for decades has hinged on humans making the sort of judgements we’re heroically bad at.

Jeffery (2017/2018: 35)

For some time now organizations have been using corporate websites, social media and internet job boards as important recruitment sources. Recently, AI has come to the fore and the following are examples of the ways it can be used:

- Algorithms can sift CVs, profile existing high performers and apply their traits to candidates, write job descriptions that eliminate any form of biased language and remove all trace of protected characteristics from applications.
- ‘Data mining algorithms’ can search social media postings for context that might support an application (but this raises the question of whether permission should be sought before doing this).
- Google Hire is a cloud-based applicant tracking system that complements the Google for Jobs search engine.
- Unilever has put around 250,000 candidates globally through a system involving gamified psychometric testing followed by an analysed video interview and an algorithm-driven selection process.
- Gamification has been used by the US Army as a recruitment aid. Candidates download a ‘shooting’ game and their level of skill in playing it is treated as an indication of their potential as a soldier.

AI-driven tools can be used to narrow down candidates. Machine learning algorithms enable the process of sourcing and matching to be automated by reference to data from social media, the individual and the employer.

Connectifier, a subsidiary of LinkedIn, enables recruiters to contact people on their database of more than 350 million candidates. Data is collected from across the internet. Connectifier’s platform sorts and combines data to create a complete profile of potential candidates. Recruiters can then feed in the types of skills and aptitudes they are looking for to find matches based on that information.

### **Corporate websites**

The most developed form of a corporate website consists of a dedicated area that gives details of vacancies, person specifications, benefits and how to

apply for jobs, for example by completing online application forms and tests. Such areas may be linked directly to an organization’s home page so that general browsers can access them. An intranet link may be available to enable internal staff to access the website. Some organizations are building their own professional communities or talent networks. The management of websites can be outsourced to recruitment consultants or specialized web agencies. A less sophisticated approach is simply to list vacancies and contact details. A fully developed site can be a very effective source.

The following are guidelines on the use of websites:

- keep the content of the site up to date;
- ensure the site is accessible directly or through search engines;
- provide contact numbers for those with technical problems;
- take care over the wording of online copy – the criteria for good copy in conventional advertisements as described later in this section apply.

### **Commercial job boards**

Commercial job boards consist of large databanks of vacancies. Information about vacancies may reproduce an advertisement so that the site is simply an additional form of communication, but some vacancies are only found online. Links may be provided to the organization’s website. They are operated by specialized firms such as Monster.co.uk and Fish4jobs.com. Companies pay to have their jobs listed on the sites.

To make the best use of a job board:

- go for specialized sites rather than generalist;
- stick to one or two sites rather than spreading your vacancy everywhere;
- if you are unsure about the best site, Google the job and browse the sites that come up in order to see which is most authoritative;
- pay to obtain a prominent site;
- bear in mind that people who look at the site are seeking a job; job sites are not like print advertisements, which have to attract casual readers;



- ensure that the information you provide is clear about what you are offering and the achievements, qualifications and experience you are looking for.

## Advertising

Advertising has traditionally been the most obvious method of attracting candidates but it is no longer so important, especially at national level, although it is used more at local level and in specialized journals. Many organizations now prefer to use online recruitment, agencies or consultants.

A conventional advertisement should aim to attract a sufficient number of good candidates at minimum cost. To do this it must:

- be placed in the appropriate medium;
- attract attention – it must compete for the attention of potential candidates against other employees;
- create and maintain interest – it has to communicate, in an attractive and interesting way, information about the job, the company and the terms and conditions of employment;
- stimulate action – the message needs to be conveyed in a way that will prompt a sufficient number of replies from candidates with the right qualifications for the job.

It is essential to measure the response to advertisements to provide guidance on the relative cost-effectiveness of different media. Cost per reply is the basic ratio.

When drafting advertisements remember the anti-discrimination legislation set out in the Equality Act (2010). This makes it unlawful to discriminate in an advertisement by favouring either sex, the only exceptions being a few jobs that can be done only by one sex. Advertisements must therefore avoid sexist job titles such as ‘salesman’; they must refer to a neutral title such as ‘sales representative’. Potential respondents should be referred to only as the ‘candidate’ or the ‘applicant’, otherwise you must specify ‘man or woman’ or ‘he or she’. It is accepted, however, that certain job titles are unisex and therefore non-discriminatory, including director, manager, executive and officer.

It is also unlawful to place an advertisement that discriminates against any particular race. As long as

race is never mentioned or even implied in an advertisement, you should have no problem in keeping within the law. The Equality Act also makes it unlawful to discriminate against employees on account of their age. Age limits should therefore not be included in advertisements and the wording should not indicate that people below or above a certain age are not wanted.

## Recruitment agencies

Recruitment agencies can be used to recruit office staff. They are usually quick and effective but quite expensive. Agencies can charge a fee for finding someone of 15 per cent or more of the first year’s salary. It can be cheaper to advertise or use the internet, especially when the company is in a buyer’s market. Shop around to find the agency that suits the organization’s needs at a reasonable cost.

Agencies should be briefed carefully on what is wanted. They can produce unsuitable candidates but the risk is reduced if they are clear about the requirements.

## Recruitment consultants

Recruitment consultants advertise, interview and produce a shortlist. They provide expertise and reduce workload. The organization can be anonymous if it wishes. Most recruitment consultants charge a fee based on a percentage of the basic salary for the job, usually ranging from 15 to 20 per cent.

When choosing a recruitment consultant, check their reputation and expertise, compare fees and meet the person who will work on the assignment to assess his or her quality. To use them effectively:

- Agree terms of reference.
- Brief them on the organization, where the job fits in, why the appointment is to be made, terms and conditions and any special requirements.
- Give them every assistance in defining the job and the person specification – they will do much better if they have comprehensive knowledge of what is required and what type of person is most likely to fit into the organization well.



- Check carefully the proposed programme and the draft text of the advertisement.
- Clarify the arrangements for interviewing and shortlisting.
- Clarify the basis upon which fees and expenses will be charged.
- Ensure that arrangements are made to deal directly with the consultant who will handle the assignment.

### **Executive search consultants**

Use an executive search consultant or ‘headhunter’ for senior jobs where there is only a limited number of suitable people and a direct lead to them is wanted. Headhunters are not cheap. They charge a fee of 30 to 50 per cent or so of the first year’s salary, but they can be quite cost-effective.

Executive search consultants first approach their own contacts in the industry or profession concerned. The good ones have an extensive range of contacts and their own data bank. They will also have researchers who will identify suitable people who may fit the specification or can provide a lead to someone else who may be suitable. The more numerous the contacts, the better the executive search consultant. When a number of potentially suitable and interested people have been assembled, a fairly relaxed and informal meeting takes place and the consultant forwards a shortlist to the client with full reports on candidates.

There are some good and some not so good executive search consultants. Do not use one unless a reliable recommendation is obtained.

### **Educational and training establishments**

Many jobs can, of course, be filled by school leavers. For some organizations the main source of recruits for training schemes will be universities and colleges as well as schools. Graduate recruitment is a major annual exercise for some companies, which go to great efforts to produce glossy brochures, visit campuses on the ‘milk run’ and use elaborate sifting and selection procedures to vet candidates, such as assessment centres.

### **Comparison of sources**

A summary of sources and an analysis of their advantages and disadvantages is given in Table 28.2. There is usually a choice between different methods or combinations of them. The criteria to use when making the choice are: (1) the likelihood that it will produce good candidates; (2) the speed with which the choice enables recruitment to be completed; and (3) the costs involved, bearing in mind that there may be direct advertising costs or consultants’ fees.

## **Managing the recruitment process**

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As described below, the process of recruitment is a complex process.

### **Recruitment process advertising**

Recruitment process outsourcing (RPO) is a method term used when an organization commissions a provider to take responsibility for the end-to-end delivery of the recruitment process, covering all vacancies or a selection of them. This involves liaising with hiring managers to define requirements and specifications, deciding on the best ways to attract candidates, processing applications, and setting up and facilitating interviews. Some companies do not hand over all recruitment, using RPO only for high-volume vacancies. They may retain responsibility for senior and specialist jobs.

### **Examining information from candidates**

Candidates can respond to an online notice or an advertisement with a formal application (by e-mail or letter), usually supported by a CV. Applicants may be asked to provide information about their education, qualifications, training and experience in an application form to provide a structured basis for drawing up shortlists, the interview itself and for the subsequent actions in offering an appointment and in setting up records. This ensures that all applicants are considered on the same basis against the person specification.

**TABLE 28.2** Comparison of sources of candidates

Source	Description	Advantages	Disadvantages
Social media	Online platforms such as LinkedIn, Facebook or Twitter, that apply Web 2.0 technologies for networking or sharing information or opinions.	Good for reaching large numbers of potential candidates quickly and cheaply including those who are not actively looking for jobs but are not averse to changing (passive seekers).	<ul style="list-style-type: none"> <li>• May generate too many names.</li> <li>• Employer has to manage own profile.</li> </ul>
Company website	A dedicated area on the company website that gives details of vacancies, person specifications, benefits and how to apply for jobs.	<ul style="list-style-type: none"> <li>• Can reach a wider range of possible applicants, and quicker and cheaper than traditional methods of advertising. More details of jobs and firms can be supplied on the site and CVs can be matched and applications submitted electronically.</li> <li>• Can use an organization's brand to attract candidates.</li> <li>• Keyword searchable. Job details can be changed and CVs managed electronically.</li> </ul>	<ul style="list-style-type: none"> <li>• May produce too many irrelevant or poor applications.</li> <li>• Not the first choice of many job seekers.</li> </ul>
Job board	Commercial job boards consist of large databanks of vacancies.	Easy access to a wide range of candidates.	<ul style="list-style-type: none"> <li>• Expensive and may need other media to drive traffic to the site.</li> <li>• Job boards are bad for 'passive seekers'.</li> </ul>
Advertising	Display or classified advertisements in national or local newspapers or journals.	<ul style="list-style-type: none"> <li>• Local papers can be effective for recruiting junior staff and manual workers.</li> <li>• Journals can target specialists.</li> <li>• Can attract 'passing trade' – people who are not actively looking for a job.</li> </ul>	<ul style="list-style-type: none"> <li>• Online methods can be more cost-effective.</li> <li>• Soon become irrelevant.</li> </ul>
Recruitment agencies	Mainly recruit office and sales staff who are registered with them.	Convenient, save time and trouble, draw on an established pool of candidates.	Can produce unsuitable candidates. Pool may be limited.
Job centres	Mainly for manual workers and clerical and sales staff.	No cost; usually plenty of choice.	Limited to relatively routine jobs.
Recruitment consultants	Advertise, interview and produce a shortlist.	Provide expertise and reduce workload.	Can be expensive.
Executive search consultants	Conduct searches for senior executives.	Can find top-level people who might not otherwise be interested.	Expensive, limited to top jobs.

(continued)

**TABLE 28.2** (Continued)

Source	Description	Advantages	Disadvantages
Educational establishments	Universities, colleges and schools.	Major source of future talent.	Recruitment campaigns can be costly.
Recruitment process outsourcing	Deliver complete recruiting process.	Save time, bring outside expertise to bear on recruitment problems and free up HR for more value-adding activities.	Feeling that provider is too remote to deal with the real issues and that there is a danger of losing control.

An application form, an example of which is illustrated in Figure 28.1, sets out the information required which can be completed online or on paper. To use application forms more effectively:

- decide what the criteria for selection are and how these will be assessed by use of the application form;
- keep questions clear, relevant and non-discriminatory;
- ask for only the bare minimum of personal details – omit any reference to gender or age;
- widen your pool of applicants by offering different options and guidance for completing and viewing application forms.

Employers may also refer for further information to social networks or the candidate's own blog.

## Processing applications

When there is a large number of candidates a computer-based applicant tracking system can be used. Machine learning (AI) algorithms can model patterns of hiring to identify the right people quickly and easily. If such aids are not available, the initial step is to list the applications on a recruitment database setting out name, date application received and actions taken (reject, hold, interview, shortlist, offer). The next step is to screen applications prior to drawing up a shortlist and arranging interviews.

## Screening applications

Applicants are screened by comparing the information available about them with the criteria in the

person specification. This can be done through AI algorithms or manually. Under the General Data Protection Regulation (GDPR) candidates will have to be told if they are to be subjected to an automated process. GDPR also requires explicit consent from candidates before an organization retains or uses their details.

### Pause for thought

What are the downsides, if any, to the use of AI in recruitment?

Criteria for screening applications can be classified under the following three headings so that they can be applied consistently to guide sifting decisions:

- *Essential* – applicants will not be considered unless this criterion is satisfied.
- *Very desirable* – preference will be given to applicants who meet this criterion.
- *Desirable* – applicants who meet this criterion will be given favourable consideration but it is not an essential requirement. However, if a number of applicants meet the first two criteria, satisfying desirable criteria would be a factor in making a choice.

A highly structured method of sifting applications is provided by the use of biodata. These are items of biographical data that are criterion-based (ie they relate to established criteria in such terms as

**FIGURE 28.1** Example of application form (compressed)

APPLICATION FORM					
Surname			First name		
Address					
Tel (home)		Tel (work)		Email (personal)	
Position applied for					
Education					
Dates		Name of secondary school, college or university	Main subjects taken	Qualifications	
From	To				
Specialized training received					
Other qualifications and skills (including languages, keyboard skills, current driving licence etc)					
Employment history (give details of all positions held since completing full-time education, start with your present or most recent position and work back)					
Dates		Name of employer, address and nature of business including any service in the armed forces	Position and summary of main duties	Starting and leaving rate of pay	Reasons for leaving or wanting to leave
From	To				
Add any comments you wish to make to support your application					
I confirm that the information given on this application form is correct					
Signature of applicant.....				Date.....	

qualifications and experience which indicate that individuals are likely to be suitable). These are objectively scored and, by measurements of past achievements, predict future behaviour.

Following the analysis, applicants can be sorted initially into three categories: possible, marginal and unsuitable. The more information made available and the clearer the criteria, the easier this process is. When there is a large field of applicants with many 'possibles', screening may have to be repeated against more stringent criteria until a shortlist for interview is identified.

Ideally, the numbers on the shortlist should be between four and eight. Fewer than four leaves relatively little choice (although such a limitation may be forced on the recruiter if an insufficient number of good applications have been received). More than eight will mean that too much time is spent on interviewing and there is a danger of diminishing returns setting in.

### **Draw up an interviewing programme**

An interviewing programme will set out the arrangements for the various types of interviews that can be conducted, the type of interview, the use of tests (if any), who is going to conduct the interview or interviews, who makes the final decision, and the timetable for the whole process leading to the offer of employment. As described below, there is plenty of choice on the make-up of the programme, for example on the use of video, telephone or face-to-face interviews, on the combination of approaches and on the number of interviews. There is no 'best practice' to indicate what should be done. All that is necessary is to consider the alternative approaches and decide on what best fits the situation.

For some jobs, particularly more senior or professional/technical ones, an interviewing programme could consist of a preliminary video interview probably using Skype. Members of the shortlist produced after the video interview could be asked to attend face-to-face interviews. Telephone interviews can be used as an alternative to video. For some jobs only face-to-face interviews are conducted, either because there are doubts about the usefulness of a video/telephone interview or because the job is a relatively routine manual or administrative one.

The interview programme could consist of a video or telephone interview followed by a face-to-face

interview for shortlisted candidates. There may be two or even more face-to-face interviews either following a video/telephone interview or on their own, one of which may be conducted by an HR recruiter and the other or others by line managers.

The time allowed for an interview will vary according to the complexity of the job. For a fairly routine job, 30 minutes or so should suffice. For a more senior job, 60 minutes or more may be required both for a video interview and a face-to-face interview.

It is best not to schedule too many face-to-face interviews for senior jobs in a day – interviewers who try to conduct more than four or five exacting interviews will quickly run out of steam and do neither the interviewee nor the organization any justice. It is advisable to leave 15 to 30 minutes between interviews to write up notes and prepare for the next one.

### **Administering the selection programme**

A computer-based applicant tracking system can be used to automate the whole recruitment and selection process from initial application through invitation to interview(s) or rejection, outcome of interview (offer, rejection) and on to the outcome of an offer. If a manual process is used, the actions required are described below.

When the interviewing programme has been drawn up, shortlisted candidates can be invited for interview, using a standard letter or e-mail where large numbers are involved. Candidates should be asked to complete an application form if they have not already done so. There is a lot to be said at this stage for sending candidates more details of the organization and the job so that too much time is not spent in going through this information at the interview.

Review the remaining 'possibles' and 'marginals' and decide if any are to be held in reserve. Send reserves a standard 'holding' letter and send the others a standard rejection letter. The latter should thank candidates for the interest shown and inform them briefly, but not too brusquely, that they have not been successful. A typical reject letter might read as follows.

Since writing to you on... we have given careful consideration to your application for the above position. I regret to inform you, however, that

we have decided not to ask you to attend for an interview. We should like to thank you for the interest you have shown.

## Selection methods

The aim of selection is to assess the suitability of candidates by predicting the extent to which they will be able to carry out a role successfully. It involves deciding on the degree to which the characteristics of applicants match the person specification and then using this assessment to make a choice between candidates.

Table 28.3 shows the outcome of a CIPD survey in 2017 on the use of different methods of selection. The next section describes the main selection methods: interviews, tests and assessment centres.

## Selection interviews

The interview is the most familiar method of selection. The aim is to elicit information about candidates that will enable a prediction to be made about how well they will do the job and thus lead to a

selection decision. Almost all the respondents to the 2017 CIPD (99 per cent) used the traditional face-to-face interview but 65 per cent also used the telephone and 53 per cent used video or Skype.

A face-to-face interview enables the establishment of close contact – rapport – between the interviewer and the candidate, thus easing the acquisition of information about the candidate's suitability and how well he or she would fit into the organization. As described below, interviews can be structured or unstructured.

### Structured interviews

A structured interview is one based on a defined framework consisting of a set of predetermined questions. All candidates are asked the same questions that will focus on the attributes and behaviours required to succeed in the job. Guidelines or scoring criteria are available to evaluate answers.

A structured interview may include experience-based questions in which candidates are asked to relate how they handled situations in the past requiring skills and abilities necessary for effective performance in the job for which they are applying. And/or it may include situational questions that

**TABLE 28.3** Use of selection methods

Method	Percentage of respondents
Competency-based interviews	78
Interviews following contents of CV/application form	74
Tests for specific skills	56
General ability tests	41
Assessment centres	39
Literary and/or numeracy test	38
Personality/aptitude questionnaire	35
Group exercises	24
On-line selection tests	23

Source CIPD (2017)

provide candidates with hypothetical job-relevant situations and ask how they would deal with them. Research by Pulakos and Schmitt (1995) found that experience-based interviews yielded higher levels of validity than situation-based ones. But both types of questions may be incorporated in an interview. Further information on how to conduct a structured interview with examples of questions is given in Chapter 62.

### Competency-based interviews

A competency-based interview is a structured interview in which the predetermined set of questions put to all candidates aims to establish the extent to which they have the competences/competencies required to perform the job as set out in the person specification.

Competency-based interviews can be used to select graduates or college/school leavers where it is not possible to assess them on the basis of their work experience. Instead, interviewers ask candidates to provide examples of their activities and educational and extra-curricular experiences which demonstrate that they have the particular core competency the organization is looking for.

The term competency-based interview is sometimes used more loosely to mean any interview that is based on the information contained in the person specification that will include knowledge, skills and abilities as well as behavioural competency requirements.

### Strength-based interviews

A strength-based interview is a structured interview in which the objective is to find out what candidates are good at doing rather than just what they are capable of doing. It includes questions such as: ‘What are you good at?’, ‘What comes easily to you?’ and ‘What have you done recently that you are proud of?’ It is often used with graduates and school leavers who have little work experience. Strength-based questions can be incorporated alongside experience-based and situation-based questions as long as the same questions are put to each candidate. The strengths that are important in a job can be established by identifying the strengths of existing high performers in a similar job.

### Unstructured interviews

Unstructured interviews take the form of a general discussion during which the interviewer asks a few questions that are relevant to what he or she is looking for but without any specific aim in mind other than getting an overall picture of the candidate as an individual. Questions are often random and non-specific and may be only vaguely related to the actual job requirements. Candidates are judged on the general impression they make and the process is likely to be quite subjective. Research quoted later in this chapter has shown that the predictive validity (the extent to which it predicts performance in a job) of an unstructured interview is fairly low. The preferred method is a structured interview that, when conducted well, has a higher level of predictive validity.

#### Pause for thought

Mike Distifano, President of the Korn Ferry Institute, quoted by Marr (2018: 131) remarked that ‘people get hired for what they know and fired for who they are’.

If so, what are the implications for recruitment and selection?

### Advantages and disadvantages of selection interviews

#### Advantages

- Provide opportunities for interviewers to ask probing questions about the candidate’s experience and to explore the extent to which the candidate’s competencies match those specified for the job.
- Enable interviewers to describe the job including its demands (a ‘realistic job preview’) and the organization in more detail, providing some indication of the terms of the psychological contract.



- Provide opportunities for candidates to ask questions about the job and to clarify issues concerning training, career prospects, the organization and terms and conditions of employment.
- Enable a face-to-face encounter to take place so that the interviewer can make an assessment of how the candidate would fit into the organization and what he or she would be like to work with.
- Give the candidate the same opportunity to assess the organization, the interviewer and the job.

## Disadvantages

- Can lack validity as a means of making sound predictions of performance, and lack reliability in the sense of measuring the same things for different candidates.
- Rely on the skill of the interviewer – many people are poor at interviewing, although most think that they are good at it.
- Do not necessarily assess competence in meeting the demands of the particular job.
- Can easily involve stereotyping and lead to biased, discriminatory and subjective judgements by interviewers.

The disadvantages are most common when unstructured interviews are used, but they can be alleviated, first by using a structured approach, and second by training interviewers. Selection often depends on the opinion of one line manager although an HR specialist can provide additional views. For key jobs it is advisable to get another line manager to conduct an interview and provide a second opinion. The availability of another opinion can also help to eliminate bias as far as possible or avoid a superficial decision, especially if the same structured approach is adopted by both interviewers. There may be situations where the decision to employ is so crucial and has such wide-ranging implications that more than two interviews should be held. The accuracy of the prediction can also be increased by the use of selection tests as described in the next section of this chapter.

The alternative is a selection board or panel, which is often used in the public sector. This brings together a number of parties interested in the

selection decision. But the drawbacks are that questions are often unplanned and delivered at random and the candidates are unable to do justice to themselves because they may not be allowed to expand.

### Words of wisdom

One of the clearest lessons to emerge from decades of research on personnel selection is that the traditional face-to-face job interview is terrible for predicting future job performance. The sad truth is that no selection tool is perfect, and future performance cannot be predicted precisely, but the traditional interview is particularly bad. Fortunately, it is easy to improve the predictive validity of the job interview by structuring it around hard-to-fake tests of key skills and abilities that actually predict future performance.

Moore (2017: 8)

## Bias in interviews

If handled badly, and they often are, interviews can result in superficial decisions and can involve stereotyping, bias and discrimination. People tend to leap to conclusions about candidates on the basis of first impressions very quickly.

As listed by Burt (2019), there are five types of bias:

- 1 *Halo effect* – allowing a candidate's good qualities, or at least those we approve of, to colour our perception of their less attractive ones.
- 2 *Successive contrasting bias* – when a phenomenal candidate causes recruiters to judge any succeeding candidates negatively.
- 3 *Confirmation bias* – seeking and interpreting information from candidates that confirms pre-existing beliefs.

- 4 *Groupthink* – when a number of people are involved in a recruitment decision the members may too readily defer to a strong personality in the group who insists that their preferred candidate is the right one.
- 5 *Anchoring bias* – using an initial piece of information to unduly influence subsequent judgements.

### Pause for thought

How can you eliminate or at least mitigate these types of bias?

Dr Thomas Chamorro-Premuzic, quoted by Burt, says that: ‘Decision makers and HR professionals really overrate their intuition, and when it comes to people decisions, the majority of people believe a short-term interaction, whether it’s a video interview or even a CV, will predict whether anyone will be a good fit in an organization.’ People tend to pair new information with subjective memories, steering them towards one option over another, forming opinions that feel objective but are nothing of the sort.

The use of AI algorithms to indicate who should be invited for an interview could lead to biased decisions because the process of developing the algorithm relies on the analysis of existing data that may contain bias. Amazon was forced to abandon one of its first AI recruitment platforms in 2018 when it emerged that it was favouring male candidates and penalizing applications containing the word ‘woman’. This was because the algorithms had developed measures of success from CVs which, in line with the technology sector, came from a pool containing a majority of men.

Bias will be reduced if more than one interviewer is involved. Another way to counter bias is to provide unconscious bias training to managers who are involved in selecting staff. Training won’t eliminate bias but it might contain it. Managers should be encouraged to use performance-led interviews that make them focus on skills rather than personality.

Online platforms can be used to get candidates to answer skill-based questions linked to a competence framework. Another approach is to disrupt

the order in which candidates are processed – assessing answer by answer rather than alphabetically or in order of submission.

An approach that is becoming increasingly popular is the use of blind CVs that remove candidates’ names, ages and sometimes details of their education from CVs and application forms. The need to omit at least names was demonstrated by a test conducted by the BBC in 2017 which found that a job seeker with an English-sounding name was offered three times the number of interviews than an applicant with a Muslim name. There is a good case for removing names, age and gender but leaving out educational details (attendance at university, class of degree) is more controversial. The aim might be to broaden the social mix by eliminating bias against those from backgrounds who are less likely to get into university. And a degree is only one measure of capability. But this ignores those from disadvantaged backgrounds who have worked very hard to get into university. It can also be argued that the interview process is still subjective and you will only be papering over the bias initially by using blind CVs. Even if a candidate is able to make it past the first part of a screening process to be offered an interview, it does not shield them from possible prejudices that might be there when they get to interview stage. Whilst anonymity can benefit candidates at application stage by removing discrimination, an entire recruitment process cannot be run without disclosing a candidate’s name.

### Source review

#### Reducing bias

All forms of assessment should follow structured processes and hiring decisions should be based firmly on the aggregated scores or data, rather than gut feeling. The current weight of evidence suggests that, in general, structured interviews are preferable to unstructured interviews. Assessors of CVs and tests should be as blind as possible to the characteristics of the applicant (gender, age, name, and so on) and should read through tests and CVs in identical circumstances, such as the same time of day, or in the same format (for example paper versus online).

Linos and Reinhard (2015: 22)

Interviews are still a necessary part of a recruitment process and that it is why it is so important to provide unconscious bias training for those involved in selecting people. The focus should be on structured interviews that are concerned with facts not opin-

ions. Non-discriminatory selection tests such as Raven's Progressive Matrices can also help. They can be used 'blind' to independently assess the capabilities of candidates. The use of tests is discussed below.

## CASE STUDY

### Recruitment and retention strategy at Buckingham County Council

Attracting and retaining high-quality staff is considered key to the corporate strategy of Buckingham County Council, which employs around 14,000 people. Resourcing is one of the most important things the council does to improve performance.

#### Resourcing and people strategy

The resourcing strategy complements and reinforces the people strategy, which has five targets:

- being the best employer;
- bringing in additional talent;
- developing existing talent;
- championing diversity;
- transforming the organization.

#### The people strategy dashboard

A people strategy dashboard has been created to ensure that human resources are managed more effectively. This extends the people strategy targets and is used to monitor progress in achieving them.

#### Improving recruitment and selection

This involves:

- strengthening the employer brand;

- developing a better recruitment website;
- developing a talent bank to ensure that vacancies are filled quickly;
- streamlining processes to reduce the time to fill vacancies;
- the development of a competency framework used for competency-based selection.

#### Retaining talent

A holistic approach is adopted to retaining talent. This involves paying attention to every aspect of the employment relationship and setting a 'best employer' target. A staff survey is used to measure employee engagement.

#### Total reward strategy

A total reward approach is adopted, including the use of total reward statements.

#### Talent management

A talent management toolkit is used to identify and develop potential high performers at every level in the organization.

## Selection testing

Selection tests are used to provide valid and reliable evidence of levels of abilities, intelligence, personality

characteristics, aptitudes and attainments. Psychological tests are measuring instruments, which is why they are often referred to as psychometric tests: 'psychometric' means mental measurement. Psychometric tests assess intelligence or personality. They

use systematic and standardized procedures to measure differences in individual characteristics, thus enabling selectors to gain a greater understanding of candidates to help in predicting the extent to which they will be successful in a job. The other types of tests described below are ability and aptitude tests.

A recent development in firms such as Deloitte is to use a recruitment app in the form of a mobile phone game to test mental agility, persistence and appetite for taking risks.

## Intelligence tests

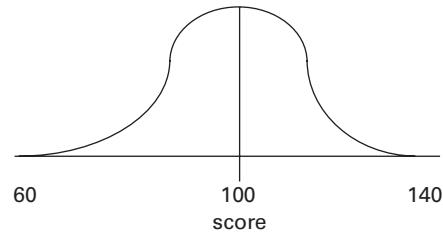
Intelligence tests measure a range of mental abilities that enable a person to succeed at a variety of intellectual tasks using the faculties of abstract thinking and reasoning. They are concerned with general intelligence (termed ‘g’ by Spearman (1927), one of the pioneers of intelligence testing) and are sometimes called ‘general mental ability’ (GMA) tests. Intelligence tests measure abilities while cognitive tests measure an individual’s learning in a specific subject area. They contain questions, problems and tasks. The meta-analysis conducted by Schmidt and Hunter (1998) showed that intelligence tests had high predictive validity.

The outcome of a test can be expressed as a score that can be compared with the scores of members of the population as a whole, or the population of all or part of the organization using the test (norms). An intelligence test may be recorded as an intelligence quotient (IQ), which is the ratio of an individual’s mental age to the individual’s actual age as measured by an intelligence test. When the mental and actual age correspond, the IQ is 100. Scores above 100 indicate that the individual’s level of average is above the norm for his or her age, and vice versa. It is usual now for IQs to be directly computed as an IQ test score. It is assumed that intelligence is distributed normally throughout the population; that is, the frequency distribution of intelligence corresponds with the normal curve shown in Figure 28.2.

The normal curve is a way of expressing how scores will typically be distributed; for example, that 60 per cent of the population are likely to get scores between x and y, 20 per cent are likely to get scores below x, and 20 per cent are likely to get more than y.

Intelligence tests can be administered to a single individual or to a group. They can also be completed online.

**FIGURE 28.2** A normal curve



## Personality tests

Personality tests attempt to assess the personality of candidates in order to make predictions about their likely behaviour in a role. There are many different theories of personality and, consequently, many different types of personality tests. These include self-report personality questionnaires and other questionnaires that measure interests, values or work behaviour.

Personality tests can provide interesting supplementary information about candidates that is free from the biased reactions that frequently occur in face-to-face interviews, but they have to be used with great care. The tests should have been developed by a reputable psychologist or test agency on the basis of extensive research and field testing, and they must meet the specific needs of the user.

### Pause for thought

Do you think personality tests are a necessary part of a selection process?

## Ability tests

Ability tests establish what people are capable of knowing or doing. They measure the capacity for:

- *verbal reasoning* – the ability to comprehend, interpret and draw conclusions from oral or written language;
- *numerical reasoning* – the ability to comprehend, interpret and draw conclusions from numerical information;

- *spatial reasoning* – the ability to understand and interpret spatial relations between objects;
- *mechanical reasoning* – understanding of everyday physical laws such as force and leverage.

## Aptitude tests

Aptitude tests are occupational or job-related tests that assess the extent to which people can do the work. They typically take the form of work sample tests, which replicate an important aspect of the actual work the candidate will have to do, such as using a keyboard or carrying out a skilled task like repair work. Work sample tests can be used only with applicants who are already familiar with the task through experience or training.

## Characteristics of a good test

A good test is one that provides data that enables reliable predictions of performance or behaviour to be made and therefore assists in the process of making objective and reasoned decisions when selecting people for jobs. It will be based on research that has produced standardized criteria derived by using the same measure to test a number of representative people to produce a set of ‘norms’ for comparison purposes. The test should be capable of being objectively scored by reference to the normal or average performance of the group.

The two key characteristics of a good test are first that it is reliable in the sense that it always measures the same thing: a test aimed at measuring a particular characteristic, such as intelligence, should measure the same characteristic when applied to different people at the same or a different time or to the same person at different times. Second, a test should be valid in the sense that it measures the characteristic the test is intended to measure. Thus, an intelligence test should measure intelligence (however defined) and not simply verbal facility. A test meant to predict success in a job or in passing examinations should produce reasonably convincing (statistically significant) predictions.

A criterion-related approach is used to assess validity. This means selecting criteria against which the validity of the test can be measured. These criteria must reflect ‘true’ performance at work as

accurately as possible. A single criterion is inadequate: multiple criteria should be used. The extent to which criteria can be contaminated by other factors should also be considered and it should be remembered that criteria are dynamic – they will change over time.

## Interpreting test results

The main methods of interpreting test results are:

- *Norms*. An individual’s score in a test is not meaningful on its own. It needs to be compared with the scores achieved by the population on whom the test was standardized – the norm or reference group. A normative score is read from a norms table and might, for example, indicate that someone has performed the test at a level equivalent to the top 30 per cent of the relevant population.
- *Criterion scores*. Norms simply tell us how someone has performed a test relative to other people. A more powerful approach is to use the relationship between test scores and an indication of what the test is designed to measure, such as job success. This is called a criterion measure.

## The use of tests in a selection procedure

Validated intelligence and personality tests can produce useful data, but it is best to combine them with structured interviews in a selection procedure. Tests can be used where a large number of candidates have to be assessed and where it is not possible to rely entirely on examination results or information about previous experience as the basis for predicting future performance. In these circumstances it is economical to develop and administer special tests, and a sufficient number of cases can be built up for the essential validation exercise. Tests usually form part of an assessment centre programme. They can be administered online.

Intelligence tests are particularly helpful in situations where intelligence is a key factor and there is no other reliable method of measuring it. Aptitude tests are most useful for jobs where specific and measurable skills are required, such as word processing and

skilled repair work. Personality tests can complement structured interviews and intelligence and aptitude tests. Some organizations use them for jobs such as selling, where they believe that ‘personality’ is important and where it is not too difficult to obtain quantifiable criteria for validation purposes. They may be used to assess integrity and conscientiousness where these characteristics are deemed to be important.

In some situations a battery of tests may be used, including various types of intelligence, personality and aptitude tests. These may be a standard battery supplied by a test agency, or a custom-built battery may be developed. The biggest pitfall to avoid is adding extra tests just for the sake of it, without ensuring that they make a proper contribution to the success of the predictions for which the battery is being used.

Tests should be administered only by people who have been trained in what the tests are measuring, how they should be used, and how they should be interpreted. Also, it is essential to evaluate all tests by comparing the results at the interview stage with later achievements. To be statistically significant, these evaluations should be carried out over a reasonable period of time and cover as large a number of candidates as possible.

## Assessment centres

Assessment centres assemble a group of candidates and use a range of assessment techniques over a concentrated period (one or two days) with the aim of providing a more comprehensive and balanced view of the suitability of individual members of the group. The main features of assessment centres are that:

- Exercises are used to capture and simulate the key dimensions of the job; these may include one-to-one role-plays and group exercises. It is assumed that performance in these simulations predicts behaviour on the job;
- Gamification is used to test reasoning power, problem solving and decision making.
- Candidates are interviewed and tested.
- Performance in the centre is measured in several dimensions in terms of a competency framework which defines what is required to achieve success in a career with the

organization and possibly to become a member of a talent pipeline (see Chapter 29).

- Several candidates or participants are assessed together to allow interaction and to make the experience more open and participative.
- Several trained assessors or observers are used in order to increase the objectivity of assessments.

The case for assessment centres is that they obtain much more information about candidates than conventional interviews, even when these are supplemented by tests. But research by Schmidt and Hunter (1998) has shown that on their own, the ability of assessment centres to predict how well someone will perform (predictive validity) is lower than that of intelligence tests combined with structured interviews. Assessment centres are expensive and time-consuming and their use tends to be restricted to large organizations for managerial positions, graduates and, sometimes, sales staff.

## Choice of selection methods

There is a choice between selection methods. The most important criterion is the ability of a selection method or combination of methods to predict future performance. Predictive ability is expressed as a coefficient – complete validity would be 1.0; no validity would be 0.0.

The meta-analysis on the validity of different selection methods conducted by Schmidt and Hunter (1998: 265), which covered 85 years of research findings, produced the predictive validity coefficients shown in Table 28.4.

Robertson and Smith (2001) added personality assessments to this list with a validity coefficient of .37.

Schmidt and Hunter (1998) established that the reason why intelligence (GMA) is such a good predictor of job performance is that intelligent people acquire job knowledge more rapidly and acquire more of it, and it is this knowledge of how to perform the job that causes their job performance to be higher. Their research clearly indicates that the combination of structured interviews and intelligence tests is the most effective in terms of predictive validity. Graphology is useless.



**TABLE 28.4** Validity of different selection methods

Method	Coefficient
Intelligence tests and structured interviews	.63
Intelligence tests and unstructured interviews	.55
Assessment centres and structured interviews	.53
Intelligence tests only	.51
Structured interviews only	.51
Unstructured interviews only	.38
Assessment centres only	.37
Graphology only	.02

Source Schmidt and Hunter (1998)

## CASE STUDY

### Recruitment strategy at Thermo Fisher Scientific

Thermo Fisher Scientific faced the problem of coordinating recruitment in 18 divisions, some with internal recruiters, seven different applicant tracking systems and vastly different interview procedures. So the company established a new Internal Talent Acquisition team, re-vamped its

employer brand and redesigned its recruitment channel and careers websites. A quarter of vacancies are now filled internally. Time to hire is down from 77 to 44 days and cost per hire is down 65 per cent from \$1,175 to \$417.

## Making the decision

When making the decision the first step is to identify the candidates who have the abilities and personality that most closely match the specification for the job (person-job fit). Account may also be taken of the extent to which the candidates' personality and values will fit into the organization (person-organization fit).

The next step is to make a choice if there is more than one possible candidate. This choice should be evidence-based but judgement may still be required, which can be difficult. The decision may have to be

a balanced one – the match may not be perfect but it may be felt that it will do. However, for the sake of the organization and the individual concerned, what should be avoided is the selection in desperation of someone who is not properly qualified to do the job. If there is no one available, it is better to start again. It can happen that no suitable person emerges, even after another attempt or attempts. It could then be necessary to rethink the job specification to make it more realistic. In these circumstances, organizations have been known to resume their internal search, recognizing that some special training may be necessary for an individual with the potential to do the job but who lacks some of the expertise required.



Inevitably, managers and team leaders will want to appoint someone they think they will be able to work with, but great care has to be taken to avoid superficial or prejudiced decisions based on appearances rather than the reality of what the candidate has to offer. It is too easy to make superficial judgements. Managers can also fall into the trap of selecting ‘like for like’, ie someone they feel is like themselves rather than someone who can do the job well, even if they are different.

## Provisional offers and obtaining references

After the interviewing and testing procedure has been completed, a provisional decision to make an offer by letter, e-mail or telephone can be made. This is normally ‘subject to satisfactory references’ and the candidate should, of course, be told that these will be taken up. If there is more than one eligible candidate for a job it may be advisable to hold one or two people in reserve. Applicants often withdraw, especially those whose only purpose in applying for the job was to carry out a ‘test marketing’ operation, or to obtain a lever with which to persuade their present employers to value them more highly.

The main purpose of a reference is to obtain in confidence factual information about a prospective employee. This information is straightforward and essential. It is necessary to confirm the nature of the previous job, the period of time in employment, the reason for leaving (if relevant), the salary or rate of pay and, possibly, the attendance record.

Opinions about character, competence, performance and suitability are unreliable. Referees are reluctant to commit themselves and they are not in any position to assess suitability – only the prospective employer can do that. Personal referees are, of course, useless. All they prove is that the applicant has at least one or two friends.

A written request for a reference could simply ask the previous employer to confirm the candidate’s employment record. More precise answers may be obtained if a standard form is provided for the employer to complete. The questions asked on this form should be limited to the following:

- What was the period of employment?
- What was the job title?

- What work was carried out?
- What was the rate of pay or salary?
- How many days’ absence were there over the last 12 months?
- Would you re-employ (if not, why not)?

The last question is important, if it is answered honestly or at all.

Telephone references may save time and may be more reliable. They can be used as an alternative or in addition to written references. Ask factual questions only and keep a record of the conversation.

## References – legal aspects

The key legal points that should be considered when asking for or giving references are:

- Once the decision has been made to make an offer, the letter should state that ‘this is a provisional offer subject to the receipt of satisfactory references’.
- It has been generally held that there is no common law duty on an employer to provide references for a serving or past employee unless there is a term to that effect in the employment contract. But it has been ruled (*Spring v. Guardian Assurance*, 1994) that there might be a moral duty to provide a reference where it is ‘natural practice’ to require a reference from a previous employer before offering employment, and where the employee could not expect to enter that type of employment without a reference.
- If a reference contains a false or unsubstantiated statement that damages the reputation of the individual, action for damages may result.
- It is possible to succeed in a claim for damages if it can be shown that the reference provided was negligent because reasonable care had not been taken in preparing it, which includes ensuring that it is factually correct.

## Checking applications

Candidates all too often misinform their prospective employers about their education, qualifications and employment record. This was confirmed by a

survey carried out by the CIPD (2008), which found that 25 per cent of employers had to withdraw their offers because applicants had lied or misrepresented their application. It is always advisable to check with universities, professional institutes and previous employers that the facts given by applicants are correct. Other checks can be made such as:

- interview questions about actual (not hypothetical) experiences, with deep probing to ascertain the extent of the individual's personal involvement, decision making and contribution;
- detailed application forms with open-ended questions about specific learning related to the skills, knowledge and competencies required for the vacancies under consideration;
- identification check;
- electoral register check;
- credit reference agency check (especially appropriate for positions in the financial services sector);
- confirmation of previous employment with HM Revenue and Customs or through the Department of Work and Pensions;
- Criminal Records Bureau check;
- Companies House check (for directors);
- fraud prevention check, including Cifas staff fraud database check (to prevent an employer unwittingly employing people previously dismissed for fraud somewhere else); Cifas is a not-for-profit fraud prevention service;
- the extent to which a CV tallies with a social media profile – one in five employers polled by YouGov say they have turned down a prospective employee after seeing their media profile.

## Offering employment

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The final stage in the selection procedure is to confirm the offer of employment after satisfactory references have been obtained, and the applicant has passed the medical examination required for pension and life assurance purposes or because a certain standard of physical fitness is required for the

work. The contract of employment should also be prepared at this stage.

## Following up

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It is essential to follow up newly engaged employees to ensure that they have settled in and to check on how well they are doing. If there are any problems it is much better to identify them at an early stage rather than allowing them to fester.

Following up is also important as a means of checking on the selection procedure. If by any chance a mistake has been made, it is useful to find out how it happened so that the procedure can be improved. Misfits can be attributed to a number of causes, for example inadequate person specification, poor sourcing of candidates, weak advertising, poor interviewing techniques, inappropriate or invalidated tests, or prejudice on the part of the selector.

## Dealing with recruitment problems

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Every experienced HR professional who is responsible for recruitment and selection will occasionally come across a vacancy that is particularly difficult to fill. In this situation any compromise that involves appointing someone who does not meet the specification must be avoided. To deal with the problem constructively it is necessary to take the following actions:

- Ensure that all the possible sources of candidates have been used.
- Consider any ways in which the website or social media notice or advertisement could be made more attractive.
- Consider ways of improving the organization's employer brand.
- Check that the person specification is realistic – that the requirements have not been overstated.
- Consider whether it might be necessary to improve the package offered to candidates – check market rates to ensure that the levels of pay and benefits are competitive.

- In discussion with the line manager, examine the possibility of reshaping the role to increase its attractiveness.
- If the worst comes to the worst, discuss with the manager alternative ways of carrying out the work with existing staff.

## CASE STUDY

### Recruitment assessment processes at Embarq

Embarq is the largest independent local telecoms provider in the United States. It suffered catastrophic rates of staff turnover in its call centres; then a new assessment process designed by PreVisor reduced turnover from 33.5 per cent in the first 90 days to 12.5 per cent.

The new process begins with an online screening tool that identifies characteristics and motivations that define long-term success in the roles, such as 'customer focus'

and 'persistence'. There follows a behaviour-based structured interview and a sales-based role-play exercise. This exercise takes place over the phone, which tests candidates in the most realistic way possible, and is more convenient and cost-effective.

Sales have since increased by 24 per cent, and customer service has also improved.

### Key learning points

#### Define requirements

Requirements are set out in the form of job descriptions or role profiles and person specifications. These provide the information required to draft advertisements, post vacancies on the internet, brief agencies or recruitment consultants and assess candidates by means of interviews and selection tests.

#### Analyse recruitment strengths and weaknesses

The analysis should cover such matters as the national or local reputation of the organization, pay, employee benefits and working conditions, the intrinsic interest of the job, security of employment, opportunities for education and training, career prospects, and the location of the office or plant.

#### Employer brand

- An employer brand is the image presented by an organization as a good employer – 'a great place to work'.

- A positive brand will help the business to become an employer of choice, thus attracting better applicants for jobs.
- The key feature of the brand will be the reputation of the company as an employer – the way people are treated, the provision of a fair deal, opportunities for growth, work-life balance, leadership, the quality of management and involvement with colleagues.

#### Employee value proposition

An organization's employee value proposition consists of what it offers to prospective or existing employees that they will value and that will persuade them to join or remain with the business.

#### Analyse the requirement

- Establish how many jobs have to be filled and by when.

- Set out information on responsibilities and competency requirements.
- Consider where suitable candidates are likely to come from.
- Define the terms and conditions of the job (pay and benefits).
- Consider what is likely to attract good candidates.

### Identify sources of candidates

Initially, consideration should be given to internal candidates. An attempt can be made to persuade former employees to return to the organization or obtain suggestions from existing employees (referrals). If these approaches do not work, the main sources of candidates are online recruiting, advertising, agencies and job centres, consultants, recruitment process outsourcing providers and direct approaches to educational establishments.

### Selection methods

The aim is to assess the suitability of candidates by predicting the extent to which they will be able to carry out a role successfully. It involves deciding on the degree to which the characteristics of applicants match the person specification and using this assessment to make a choice between candidates. The interview is the most familiar method of selection. The aim is to elicit information about candidates that will enable a prediction to be made about how well they will do the job and thus lead to a selection decision.

### Structured interviews

A structured interview is one based on a defined framework. Within the framework there may be a set of predetermined questions. All candidates are asked the same questions and the answers may be scored through a rating system.

### Competency-based interviews

A competency-based interview is a structured interview in which the predetermined set of questions put to all candidates aims to establish the extent to which they have the competencies required to perform the job as set out in the person specification.

### Selection tests

Selection tests are used to provide valid and reliable evidence of levels of abilities, intelligence, personality characteristics, aptitudes and attainments.

### Choice of selection methods

There is a choice between the selection methods. The most important criterion is the predictive validity of the method or combination of methods. Schmidt and Hunter (1998) found that the best results were obtained by combining intelligence tests with structured interviews.

### Making the decision

When making the decision the first step is to identify the candidates who have the abilities and personality that most closely match the specification for the job (person-job fit). Account may also be taken of the extent to which the candidates' personality and values will fit into the organization (person-organization fit).

### References and offers

After the interviewing and testing procedure has been completed, a provisional offer by telephone or in writing can be made. This is normally 'subject to satisfactory references'. It is essential to check the information provided by candidates on qualifications and their work experience.

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# 29

# Talent management

## Introduction

The success, indeed the survival of organizations, depends on the quality of the people they employ – their talent. This has to be managed by being identified, obtained, developed and nurtured.

### Words of wisdom

The two critical issues in talent management concern the ability to place the right people in the right roles and to ensure their typical performance is as close to their maximum performance as possible.

Chamorro-Premuzic (2017: 85)

This chapter starts with a definition of talent management and continues with a review of talent management policy and strategy. This is followed by a description of the process of talent management including the operation of a ‘talent pipeline’ and the creation and maintenance of a ‘talent pool’. The global approach to talent management was covered in Chapter 7.

## Talent management defined

Talent management is about ensuring that the organization has the capable and well-qualified people it needs to attain its goals. It involves the systematic attraction, retention, identification and development of individuals who are of particular value to a business.

Talent is what people must have in order to perform well in their roles. They make a difference to organizational performance through their immediate efforts, they have the ability to learn and grow, and they have the potential to make an important contribution in the future. Talent management is based on the proposition that ‘those with the best people win’. The term emerged in the late 1990s when McKinsey and Company coined the phrase ‘the war for talent’.

As suggested by Younger *et al* (2007), approaches to talent management include emphasizing ‘growth from within’, regarding talent development as a key element of the business strategy, being clear about the competencies and qualities that matter, maintaining well-defined career paths, taking management development, coaching and mentoring seriously and demanding high performance. A policy of ‘talent on demand’ can be adopted as advocated by Cappelli (2008) which means that talented people are available as required to meet emerging needs for senior managers or other key staff.

There are many versions of talent management but in one way or another it can cover such traditional HRM activities as workforce planning, recruitment, managing employee retention, performance management, potential assessment, leadership and management development, succession planning and career planning. The difference is that talent management is a wider-reaching approach which ‘joins up’ these HR practices. The process of talent management as described later needs to be directed by an articulated talent management policy and strategy.

## Talent management policy

An organization developing a talent management programme has initially to make the following policy decisions.

## Talent on demand policy

The first decision is whether to adopt a ‘talent on demand’ policy which means that talented people are available as required to meet emerging needs for senior managers or other key staff. Cappelli (2008) advocated this policy based on the following four principles:

- 1 Make and buy talent to manage the demand-side risk.
- 2 Reduce the uncertainty in talent demand.
- 3 Earn a return on investment in developing employees.
- 4 Employee interests should be balanced by creating an internal labour market that offers all the advantages of the external labour market to reduce staff turnover and to avoid the associated loss of talent and costs.

### Source review

Succession planning has evolved from the traditional short-term focus on replacing senior managers if they happened to leave without prior warning. There is now a more long-term aim of developing a cadre of key talent who are able to take on higher-level roles, potentially roles that may not currently exist... The utilization of talent pools consisting of employees with key generic type competencies and skills allows the organization far greater scope when positions become available. Management will be able to select the most suitable candidate from a pool of candidates and train the person into the specific requirements of that particular role.

McDonnell and Collings (2011: 64)

This is a more practical approach than the management succession plans that were formerly produced by large bureaucratic organizations. They never worked well and are even less likely to succeed in today’s more flexible and rapidly changing organizations, where elaborate succession plans are likely to be out of date as soon as they are made. There is much to be said for adopting a talent on demand

policy in any situation in which it is difficult to produce precise definitions of future talent requirements; and today that is a typical situation.

## Inclusion in talent management programme policy

The second policy decision is on who should be included in a talent management programme. The choice is between an exclusive and inclusive approach. An exclusive approach may focus on an elite group of those assessed as having high potential – the ‘high flyers’. These will be possible future leaders able to fill senior posts in the organization. Huselid *et al* (2005) argued that talent management policies should concentrate on the ‘A list’ people who fall into this category. But a modified form of exclusivity recognizes that there are a number of other key positions with which talent management may be concerned, for example, pivotal professional or technical roles or even middle-ranking managers such as departmental heads and team leaders.

An inclusive approach means that everyone in the organization is seen as actually or potentially talented, given opportunity and direction.

The most common view seems to be that the aims of talent management are to obtain, identify and develop people with high potential. But it should not be at the expense of the development needs of people generally. A case study of a global management consultancy (Tansley and Tietze, 2013) revealed that the consultancy’s approach to talent management was both inclusive (everyone is talented) and exclusive (key people were developed in ways different to those adopted for ‘everyday talent’). This was expressed by the company’s Talent Development Director as follows:

Talent in the firm means two things. One, I think that everybody is a talented individual. We recruit bright people intellectually. But our business also has the responsibility to help them realize that. So there is a fundamental belief that everyone is talented, and there is a belief that we do need to identify future leaders, who are going to lead key parts or have key roles in the business in the future and these would be quite senior roles. And that identifying talent to these spaces, and helping people to gravitate towards one of these roles, will be the key challenge for us.



These beliefs were put into effect by the firm through a talent progression sequence of four stages:

- 1 *Rising talent* – highly educated graduate recruits who are given education and training for core technical or professional roles.
- 2 *Emerging leaders* – who are given training and education for management under the guidance of sponsors or mentors.
- 3 *Next generation leaders* – who undertake leadership development programmes and may attend a corporate academy.
- 4 *Corporate next generation leaders* – who are provided with one-to-one development through coaches and mentors and briefed on corporate/governance strategy.

### Pause for thought

The following four definitions of talent were produced by Chamorro-Premuzic (2017: 30):

The first is the rule of the vital few, which posits that, in any organization or group of individuals, a minority of people will be responsible for most of the collective output. The second is the maximum performance rule, which states that a person's talent can be gauged when he is trying to do his best. The third is the effortless performance rule, which asserts that if a person has talent he will be able to achieve the same level of performance as a less talented individual despite exerting lower levels of effort, because performance is ability plus motivation. The fourth states that talent is personality in the right place, in that a person will display talent if he finds the

right context – or role – for his natural disposition and default behavioural tendencies.

What are the implications of these principles for talent management?

### Talent pool policy

The third policy area is concerned with the need to create inclusive talent pools that contain a proportionate number of people from diverse backgrounds. Talent pool policy should also cover the way in which talent pools in partner organizations are handled. In circumstances where there are close links between the partners there is much to be said for sharing talent and thus encouraging the cross-fertilization of ideas.

## Talent management strategy

A talent management strategy consists of a view on how to acquire and nurture talent wherever it is and wherever it is needed by using a number of interdependent policies and practices. Talent management is the notion of 'bundling' in action. The strategy should take into account the future talent requirements of the organization as determined by workforce planning. It should also take account of talent management policies as discussed in the next section of this chapter referring to who the talent management programme should cover and definitions of what is meant by talent in terms of competencies and potential. The talent resourcing strategy should include the establishment of an employer brand and employee value proposition that will attract high-quality candidates.

The aims of a talent management strategy can be expressed as being to:

- generate and maintain a talent pool so that 'talent on demand' is available to meet requirements for high-quality people and to provide for management succession;

- develop the organization as an ‘employer of choice’;
- plan and implement recruitment and selection programmes that ensure good-quality people are recruited who are likely to thrive in the organization and stay with it for a reasonable length of time (but not necessarily for life);
- plan and implement talent retention programmes;
- introduce reward policies that help to attract and retain high-quality staff;
- design jobs and develop roles that give people opportunities to apply and grow their skills and provide them with autonomy, interest and challenge;
- implement talent development programmes;
- provide talented staff with opportunities for career development and growth;
- recognize those with talent by rewarding excellence, enterprise and achievement;

Cappelli (2008) suggested that the signs of a successful talent management strategy are that it is inclusive and that it can address and resolve any incongruity between the supply and demand of talent. He argued that talent management should not just be about employee development or succession planning, as many of the commonplace definitions suggest, but should focus on helping the firm attain its strategic objectives.

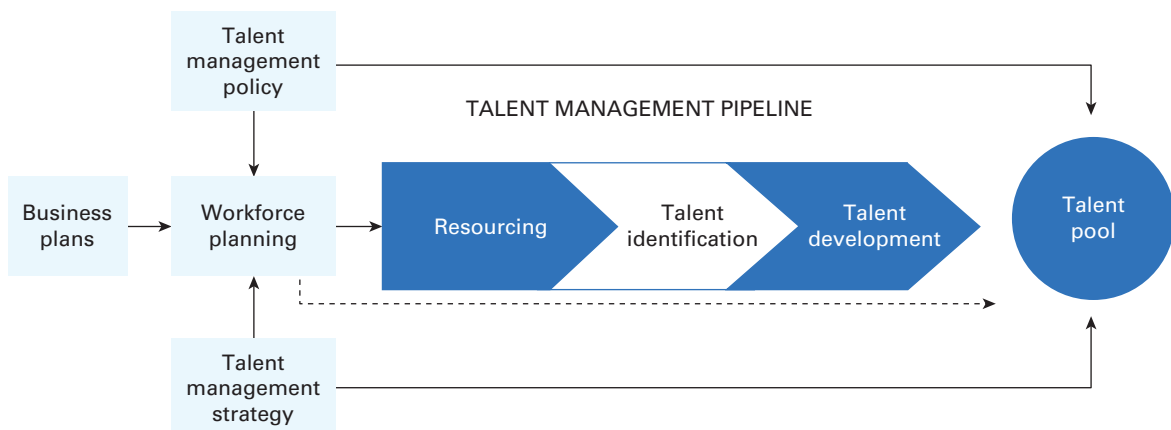
### Pause for thought

It can be argued that talent management is no more than a number of familiar HR practices bundled together. Is this true? And if not, what does the concept of talent management contribute to effective people management?

## The process of talent management

The process of talent management is to establish a ‘talent pool’ (or talent pools) from which people can be obtained as required to fill key roles. This is achieved by operating a ‘talent pipeline’ that provides for the flow of talent needed to maintain the talent pool through the processes of resourcing, talent identification and talent development. These activities are initiated by the business strategy that informs workforce plans. Talent management policies and strategies determine the scope of the talent pool and influence workforce plans. The process is modelled in Figure 29.1.

**FIGURE 29.1** The process of talent management



## The talent pool

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A talent pool contains the resources of talented people required by an organization to ensure that vacancies for people in pivotal roles can be filled readily. Talent management policy will define the view of the organization on what constitutes talent and who should be included in a talent management pool. The talent management strategy as informed by workforce planning will indicate the size of the talent pool and the operation of the talent pipeline.

Criteria for inclusion in the talent pool in the shape of generic competencies and skills need to be defined. These criteria will be used to identify potential and qualify people for membership of a pool. Inclusion and diversity obligations should be met.

For its senior posts, a Civil Service department uses the three Corporate Leadership Council (2002) elements:

- 1 Ability: technical skills, attitudes and behaviour.
- 2 Aspiration: setting and achieving challenging goals, and seeking opportunities for learning within their subject area.
- 3 Engagement: emotional and rational commitment to the organization, resulting in discretionary effort.

Fernandez-Araoz (2014) recommended the following criteria for defining high talent:

- *Motivation*: a fierce commitment to excel in the pursuit of unselfish goals.
- *Curiosity*: a penchant for seeking out new experiences, knowledge, and candid feedback and an openness to learning and change.
- *Insight*: the ability to gather and make sense of information that suggests new possibilities.
- *Engagement*: a knack for using emotion and logic to communicate a persuasive vision and connect with people.
- *Determination*: the wherewithal to fight for difficult goals despite challenges and to bounce back from adversity.

## Talent planning

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Talent planning as an aspect of workforce planning estimates the number of talented people needed in

the future taking into account the implications of business plans. It also assesses the type of skills that will be required and informs decisions on the size and composition of the talent pool in accordance with talent management policy. It provides the basis for the resourcing (recruiting) activities required to ensure that the talent needed by the organization is readily available in terms of both numbers and skills.

## Resourcing

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Resourcing is the first step in the direction of creating a talent pool. It is primarily about ensuring that the organization obtains the right people with the right skills for future roles as well as for immediate vacancies. The UK Civil Service has a fast-stream entry scheme, which is used to attract relatively small numbers of external recruits with the perceived potential to reach senior leadership levels over their career. These entrants have rapid early career progression and a wide range of early experiences to accelerate the early stages of their career development. Organizations in such fields as accountancy, retailing, aerospace engineering and pharmaceuticals recruit graduates who have the potential for a career in management, a professional role, or research and development.

Role specifications for recruiting purposes should define the competencies required to progress in the organization. Structured interviews should focus on these competencies, intelligence and ability tests should be used, and consideration should be given to the use of assessment centres. Interviewers should be trained in how to assess potential.

The implementation of talent resourcing plans may be the responsibility of a talent management function in an organization but it is often carried out by recruitment specialists leaving those concerned with talent management to concentrate on the pipeline activities of identification and development, the management of the talent pool and, importantly, keeping in touch with those in the talent pipeline (talent relationship management).

It is also necessary to consider what needs to be done to retain as well as to obtain talent. The steps that can be taken include demonstrating that the organization values its talented people, providing ample scope for learning and growth, recognizing and rewarding achievement and high performance, and keeping people informed about their progress (regular feedback). Talent management specialists will be responsible for dealing with talent retention issues.

## Identifying talent

Procedures are necessary for identifying people who are qualified now for membership of a talent pool or who have the potential to become members after completing a talent management development programme. Managers can be asked to assess potential and make recommendations on who should be included in such a programme.

A simple three-box method can be used to classify people. For example, 'emerging', 'growing' or 'high' potential, or 'ready now to progress beyond current grade', 'could progress beyond current grade within two years' or 'best suited to current grade'. As noted by Campbell and Hirsh (2013), a UK police force uses five categories for talent development:

- 1 Performance difficulties in their role – remedial action required.
- 2 Good match now – still room to develop in current role.
- 3 Lateral development – consistent performer, consider opportunities for individual in other areas.
- 4 Ready to go now – high performing, one-step progression to the next level.
- 5 Ones to watch – high performing and high potential, require opportunities to develop quickly to senior level.

A more elaborate method is the nine-box grid for identifying talent. This is a widely adopted approach – over half of the organizations studied by

**FIGURE 29.2** A nine-point performance/potential assessment grid

Performance			
Low	Medium	High	
→			
Shows every sign of the potential to go further but is under-performing in the present role.	Has the potential to go further. Performance is at an acceptable level.	Demonstrates high potential. Regularly achieves challenging and stretching goals.	High
Capable of taking on greater responsibilities if there is a significant improvement in performance.	Has the potential to keep developing and to deliver more in either scale or complexity. Performance is acceptable	Capable of growing into a higher-level role in due course. A consistently strong performer, delivering excellent value.	Medium Potential
No potential for growth beyond this level. Is seriously under-performing in the present role.	Valued in current role but is not expected to advance beyond this level. Generally meets performance expectations.	Highly valued at this level and in current role. A strong performer who is a core team member.	Low

Campbell and Hirsh were using it or were planning to. As illustrated in Figure 29.2, the grid uses two axes – performance and potential – with three levels on each axis, forming nine boxes in total.

The problem is that line managers are not necessarily well qualified to judge potential to carry out higher-level jobs because they may not be aware of the requirements for their successful performance. This was confirmed by research conducted by Viswasvaran *et al* (1996), which established that potential assessments by line managers can be unreliable and inconsistent. To deal with this problem it is necessary to brief managers on the method and criteria to be used and train them in their use.

Recommendations need to be reviewed and potential talent pool members interviewed by a talent management specialist (or whoever in HR is responsible for talent management) or better still, by a talent management panel of senior managers advised by the HR specialist. A further stage in a larger organization could be attendance at an assessment centre, which would not only confirm who should be included in the programme but would also identify what needs to be done to develop potential.

Whatever approach to assessing potential is adopted, it is important to ensure that the line manager discusses it with the individual, explaining the reason for the assessment, and giving performance feedback. This should be a two-way conversation in which the individual has the opportunity to comment. It should lead to a general discussion on the career prospects of the individual. If there is room for performance improvement the aim should be to reach an agreement on what needs to be done – by the individual *and* by the manager.

## Talent development

Talent development is the process of ensuring that talented employees gain the skills and experience required to fulfil their promise, advance their careers and satisfy the organization's need to fill senior and key posts with high-quality people. It enables those with potential to become a member of a talent pool but, because there is always room for further growth, qualified members of a talent pool will still benefit from continuing developmental activities. Talent development involves leadership and management development and career development.

## Leadership and management development

Leadership and management development programmes ensure that managers have the leadership and managerial qualities required to achieve success. A blended learning approach is used, which is based on an analysis of learning needs and combines a number of learning activities. These can include planned experience, coaching, mentoring, action learning, outdoor learning and formal training courses. A self-managed learning approach as described in Chapter 34 can be encouraged as a means of developing talent.

Leadership development programmes prepare people for leadership roles and situations beyond their current experience. The aim is to enhance leadership qualities by getting participants to understand what leadership involves and enabling them to appreciate, practice and develop the skills required for effective leadership. They focus on people management. As suggested by Bolden (2010), the essential elements of leadership development are reflection, practice, self-awareness, personal support and opportunities to apply the learning to work.

Management development programmes aim to enhance the ability of participants to achieve their goals by directing and controlling a whole range of resources, including people. They focus on the hard skills of managing for results as well as softer people management skills. Because managers generally have to work on a day-to-day basis in conditions of variety, turbulence and unpredictability their development largely takes place by gaining the right sequence of experience through the career development activities described below, although this may be supplemented by self-directed learning and courses on management techniques. Guidance provided by coaching and from mentors can be an important part of a programme. Leadership and management development activities are described in more detail in Chapter 36.

## Career development

Career development is concerned with shaping the progression of individuals within an organization in order to provide those with promise a sequence of

experience and learning activities that will equip them for whatever level of responsibility they have the ability to reach. It includes career counselling to help people progress their careers to their advantage as well as that of the organization.

Giving breadth of career experience is more difficult for those in specialized roles as they often have fewer opportunities for movement. To deal with this problem it is necessary to build on what they know through repeat exposure to similar, but increasingly complex, activities.

Career development includes the following activities:

- a policy of promoting from within wherever possible;
- the definition of career development pathways as explained below;
- personal development planning to develop each individual's knowledge and skills;
- systems and processes to achieve sharing and development of knowledge across the firm;
- multidisciplinary project teams, with a shifting membership, to offer developmental opportunities for as wide a range of employees as possible.

The organization can take steps to manage careers as part of its talent management programme and

can provide support and guidance to people with potential. At Richer Sounds, a system of career counselling has been introduced. An employee can request a meeting with a senior person at any time in order to discuss their career, whether there is a specific problem or whether they are concerned with their whole future direction.

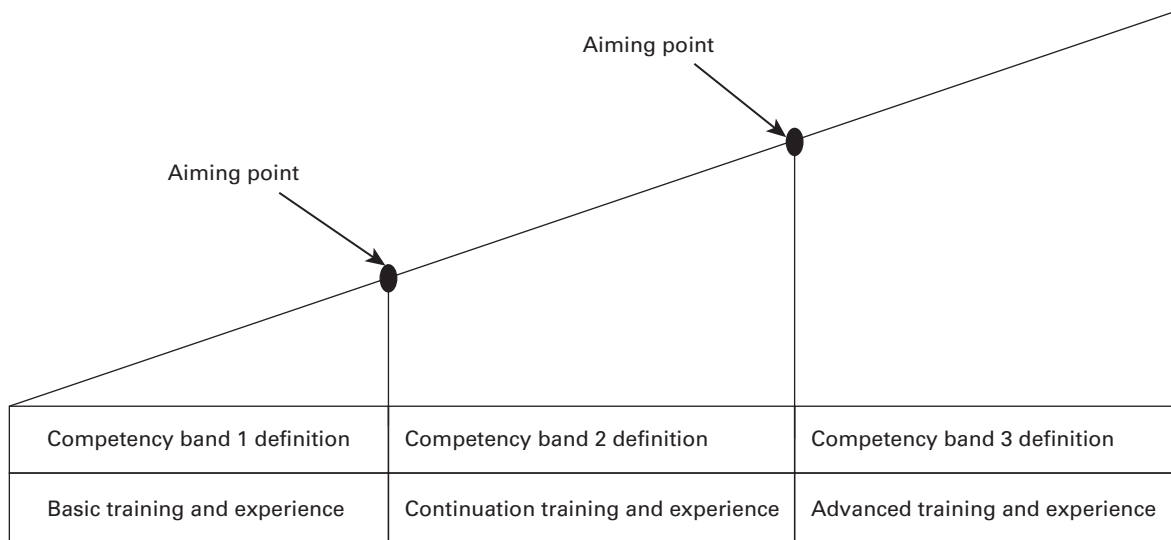
Ultimately, however, it is largely up to individuals to manage their own careers. Schein (1978) originated the notion of 'career anchors'. He defined them as the self-concept of people, consisting of self-perceived talents and abilities, basic values and a sense of motives and needs relating to their careers. As people gain work experience, career anchors evolve and function as stabilizing forces, hence the metaphor of 'anchor'.

### Career development pathways

Career development pathways define the routes talented people can take to advance their careers within an organization by moving vertically or diagonally upwards or laterally as opportunities arise. They can provide aiming points as modelled in Figure 29.3 that indicate levels of competence required at each career stage and define the development needs for career advancement.

Career development pathways can be defined in a number of ways. Perhaps the most appropriate

**FIGURE 29.3** Competency band career development pathway



are either a written definition of competence levels (an example is given in Table 29.1) or a representation as illustrated in Figure 29.4 of the level or grade structure of the organization and career paths expressed for different job families (a job family is a group of jobs in a function or occupation

such as marketing, operations, finance, IT, HR or administration which are related through the activities carried out and the basic knowledge and skills required, but in which levels of responsibility, knowledge, skills and competency levels differ).

**TABLE 29.1** Career development pathway example – HR function

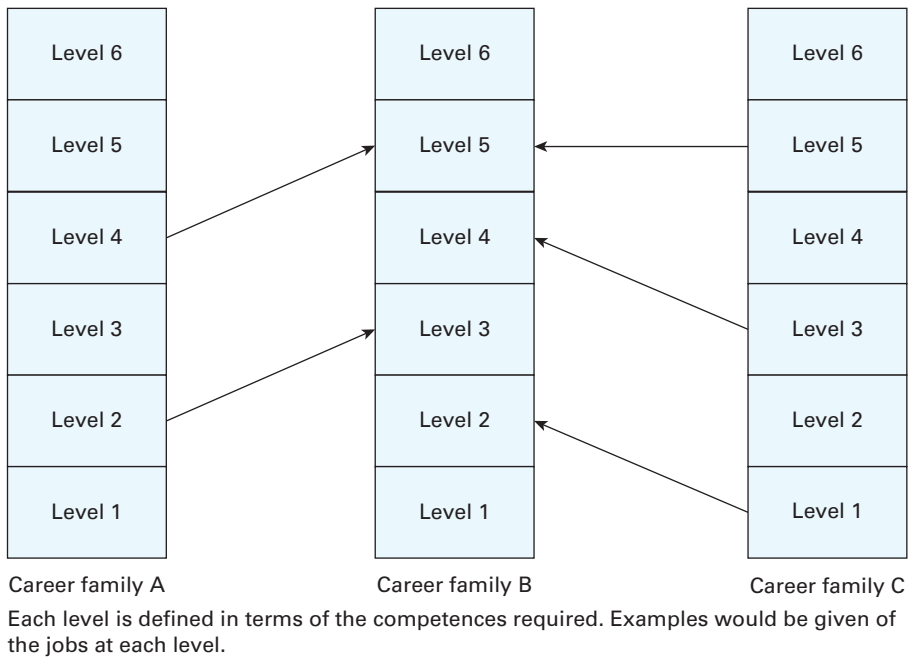
Level	Role	Key responsibilities	Key competencies
8	HR Director	<ul style="list-style-type: none"> <li>Contribute to development of business strategy</li> <li>Develop HR strategies aligned to business strategy</li> <li>Exercise overall direction of all HR activities required to support achievement of business goals</li> <li>Oversee human capital management projects</li> </ul>	Knowledge of: <ul style="list-style-type: none"> <li>the business, its strategy and its drivers</li> <li>HRM/HCM at a strategic level</li> </ul> Ability to: <ul style="list-style-type: none"> <li>articulate a vision and set a leadership agenda</li> <li>contribute to business strategic planning on equal terms with other directors</li> <li>develop and implement HR strategies which are aligned to the business strategy and integrated with one another</li> </ul>
5	Learning and Development Manager	<ul style="list-style-type: none"> <li>Contribute to the development of the learning and development strategy</li> <li>Identify learning needs and plan blended learning and development programmes to meet them</li> <li>Deliver major programmes</li> <li>Direct the activities of learning and development consultants</li> </ul>	Knowledge of: <ul style="list-style-type: none"> <li>current thinking and good practice in learning and development</li> <li>advanced concepts and techniques in the field (Fellow CIPD)</li> </ul> Ability to: <ul style="list-style-type: none"> <li>analyse key factors affecting activities in the function</li> <li>coordinate and direct complex HRD programmes</li> </ul>
4	Assistant Head of Talent Management	<ul style="list-style-type: none"> <li>Contribute to the preparation of human capital plans</li> <li>Assist in preparing management succession plans</li> <li>Coordinate performance management activities</li> <li>Analyse human capital data and prepare reports</li> </ul>	Knowledge of: <ul style="list-style-type: none"> <li>techniques of human resource and management succession planning</li> <li>HRM at the level of Member CIPD with at least 8 years' experience</li> </ul> Ability to: <ul style="list-style-type: none"> <li>analyse business plans and draw conclusions on talent management requirements</li> <li>carry out the analysis and diagnosis of people issues and propose practical solutions</li> </ul>

(continued)



**TABLE 29.1** (Continued)

Level	Role	Key responsibilities	Key competencies
3	HR Business Partner	<ul style="list-style-type: none"> <li>Contribute to the effective management of the division</li> <li>Ensure the division has the skilled people it requires</li> <li>Work alongside line managers and provide help and advice on HR issues</li> <li>Deliver HR services required by the division</li> </ul>	<p>Knowledge of:</p> <ul style="list-style-type: none"> <li>HRM techniques at the level of Member, CIPD with at least 4 years' experience</li> <li>business imperatives in the division</li> <li>corporate HR policies and practices</li> </ul> <p>Ability to:</p> <ul style="list-style-type: none"> <li>provide efficient and cost-effective services in each HR area</li> <li>promote the empowerment of line managers to make HR decisions but provide guidance as required.</li> <li>anticipate requirements and set up and operate appropriate services</li> </ul>
2	Reward Analyst	<ul style="list-style-type: none"> <li>Maintain information systems on pay and benefits</li> <li>Assist in the conduct and analysis of market surveys</li> <li>Maintain data bank of information on market rates</li> <li>Prepare role profiles for job evaluation purposes</li> </ul>	<p>Knowledge of:</p> <ul style="list-style-type: none"> <li>the labour market and sources of market data</li> <li>reward management techniques at the level of the CIPD Certificate in Reward Management</li> </ul> <p>Ability to:</p> <ul style="list-style-type: none"> <li>carry out numerical and statistical analysis</li> <li>use IT systems, software and spread sheets</li> <li>conduct role analyses</li> </ul>
1	HR Assistant (recruitment)	<ul style="list-style-type: none"> <li>Place job advertisements</li> <li>Arrange interviews</li> <li>Deal with routine correspondence to applicants including standard offer letters</li> <li>Ensure records created for new employees</li> </ul>	<p>Knowledge of:</p> <ul style="list-style-type: none"> <li>HR techniques relevant to recruitment (studying for CIPD)</li> </ul> <p>Ability to:</p> <ul style="list-style-type: none"> <li>select appropriate media</li> <li>administer fairly complex procedures</li> </ul>
1	Administrative Assistant	<ul style="list-style-type: none"> <li>Provide word processing services</li> <li>Maintain records</li> <li>Operate office machinery</li> <li>Deal with routine queries</li> </ul>	<p>Knowledge of:</p> <ul style="list-style-type: none"> <li>Microsoft Office – Word, Excel, PowerPoint</li> </ul> <p>Ability to:</p> <ul style="list-style-type: none"> <li>word process all types of documents, including reports and complex tabulations</li> <li>prepare PowerPoint presentations</li> <li>administer standard procedures</li> </ul>

**FIGURE 29.4** Career paths in a career family structure

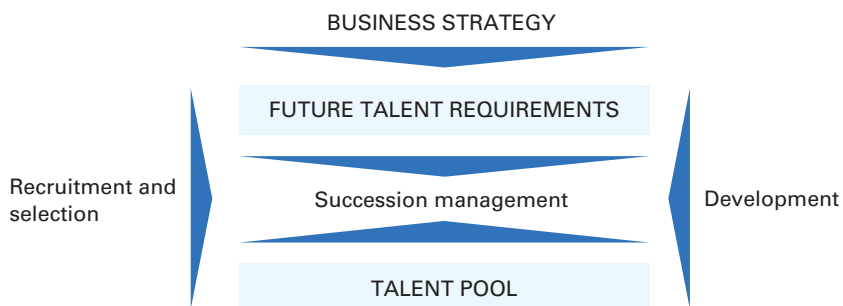
## CASE STUDIES

### CEMEX Ltd

A model of talent management produced by CEMEX Ltd is shown in Figure 29.5.

### BAE Systems

At BAE Systems there are five mandated core business management processes to support the delivery of corporate strategy and foster high performance. Talent management

**FIGURE 29.5** The CEMEX model of talent management

is seen within a business performance context. An annual Integrated Business Review Planning process is used by individual businesses to establish and plan for the delivery of objectives in line with corporate strategy, supported by quarterly business reviews, customer reviews and data from employee surveys. Project performance is assessed by Contract Reviews. Performance is reviewed throughout the year by the Performance Management System. A Performance-Centred leadership framework is used to integrate management, resourcing and people development, focusing on the traditional outcomes of performance (financial, project and behavioural), reward and development. There is behavioural performance feedback and a performance potential rating (called Spectrum). Line leaders and functional directors ensure the framework is implemented. HR's role is one of assisting in development interventions and providing some oversight and governance of the processes.

**Source** Sparrow *et al* (2015)

## BT

BT's approach to investing in its talent is primarily focused on responding to individual needs in line with a BT-wide 'Talent Deal'. This is a set of commitments made to individuals in BT's talent pool on the support they can expect in areas such as career planning and movement, opportunities for networking and meeting top executives, and mentoring. It also specifies the commitments expected of BT's talent pool members, such as the contribution they make to supporting the development of other colleagues.

## Cargill

The Cargill food business operates a global, corporate-level labour and talent management process. This is structured on the lines of 'food platforms' (collections of around eight business units that operate in the food businesses) and has representatives from Latin America, Europe, Asia, etc, meeting twice per year. They look at the work of the businesses and consider how talent might be managed and succession planned in those businesses. A workable model exists to look at talent management and succession planning at a platform level and at a practical level. Consideration is being given to how to integrate talent management and succession planning on a global basis, and a start has been made on highlighting positive and negative aspects of talent management and succession planning. These will be

discussed at corporate level by the board to ensure that Cargill values are embedded in future talent management and succession planning strategy, policies and practices.

## GlaxoSmithKline

GlaxoSmithKline is identifying those positions, at both the corporate and business-unit levels, that are critical to the company's success in a rapidly changing competitive environment. As part of that initiative, the company developed a statement of its workforce philosophy and management guidelines. One of these explicitly addresses 'workforce differentiation' and reads, in part: 'It is essential that we have key talent in critical positions and that the careers of these individuals are managed centrally.'

## HSBC

HSBC has created a system of talent pools that track and manage the careers of employees with high potential. Employees in these pools are selected initially for new assignments within their region or line of business and, over time, are given positions that cross boundaries in order to demonstrate that they have the potential to reach a senior management role. They can then be placed in the group talent pool, which means that they have the potential to reach the senior executive level in three to five years and top management in the longer term. Leaders conduct talent relationship dialogues with members of each pool in order to address their development needs and concerns.

## IBM

The overall aim of talent management within IBM is 'to develop the leaders of tomorrow'. Part of what makes it a global company is the importance it places on high-potential people gaining international experience. For employees, being identified as talent therefore drives many opportunities in the company.

Every leader in the company has responsibility for identifying and nurturing talent. The areas for them to look for are aptitude, potential and the ability to grow and develop. The identification of talented individuals is based on their performance against 10 leadership competencies, which are consistent globally. The leadership competencies are used as a development tool for employees at all levels in IBM, not just those already highlighted as having potential.

Readiness for promotion to executive roles is linked to competencies. For example, if an individual needs to get client relationship-building skills, then his or her next job has to include that. Readiness is categorized in terms of 'next job' or 'two jobs away' rather than a number of years.

## Standard Chartered Bank

Standard Chartered stresses the need for transparency, education and understanding about the importance of robust talent identification and development. The approach adopted is to:

- embed talent processes to establish clearer links between our talent processes and other global people processes around performance management and engagement;
- encourage more experiential-based learning centred more on on-the-job learning and learning from others;
- provide support to help our managers and leaders engage and motivate their teams;
- ensure that talented staff continue to perform.

## Key learning points

### Talent management defined

- Talent management is about ensuring that the organization has the talented people it needs to attain its goals.
- It involves establishing and maintaining a 'talent pool' (or talent pools).
- This is achieved by operating a 'talent pipeline', which provides for the flow of talent needed to maintain the talent pool through the processes of resourcing, talent identification and talent development.

### Talent defined

Talent is what people must have in order to perform well in their roles. They make a difference to organizational performance through their immediate efforts, they have the ability to learn and grow, and they have the potential to make an important contribution in the future.

### Talent management policy

An organization developing a talent management programme has initially to make two policy decisions. The first decision is whether to adopt 'talent on demand'. There is much to be said for doing this in any

situation in which it is difficult to produce precise definitions of future talent requirements.

The second policy decision is on who should be included in a talent management programme. The choice is between an exclusive (talented people are the high flyers in an organization) and inclusive (everyone is talented) approach.

### Talent management strategy

A talent management strategy consists of a view on how the processes involved in creating a talent pool should mesh together with an overall objective – to acquire and nurture talent wherever it is and wherever it is needed by using a number of interdependent policies and practices.

### The process of talent management

- The process of talent management involves operating a talent management pipeline in which resourcing, talent identification and talent development activities take place in order to create the talent pool.
- These activities are initiated by the business strategy which informs workforce plans. Talent management policies and strategies determine the scope of the talent pool and influence workforce plans.

## The talent pool

A talent pool contains the resources of talented people required by an organization to ensure that vacancies for people in pivotal roles can be filled readily (talent on demand).

## Talent planning

Talent planning involves estimating the number of talented people needed in the future taking into account the implications of business plans. It also assesses the type of skills that will be required.

## Resourcing

Resourcing is the first step in the direction of creating a talent pool. It is primarily about ensuring that the organization obtains the right people with the right skills for future roles as well as for immediate vacancies.

## Identifying talent

- Procedures are necessary for identifying people who are qualified now for membership of a talent pool or who have the potential to become members after completing a talent management development programme.
- It is usual for assessments of potential to be made initially by the individual's line manager. They may be followed up with additional conversations with a talent management specialist, and possible attendance at an assessment centre for promising individuals.

## Talent development

Talent development is the process of ensuring that talented employees gain the skills and experience required to fulfil their promise, advance their careers and satisfy the organization's need to fill senior and key posts with high-quality and capable people.

## Leadership and management development

- Leadership and management development programmes ensure that managers have the leadership and managerial qualities required to achieve success.
- A blended learning approach is used which is based on an analysis of learning needs and combines a number of learning activities which can include planned experience, self-managed learning, coaching, mentoring, action learning, outdoor learning and formal training courses.

## Career development

Career development is concerned with shaping the progression of individuals within an organization in order to provide those with promise a sequence of experience and learning activities that will equip them for whatever level of responsibility they have the ability to reach.

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# PART VII

## Employment practices

### PART VII CONTENTS

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- 30** Managing employment
- 31** Managing diversity and inclusion
- 32** Managing flexibility

### Introduction

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People management involves managing the employee experience and dealing with a number of aspects of employment as covered in this part. These include

activities concerned with the introduction, release and retention of employees and absence management, fulfilling the obligations of the organization to manage diversity and inclusion, and seeking ways in which to increase flexibility for the organization and for individuals.

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# 30

## Managing employment

### Introduction

This chapter starts with an analysis of the concept of the employee experience, the management of which provides a framework within which a range of HR policies can be placed, including the employment management practices of introducing employees to the organization (induction or onboarding), retaining employees, releasing employees and absence management. These ‘transactional’ concerns may not be so exciting as the transformational activities of strategic HRM and organization development. But they are vital and the effectiveness of the organization and, indeed, the reputation of the HR function depends on doing them well.

### The employee experience

The term ‘employee experience’ refers to what happens to people at work and how they feel about it. Employees want and deserve a productive, engaging, enjoyable work experience. The growing interest in the concept of ‘the employee experience’ is leading organizations to develop a more integrated approach to people management that focuses on the factors which affect that experience. These are: the impression gained of the organization from the beginning; being treated fairly, without bias and with respect and consideration; relationships with line managers and colleagues; working conditions; the degree to which jobs are fulfilling; the extent to which work is stressful; work-life balance; how

well the contribution of employees is recognized; being listened to; the ability of the organization to protect employees from bullying or harassment; and the ways in which grievances and disciplinary issues are handled. Bersin *et al* (2017) summarized the factors that contribute to a positive employee experience as:

- meaningful work;
- supportive management;
- positive work environment;
- growth opportunity;
- trust in leadership.

#### Source review

Traditionally, HR has addressed issues such as employee engagement, culture, rewards, and learning and career development as separate, independent programmes in individual silos. Each programme has a senior HR leader, a set of tools and diagnostics, and solutions to drive and measure change. The employee sees the picture differently. Starting as potential hires and recruits, employees look at everything that happens at work as an integrated experience that impacts daily life in and outside the workplace, including overall physical, emotional, professional and financial wellbeing. Candidates assess future employers from the very start of the talent acquisition

experience and make quick judgments about what life will be like for them in the organization, based on how they interact with the enterprise during the recruiting cycle. This integrated view increasingly leads to employees demanding a holistic, end-to-end – recruitment-to-retirement – experience from their employers, whether they are full-time employees, contingent workers, or even crowdsourced talent. This also requires a radical change in emphasis on the part of employers.

Bersin *et al* (2017)

The term originated with the notion that employees experience their organization's 'brand' in the same way as customers experience a brand they purchase from a supplier. In this sense, employees are customers.

But the management of employee experience could easily become no more than 'brand management' in the sense of creating and maintaining an employer brand – the image presented by an organization as a good employer. It may be suspected that brand management in the commercial sense can be more about improving the image of the product than improving the product itself. The employer brand may be important when attracting people to the organization but there is more to people management and the notion of the employee experience than just presenting an attractive image.

Managing the employee experience is essentially the pursuit of a policy of integration – developing management practices that address the issues raised by the factors that affect the experience and dealing with these as a whole, ensuring that a coherent approach is adopted and that the practices are mutually supportive. There is nothing new in this aspect of managing the employee experience. It is simply the well-established process of bundling (achieving horizontal fit) as described in Chapter 2. But the perspective is different. Managing the employee experience is a 'bottom up' rather than a 'top down' process. The starting point is to gain understanding of how employees perceive their experience of working in the organization and from that analysis identify what needs to be done to deal with any issues and enhance that experience taking into account the ways it can be improved as set out below. It is not a matter of deciding what is best for them

and then imposing the practices from above. And this understanding is gained not just by an annual engagement survey but by pulse surveys using feedback apps.

## Improving the employee experience

Improvements to the employee experience can be achieved through:

- adopting an ethical approach to people management (see Chapter 17);
- introducing high-performance working (see Chapter 21);
- giving close attention to job design (see Chapter 22);
- implementing the various ways of enhancing engagement listed in Chapter 26 (these overlap with and complement a number of the other approaches mentioned here);
- ensuring that inductions (onboarding arrangements) for new employees are effective (see Chapter 30);
- introducing flexible working arrangements (see Chapter 32);
- offering learning programmes that enable people to develop their skills and potential;
- conducting leadership development programmes that explain to managers how they play their part in creating a satisfactory employee experience (see Chapter 36);
- encouraging and developing managers to lead their teams along the lines of the managers quoted in Chapter 39;
- adopting a total reward policy as explained in Chapter 40;
- taking comprehensive steps to provide employees a voice on matters that concern them (see Chapter 48);
- paying close attention to dealing with wellbeing issues (see Chapter 50).

Taking these steps presents three challenges. The first is the range and scope of the activities, although there is nothing special about them – they are all familiar HR practices. The second is the problem of prioritizing what needs to be done. This is where

understanding the needs and wants of employees becomes really important. The third is the need to integrate these activities so that they complement

and support one another. As emphasized earlier, it is this process of integration which is the distinguishing feature of the employee experience concept.

## CASE STUDY

### Developing the employee experience at Ford

With a focus on innovation, Ford Motor Co., with nearly 200,000 employees is expanding its business model to fortify and transform its core automotive business while growing in the areas of electrification, autonomy and mobility. These changes require a change in the way executives think about their people. As the company moves from a product to a consumer focus in its products and services, it is also moving from a product to an employee experience focus in its workforce solutions.

Starting with a three-week global people strategy lab in which HR leaders from around the world participated, Ford developed a new people strategy, HR vision, integrated plan, and business case. As part of its efforts to define its vision, the HR team deployed a company-wide polling process that let employees contribute ideas, share their experiences, and rate and rank which HR products and services they felt were most important. The company also conducted workshops around the world, attended by more

than 200 HR leaders, and held regional focus groups with employees and people leaders across all areas of Ford's business.

Ford found that many employees felt that people processes were overly administrative, complex, and not always useful in getting their work done. People leaders felt that HR business partners were overwhelmed by operational tasks, negatively impacting the time they could spend engaging and developing their teams. To address these issues, the HR team is now developing products and services that are more integrated and focused on the employee experience, tools that are more intuitive and user friendly, an interaction model that allows the workforce to interact with HR through multiple channels, and programmes that are 'fit for purpose'. It is working to simplify everything HR does. All of this is aimed at improving the employee experience and freeing HR professionals to support strategic business needs.

### Pause for thought

The concept of 'the employee experience' has been gaining traction recently. What do you think it has to offer?

## Introduction to the organization

First impressions matter: getting off to a good start is all important if the experience of the employee in the firm is going to be a good one. Should it go

wrong from the beginning, the employee will take too much time to settle down and do a good job. If things go really badly the individual will leave and all the hard work and money put into recruitment will have been wasted. New employees need help in adjusting to the performance and social aspects of their new jobs quickly and smoothly. They need to learn the knowledge, skills and behaviours required to function effectively within the organization. It is essential to take care over introducing people to the organization through effective induction or 'onboarding' arrangements.

### Induction defined

Induction or onboarding is the process of receiving and welcoming employees when they first join a

company and creating a good impression of the organization, giving them the basic information they need to settle down quickly and happily and start work. The aims are to:

- smooth the preliminary stages when everything is likely to be strange and unfamiliar to the starter;
- establish quickly a favourable attitude to the organization in the mind of new employees so that they are more likely to stay;
- accelerate progress up the learning curve;
- obtain effective output from the new employee in the shortest possible time;
- reduce the likelihood of the employee leaving quickly;
- save the considerable costs which are incurred when someone leaves;
- enable the process of socialization to take place smoothly – the social aspects of work are very important for most people and if good relationships with colleagues are quickly established, employees are likely to settle in more quickly and enjoy their work

To achieve these aims, the induction arrangements as described below should be concerned with reception, documentation, initial briefing, introduction to the workplace, formal induction course and formal and informal training.

## Reception

New starters will be concerned about who they are going to work for (their immediate manager or team leader), who they are going to work with, what work they are going to do on their first day, and the geographical layout of their place of work (location of entrances, exits, lavatories, restrooms and the canteen).

Some of this information may be provided by a member of the HR department, or an assistant in the new employee's place of work. But the most important source of information is the immediate manager, supervisor or team leader.

Reception is most likely to go well if:

- the person whom the starter meets first (the receptionist, HR assistant or manager) knows of their pending arrival and what to do next;

- reception staff know that they are expected to be friendly and helpful;
- a guide is provided if the starter has to go to another location unless the route is very straightforward;
- the starter is not kept waiting; steady, unhurried, guided activity is a good antidote to first-day nerves.

## Information for new staff

The following information should be made available to new staff:

- a brief description of the company – its history, products, organization and management;
- basic conditions of employment – hours of work, holidays, pension scheme;
- sickness – notification of absence, certificates, pay, insurance, pensions;
- leave of absence;
- company rules and disciplinary, capability and grievance procedures;
- pay – structure or scales and when paid;
- trade union arrangements, where applicable;
- learning and development facilities;
- health and safety arrangements and rules;
- rules for using the internet.

## Introduction to the workplace

The departmental induction programme should, wherever possible, start with the departmental manager, not the immediate team leader. The manager may give only a general welcome and a brief description of the work of the department before handing over new employees to their team leaders for the more detailed induction. But it is important for the manager to be involved at this stage so that he or she is not seen as a remote figure. At least this means that the starter will not be simply a name or a number to the manager. The detailed induction in the workplace is probably best carried out by the immediate team leader who should do six things:

- 1 Put the new employee at ease.
- 2 Interest the employee in the job, explaining its purpose, significance and how it relates to the work going on elsewhere in the department or company.
- 3 Interest the employee in the company, explaining what it is like to work there.
- 4 Provide basic information about working arrangements.
- 5 Indicate the standards of performance and behaviour expected of the employee.
- 6 Tell the employee about training arrangements and how he or she can progress in the company.

The team leader should introduce new starters to their fellow team members. It is best to get one member of the team to act as a guide or ‘starter’s friend’. There is much to be said for these initial guides being people who have not been long with the organization. As relative newcomers they are likely to remember all the small points that were a source of worry to them when they started work, and so help new employees to settle in quickly.

### **On-the-job induction training**

Most new starters other than those on formal training schemes will learn on the job, although this may be supplemented with special off-the-job courses to develop particular skills or knowledge. But on-the-job learning can be haphazard, inefficient and wasteful. A planned, systematic approach is desirable. This can incorporate an assessment of what the new starter needs to learn, the use of designated and trained colleagues to act as guides and mentors, and coaching by team leaders or specially appointed and trained departmental trainers.

These on-the-job arrangements can be supplemented by self-managed learning arrangements in which individuals take responsibility for meeting their own learning needs with help and guidance as necessary, offering access to flexible learning packages or providing advice on learning opportunities.

### **Formal induction courses**

Formal induction courses assemble new starters in groups so that members can be given consistent and

comprehensive information at the same time, which might not be forthcoming if reliance is placed on the team leader. A formal course provides an opportunity to deliver messages about the organization, its products and services, its mission and values. A range of media can be used which would not be available in departments. But formal courses cannot replace informal induction arrangements in the workplace, where the most important requirement – settling people down – can best be met.

Decisions will have to be made about who attends an induction course and when. It is usual to mix people from different departments but less common to have people from widely different levels on the same course. In practice, managers and senior professional staff are usually dealt with individually.

Ideally, induction courses should take place soon after starting. If there are sufficient new employees available, this could be a half day in the first week, but the course may have to be delayed until a sufficient number of new starters are available.

The content of the induction course could include some or all of the following subjects:

- information about the organization – its products, services, structure, mission and values;
- learning arrangements and opportunities;
- performance management processes;
- health and safety;
- policies on such matters as diversity and inclusion, equal opportunity, bullying, sexual and racial harassment, use of the internet;
- pension arrangements;
- trade unions and employee involvement.

## **Managing employee retention**

Losing key employees can have a disproportionate impact on the business. The people that organizations wish to retain are often the ones most likely to leave. It has been said that every worker is five minutes away from handing in his or her notice, and 150 working hours away from walking out of the door to a better offer. There is no such thing as a job for life and today’s workers have few qualms about



leaving employers. Action is required to retain talented people, but there are limits to what any organization can do.

Employees are more likely to stay willingly if they feel valued, and ensuring that this happens is the most important message of this chapter. But actions to increase employee retention will be influenced by data on employee turnover or wastage and this section therefore starts with an examination of how turnover can be measured and what can be done with the data. The second part of the section covers methods of dealing with employee retention problems in the light of information about its incidence and causes.

### Words of wisdom

Rather than worry so much about the war for talent in today's tight job market, executives ought to focus on the waste of talent in their ranks.

Hymowitz (2007)

## Employee turnover

Employee turnover (sometimes known as 'labour turnover', 'wastage' or 'attrition') is the rate at which people leave an organization. It can be disruptive and costly. The CIPD (2017) survey of resourcing and talent planning found that the average rate of turnover (the number leaving as a percentage of the number employed) in the UK was 16.5 per cent.

The cost of employee turnover can be considerable. A survey by the CIPD in 2008 established that the average cost per employee was £5,800, rising to £20,000 for senior managers or directors. Cost estimates are useful as means of backing up a business case for taking action to reduce turnover. The following factors should be considered when calculating costs:

- direct cost of recruiting replacements (advertising, interviewing, testing, etc);
- direct cost of introducing replacements (induction cost);
- direct cost of training replacements in necessary skills;
- leaving costs – payroll and HR administration;
- opportunity cost of time spent by HR and line managers in recruitment, induction and training;
- loss of output from those leaving before they are replaced;
- loss of output because of delays in obtaining replacements;
- loss of output while new starters are on their learning curves acquiring the necessary knowledge and skills.

Research by Phillips (1990) found that the 'visible' (ie direct) costs of recruitment accounted for only 10 to 15 per cent of total costs. By far the highest costs were associated with the inefficiencies arising while the post was vacant (33 per cent) and the inefficiency of new workers (32 per cent). On average, 12.5 months were required for executives to be comfortable in a new position and 13.5 months were required for a new employee to achieve maximum efficiency.

It is necessary to measure employee turnover and calculate its costs in order to identify problems such as adverse trends and forecast future losses for planning purposes. Plans can then be made to reduce unnecessary turnover and its associated costs. There are a number of different methods.

### Employee turnover index

The employee turnover index (sometimes referred to as the employee or labour wastage index) shown below is the traditional formula for measuring turnover:

$$\frac{\text{Number of leavers in a specified period (usually 1 year)}}{\text{Average number of employees during the same period}} \times 100$$

This method is in common use because it is easy to calculate and to understand. It is a simple matter to work out that, if last year 30 out of an average force of 150 employees left (20 per cent turnover) and this trend continues, then the company will have to recruit 108 employees during the following year to increase and to hold the workforce at 200 in that year (50 extra employees, plus 40 to replace the 20 per cent wastage of the average 200 employees employed, plus 18 to replace wastage of the 90 recruits).

The formula is simple, but it can be misleading. The problem is that the percentage may be inflated by the high turnover of a relatively small proportion of the workforce, especially in times of heavy recruitment. Thus, a company employing 1,000 people might have had an annual wastage rate of 20 per cent, meaning that 200 jobs had become vacant during the year. But this could have been spread throughout the company, covering all occupations and long- as well as short-service employees. Alternatively, it could have been restricted to a small sector of the workforce – only 20 jobs might have been affected although each of these had to be filled 10 times during the year. These are different situations and unless they are understood, inaccurate forecasts would be made of future requirements and inappropriate actions would be taken to deal with the problem. The turnover index is also suspect if the average number of employees upon which the percentage is based is unrepresentative of recent trends because of considerable increases or decreases during the period in the numbers employed.

### Stability index

The stability index is considered by many to be an improvement on the turnover index. The formula is:

$$\frac{\text{Number with 1 year's service or more}}{\text{Number employed 1 year ago}} \times 100$$

### Survival rate

The survival rate is the proportion of employees who are engaged within a certain period who remain with the organization after so many months

or years of service. Thus, an analysis of a cohort of 20 trainees who have completed their training might show that after two years, 10 of the original trainees were still with the company, a survival rate of 50 per cent. The distribution of losses for each entry group, or cohort, can be plotted in the form of a survival curve, as shown in Figure 30.1.

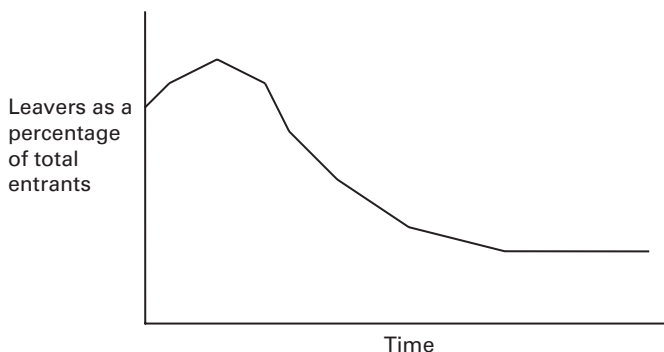
The basic shape of this curve has been found to be similar in many situations, although the peak of the curve may occur further along the time scale and/or may be lower when it relates to more highly skilled or trained entry cohorts. An example of a survival rate analysis is shown in Table 30.1. This indicates that half the number of recruits in any one year may be lost over the next five years, unless something can be done about the factors causing wastage.

The survival rate is useful as a means of tracking a 'cohort' of recruits (eg graduates) to assess the effectiveness of recruitment and retention policies. But it cannot be used as a means of measuring the turnover rates of whole populations in order to allow for future wastage when making supply forecasts.

### Half-life index

A simpler concept derived from survival rate analysis is that of the half-life index, which is defined as the time taken for a group or cohort of starters to reduce to half its original size through the wastage process (five years in the above example). Comparisons can then be made for successive entry years or between different groups of employees to

**FIGURE 30.1** A survival curve



**TABLE 30.1** A survival rate analysis

Entry cohort	Original number	Number surviving to end of year after engagement				
		Year 1	Year 2	Year 3	Year 4	Year 5
A	40	35	28	26	22	20
B	32	25	24	19	18	16
C	48	39	33	30	27	24
D	38	32	27	24	22	19
E	42	36	30	26	23	21
Total	200	167	142	125	112	100
Average survival rate	100%	83%	71%	62%	56%	50%

show where action may have to be taken to counter undesirable wastage trends.

### Leavers' length of service analysis

The information from measures of stability can be enhanced if an analysis is also made of the average length of service of people who leave, as in Table 30.2. This analysis is still fairly crude, because it

deals only with those who leave. A more refined analysis would compare for each designated length of service the numbers leaving with the numbers employed. If, in the example shown, the total number employed with less than three months' service was 80 and the total with more than five years' service was 80, the proportion of leavers in each category would be, respectively, 35 per cent and 14 per cent – more revealing figures.

**TABLE 30.2** Leavers' length of service analysis

Occupation	Leavers by length of service						Total number leaving	Average number employed	Index of employee turnover percentage
	Less than 3 months	3–6 months	6 months–1 year	1–2 years	3–5 years	5 or more years			
A	5	4	3	3	2	3	20	220	9
B	15	12	10	6	3	4	50	250	20
C	8	6	5	4	3	4	30	100	30
Totals	28	22	18	13	8	11	100	570	18

## Choice of measurement

It is difficult to avoid using the conventional employee (labour) turnover index as the easiest and most familiar of all methods of measurement. It provides the simplest basis for assessing future levels of supply by allowing for wastage. But it can usefully be supplemented with some measure of stability (eg survival rate or the length of service of leavers) to identify recruitment or retention problems.

## Factors affecting retention

Retention strategies should be based on an understanding of the factors that affect whether or not employees leave or stay. These include overall the quality of the employee experience and in more detail:

- company image (the employer brand);
- the employee value proposition – what the employer offers in the shape of terms and conditions of employment and ‘the employee experience’;
- the effectiveness of recruitment, selection and deployment (fitting people into jobs that suit them);
- leadership – ‘employees join companies and leave managers’;
- social factors (the extent to which individuals get on with their co-workers);
- learning and career opportunities;
- performance recognition and rewards.

The propensity to stay or leave is also affected by the stage of employees’ career and their age. For early-career employees (30 years old and under), career advancement is significant. For mid-career employees (age 31–50), the ability to manage their careers and satisfaction from their work are important. Late-career employees (aged over 50) will be more interested in security. It is also the case that a younger workforce will change jobs and employers more often than an older workforce, and workforces with a lot of part-timers are less stable than those with predominately full-time staff.

A study by Holbeche (1998) of high flyers found that the factors that aided the retention and motivation of high performers included providing

challenge and achievement opportunities (eg assignments), mentors, realistic self-assessment and feedback.

## Basis of the retention strategy

A retention strategy takes into account the retention issues the organization is facing and sets out ways in which these issues can be dealt with. This may mean accepting the following argument, offered by Cappelli:

### Words of wisdom

To adopt the new strategy you have to accept the new reality: the market, not your company, will ultimately determine the movement of your employees. Yes, you can make your organization as pleasant and rewarding a place in which to work as possible – you can fix problems that might push people towards the exits. But you can’t counter the pull of the market; you can’t shield your people from attractive opportunities and aggressive recruiters. The old goal of HR – to minimize overall employee turnover – needs to be replaced by a new goal: to influence who leaves and when.

Cappelli (2000: 104)

The strategy should be based on an analysis of the risks of leaving.

## Risk of leaving analysis

As proposed by Bevan *et al* (1997), risk analysis can be used to quantify the seriousness of losing key

people. Risk analysis can be carried out by initially identifying potential risk areas – the key people who may leave – and, for each of them, as individuals or groups, estimate:

- the likelihood of this occurring;
- how serious the effects of a loss would be on the business;
- the ease with which a replacement could be made and the replacement costs.

Each of the estimates could be expressed on a scale, say, very high, high, medium, low, very low. An overview of the ratings under each heading could then indicate where action may need to be taken to retain key people or groups of people.

Information on the reasons for leaving, and therefore where action needs to be taken, can be provided by exit interviews, but they are fallible. More reliance can be placed on the results of employee surveys to identify areas of dissatisfaction. The retention plan should propose actions that would focus on each of the areas in which there is dissatisfaction or lack of commitment.

## Areas for action

Depending on the outcome of the risk and reasons for leaving analyses, the possible actions that can be taken are:

- 1 Take whatever steps are necessary to demonstrate that the organization values its employees, as long as this is expressed in deeds and not just words.
- 2 Ensure that selection and promotion procedures match the capacities of individuals to the demands of the work they have to do. Rapid turnover can result simply from poor selection or promotion decisions.
- 3 Design jobs to maximize skill variety, task significance, autonomy, control over work and feedback, and ensure that they provide scope for learning and growth. People are more likely to stay if they believe that they have opportunities to increase their skills and advance their careers.
- 4 Reduce the losses of people who cannot adjust to their new job – the ‘induction crisis’ – by giving them proper training and support when they join the organization.
- 5 Deal with uncompetitive, inequitable or unfair pay systems. But as Cappelli (2000) pointed out, there is a limit to the extent to which people can be bribed to stay.
- 6 Encourage the development of social ties within the company. In the words of Cappelli (2000: 108), ‘loyalty to companies may be disappearing but loyalty to colleagues is not’.
- 7 Take steps to improve work-life balance by developing policies, including flexible working, that recognize the needs of employees outside work.
- 8 Eliminate as far as possible unpleasant working conditions or the imposition of too much stress on employees.
- 9 Select, brief and train managers and team leaders so that they appreciate the positive contribution they can make to improving retention by the ways in which they lead their teams. Bear in mind that people often leave their managers rather than their organization.
- 10 Improve arrangements for giving employees a voice on matters that concern them
- 11 Pay close attention to communications with employees to explain what is happening and underline improvements to their conditions of employment. Use all forms of media including social media.
- 12 Ensure that policies for controlling bullying and harassment are in place and are applied.

As established in the CIPD 2017 Survey of Resourcing and Talent Planning, the most popular step taken to improve staff retention was through increasing learning and development opportunities (57 per cent). This was followed by an improved induction process (56 per cent) and improved benefits (50 per cent).

## CASE STUDY

### Staff retention strategy at UCL Hospital Trust

The staff retention strategy at UCL Hospital Trust included the following steps:

- 1 Market research with own staff that revealed a lack of promotion opportunities for nursing staff.
- 2 In-depth analysis of the NHS resourcing market and the introduction of programmes for attending job fairs throughout the UK, with clinical teams giving interviews and providing assessments on the day.
- 3 The introduction of centres providing practical and theoretical assessments followed by value-based interviews.
- 4 Career progression initiatives to rotate and promote talent and redesign roles.
- 5 The development of a learning passport for staff, providing bespoke learning packages and senior mentoring support to secure promotion within 12 to 20 months.
- 6 The introduction of the 'Good deed feed', enabling staff to publicly thank and recognize one another on the Trust's intranet.

## Release from the organization

The employment relationship may be ended voluntarily by someone moving elsewhere. Or it may finish at the end of a career on retirement. However, people also have to go involuntarily. Some organizations are becoming mean as well as lean. Mean or not, businesses are 'managing costs' by 'downsizing' (a euphemism for redundancy) and they are tightening up disciplinary procedures to handle cases of incapability as well as misconduct. Resourcing policies and practices covering release from the organization also have to cover voluntary turnover and retirement.

One of the most demanding areas of human resource management in organizations is that of handling arrangements for releasing people through redundancy, dismissal or retirement.

### Redundancy

Redundancy takes place when the organization as a whole is reducing the number of employees, when structural changes are being made following mergers and acquisitions, and when individual jobs are

no longer needed. If, unfortunately, redundancy has to take place, it is necessary to plan ahead – seeking and implementing methods of avoiding redundancy as far as possible, making arrangements for voluntary redundancy and helping people to find jobs (outplacement). HR usually has the onerous responsibility of handling the redundancy itself.

Redundancy, like the poor, has always been with us. It frequently results from adverse trading conditions, especially during a recession, exacerbated by global competition. Government austerity programmes lead to redundancies in the public sector. The drive for competitive advantage has forced employers 'to take costs out of the business', another euphemism for getting rid of people, employment costs being the ones on which organizations in both the private and public sector focus as they are usually the largest element in their cost structures. Costs have been reduced by 'delaying' (eliminating what are deemed to be unnecessary layers of management) and outsourcing. Flexibility programmes (see Chapter 32) have led to headcount (number employed) reductions. The pursuit of 'rightsizing' (another egregious euphemism) has resulted in losses. The introduction of new technology, especially computerization, has contributed hugely to the reduction of semi-skilled or unskilled

people in offices or on the shop floor. And benchmarking to find out how other organizations ‘do more with less’ is another factor.

To manage redundancy, organizations should:

- plan ahead to achieve headcount reductions without involuntary redundancy;
- adopt other methods of reducing numbers or avoiding redundancy;
- encourage voluntary redundancy if other methods fail;
- introduce a redundancy procedure or ensure that an existing procedure is satisfactory;
- develop fair and considerate methods of handling redundancy;
- help redundant employees through outplacement policies and practices.

## Planning ahead and use of other methods

Planning ahead means that future reductions in people needs are anticipated and the normal flow of leavers (natural wastage) is allowed to cater for future requirements to reduce the head count. Recruitment can be frozen in the occupations likely to be affected. Plans to minimize redundancy can also include calling in outsourced work, reducing or eliminating overtime, reducing the number of part-timers and temporary staff, work sharing (two people splitting one job between them) or, more reluctantly, reduction in working hours or temporary layoffs.

## Voluntary redundancy

Asking for volunteers – with a suitable payoff – is another way of reducing compulsory redundancies. The disadvantage is that the wrong people might go, ie the good workers who find it easy to get other work. Such people can be offered a special loyalty bonus if they stay on.

## Outplacement

Outplacement is about helping redundant employees to find other work and to cope with the problems they face. It can take place through specialized outplacement consultants and counselling or by setting up ‘job shops’.

*Outplacement consultants* provide counselling on how people can make the best use of what they can offer to other employers. They can be helped to identify their strengths and achievements, the type of job they are qualified to do, and the sort of employer that is most likely to want people with their experience and qualifications. Assistance can be provided in preparing what is sometimes called an ‘achievement CV’, which spells out what the individual has been successful in and prompts the thought in the employer’s mind: ‘What the individual has done for them he or she can do for us.’

*Counselling* involves help and advice in identifying possible moves, preparing CVs, and how to make the best impression in interviews. Counselling may be provided by HR staff, but there is much to be said for using specialized outplacement consultants.

*Job shops:* the staff of the job shop, who may be from HR or are sometimes members of a specialized outplacement consultancy, scour the travel-to-work area seeking job opportunities, match people to jobs and arrange interviews.

## Dismissal

Dismissal takes place when an employer terminates the employment of someone with or without notice. A contract can be terminated as a result of demotion or transfer, as well as dismissal. People can be ‘constructively dismissed’ if they resign because of their employer’s unreasonable behaviour.

Dismissals should be handled in accordance with the following principles of natural justice:

- Individuals should know the standards of performance they are expected to meet and the rules to which they are expected to conform.
- They should be given a clear indication of where they are failing or what rules they have broken.
- Except in cases of gross misconduct, they should be given an opportunity to improve before disciplinary action is taken.

These principles should form the basis of a disciplinary procedure, which is staged as follows:

- An informal discussion on the problem.
- A first written warning.



- A final written warning.
- Dismissal or action short of dismissal such as loss of pay or demotion.

Employees should be reminded of their right to be accompanied by a colleague or employee representative in disciplinary hearings. (An example of a full disciplinary procedure incorporating the stages listed above is given in Chapter 53.)

Managers and team leaders should be made aware of the procedure and told what authority they have to take action. It is advisable to have all written warnings and any final action approved by a higher authority. In cases of gross misconduct, managers and team leaders should be given the right to suspend if higher authority is not available, but not to dismiss. The importance of obtaining and recording the facts should be emphasized. Managers should always have a colleague with them when issuing a final warning and should make a note to file of what was said on the spot.

## Absence management

Absence or attendance management is the development and application of policies and procedures designed to reduce levels of absenteeism. A CIPD (2018) survey revealed that:

- the average length of employee absence was 6.9 days per employee per year;
- larger organizations have higher average levels of absence than smaller organizations;
- on average, two-thirds of working time lost to absence is accounted for by short-term absences of up to seven days; one-fifth is attributed to long-term absences;
- the average cost of absence was £554 per employee per year;
- musculoskeletal injuries and back pain are the more common causes of absence for manual workers, while stress is more common for non-manual workers.

Thirty per cent of respondents to the survey reported that non-genuine absence ('sickies') is one of their top causes of short-term absence for manual workers. Twenty-three per cent stated that this was the top cause for non-manual workers. Some

respondents suggested that flexible working arrangements may help reduce non-genuine absence.

To do something about this situation means understanding the causes of absence, adopting comprehensive absence management (or, more positively, attendance management) policies, measuring absence and implementing procedures for the management of short- and long-term absence.

## Causes of absence

The causes of absence have been analysed by Huczynski and Fitzpatrick (1989) under three headings: job situation factors, personal factors and attendance factors.

### Job situation factors

- Job scope – a high degree of task repetitiveness is associated with absenteeism, although job satisfaction itself is a contributory rather than a primary cause of absence.
- Stress – it is estimated that 40 million working days are lost each year in the UK through stress. This can be attributed to workload, poor working conditions, shift work, role ambiguity or conflict, relationships and organizational climate.
- Frequent job transfers increase absenteeism.
- Management style – the quality of management, especially that of immediate supervisors, affects the level of absenteeism.
- Physical working conditions.
- Work group size – the larger the organization the higher the absence rate.

### Personal factors

- Employee values – for some workers, doing less work for the same reward improves the deal made with the employer (the effort-reward bargain). The following positive outcomes of absence have been shown by research to be particularly important to employees: break from routine, leisure time, dealing with personal business and a break from co-workers.

- Age – younger employees are more frequently absent than older ones.
- Personality – some people are absence-prone (studies have noted that between 5 and 10 per cent of workers account for about half of the total absence, while a few are never absent at all).

### Attendance factors

- Reward systems – as pay increases attendance improves.
- Sick-pay schemes may increase absenteeism.
- Work group norms can exert pressure for or against attendance.

### Absence policies

Absence policies should cover:

- methods of measuring absence;
- setting targets for the level of absence;
- deciding on the level of short-term absence that would trigger action, possibly using the Bradford Factor, as explained below;
- the circumstances in which disciplinary action might be taken;
- what employees must do if they are unable to attend work;
- sick-pay arrangements;
- provisions for the reduction and control of absence such as return-to-work interviews;
- other steps that can be taken to reduce absence, such as flexible working patterns.

The skills required to manage absenteeism are examined in Chapter 67.

### Recording and measuring absence

As a basis for action, absence levels need to be recorded so that they can be measured and monitored against targets for minimizing absenteeism.

An HR information system (HRIS) can provide the best means of recording absenteeism. If a self-service approach is in place, managers and team leaders have direct access to absence records showing the incidence of absenteeism (number and lengths of

absence). This data can be consolidated for use by HR in compiling absence statistics and monitoring against targets. The most common measurement is the percentage of time available that has been lost due to absence.

### The Bradford Factor

The Bradford Factor provides a useful measure. This index identifies persistent short-term absence by measuring the number and duration of spells of absence. Its exact origin is a mystery, although IDS (2007) believes that it has some connection with Bradford University's School of Management. It is calculated using the formula  $S \times S \times D = \text{Bradford points score}$ , where S is the number of occasions of absence in the last 52 weeks and D is the total number of days' absence in the last 52 weeks. Thus, for employees with a total of 14 days' absence in a 52-week period, the Bradford score can vary enormously depending on the number of occasions involved. For example:

- 1 One absence of 14 days is 14 points:  $1 \times 1 \times 14$ .
- 2 Seven absences of two days each is 686 points:  $7 \times 7 \times 14$ .
- 3 Fourteen absences of one day each is 2,744 points:  $14 \times 14 \times 14$ .

The Bradford index can be used as a trigger to initiate action. It is typically set at 250 points so that action would be initiated if, for example, there had been 10 days of absence over five spells.

### Controlling short-term absence

Short-term absence can be controlled by the following:

- return-to-work interviews conducted by line managers, which can identify problems at an early stage and provide an opportunity for a discussion on ways of reducing absence;
- training line managers in methods of controlling absence, including return-to-work interviews;
- use of a trigger period to review attendance and if necessary issue a warning (the trigger period at the UK Department of Work and Pensions is eight days over 12 months); the

Bradford Factor can be used as a trigger mechanism;

- invoking disciplinary procedures for unacceptable absence levels;
- extending the scope for flexible working.

## Managing long-term absence

The best way to manage long-term absence is to keep in contact with employees by letter, telephone or visits to discuss the situation and, where possible, plan the return to work. This plan may include

modified working hours or a modified role for a period.

The CIPD's 2018 survey of Health and Wellbeing at Work found that the five most frequently used methods of controlling short-term absence were:

- 1 Return-to-work interviews – 75 per cent.
- 2 Change work patterns – 69 per cent.
- 3 Case management approach – 65 per cent.
- 4 Occupational health involvement – 62 per cent.
- 5 Disciplinary or capability procedure – 69 per cent.

## CASE STUDIES

### Controlling sickness absence at Wincanton

Distribution company Wincanton had a problem controlling sickness absence because its large workforce is spread over 285 sites. The solution was to outsource absence management to Active Health Partners, which operates a call centre staffed by nurses – employees must report their absences and can receive medical advice. An online absence recording system is also provided, which provides line managers with information on absences and access to absence statistics.

As soon as an employee calls Active Health Partners, an e-mail or text is sent to the employee's line manager via an automated system, informing him or her of the absence and the reason for it and giving an approximate return-to-work

date. The system also provides various triggers to line managers. For example, once an employee has been away for more than 15 days, the manager receives a message indicating that contact needs to be made. Managers are expected to conduct return-to-work interviews and have more formal discussions when an absence exceeds 15 days. They will explore why there has been this amount of time off, if there is an underlying health issue, if an employee should be referred to Occupational Health and if the disciplinary process should be started.

As a result, Wincanton reduced sickness absence by 10,000 days in six months.

### Absence management at Westminster City Council

#### Monitoring

Sickness absence is recorded by line managers on the intranet system.

#### Return-to-work interviews

A return-to-work interview is held between the manager and the employee after any length of absence, even one day, although this may only take a couple of minutes. Employees are required to complete a self-certification/

return to work form. Employees who have been absent for eight days or more are informed that they will be referred to Occupational Health.

#### Absence trigger points

An employee who has had more than seven days' sickness absence in any rolling 365-day period is dealt with through the 'enhanced sickness management procedure'. If sickness absence exceeds 20 days, the long-term sickness procedure is applied.

### The enhanced sickness management procedure

- Line managers complete a referral form that is forwarded to Occupational Health staff who decide to conduct a face-to-face consultation or make a desktop assessment – and in either case provide any advice necessary to the manager or the individual and send a report to the manager and HR.
- Within 10 days of receiving the report, the manager meets the employee to review the sickness record, consider any further explanations for the absence, discuss the report from Occupational Health, and agree action to improve attendance and minimize sickness.
- As necessary, especially in cases of disability, Occupational Health will discuss with the manager and the employee any reasonable adaptations to the work environment that may be helpful.

### Long-term sickness absence management

Every four weeks, managers review cases of long-term absence with the Occupational Health service and also contact the employee.

## Absence management at North Star Housing Group

North Star Housing Group had a worrying absence rate of 4.2 per cent. To deal with this the Group focused on upfront discussions about absence with employees working with their managers to develop action plans. A more formal process is only followed if the absence continues for a longer period of time.

- If an employee has been off work, the managers and Occupational Health hold a case conference to assess the situation. The employee is required to meet Occupational Health if this is possible.
- The manager makes an assessment following the case conference covering the nature and likely length of the illness, the impact of the absence on the work and how any impact will be managed.
- Following this assessment, a face-to-face meeting is held with the employee to ensure that other relevant factors and personal circumstances are taken into account.
- A sickness absence hearing may be called as a result of this meeting and the case conference.

### Employee assistance programme

An employee assistance programme (EAP) is available through an external provider. Employees can raise problems with helpline staff, and face-to-face counselling can be made available.

After a period of absence, employees have a return-to-work conversation with their manager. All employees can take advantage of a confidential counselling service. The result was that the absence rate fell to 1.4 per cent.

## Presenteeism

‘Presenteeism’ takes place when someone who is ill shows up for work. As noted by Garrow (2016: 2): ‘Research shows that people are significantly less productive when unwell. They can also be a hazard to others through passing on infection or making mistakes and potentially aggravating their condition, leading to a longer absence. In particular, those with mental disorders report working less carefully, which could lead to dangerous outcomes depending on the type of role.’

Hemp’s (2004) article in the *Harvard Business Review* suggested that workplace interventions to

mitigate the impact of presenteeism should take the form of three steps:

- 1 Make managers and employees aware of the problem – the drawbacks of coming to work when really ill.
- 2 Get to know the health issues facing employees.
- 3 Convince employees that they should make themselves aware of the problem by not allowing any serious illness to be undiagnosed and educate them on the risks involved and how to manage an illness.

## Key learning points

### The employee experience

The term 'employee experience' refers to what happens to people at work and how they feel about it.

The factors that contribute to a positive employee experience are:

- meaningful work;
- supportive management;
- positive work environment;
- growth opportunity;
- trust in leadership.

Bersin *et al* (2017)

Managing the employee experience is essentially the pursuit of a policy of integration – developing practices that address the issues raised by the factors that affect the experience and dealing with these as a whole, ensuring that a coherent approach is adopted and that the practices are mutually supportive.

### Induction

#### The importance of induction

First impressions matter as does the impact of the initial weeks of employment; getting off to a good start is all important.

#### Induction defined

Induction is the process of receiving and welcoming employees when they first join a company and giving them the basic information they need to settle down quickly and happily and start work.

#### Introduction to the workplace

New starters will be concerned about who they are going to work for, who they are going to work with, what work they are going to do on their first day, and the geographical layout of their place of work (location of entrances, exits, lavatories, restrooms and the canteen).

Detailed induction in the workplace is probably best carried out by the immediate team leader.

#### On-the-job induction training

Most new starters other than those on formal training schemes will learn on the job, although this may be supplemented with special off-the-job courses to develop particular skills or knowledge. But on-the-job learning can be haphazard, inefficient and wasteful. A planned, systematic approach is desirable.

#### Formal induction courses

Formal induction courses assemble new starters in groups so that members can be given consistent and comprehensive information at the same time which might not be forthcoming if reliance is placed on the team leader.

### Managing employee retention

#### Measuring employee turnover

It is necessary to measure employee turnover and calculate its costs in order to forecast future losses for planning purposes and to identify the reasons that people leave the organization. Plans can then be made to attack the problems causing unnecessary turnover and to reduce costs. The methods available are: employee turnover index, half-life index, length of service analysis, stability index and survival rate.

#### Estimating the cost of employee turnover:

- direct cost of recruiting replacements;
- direct cost of introducing replacements;
- direct cost of training replacements;
- leaving costs;
- opportunity cost of time spent by HR and line managers in recruitment, etc;
- loss of output.

### Retention planning

Retention strategies should be based on an understanding of the factors that affect whether or not employees leave or stay. These include:

- company image (the employer brand);
- the employee value proposition – what the employer offers in the shape of terms and conditions of employment;
- the effectiveness of recruitment, selection and deployment (fitting people into jobs that suit them);
- leadership – ‘employees join companies and leave managers’;
- social factors (the extent to which individuals get on with their co-workers);
- learning and career opportunities;
- performance recognition and rewards.

### Risk of leaving analysis:

Risk analysis can be carried out by initially identifying potential risk areas – the key people who may leave – and, for each of them, as individuals or groups, estimate:

- the likelihood of this occurring;
- how serious the effects of a loss would be on the business;
- the ease with which a replacement could be made and the replacement costs.

Reasons for leaving should be analysed, for example:

- more pay;
- better prospects (career move);
- more security;
- more opportunity to develop skills;
- unable to cope with job;
- better working conditions;
- poor relationships with manager/team leader;
- poor relationships with colleagues;
- bullying or harassment;

- personal – pregnancy, illness, moving away from area, etc.

### Areas for action

Depending on the outcome of the risk and reasons for leaving analyses, the possible actions that can be taken are:

- 1 Take whatever steps are necessary to demonstrate that the organization values its employees, as long as this is expressed in deeds and not just words.
- 2 Ensure that selection and promotion procedures match the capacities of individuals to the demands of the work they have to do. Rapid turnover can result simply from poor selection or promotion decisions.
- 3 Reduce the losses of people who cannot adjust to their new job – the ‘induction crisis’ – by giving them proper training and support when they join the organization.
- 4 Design jobs to maximize skill variety, task significance, autonomy, control over work and feedback, and ensure that they provide opportunities for learning and growth. Some roles can be ‘customized’ to meet the needs of particular individuals.
- 5 Deal with uncompetitive, inequitable or unfair pay systems. But as Cappelli (2000) pointed out, there is a limit to the extent to which people can be bribed to stay.
- 6 Encourage the development of social ties within the company. In the words of Cappelli (2000: 108), ‘loyalty to companies may be disappearing but loyalty to colleagues is not’.
- 7 Take steps to improve work-life balance by developing policies, including flexible working, that recognize the needs of employees outside work.
- 8 Eliminate as far as possible unpleasant working conditions or the imposition of too much stress on employees.
- 9 Select, brief and train managers and team leaders so that they appreciate the positive contribution they can make to improving retention by the ways in which they lead their teams. Bear in mind that

people often leave their managers rather than their organization.

- 10 Improve arrangements for giving employees a voice on matters that concern them.
- 11 Pay close attention to communications with employees to explain what is happening and underline improvements to their conditions of employment. Use all forms of media including social media.
- 12 Ensure that policies for controlling bullying and harassment are in place and are applied.

## Release from the organization

### Redundancy

Redundancy takes place when the organization as a whole is reducing the number of employees, when structural changes are being made following mergers and acquisitions, and when individual jobs are no longer needed.

What organizations should do about redundancy

- Plan ahead to achieve headcount reductions without involuntary redundancy.
- Adopt other methods of reducing numbers or avoiding redundancy.
- Encourage voluntary redundancy if other methods fail.
- Introduce a redundancy procedure or ensure that an existing procedure is satisfactory.
- Develop fair and considerate methods of handling redundancy.
- Help redundant employees through outplacement policies and practices.

### Dismissal

Dismissal takes place when an employer terminates the employment of someone with or without notice. A contract can be terminated as a result of demotion or transfer, as well as dismissal. People can be 'constructively dismissed' if they resign because of their employer's unreasonable behaviour.

Dismissals should be handled in accordance with the following principles of natural justice:

- Individuals should know the standards of performance they are expected to meet and the rules to which they are expected to conform.
- They should be given a clear indication of where they are failing or what rules they have broken.
- Except in cases of gross misconduct, they should be given an opportunity to improve before disciplinary action is taken.

These principles should form the basis of a disciplinary procedure.

## Absence management

Absence or attendance management is the development and application of policies and procedures designed to reduce levels of absenteeism.

### Causes of absence

The causes of absence have been analysed by Huczynski and Fitzpatrick (1989) under three headings: job situation factors, personal factors and attendance factors.

### Absence policies

Absence policies should cover:

- methods of measuring absence;
- setting targets for the level of absence;
- deciding on the level of short-term absence that would trigger action, possibly using the Bradford Factor;
- the circumstances in which disciplinary action might be taken;
- what employees must do if they are unable to attend work;
- sick-pay arrangements;
- provisions for the reduction and control of absence such as return-to-work interviews;
- other steps that can be taken to reduce absence, such as flexible working patterns.



### Recording and measuring absence

As a basis for action, absence levels need to be recorded so that they can be measured and monitored against targets for maintaining absence at a certain level, or reducing absenteeism.

### Controlling short-term absence

Short-term absence can be controlled by the following:

- return-to-work interviews conducted by line managers, which can identify problems at an early stage and provide an opportunity for a discussion on ways of reducing absence;
- use of trigger mechanisms such as the Bradford Factor to review attendance;
- invoking disciplinary procedures for unacceptable absence levels;

- training line managers in methods of controlling absence, including return-to-work interviews;
- extending the scope for flexible working.

### Managing long-term absence

The best way to manage long-term absence is to keep in contact with employees by letter, telephone or visits to discuss the situation and, where possible, plan the return to work. This plan may include modified working hours or a modified role for a period.

### Presenteeism

Presenteeism is showing up for work when one is ill and therefore becoming a hazard to others. It should be dealt with by creating awareness, understanding the issues and educating employees on the risks involved.

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# Managing diversity and inclusion

## Introduction

Diversity refers to the differences between people – ‘the mix’. Inclusion is the deliberate act of welcoming diversity and creating an environment where different kinds of people can thrive and succeed. Diversity is what you have. Inclusion is what you do.

The management of diversity and inclusion is based on the proposition that everyone should be valued as an individual and treated fairly irrespective of their race, gender, level of disability, religion, sexual orientation or age. A number of personal characteristics are covered by discrimination law to give people protection to ensure that this happens. These ‘protected characteristics’ are race, disability, gender reassignment, sex, marriage and civil partnership, pregnancy and maternity, religion and belief, sexual orientation and age. But it is not enough to rely on the law. More needs to be done to create and maintain a culture which recognizes that although people are different they all need to be treated in ways that are fair and tailored to their individual needs and which ensure they feel that they belong and that they are important to the organization.

This chapter examines the meaning and significance of managing diversity and inclusion, the causes of bias, and the ways in which they can be managed.

## The meaning and significance of managing diversity and inclusion

Managing diversity and inclusion in the workplace means bringing together people of different ethnic backgrounds, religions, genders, sexual orientations

and age groups into cohesive and productive organizational units. It involves formulating and implementing policies and processes that maximize the potential advantages of diversity while minimizing the potential disadvantages. It means developing a culture which spells out that ‘this is the way we do things around here about diversity’. It is a concept that recognizes the benefits to be gained from differences. It is not the same as equal opportunity, which aims to legislate against discrimination, assumes that people should be assimilated into the organization and, often, relies on affirmative action.

Managing inclusion is about forming and maintaining an environment in which individuals of all backgrounds – not just members of historically favoured groups – are fairly treated and valued for who they are. Inclusive cultures are characterized by a collective commitment to integrating diverse identities as a source of insight and skill. It is the process of ensuring that people feel they belong and are connected.

The management of diversity and the management of inclusion are closely connected. In fact they overlap and much of what can be done to improve one will affect the other. Both diversity issues concerning distinct groups of people as well as more general inclusion issues need to be considered when developing policy and practice and ensuring that everyone knows what they need to do through means such as communications, workshops and training interventions.

### Source review

To the extent that diversity management practices that focus specifically on improving the outcomes of historically disadvantaged groups cause

resentment or backlash on the part of individuals who do not directly benefit from these practices, they can have the unintended effect of exacerbating negative stereotypes and perceived intergroup competition... To really manage both the problems and the potential benefits associated with diversity, organizations need to create environments that are inclusive of all employees.

Nishii (2013: 1754–55)

## Bias as a factor affecting diversity and inclusion

Unfortunately, bias, whether conscious or unconscious, is a fact of life in society and the organizations that are part of society. Tsui and O'Reilly (1989) found through their research that the more dissimilar a supervisor and subordinate were in terms of race or gender, the less effective the supervisor considered the subordinate to be.

As Mor Barak *et al* (1998) pointed out, social identity theory explains how we feel about our own and other social groups and how this might lead to bias. Identity has two components: a personal one derived from characteristics such as personality traits, and a social one derived from group membership. It involves attachment to groups of people with whom individuals identify (oneness). Social identification leads to activities that fit perceptions of other people that may be stereotypes.

## The rationale for managing diversity and inclusion

There is a powerful social justice argument for pursuing diversity and inclusion policies. Everyone has the right to be treated fairly in a workplace which values the differences between people and which promotes an environment of fairness, dignity and respect. Everyone should have career development and promotion opportunities based on merit and be given equal opportunities to improve their work-life balance – for example, through working flexible hours.

There is also a business case. The effective management of diversity and inclusion can help to increase levels of engagement, promote cooperation and reduce conflict. It can provide for the best candidates from the widest possible source of applicants to be selected for jobs.

## How to manage diversity and inclusion

The overall aim of a diversity and inclusion programme should be to achieve culture change so that the approach to dealing with diversity and inclusion issues becomes a way of life for all concerned. To do this it is necessary to:

- develop a diversity and inclusion strategy;
- define the values of the organization concerning diversity and inclusion;
- set out the diversity and inclusion policies of the organization;
- implement programmes for communicating the values and policies;
- pay particular attention to potential problem areas – recruitment, appointments and promotions, learning and career development opportunities and pay;
- devise and run training programmes designed to increase awareness and influence behaviour;
- create diversity networks as described later;
- monitor progress and evaluate training.

### *Diversity and inclusion strategy*

When developing a diversity and inclusion strategy it is first necessary to ensure that initiatives will have the support of the board and senior management. The case should cover the following areas of diversity and inclusion: gender, ethnicity, age, disability, sexual orientation and religion.

The strategy should make it plain that the focus will be on fairness and inclusion, ensuring that merit, competence and potential are the basis for all decisions about recruitment and development, and being

alert to the influence of conscious and unconscious biases. But it should emphasize that the aim will be to support business goals as well as to respond to moral imperatives. The strategy should also cover the need to define the values of the organization concerning diversity and inclusion and it should stress the importance of involving employees both in agreeing those values and, importantly, discussing how they should be put into effect as ‘values in use’.

A broad indication of the methods that will be used in a programme for managing diversity and inclusion such as communications, the creation of diversity networks and training should be given, bearing in mind that managing diversity and inclusion is a continuous process of improvement, not a one-off initiative. Additionally, the strategy should set out the employment areas that will be covered. These are typically recruitment and selection, performance management, rewards, opportunities for learning and development, career development and talent management, and work-life balance.

Consideration should be given to what needs to be done to deal specifically with diversity and with inclusion. Actions should be planned which will support the management of diversity and other actions proposed which will support the management of inclusion. There will be some planned actions which support both diversity and inclusion.

For example, Northern Rail introduced diversity ambassadors, an inclusion charter, and e-learning on unconscious bias. It reached out to local schools and colleges, and targeted advertising on Asian TV networks to encourage candidates from previously untapped audiences.

## Defining the values

The values could be defined under such headings as:

- fairness;
- equality;
- inclusion;
- respect for the individual;
- care for the individual;
- valuing individuals;
- developing staff and their careers.

It is important to involve employees in discussing these values.

## Diversity and inclusion policy

A policy on managing diversity and inclusion should be produced to provide guidelines to managers on their role in managing them and information to employees in general on the part they are expected to play. It could:

- acknowledge cultural and individual differences in the workplace;
- state that the organization values the different qualities that people bring to their jobs;
- emphasize the need to eliminate bias in such areas as selection, promotion, performance assessment, pay and learning opportunities;
- indicate the need to promote inclusion, the process of ensuring that people from all backgrounds feel they belong and are connected;
- focus attention on individual differences rather than group differences.

The aims are to deal with issues concerning diversity and to create an inclusive environment, in which it is accepted that inclusion is a way of life.

## Critical areas

The critical areas where there can be diversity and inclusion issues are recruitment, appointments and promotions, learning and career development opportunities, pay, bullying and harassment, and work-life balance. In each case policies and definitions of good practice need to be developed to avoid biased and prejudiced decisions. These policies and practices should be communicated extensively and form the base of training programmes.

## Communicating

It is essential to let everyone know about the diversity and inclusion values and policies of the organization and what is being done about them. This is a continuous process, not a one-off campaign. All available media should be used including newsletters, the intranet, enterprise social networks, consultative committees, briefing groups, in-house magazines and notice boards.

## Training

The aims of diversity and inclusion training should be to alert people to the importance of dealing with the issues involved, communicate the values and policies of the organization, and indicate the sort of behaviours required. This should be part of the induction training programmes for new employees. It should be provided for all existing managers and those who are about to be promoted, and should emphasize the vital part they have to play in creating an inclusive culture and how they should set about doing it. Specifically, the training for managers should cover how to create an inclusive culture, leadership behaviours, interviewing and assessing people, performance management, and dealing with bullying and harassment. Briefing programmes for other members of staff should also be held.

The methods used should be participative – the minimum amount of lecturing and the maximum amount of participation in discussions, the analysis of case studies and role-plays illustrating situations where bias might creep in and what can be done about it.

## Diversity networks

Diversity networks can be set up which act as support groups for minority staff to share problems and swap tips. But they can additionally help organizations to understand the people who work for them and help the business to perform better. For example:

- At Cisco, the women's network helps business development by hosting events for prospective and existing customers.
- At PwC there are four main networks: for women, ethnic minorities, disabled people and GLEE (an inclusive business network for gays, lesbians and everyone else).
- At BT a disability network focuses on awareness raising about different disabilities to help managers understand them and get the best from people living with a disability. 'Knowledge calls' are provided which consist of presentations done via conference calls and desktop technology with expert speakers on particular subjects such as Parkinson's and migraines. They typically include someone who has experienced the condition, a Q&A session and inputs from HR relating to the condition or disability. There are online forums and sub-groups offering support.

## Evaluation

It is essential to monitor and evaluate progress. The key performance indicators that can be used are representation/demographic data by group of employee, employee survey results and demographic trend data on recruitment, promotions and the provision of learning opportunities. Actions should be tracked to see if they have had the intended results so that changes can be made if necessary.

### Key learning points

The meaning and significance of managing diversity and inclusion

Managing diversity in the workplace means bringing together people of different ethnic backgrounds, religions, genders, sexual orientations and age groups into cohesive and productive organizational units.

Managing inclusion is about forming and maintaining a culture in which individuals of all

backgrounds – not just members of historically favoured groups – are fairly treated and valued for who they are.

The rationale for managing diversity and inclusion

There is a social justice argument for pursuing diversity and inclusion policies: everyone has the right

to be treated fairly in a workplace which values the differences between people and which promotes an environment of fairness, dignity and respect.

There is also a business case. The effective management of diversity and inclusion can help to increase levels of engagement, promote cooperation and reduce conflict.

### How to manage diversity and inclusion

To manage diversity and inclusion it is necessary to:

- develop a diversity and inclusion strategy;
- define the values of the organization concerning diversity and inclusion;
- set out the diversity and inclusion policies of the organization;
- implement programmes for communicating the values and policies;
- pay particular attention to potential problem areas – recruitment, appointments and promotions, learning and career development opportunities and pay;
- devise and run training programmes designed to increase awareness and influence behaviour;
- create diversity networks;
- monitor progress and evaluate training.

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# 32

## Managing flexibility

### Introduction

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Managing flexibility takes place at organizational and individual levels. In an organization it involves the swift and smooth response to significant changes in operational demands by the reconfiguration of resources and activities. In so doing the aims are to maintain the ability to achieve the required results, make the best use of employees' skills and capacities and control employment costs. The CIPD (2014) emphasized the importance of 'agility' which refers to workforce agility (flexibility in matching workforce fluctuations to demand) and operational agility (responsiveness and adaptiveness of processes and structures). It was suggested that three practices support flexibility:

- 1 Workforce composition – who works?
- 2 Workforce flexibility – when and where do they work?
- 3 Skills flexibility – how are the skills developed and updated?

For employees, flexible working policies and arrangements can give them a degree of flexibility in their working hours and where they work. They can be 'family friendly' in the sense that they make life easier for working parents or carers. The CIPD (2019: 1) argued that flexible working 'plays a crucial role in an organization's performance through enabling better work-life balance, improving employee engagement and retention and key outcomes including productivity and delivering more flexible service to customers.'

Flexibility can take a number of forms, as described in the first part of this chapter. The importance from a people management point of view of developing and managing flexible working arrange-

ments is recognized by dealing with this aspect of flexibility separately in the second part. Finally, suggestions are made on the role of HR in managing flexibility.

### Words of wisdom

Firms have put a premium on achieving a workforce which can respond quickly, easily and cheaply to workforce changes, which may need to contract as smoothly as they expand, in which worked time precisely matches job requirements, in which unit labour costs can be held down.

Atkinson (1984: 28)

### Forms of flexibility

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The four forms of flexibility are:

- functional flexibility;
- structural flexibility;
- numerical flexibility;
- work flexibility.

### Functional flexibility

Functional flexibility involves redeploying employees quickly and smoothly between activities and



tasks. It may require multi-skilling – workers who possess and can apply a number of skills, for example, both mechanical and electrical engineering – or multi-tasking – workers who carry out a number of different tasks in a work team.

A multi-skilling strategy can mean providing people with a variety of experience by moving them between different jobs or tasks (job rotation) and by secondments. It typically includes setting up flexible work teams, the members of which can be deployed on all or many of the team's tasks. Flexible employee resourcing or rostering practices can be used to enable people to be rapidly redeployed to meet new demands. This may involve abandoning the traditional job description that prescribes the tasks to be carried out and replacing it with a role profile that specifies the range of knowledge and skills the role holder needs to achieve the role's objectives. Functional flexibility requires arrangements for employees to rapidly learn any new skills required or even be completely retrained to undertake new jobs.

### Structural flexibility

Structural flexibility takes place when the core of permanent employees is supplemented by a peripheral group of part-time employees, employees on short- or fixed-term contracts or sub-contracted workers. This is the 'flexible firm' model developed by Atkinson (1984). It distinguishes between what is called the core and the peripheral workforce and is sometimes called the 'core-peripheral model'. The model consists of:

- 1 *The core* – workers who have the security of permanent (ie not fixed term) contracts, and have important skills, which ideally they can apply across a wide range of tasks. The firm will want to retain these employees even in hard times.
- 2 *The peripheral group* – workers who are employed on contracts that have some degree of permanence (part-timers could be included in this category) or they may be on temporary contracts. Due to their lower levels of skill they will not have the same amount of security as their colleagues in the core. Typically, their work will be characterized by little responsibility and lower pay. These employees can be laid off relatively easily since people with similar skills can be hired quickly if necessary.

- 3 *The external workforce* – people who work for another employer or are self-employed, This includes workers in firms to which work has been sub-contracted or outsourced and agency workers.

The flexible firm model is a convenient method of summing up the ways in which firms can achieve flexibility by using peripheral workers while retaining a core of essential employees. But it does not fully represent the reality of how firms manage flexibility. This is more likely to be on an *ad hoc* basis, selecting whatever method of dealing with employment problems is readily available rather than consciously and systematically applying the model to their organization. Hunter and MacInnes (1991) found little evidence of a drive towards the flexible firm in the companies they studied. However, the model is a help to understanding how the various forms of flexible working can take place.

### Numerical flexibility

Numerical flexibility is associated with structural flexibility and means that the number of employees can be quickly and easily increased or decreased in line with short-term changes in the level of demand for labour. It is a process through which firms react to changes in the demand for their products/services by adjusting the number of people they employ. There are several ways of achieving numerical flexibility, for example, the use of overtime, part-time work, variable working hours, fixed-time contracts, workers on zero-hours contracts, temporary lay-offs, temporary or on-call workers (who work for a firm for a specific period of time but are not part of the regular work force), freelance workers, seasonal workers and independent contractors.

#### Words of wisdom

The most resilient firms are those which can evolve a clever balance between stability and flexibility while maintain employee trust and confidence. This is easier said than done.

Boxall and Purcell (2016: 22)

## Work flexibility

Work flexibility (flexible working as described in more detail below) is a pattern of working practice or working hours that deviates from the standard or normal arrangements. It gives a degree of flexibility on how long, where, when and at what times employees work. This can increase the agility with which an organization responds to change but, importantly, it can also make a contribution to improving employee wellbeing by, for example, providing for better work-life balance.

### The problem of flexible labour markets

Jill Rubery and her colleagues spelt out the problems of flexible labour markets as follows:

#### Source review

Flexible labour markets are increasingly regarded as the answer to a wide spectrum of labour market and societal challenges, from creating jobs to reducing segmentation and welfare dependency, improving public finances and supporting workforce diversity and innovation. The contention is that, contrary to these claims, flexible labour markets generate fundamental contradictions and unsustainable long-term trends. The jobs miracle is exaggerated and based on low-productivity jobs, outsiders often lose most from competition, claimants must work flexibly but still secure a full-time wage, low-wage employment is shrinking the fiscal base, jobs are not being adjusted to accommodate workers' changing needs and capacities and the disposable labour model is undermining long-term productivity.

Rubery *et al* (2016: 235)

#### Pause for thought

Do you agree with this assessment?

## Flexible working

'Flexible working' describes a type of working arrangement that gives a degree of flexibility on how long, where, when and at what times employees work. Research cited by the CIPD (2019) has shown that flexible workers have a higher level of job satisfaction and commitment and are more likely to increase discretionary effort compared to those who do not work flexibly. Flexible working options can reduce absence rates and allow employees to manage disability and long-term health conditions, as well as supporting their mental health and stress. They can also be attractive for new talent, especially as employee expectations change with regard to their jobs, careers and work-life balance, and demographic changes affect employees' needs to balance their job with other responsibilities such as caring. The CIPD (2016) flexible working survey revealed that the top three benefits of flexible working most frequently mentioned by employees were that it enables better work-life balance, helps reduce the amount of stress/pressure employees feel under, and has been a factor in employees staying with their current employer.

Flexible working practices include:

- Part-time working: a contract to work less than full-time hours.
- Term-time working: a worker remains on a permanent contract but can take paid/unpaid leave during school holidays.
- Job-sharing: a form of part-time working where two (or occasionally more) people share the responsibility for a job between them.
- Hot-desking: Individual desks are shared between several people who use them at different times.
- Flexitime: allows employees to choose, within certain set limits, when to begin and end work.
- Compressed hours: compressed working weeks (or fortnights) don't necessarily involve a reduction in total hours or any extension in individual choice over which hours are worked. The central feature is reallocation of work into fewer and longer blocks during the week.

- Annual hours: the total number of hours to be worked over the year is fixed but there is variation over the year in the length of the working day and week. Employees may or may not have an element of choice over working patterns.
- Working from home on a regular basis: workers regularly spend time working from home.
- Mobile working/teleworking: this permits employees to work all or part of their working week at a location remote from the employer's workplace.
- Career breaks: career breaks, or sabbaticals, are extended periods of leave – normally unpaid – of up to five years or more.
- Outcome-based contracts: there are no fixed hours, only an output target that an

individual is working towards. The employee is accountable for results but not how the results are achieved (often used for sales representatives).

- Zero-hours contracts: an individual has no guarantee of a minimum number of working hours, so they can be called upon as and when required and paid just for the hours they work.

A survey by the CIPD (2018) showed that the most commonly available options for working flexibly are flexitime (available to 42 per cent of workers) and working from home in normal working hours (40 per cent). One in three (34 per cent) have the chance to reduce their working hours and one in four (25 per cent) the option to work compressed hours. Job sharing and working only during school term times are less common options, being available to 12 per cent and 11 per cent respectively.

## CASE STUDY

### Flexible working in the Hilton Hotel Group

Introducing flexible working in a hotel is difficult. It is essential to set people's schedules in advance so work can be planned around that. In an accounts department, opportunities for flexible working were poor. However, employees in the department split into four groups to come up with

four different proposals for how flexibility could be introduced without impairing operational efficiency. All were trialed and now anyone who wants to work flexibly has the means to do so.

### Zero-hours contracts

A zero-hours contract is an agreement between two parties that one may be asked to perform work for another but there are no minimum set contracted hours. The contract will specify how much pay the individual will get when he or she does work and will deal with circumstances in which work may be offered and possibly turned down.

The exact nature of zero-hours contracts may differ from organization to organization. For example:

- Individuals on zero-hours contracts may be engaged as employees or workers.

- In some zero-hours contracts the individual will be obliged to accept work if offered, but in others they will not.
- The pay arrangements and benefits provided may differ.

They are most suited to situations where work fluctuates unexpectedly so that the employer cannot always guarantee work and are most common in retail, hospitality and restaurants.

Zero-hours contracts have received a very bad press but the CIPD (2015) has taken a more favourable view.

### Source review

Zero-hours contracts have sometimes, it seems, been singled out as an especially unfair form of employment. In our view, this is unjustified. Our research shows that zero-hours contracts appear to work well for many of those on them. But they are not for everybody and that's why zero-hours contract workers need to understand their employment rights as well as how these contracts are likely to work in practice. Zero-hours contracts work best when there's an element of give and take, a recognition that flexibility works both ways. A small minority of employers using them don't seem to recognize this, but there are many 'permanent' jobs where the actions of employers can make them anything but secure. There may be too much emphasis at times on the precise terms of the employment contract with not enough attention given to the spirit in which the employment relationship is conducted.

CIPD (2015)

### Pause for thought

What do you think of the CIPD's views on zero-hours contracts?

## The role of HR

HR can help to manage flexibility by:

- being aware of the business/organizational issues which indicate that greater operational flexibility is required;
- giving careful consideration to how structural flexibility can be achieved, eg by the use of 'peripheral' workers;
- analysing the scope for flexible working and discussing the issues with management and employee representatives;
- in the light of these discussions, exploring the alternatives and assessing the implications

for the organization and individual employees;

- developing proposals and where appropriate and possible testing their suitability;
- managing the change processes required when introducing new arrangements;
- ensuring that steps are taken as required to provide the training needed to update existing skills or develop new ones;
- if zero-hours contracts are a possibility, giving very careful attention to drawing up contractual arrangements that minimize any potential detriments for the workers concerned.

### Pause for thought

How do you think employers could reconcile their own need for flexibility with the needs of employees?

### Key learning points

#### Flexibility

Organizations today have to be able to adjust quickly and smoothly to rapidly changing circumstances.

The aim of managing flexibility is to satisfy this requirement and in so doing, improve the use of employees' skills and capacities, increase productivity and control employment costs.

## Forms of operational flexibility

The four forms of operational flexibility are:

- functional flexibility;
- structural flexibility;
- numerical flexibility;
- work flexibility.

## Flexible hour arrangements

Flexible hour arrangements can be included in a flexibility plan in one or more of the following ways: flexible daily hours, flextime systems, flexible weekly hours, compressed working weeks, annual hours.

## Hot-desking

Hot-desking means that individual desks are shared between several people who use them at different times.

## Homeworking

Home-based employees can carry out such roles as consultants, analysts, designers or programmers, or they can undertake administrative work.

## Zero-hours contracts

The CIPD (2015) defines a zero-hours contract as 'an agreement between two parties that one may be asked to perform work for another but there is no minimum set contracted hours. It believes that, used responsibly, zero-hours contracts can provide flexibility that works for both employers and individuals.

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# PART VIII

# Learning and development

## PART VIII CONTENTS

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- 33** The basis of learning and development
- 34** The process of learning and development
- 35** Learning and development practices
- 36** Leadership and management development

The initial chapter in this part sets the scene through a definition of what is involved in learning and development (L&D) and explanations of the various concepts that underpin its practices. These concepts include organizational learning and an analysis of how people learn and the effect this has on learning and development activities.

The next chapter describes the overall process of L&D – how it operates as a sequence of activities: (1) the identification of learning needs; (2) planning and implementing the various types of learning activities covering formal and informal learning,

self-managed learning, personal development planning, and blended learning; (3) implementing planned learning events or programmes; and (4) evaluating the effectiveness of L&D interventions.

In Chapter 35, L&D practices are described, covering workplace learning, social or cooperative learning, e-learning, the use of social media and artificial intelligence, personal development planning and training.

Finally in Chapter 36, leadership and management development is covered by reference to programmes for developing leadership qualities and for developing managers generally.



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# 33

# The basis of learning and development

## Introduction

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The aim of this chapter is to provide a general introduction to learning and development. Its earlier sections include a broad description of what L&D involves and a look at strategic L&D. This is followed by an examination of the fundamental processes of creating a learning culture, and of organizational and individual learning. The discussion on individual learning is then extended into an analysis of how people learn (learning theory) which strongly influences the ways in which learning and development activities are planned and conducted as covered in the next two chapters.

## Learning and development defined

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Learning and development (L&D) is concerned with ensuring that organizations have the knowledgeable, skilled and engaged people they need. It means enabling individuals to acquire knowledge and skills through experience and social contacts, coaching, mentoring and guidance provided by line managers and others, self-managed learning, and learning events and programmes provided by the organization.

The components of L&D are:

- *Learning* – the process by which a person acquires and develops knowledge, skills, capabilities, behaviours and attitudes. It involves the modification of behaviour through experience as well as more formal methods of helping people to learn within or outside the workplace.

- *Development* – the growth or realization of a person's ability and potential through the provision of learning and educational experiences.
- *Training* – the systematic application of formal processes to help people to acquire the knowledge and skills necessary for them to perform their jobs satisfactorily.
- *Education* – the development of the knowledge, values and understanding required in all aspects of life rather than the knowledge and skills relating to particular areas of activity.

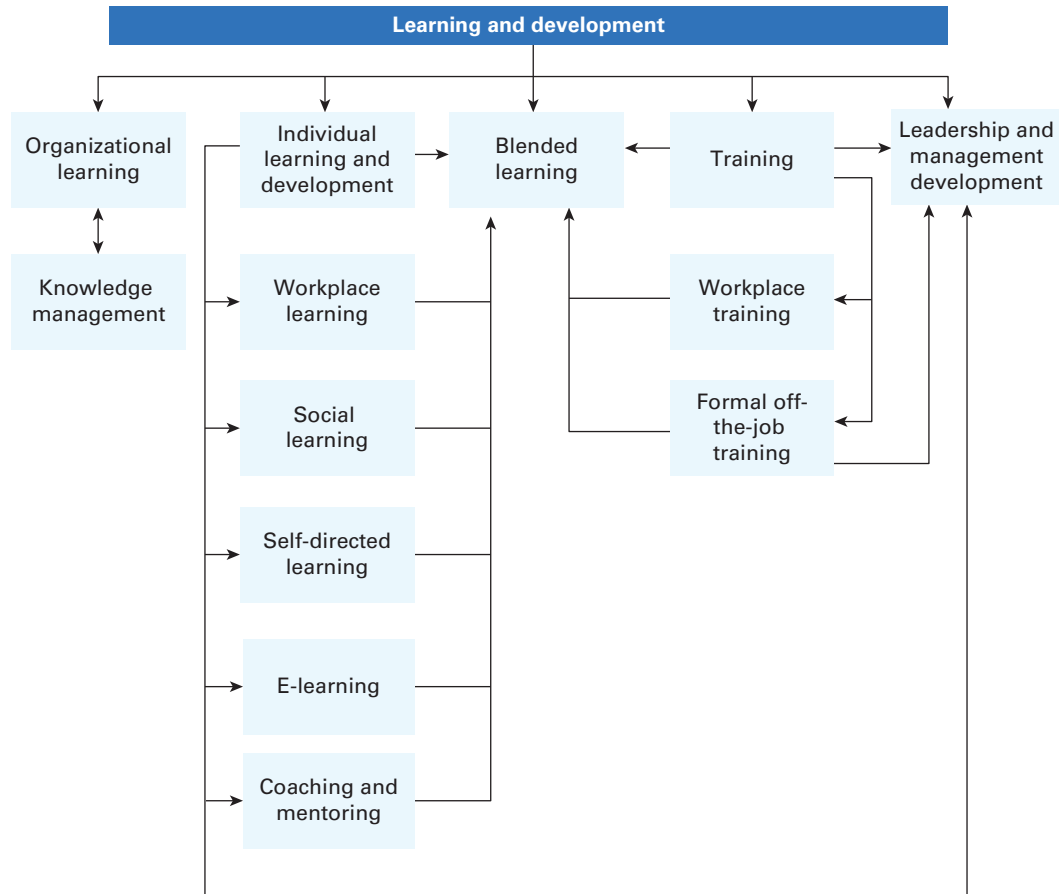
Learning should be distinguished from training. 'Learning is the process by which a person constructs new knowledge, skills and capabilities, whereas training is one of several responses an organization can undertake to promote learning' (Reynolds *et al*, 2002: 9). Learning is what individuals do; training is what organizations do to individuals. The components of learning and development are shown in Figure 33.1.

## Strategic L&D

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Strategic L&D deals with how the organization's goals can be attained through its people by encouraging and helping them to learn and develop. Like strategic HRM, it is based on the proposition that the human resources of an organization play a strategic role in its success and that L&D strategy should therefore be integrated with business strategy.

The objective of strategic L&D is to enhance resource capability in accordance with the belief that a firm's human resources are a major source of

**FIGURE 33.1** The components of learning and development

competitive advantage. Its aims are therefore to develop the intellectual capital required by the organization as well as to ensure that people of the right quality are available to meet present and future needs. These aims are achieved by creating a learning culture and by encouraging organizational and individual learning.

Strategic L&D may be business-led but it also needs to take into account the needs of individual employees. The importance of increasing employability outside as well as within the organization should be recognized.

## Creating a learning culture

The foundation for learning and development is provided by the learning culture of the organization,

the creation of which is a priority for strategic L&D. A learning culture is one in which learning is recognized by top management, line managers and employees generally as an essential organizational process to which they are committed and in which they engage continuously. The characteristics of a learning culture are self-managed learning not instruction, long-term capacity building not short-term fixes, and empowerment not supervision.

Reynolds (2004: 9) described a learning culture as a 'growth medium', in which 'employees will commit to a range of positive discretionary behaviours, including learning.' He suggested that to create a learning culture it is necessary to develop organizational practices that 'give employees a sense of purpose in the workplace, grant employees opportunities to act upon their commitment, and offer practical support to learning.' He also suggested

that organizations should provide a supportive learning environment where people's learning capabilities can be discovered and applied. Employees should be able to learn through their work challenges and should be provided with time, resources and, crucially, feedback. The importance of managers acting as coaches, mentors and role models should be recognized and learning networks (communities of practice consisting of groups of people with shared expertise who work together) should be encouraged.

## Organizational learning strategies

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Creating a learning culture means formulating organizational learning strategies to improve organizational effectiveness. Organizational learning refers to the methods adopted by organizations to promote learning; it is not simply the sum of all the L&D activities that are carried out. It focuses on collective learning but takes into account the proposition made by Argyris (1992) that organizations do not perform the actions that produce the learning; it is individual members of the organization who behave in ways that lead to it, although organizations can create conditions that facilitate such learning. The concept of organizational learning recognizes that the way in which this takes place is affected by the context of the organization and its culture. It is sometimes confused with the notion of the learning organization, but, as suggested later, the concepts are different.

### The process of organizational learning

Organizational learning can be characterized as an intricate three-stage process consisting of knowledge acquisition, dissemination and shared implementation. As such, it is closely related to knowledge management. Knowledge may be acquired from direct experience, the experience of others or organizational memory.

Argyris (1992) explained that organizational learning occurs under two conditions: first, when an organization achieves what is intended, and second, when a mismatch between intentions and outcomes

is identified and corrected. He distinguished between these as single-loop and double-loop learning. They are also described as adaptive or generative learning.

*Single-loop or adaptive learning* is incremental learning that does no more than correct deviations from the norm by making small changes and improvements without challenging assumptions, beliefs or decisions. Organizations where single-loop learning is the norm define what Argyris calls the 'governing variables', ie what they expect to achieve in terms of targets and standards and then monitor and review achievements, and take corrective action as necessary, thus completing the loop.

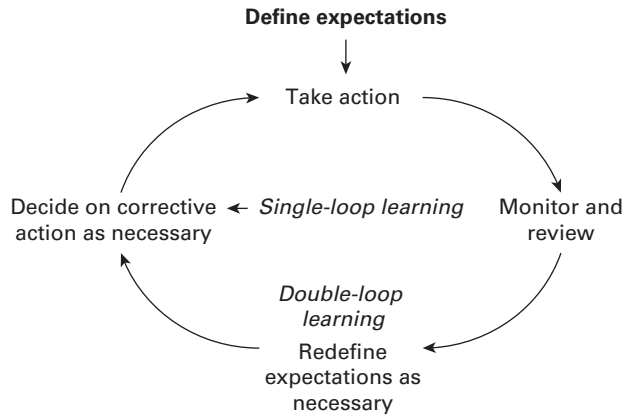
*Double-loop or generative learning* involves challenging assumptions, beliefs, norms and decisions rather than accepting them. On this basis, learning takes place through the examination of the root causes of problems so that a new learning loop is established that goes far deeper than the traditional learning loop provided by single-loop learning. It occurs when the monitoring process initiates action to redefine the governing variables to meet the new situation, which may be imposed by the external environment. The organization has learnt something new about what has to be achieved in the light of changed circumstances and can then decide how this should be done. This learning is converted into action. The process is illustrated in Figure 33.2.

As Easterby-Smith and Araujo (1999) commented, single-loop learning could be linked to incremental change. In contrast, double-loop learning is associated with radical change that may involve a major change in strategic direction. It is often assumed that double-loop learning is superior, but there are situations when single-loop learning is more appropriate.

## The notion of a learning organization

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A learning organization was described by Senge (1990: 3), who originated the idea, as one 'where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured, where collective aspiration is set free, and where people are continually learning how to learn together.' Further

**FIGURE 33.2** Single- and double-loop learning

definitions of a learning organization were provided by Wick and Leon (1995: 299), who stated that it was one that ‘continually improves by rapidly creating and refining the capabilities required for future success’, and by Pedler *et al* (1997: 3), who referred to it as an organization that ‘facilitates the learning of all its members and continually transforms itself.’

### **Critical evaluation of the learning organization concept**

The learning organization concept is persuasive because it seems to provide a rationale for comprehensive learning and development programmes. However, Scarborough *et al* (1999) argued that the learning organization concept is over-concerned with organization systems and design. Little attention is paid to what individuals want to learn or how they learn. The idea that individuals should be enabled to invest in their own development seems to have escaped learning organization theorists, who are more inclined to focus on the imposition of learning by the organization, rather than creating a climate conducive to learning.

Viewing organizations as learning systems is a limited notion. Argyris and Schon (1996) explained that organizations are products of visions, ideas, norms and beliefs and that their shape is much more fragile than the organization’s material structure. People act as learning agents for the organization in ways that cannot easily be systematized. They are

not only individual learners but also have the capacity to learn collaboratively. This is described by organization learning theory and leads to the belief that it is the culture and environment that are important, not the systems approach implied by the concept of the learning organization.

Burgoyne (1999), one of the earlier exponents of the learning organization, has admitted that there has been some confusion about it and that there have been substantial naiveties in most of the early thinking. He believes that the concept should be integrated with knowledge management initiatives so that different forms of knowledge can be linked, fed by organizational learning and used in adding value.

### **The learning organization and organizational learning**

The notion of the learning organization is often associated with the concept of organizational learning. But they are different. Easterby-Smith and Araujo (1999) explained that the literature on organizational learning focuses on the observation and analysis of the processes of individual and collective learning in organizations, whereas the learning organization literature is concerned with using specific diagnostic and evaluative tools to identify, promote and evaluate the quality of the learning processes inside organizations. In other words, organizational learning is about how people learn in organizations, and the learning organization notion

attempts to explain what organizations should do to facilitate the learning of their members.

However, as explained above, learning organization theory provides a dubious base for action. The idea of a learning culture supported by the understanding of how organizations learn, as provided by organizational learning theory and knowledge management initiatives, has more to offer.

### Pause for thought

What do you think of the contrast between organizational learning theory and the notion of the learning organization? What, if anything, does the latter contribute to our understanding of the learning process in organizations?

## Individual learning strategies

Individual learning comprises the processes and programmes used to increase the capabilities of individual employees. Strategies for individual learning are driven by the organization's people requirements as expressed in terms of the skills and behaviours required to achieve business goals. Strategies can cover:

- how learning needs will be identified;
- the role of self-managed learning;
- the facilitation of workplace learning;
- the encouragement of collaborative or social learning;
- the use of blended learning;
- the support that should be provided for individual learning in the form of guidance, coaching, mentoring, learning resource centres, e-learning, the use of social media and internal or external training programmes and courses;
- the evaluation of learning.

These are described in Chapters 34 and 35.

But learning is a complex process and the effective development and implementation of these strategies requires an understanding of *how* people learn. This is explained in general terms by learning theory and the lessons learnt from neuroscience as summarized below. It is also necessary to appreciate the many *ways* in which people learn – their learning styles and the phenomenon of the learning curve.

## How people learn

Learning theory indicates that people learn by doing (experiential learning) and from each other (social or cooperative learning) and by instruction. Discretionary, self-managed learning is important. It takes place when individuals of their own volition actively seek to acquire the knowledge and skills they need to carry out their work. The organization can help by providing customized learning that allows people to adapt their learning to enable them to achieve their goals.

The 70/20/10 model for learning and development based on research conducted by the Centre for Creative Leadership (Lombardo and Eichinger, 1996) claims that people's development will be about 70 per cent from work experience, about 20 per cent from social learning and 10 per cent from formal training courses. In other words, most learning takes place in the workplace, while formal instruction plays a much less significant part. This model has been criticized by Clardy (2018) on the grounds that it has been under-researched and the evidence for it is therefore weak. In reality, he argued, learning doesn't happen in these three neat boxes and thinking of it in this way can do more harm than good. If this is the case, the model should not be taken too literally and should instead be regarded simply as an illustration of the belief in the value of experiential and social learning. But it is still necessary to recognize the importance of formal training which can play an important role in helping people to acquire specific knowledge and skills, especially when it is blended with other forms of learning.

### Pause for thought

What do you think is the main contribution that formal training can make to learning?

Further explanations of the way people learn are provided by learning theory, neuroscience, the concept of the learning curve and the influence of learning styles.

## Learning theory

The main learning theories are:

- *Reinforcement theory* – based on the work of Skinner (1974) this expresses the belief that changes in behaviour take place as a result of an individual's response to events or stimuli and the ensuing consequences (rewards or punishments). Individuals can be 'conditioned' to repeat the behaviour by positive reinforcement in the form of feedback and knowledge of results. This is known as 'operant conditioning'.
- *Motivation theory* – People will learn more effectively if they are motivated to learn. Two motivation theories are particularly relevant to learning. Expectancy theory states that goal-directed behaviour is driven by the expectation of achieving something that the individual regards as desirable. If individuals feel that the outcome of learning is likely to benefit them they will be more inclined to pursue it. When they find that their expectations have been fulfilled, their belief that learning is worthwhile will be reinforced. Goal theory states that motivation is higher when individuals aim to achieve specific goals, when these goals are accepted and, although difficult, are achievable, and when there is feedback on performance. Learning goals may be set for individuals (but to be effective as motivators they must be agreed) or, better still, individuals may set their own goals (self-managed learning).
- *Cognitive learning theory* – learning involves gaining knowledge and understanding by absorbing information in the form of principles, concepts and facts and then internalizing it. Learners can be regarded as powerful information-processing machines.
- *Experiential learning theory* – experiential learning takes place when people learn from their experience by absorbing and reflecting

on it so that it can be understood and applied. Thus people become active agents of their own learning.

- *Social learning theory* – this states that effective learning requires social interaction. Wenger (1998) suggested that we all participate in 'communities of practice' (groups of people with shared expertise who work together) and that these are our primary sources of learning. Bandura (1977) viewed learning as a series of information-processing steps set in train by social interactions.
- *Dual coding theory* (Welchman *et al*, 2011) posits that all learners will learn more efficiently when some degree of visual stimulation is added to the inevitable verbal component.

### Words of wisdom

The disposition and commitment of the learner – their motivation to learn – is one of the most critical factors affecting training effectiveness. Under the right conditions, a strong disposition to learn, enhanced by solid experience and a positive attitude, can lead to exceptional performance.

Reynolds *et al* (2002: 34)

## Lessons from neuroscience

Traditional learning theory provides a useful basis for understanding how people learn but more has been discovered recently through neuroscience, the study of how the brain works, about the best way to learn.

The AGES model developed by Davachi *et al* (2010) draws on neuroscience research and proposes that learning is more effective and engagement with learning is achieved when the following four factors are considered in the design and delivery of learning processes and events:



- **A (Attention):** We need to ensure minimal distractions and avoid cognitive overload; undivided attention is essential for effective learning. Novelty and varied techniques and approaches enhance attention.
- **G (Generation):** We maximize the likelihood of positive engagement and formation of long-term memories when learning has personal meaning and significance. L&D practitioners should relate learning to existing knowledge and support personal, meaningful associations and applications.
- **E (Emotion):** This is a key factor in fostering attention and enhancing memory function. Generating positive emotional experiences and social activities is key to effective learning transfer. Conversely, if learners have a negative emotion associated with learning, such as a fear of failure, they are less likely to engage.
- **S (Spacing):** It's better to distribute learning in discrete blocks delivered over short time periods than cram lots of content into a prolonged session. 'Chunked' learning results in more effective transfer and aids long-term memory.

The 2011 report by the Royal Society (2011: v) noted that: 'Biological factors play an important role in accounting for differences in learning ability between individuals.' The Royal Society listed four things that neuroscience has taught about what makes learning effective:

- 1 emotional engagement with what is being learnt;
- 2 keeping up physical exercise to prepare the brain for learning as well as maintaining learning energy;
- 3 stimulating environments, both online and physically;
- 4 time to reflect to embed the learning.

The CIPD (2014) commented that: 'Although our development arises from an interaction of our genes with the environment, the brain's plasticity demonstrates very clearly that our genes only partly determine our progress. External environmental factors strongly influence how our brains are constructed and an important external factor, perhaps the most important for many of us, is our education. That includes opportunities for training.'

## Learning styles

People learn all the time and through doing so acquire knowledge, skills and insight. But they will learn more effectively if they 'learn how to learn'. People have individual learning styles – a preference for particular approaches to learning – and an understanding of their style or styles can help them to do this. The two most familiar classifications of learning styles are those produced by Kolb and his colleagues and by Honey and Mumford.

## Kolb's learning cycle

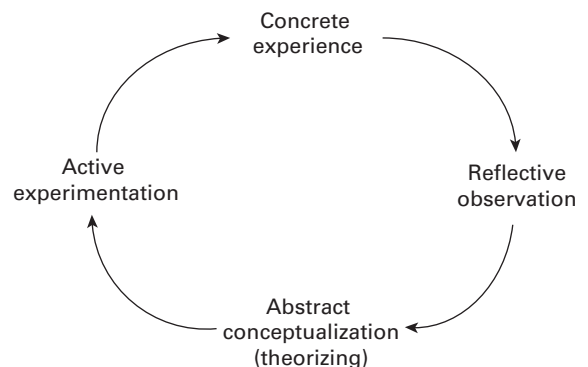
Kolb *et al* (1974) identified a learning cycle consisting of four stages, as shown in Figure 33.3.

These stages are defined as follows:

- 1 *Concrete experience* – this can be planned or accidental.
- 2 *Reflective observation* – this involves actively thinking about the experience and its significance.
- 3 *Abstract conceptualization (theorizing)* – generalizing from experience to develop various concepts and ideas that can be applied when similar situations are encountered.
- 4 *Active experimentation* – testing the concepts or ideas in new situations. This gives rise to a new concrete experience and the cycle begins again.

The key to this model is that it is a simple description of how experience is translated into concepts

**FIGURE 33.3** The Kolb learning cycle



that are then used to guide the choice of new experiences. To learn effectively, individuals must shift from being observers to being participants, from direct involvement to a more objective analytical detachment. Every person has his or her own learning styles.

One of the most important arts that trainers have to develop is to adjust their approaches to the learning styles of trainees. Trainers must acknowledge these learning styles rather than pursue their own preferred approach.

## The Honey and Mumford learning styles

Another analysis of learning styles was made by Honey and Mumford (1996). They identified the following four styles:

- 1 *Activists* – who involve themselves fully without bias in new experiences and revel in new challenges.
- 2 *Reflectors* – who stand back and observe new experiences from different angles. They collect data, reflect on it and then come to a conclusion.
- 3 *Theorists* – who adapt and apply their observations in the form of logical theories. They tend to be perfectionists.
- 4 *Pragmatists* – who are keen to try out new ideas, approaches and concepts to see if they work.

However, none of these four learning styles is exclusive. It is quite possible that one person could be both a reflector and a theorist and someone else could be an activist/pragmatist, a reflector/pragmatist or even a theorist/pragmatist.

## Use of learning style theory

Learning style theory can be used in the design and conduct of learning events or personal development programmes. Learning situations can be set up to fit the learning style of participants. Individuals can be helped to find out the style that most suits them. The problem is that people do not necessarily have a single learning style and there certainly will be a large range of styles in any learning group. It may therefore be difficult to fit the approach to the style.

The Maritz Institute (Hendel-Giller, 2010: 6) produced the following learning design principles based on research linking the Kolb learning cycle to what neuroscience teaches us about the structure of the brain:

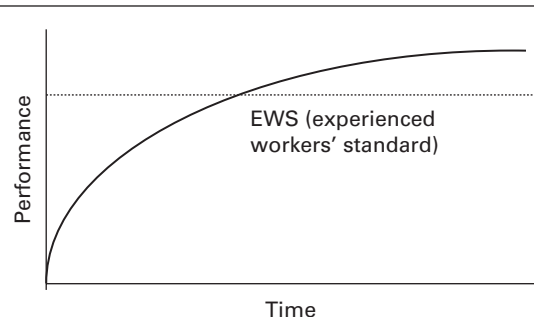
- 1 Engage the entire Kolb learning cycle. Make time for reflection, creating and active testing as well as absorbing new information.
- 2 Make a connection with the learner's prior knowledge and experience.
- 3 Create opportunities for social engagement and interaction as part of the learning process.
- 4 Engage both feeling and thinking. Learning needs emotion as well as intellect.
- 5 Actively attend to attention-gaining, holding and focusing the learner's attention.

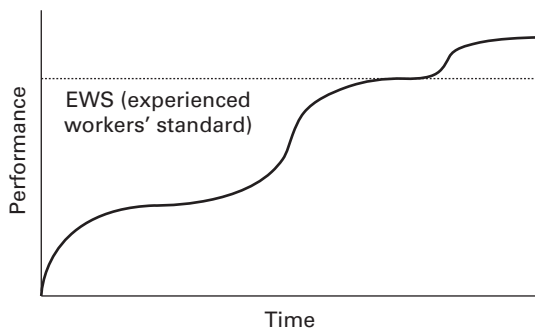
## The learning curve

The concept of the learning curve refers to the time it takes an inexperienced person to reach the required level of performance in a job or a task, which is sometimes called the experienced worker's standard (EWS). The existence of the learning curve needs to be taken into account when planning and implementing training or instruction programmes. The standard learning curve is illustrated in Figure 33.4.

But rates of learning vary, depending on the effectiveness of the training, the experience and natural aptitude of the learner and the latter's interest in learning. Both the time taken to reach the EWS and the variable speed with which learning takes place at different times affect the shape of the curve, as shown in Figure 33.5.

**FIGURE 33.4** A standard learning curve



**FIGURE 33.5** A stepped learning curve

Learning is often stepped, with one or more plateaus, while further progress is halted. This may be because learners cannot continually increase their skills or speeds of work and need a pause to consolidate what they have already learnt. The existence of steps such as those shown in Figure 33.5 can be used when planning skills training to provide deliberate reinforcement periods when newly acquired skills are practised in order to achieve the expected standards.

When a training module is being prepared that describes what has to be learnt and the training needed to achieve the required levels of skill and speed, it is often desirable to proceed step by step, taking one task or part of a task at a time, reinforcing it and then progressively adding other parts, consolidating at each stage. This is called the ‘progressive parts method’ of training.

### Pause for thought

What does learning theory tell us about how an organization should set about developing a learning strategy?

### Implications

The practical implications of the learning concepts and theory covered in this chapter are set out in Table 33.1.

**TABLE 33.1** The practical implications of learning concepts and theory

Concept/ theory	Content	Practical implications
The process of learning	Learning is complex and is achieved in many different ways. The context is important.	Different learning needs require different learning methods, often in combination. Learning effectiveness depends on the extent to which the organization believes in learning and supports it.
Learning styles	Every person has their own learning style.	Learning programmes need to be adjusted to cope with different learning styles. Trainers also have to flex their methods. People will learn more effectively if they are helped to ‘learn how to learn’ by making the best use of their own style but also by experimenting with other styles.
The learning curve	The time required to reach an acceptable standard of skill or competence, varies between people. Learning may proceed in steps with plateaus rather than being a continuous process.	Recognize that progress may vary and may not be continuous. Enable learners to consolidate their learning and introduce reinforcement periods in training programmes to recognize the existence of learning steps and plateaus.

(continued)

**TABLE 33.1** (Continued)

Concept/ theory	Content	Practical implications
The motivation to learn	People need to be motivated to learn effectively.	Learners should be helped to develop learning goals and to understand the benefits to them of achieving them. Performance management processes leading to personal development plans can provide a means of doing this.
Reinforcement theory	Behaviours can be strengthened by reinforcing them with positive feedback (conditioning).	Reinforcement theory underpins training programmes concerned with developing skills through instruction. In these, the learner is conditioned to make a response and receives immediate feedback and progress is made in incremental steps, each directed to a positive outcome.
Cognitive learning theory	Learners acquire understanding, which they internalize by being exposed to learning materials and by solving problems.	The knowledge and understanding of learners can be enriched and internalized by presenting them with learning materials (eg e-learning). Case studies, projects and problem-solving activities can also be used for this purpose. Self-directed learning, personal development planning activities and discovery learning processes with help from facilitators, coaches or mentors are underpinned by cognitive learning theory.
Experiential learning theory	People learn by constructing meaning and developing their skills through experience.	Learning through experience in the workplace can be enhanced by encouraging learners to reflect on and make better use of what they learn through their own work and from other people. Self-directed learning and personal development planning activities with help from facilitators, coaches or mentors are also underpinned by experiential learning theory, as is action learning.
Social learning theory	Learning is most effective in a social setting. Individual understanding is shaped by active participation in real situations.	Learning can be encouraged in communities of practice and learning communities and in project teams and networks.
Dual coding theory	Learners will learn more efficiently when visual stimulation is added to the verbal component.	Provides support from research to the well-known principle that when lecturing or teaching, the use of visual aids will provide valuable support to the spoken word.
Neuroscience	Understanding the way in which the brain functions provides useful insights into approaches to learning and development.	The aids to effective learning include: <ul style="list-style-type: none"> <li>• Emotional engagement with what is being learnt.</li> <li>• Stimulating environments, both online and physically.</li> <li>• Creating opportunities for social engagement and interaction as part of the learning process.</li> <li>• Time for the brain to reflect to embed the learning.</li> </ul>

## CASE STUDY

### Developing a learning strategy for Remploy

Remploy is a government-funded organization that provides employment and development opportunities for disabled people. It operates 83 factories. The company's strategy for learning is explicit and well understood in the organization, and was developed from the bottom up rather than from the top down. Its starting point was recognition that a number of local initiatives in the factories were proving successful and could be developed on a national basis.

The trade unions advocated enhanced opportunities for skill development in basic areas. As a result, a national

strategy was developed with learning centres as a major element in all 83 sites. Although the use of each learning centre is locally determined, they all have the following in common: a physical location (with at least some PCs); a relationship with a local college whose tutors will visit the site to advise and facilitate; and access to a suite of e-learning programmes, made available from the LearnDirect library (the national e-learning initiative).

### Key learning points

#### Learning and development defined

Learning and development (L&D) is concerned with ensuring that organizations have the knowledgeable, skilled and engaged people they need. It means enabling individuals to acquire knowledge and skills through experience and social contacts, coaching, mentoring and guidance provided by line managers and others, self-managed learning, and learning events and programmes provided by the organization.

#### Strategic L&D

Strategic L&D is an approach to helping people learn and develop that is concerned with how the organization's goals will be achieved through its human resources by means of integrated L&D strategies, policies and practices. Strategic L&D aims to produce a coherent and comprehensive framework for developing people through the creation of a learning culture and the formulation of organizational and individual learning strategies.

#### Learning and development strategies

Learning and development strategies are the active components of an overall approach to strategic L&D. They express the organization's intentions on how L&D activities will take place in the organization and provide guidance on how these activities should be planned and implemented.

#### Learning culture

A learning culture is one in which learning is recognized by top management, line managers and employees generally as an essential organizational process to which they are committed and in which they engage continuously.

#### Organizational learning

Organizational learning is about the development and acquisition in organizations of knowledge, understanding, insights, techniques and practices in order to improve organizational effectiveness. It is concerned with the processes adopted by

organizations in promoting learning; it is not simply the sum of all the learning and development activities that are carried out in an organization.

### The learning organization

Defined by Pedler *et al* (1997) as an organization that 'facilitates the learning of all its members and continually transforms itself.' Learning organization theory provides a dubious base for action. The idea of a learning culture, supported by the understanding of how organizations learn, as provided by organizational learning theory and knowledge management initiatives, has more to offer.

Organizational learning strategies aim to develop a firm's resource-based capability.

### Individual learning strategies

The individual learning strategies of an organization are driven by its human resource requirements, the latter being expressed in terms of the sort of skills and behaviours that will be required to achieve business goals.

### Learning theories

The key learning theories are reinforcement theory, cognitive learning theory, experiential learning theory and social learning theory.

Neuroscience tells us how the brain works in the learning process.

Learning theories describe in general terms how people learn but individual learners will have different styles – a preference for a particular approach to learning.

The concept of the learning curve refers to the time it takes an inexperienced person to reach the required level of performance in a job or a task. People learn all the time and through doing so acquire knowledge, skills and insight.

People learn by doing (experiential learning) and from each other (social or cooperative learning) and to a lesser extent by instruction. Discretionary, self-managed learning is important.

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# 34

## The process of learning and development

### Introduction

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The process of learning and development as described in this chapter consists of the following steps:

- 1 Analyse – identify learning and development needs.
- 2 Plan – consider the various overall approaches available to meet those needs, for example, the use of formal and informal learning, self-managed learning and blended learning, and decide on the use of learning and development activities such as workshop learning, digital learning and training in the light of conclusions on the preferred overall approach(es).
- 3 Implement.
- 4 Evaluate.

### Identify learning needs

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All learning activities need to be based on an understanding of what should be done and why it should be done. The purpose of the activities must be defined by identifying and analysing learning needs for the groups and individuals within the organization.

#### **Approaches to learning or capability needs analysis**

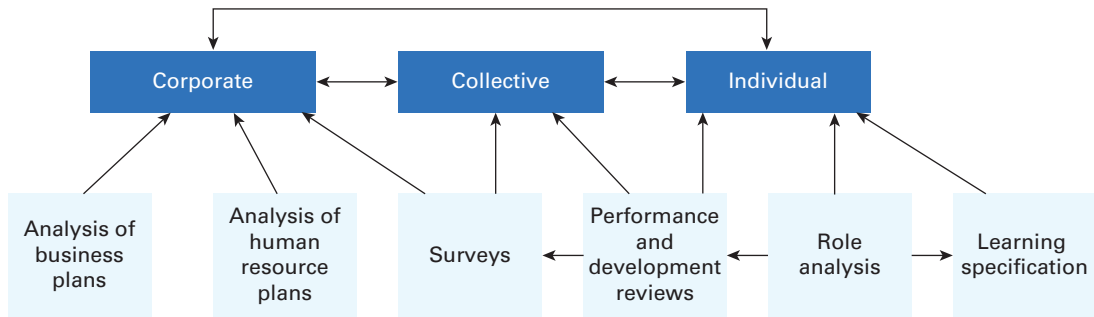
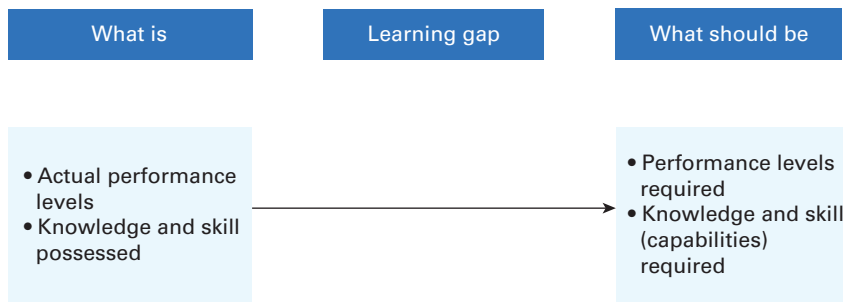
Learning needs analysis focuses on establishing the capabilities people in particular occupations require – what they need to know and be able to do. Evidence

on capability needs can be collected through a gap analysis and review of corporate, collective and individual needs. These three areas are interconnected, as shown in Figure 34.1. The analysis of corporate needs will lead to the identification of collective learning needs in different departments, functions or occupations, while these in turn will indicate what individual employees need to learn. The process operates in reverse. As the needs of individual employees are analysed separately, common needs emerge, which can be dealt with on a group basis. The sum of group and individual needs will help to define corporate needs, although there may be some overarching learning requirements that can be related only to the company as a whole to attain its business goals. These areas of analysis are discussed below.

#### **Gap analysis**

Learning needs analysis is often described as the process of identifying the learning gap – the gap between what is and what should be, as illustrated in Figure 34.2.

Gap analysis involves identifying the gap between what people know and can do and what they should know and be able to do. The learning needed to fill the gap can then be specified. Information on the nature of the gap may be obtained by one or more of the methods described below. But this ‘deficiency model’ – only putting things right that have gone wrong – is limited. Learning is much more positive than that. It should be concerned with identifying and satisfying development needs – fitting people to take on extra responsibilities, acquire new skills to deal with changing work demands, or develop a range of skills to facilitate multitasking.

**FIGURE 34.1** Learning needs analysis – areas and methods**FIGURE 34.2** The learning gap

### **Analysis of business and workforce plans**

Business and workforce plans should indicate in general terms the types of skills and competencies that may be required in the future and the numbers of people with those skills and competencies who will be needed. An analysis should also be made of any areas where future changes in work processes, methods or job responsibilities are planned and any additional knowledge or skills that may be required. These broad indicators have to be translated into more specific plans that cover, for example, the outputs from training programmes of people with particular skills or a combination of skills (multiskilling).

### **Surveys**

Special surveys or an interviewing programme can obtain the views of managers and other employees

on what they need to learn. However, the material gathered from a survey may be unspecific and, when interviewed, people may find it difficult to articulate what they want. In the latter case it is best to lead with a discussion of the work they do and identify any areas where they believe that their performance and potential could be developed. This could lead to the identification of any additional things they feel they need to know or be able to do. Individual views can be amalgamated to provide a picture of common learning needs.

### **Role analysis**

Role analysis is the basis for preparing role profiles that provide a framework for analysing and identifying learning needs. Role profiles set out the key result areas of the role but, importantly, also define the competencies required to perform it. Performance management should ensure that role profiles are updated regularly, and the review can

be built on an analysis of the results achieved by reference to the key result areas and agreed objectives. The competency framework for the role is used to assess the level of competency displayed. An assessment can then be made of any learning required to develop levels of competency. Ideally, this should be a self-assessment by individuals who should be given every encouragement to identify learning needs for themselves. But these can be discussed with the individual's manager and agreement reached on how the learning needs should be met by the individuals through self-managed learning, and with the help and support of their managers. The output of role analysis could be a learning specification, as illustrated in Figure 34.3.

This method of assessing individual learning needs can generate information on common learning needs. The information can be related to the organization's competency framework and used to inform the design of competency-based learning events.

## Skills analysis

Skills analysis, as described in Chapter 63, determines the skills required to achieve an acceptable standard of performance. It is mainly used for technical, craft, manual and office jobs to provide the basis for devising learning and training programmes.

## Performance management

Performance management processes, as described in Chapter 38, should be a prime source of information about individual learning and development needs. Performance management is based on an analysis of role requirements in the shape of knowledge, skills and abilities (KSAs) and the behavioural competencies needed to perform effectively, taking into account any new demands that will be made on the role holder. Performance reviews, which should be held whenever appropriate rather than simply being an annual event, will include discussions on the extent to

**FIGURE 34.3** A learning specification

LEARNING SPECIFICATION	
<b>Role:</b> Product Manager	<b>Department:</b> Marketing
<b><i>What the role holder must understand</i></b>	
<b>Learning outcomes</b>	<b>Learning methods</b>
<ul style="list-style-type: none"> <li>• The product market</li> <li>• The product specification</li> <li>• Market research availability</li> <li>• Interpretation of marketing data</li> <li>• Customer service requirements</li> <li>• Techniques of product management</li> </ul>	<ul style="list-style-type: none"> <li>• Coaching: marketing manager and advertising manager</li> <li>• Coaching: operations manager</li> <li>• Coaching: market research manager</li> <li>• Coaching: market research manager</li> <li>• Coaching: customer service manager</li> <li>• Institute of Marketing courses</li> </ul>
<b><i>What the role holder must be able to do</i></b>	
<b>Learning outcomes</b>	<b>Learning methods</b>
<ul style="list-style-type: none"> <li>• Prepare product budget</li> <li>• Prepare marketing plans</li> <li>• Conduct market reviews</li> <li>• Prepare marketing campaigns</li> <li>• Specify requirements for advertisements and promotional material</li> <li>• Liaise with advertising agents and creative suppliers</li> <li>• Analyse results of advertising campaigns</li> <li>• Prepare marketing reports</li> </ul>	<ul style="list-style-type: none"> <li>• Coaching: budget accountant</li> <li>• Coaching: mentor</li> <li>• Coaching: market research department</li> <li>• Read: product manager's manual</li> <li>• Attachment to agency</li> <li>• Coaching: mentor, read analyses</li> <li>• Read: previous reports; observe</li> <li>• Marketing review meetings</li> </ul>

which the individual would benefit, in career progression as well as performance terms, from some form of learning and development activity. Problems of performance arising from lack of knowledge or skill can be identified so that remedial action can be taken. A joint assessment can then be made of what sort of development programme is required. This can lead to personal development plans and learning contracts, which involve action plans, self-managed learning and an agreement on what support will be provided to the individual by the organization and the manager. An overall analysis of performance and development review reports can reveal any common learning needs that can be satisfied by tailored learning events.

### Learning evaluations

Further information should be obtained from learning evaluations, as described at the end of this chapter.

#### Pause for thought

You have been asked to examine the learning needs of a trainee manager in a bakery. How would you set about doing this?

## Overall approaches to learning and development

There are a number of general ways in which learning and development can take place including the use of formal and informal learning, self-managed learning, blended learning and connected learning. It is necessary to be aware of these approaches before planning specific learning activities. All the approaches are influenced by learning theory as presented in Chapter 33, especially experiential learning theory. This emphasizes that people learn mainly from experience and therefore most learning takes place in the workplace. Learning theory also indicates that people learn best when they are motivated to do it for themselves – self-managed learning. But they need support and help.

### Formal and informal learning

People learn both formally and informally. Formal learning can occur face to face (F2F) in the workplace, lecture rooms or training. It can also take place through various forms of digital learning (see Chapter 35).

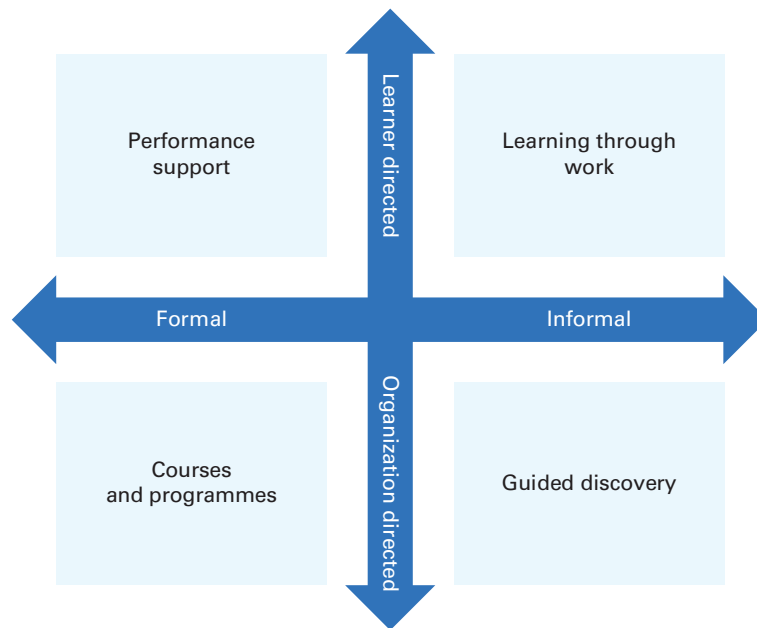
Informal learning is primarily experiential learning and can be self-managed, although support should be made available from managers, coaches, mentors and social media. According to Hoyle (2015), informal learning is not entirely directed and controlled by the learner. He describes it as a continuum as illustrated in Figure 34.4. In the south-west quadrant there are traditional courses and programmes. But these sessions only work if a degree of informal learning takes place to effect the change in behaviour that improves performance. In the north-west quadrant there is performance support. This may be provided by the organization in the shape, for example, of e-learning programmes. Support may also be available from social networks. The south-east quadrant covers such activities as coaching and learning with colleagues – trying new things and reporting back on experiences. The north-east quadrant refers to work experiences from which people learn by reflecting, drawing conclusions and planning future actions. This model indicates that there are many varieties of informal training and that formal training does have a part to play but not in the old way of relying on classroom training and ignoring everything else. Further learning is required on the job.

Hoyle recommends that the formal training provided on induction courses should be interspersed with on-the-job experience. Following that experience the employee can return to the classroom for a review of the learning that has been achieved.

#### Words of wisdom

For a formal programme to result in learning that actually enables people to do different things, training courses must require learners to take some tentative steps to try things out, to experience through trial and error, to reflect on lived experience, and to discuss and connect with others.

Hoyle (2015: 3)

**FIGURE 34.4** Formal and informal learning

Source Hoyle (2015)

### **Self-managed learning**

Self-managed or self-directed learning takes place when individuals set their own learning goals and plan for themselves how they are to be attained. It is based on a process of recording achievement and action planning, which means that individuals review and reflect on what they have learnt, what they have achieved, what their goals are, how they are going to achieve those goals and what new learning they need to acquire. The learning programme can be 'self-paced' in the sense that learners can decide for themselves, up to a point, the rate at which they learn, and are encouraged to measure their own progress and adjust the programme accordingly.

Self-managed learning is based on the principle that people learn and retain more if they find things out for themselves (discovery learning). But they still need to be given guidance on what to look for and help in finding it. Learners have to be encouraged to define, with whatever help they need, the knowledge and skills required to do their work. They need information on where they can get the material or information that will help them to learn (curating) and how to make good use of it. This can be done through personal development planning, as described below. They also need support from their manager and the organization with the provision of coaching, mentoring and learning facilities, including e-learning. The use of social media as described in Chapter 35 is helpful.

### **CASE STUDY**

#### Self-managed learning in Vestas Blades UK Ltd

Vestas Blades UK Ltd is a wind turbine blade research, development and manufacturing company based in the Isle

of Wight and Southampton. The L&D policy adopted by Vestas was to give ownership of learning to individuals.

Learning needed to be continuous, timely and relevant for people whose roles would present new challenges as the business grew. It wanted employees to have a choice about what they learnt, when and how. A menu of training courses not only seemed unattractive but was also seen to have limited effectiveness in terms of the transfer of learning to the workplace. A requirement of any new approach was that it should motivate employees by serving their own individual learning needs while at the same time meeting those of the business.

The self-managed learning programme began by introducing the concept of personal awareness (via the Myers-Briggs Type Indicator) and its relevance to learning. An inquiry tool was developed to help participants identify their own learning needs, known as the Needs Analysis Process (NAP). Individuals decided the learning goals that would have the greatest benefit to them and their part of the business. The NAP focused attention on the impact

that the business's strategic and operational objectives had on each participant's current and future level of performance.

Once participants were made aware of the wealth of learning resources available through books or e-learning, they chose the learning group they wanted to join. Each group consisted of four people from across the organization who would meet regularly every six weeks in confidence – serving as a support structure for its members. Such support was critical. The opportunity to talk about how to apply learning in the workplace not only helped group members make sense of the effect that their learning had but also supported fellow learners in the group working on the same or similar topics.

During the first year, each group had its own facilitator, drawn primarily from Acuition consultants but also from within the company. The facilitator's role was to accelerate the group's capability to learn.

## Blended learning

Blended learning is the use of a combination of learning methods to increase the overall effectiveness of the learning process by providing for different parts of the learning mix to complement and support one another. It recognizes that the best approach to learning is to appreciate that it can be accomplished in a number of different ways, for example, through experience, through other people and by formal training. A blended learning programme might be planned for an individual using a mix of planned experience, self-managed learning activities defined in a personal development plan, e-learning facilities, group action learning activities, coaching or mentoring, and instruction provided in an in-company or external course.

Generic training for groups of people might include e-learning, planned instruction programmes and selected external courses. Within a training course a complementary mix of different training activities might take place; for example, a skills development course for managers or team leaders might include some instruction on basic principles, but much more time would be spent on case studies, simulations, role playing, games and other exercises.

## Connected learning

Connected learning involves the creation of knowledge between participants in semi-structured, semi-directed learning activities. It links the individual's need to learn and interests in learning with the opportunities available in the workplace, including those provided by fellow workers (social learning). It means helping individuals to recognize their learning needs and to develop their interests in learning, and ensuring that there is scope for satisfying these interests by providing support and guidance and by means of social interactions with other workers.

Connected learning therefore offers an approach to workplace learning that fits between the directed, structured knowledge transfer (ie training or e-learning) that has been the way that L&D has traditionally operated, and the unstructured, self-directed knowledge sharing that happens in work teams and groups during the flow of work.

## Plan learning and development activities

Learning and development activities are the means by which the various approaches outlined are put into practice. They comprise:

- *Workplace learning* – learning on the job. This can be largely informal (learning by doing) but may include more formal activities such as face-to-face (F2F) instruction, coaching, mentoring and buddying.
  - *Social and collaborative learning* – learning by interactions with other people especially working colleagues. This is also largely informal but can include more formal arrangements such as learning communities.
  - *Digital learning* – e-learning, virtual learning environments, knowledge sharing, and the use of social media and smart phones. This can be planned, as in e-learning, or it can support self-managed learning, as in knowledge sharing, social media and smart phones.
  - *Training* – the formal provision of face-to-face learning by the use of systematic and planned instruction activities either on or off the job.
  - *Personal development planning* – a self-managed learning action plan.
  - *Apprenticeship* – a genuine job with an accompanying skills development programme.
- 2 *Design* – the learning content is analysed and decisions are made on the methods to be used. These could be blended, making use as appropriate of formal instruction, presentations, discussions, case studies, role plays, simulations, games, planned experience, coaching and mentoring.
  - 3 *Development* – in the development phase the detailed programme is constructed as conceived in the design phase. This includes session plans for training courses setting out the content and learning outcomes of each session, nomination and briefing of the people who will be involved in delivering the programme, methods of delivery, preparation of visual aids, handouts, supporting material, training aids, games and exercises and the arrangements for administering the programme.

Fuller descriptions of these activities are contained in Chapter 35. Instructional, coaching and mentoring skills are covered in Chapter 64.

The planning process involves providing encouragement and support to individuals so that they can self-manage their learning and to managers so that they can play their part in enabling workplace learning. It also involves the design of learning events (eg training courses to teach specific skills or cover a range of subjects such as management) and programmes (eg apprenticeships, management development).

Preparations vary according to the type of event or programme but they generally take place in the following phases:

- 1 *Analysis* – the learning goals and objectives are defined as criterion or terminal behaviour (what participants will learn and be able to do as a result of the training), and the learning environment and learners' existing knowledge and skills are identified. This determines the learning content of the training event or programme.

### Pause for thought

What is the most important consideration when planning a learning event?

## Implement

L&D or HR specialists are usually responsible for implementing formal training courses with outside help as required and managing extended training or development programmes. They also have to provide guidance and encouragement to line managers in fulfilling their responsibilities for workplace learning. Line managers play a crucial role, not only in promoting learning within their departments but also in ensuring that individuals have the opportunity to use and develop the skills they have acquired on off-the-job training courses.

### Pause for thought

What are the key factors that might affect the implantation of a learning event or programme?



## Evaluate

It is important to evaluate learning to assess its effectiveness in producing the outcomes specified when the activity was planned. Evaluation can indicate where improvements or changes are required in order to make the training even more effective. As noted by Tamkin *et al* (2002), learning can be modelled as a chain of impact from the planning of learning to meet organizational or individual learning needs, to the learning that takes place in a learning event, from learning to changed behaviour, and from changed behaviour to impact on others and the organization as a whole.

Evaluation is an integral feature of learning activities. In essence, it is the comparison of objectives with outcomes to answer the question of how far the event has achieved its purpose. The setting of objectives and the establishment of methods of measuring results are, or should be, an essential part of the planning stage of any L&D programme. Evaluation provides guidance on what needs to be done to ensure that learning activities are effective.

### Approach to evaluation

It is at the planning stage that the basis upon which each category of learning event or programme is to be evaluated should be determined. This means defining expectations on the impact that the event will make in terms of criterion behaviour (the performance standards or changes in behaviour on the job to be achieved if a learning process is to be regarded as successful) and terminal behaviour (the actual work behaviour of learners when they complete their learning programme), for example: 'On completing this programme, participants will be able to...'. The aim is to establish the extent to which the event has achieved its purpose. At the same time, it is necessary to consider how the information required for evaluation should be obtained and analysed.

The areas that need to be evaluated are:

- 1 *Planning* – the extent to which needs were properly evaluated and objectives set.
- 2 *Conduct* – how well the programme or event was organized and managed, the degree to which the inputs and methods were appropriate and effective, and its cost compared with the budget.

- 3 *Reactions* – what participants felt about the event.
- 4 *Outcomes* – the impact the event had on individual, departmental and organizational performance.

The most familiar form of evaluation is the Kirkpatrick (1994) system which has four levels: (1) reaction to the training event; (2) learning from the training event; (3) behaviour on return to work; and (4) evaluate results in terms of impact on organizational performance. This is mainly used for the evaluation of training events. Evaluations seldom tend to go beyond the first level. Other methods of evaluation are described below.

### Return on expectations

A qualitative approach to the validation of learning processes and the outcomes of learning is to focus on return on expectation measures. This means assessing the extent to which the objectives and anticipated benefits of any learning investment have been realized.

### Return on investment

Return on investment (RoI) is advocated by some commentators as a means of assessing the overall impact of learning activities on organizational performance. It is calculated as:

$$\frac{\text{Benefits from training (£)} - \text{costs of training (£)}}{\text{Costs of training (£)}} \times 100$$

Kearns and Miller (1997) believe that only this sort of measure is useful in evaluating the overall impact of training. They argue that particular hard measures should be used to evaluate specific training; for example, if development aims to bring about greater awareness of customers then it should be measured by the eventual effect on customer spend, customer satisfaction and number of customers.

The pressure to produce financial justification for any organizational activity, especially in areas such as learning and development, has increased the interest in RoI. The problem is that while it is easy to record the costs it is much harder to produce convincing financial assessments of the benefits.

## CASE STUDY

### Measuring the contribution of learning to business performance at Lyreco Ltd (UK)

Lyreco UK is part of a large family-owned office supplies group operating extensively in Europe, Canada and Asia. Metrics are a central part of all management processes at Lyreco and these inform the learning investment and planning processes. In field sales, measures include sales turnover, margin and new business, whilst in customer service the performance and productivity metrics include costs per line, abandoned call rate, average call time, and average wait time. Monthly performance results in all areas

are scrutinized to identify areas for attention, and the learning and development team run learning sessions and activities aimed at helping people to improve their performance. When sales margin was identified as an area for attention, over 150 people attended focused workshops and subsequent performance results were tracked to measure improvements. Similarly, warehouse supervisors with the highest staff turnover attended learning programmes and, as a consequence, staff turnover was at its lowest ever levels.

### Learning analytics

Learning analytics uses ‘big data’, defined as data which is too complex to be analysed by normal statistical techniques. It means translating multiple sources of data into insights about the effectiveness and impact of learning and development interventions. The Technology Enhanced Knowledge Research Institute (TEKRI) at Athabasca University, Canada (2015) defines learning analytics as ‘the measurement, collection, analysis and reporting of

data about learners and their contexts, for purposes of understanding and optimizing learning and the environments in which it occurs.’ The use of learning analytics is a way of avoiding the rather crude calculations that have to be made to produce return-on-investment figures

The purpose of learning analytics is to find out what bits of a learning programme work and what bits don’t work. To do this, Paine made the following suggestions:

#### Source review

We need to know who has taken the programme, what networks they belong to and what they have been saying about the programme. We need to know how they learnt and their degree of engagement with the programme. We need to know why they took this programme and the working context that led to that decision. We need to know where they learnt and their mode of learning, and we need to know the precise times when they were engaged and, if possible, the depth of engagement. Finally we need to know how much of the programme met their needs, helped them in a specific work problem or equipped them to deal with contingencies they have yet to meet but could encounter in the future.

Paine (2015: 130–31)

Paine commented that it could be impossible to capture all this data manually but there are technologies that can provide enough of it to obtain a significant

impact assessment of how well a programme worked. He gave an example of how learning analytics could be used to evaluate a leadership programme.

The starting point would be an assessment by the manager and possibly the colleagues of the individual taking the programme to indicate what sort of behaviours will be expected as a result of the programme. The individual could be scored on a scale of, say, 1 to 10 and an indication given of where it would be desirable for the individual to end up after the programme. The same questions could be asked one or two months later to produce another score which would reveal the impact the programme had achieved. So, if before the course the average score of the participants was 4, and after it the score had increased to 6, some hard data has been obtained on the programme's effectiveness.

### Pause for thought

What do you think is the best way to evaluate the effectiveness of a learning event?

### The problem with evaluation

The need for evaluation is generally recognized by L&D specialists and the Kirkpatrick model is well known, but Grove and Ostroff (1990) noted that there were five barriers that appeared to explain why training evaluations were not carried out very effectively in organizations:

- 1 senior management often not insisting on or requesting information on the impact of the training that was provided;
- 2 the lack of expertise among L&D professionals on how to carry out training evaluations;
- 3 a lack of clear objectives attached to training programmes so that actually knowing what to evaluate against is difficult if not impossible;
- 4 the limited budgets available to training departments means that resources are devoted to training provision rather than training evaluation;
- 5 the risks associated with evaluation may be too great, given that the evaluation data might reveal that the training had little impact.

### Words of wisdom

Traditional approaches to evaluation set out to prove the merit of specific learning interventions and to demonstrate their cost-effective delivery. Such proof, however, while identifying that the trainer has done good work, does not necessarily assess the extent of the training intervention with the organization's strategic priorities... Whereas a traditional approach to evaluation focuses on the reactions and consequences for learners and trainers resulting from discrete and individual training interventions, a strategic approach requires a focus on the aggregate value contribution made by a more dispersed range of learning processes.

Anderson (2007)

## Key learning points

### The process of learning and development

This consists of the following steps:

- 1 analyse – identify learning and development needs;
- 2 plan – consider the various overall approaches available to meet those needs, for example, the use of formal and informal learning, self-managed learning and blended learning, and deciding on the use of learning and development activities such as workshop learning, digital learning and training in the light of conclusions on the preferred overall approach(es);
- 3 implement;
- 4 evaluate.

### Identifying learning needs

All learning activities need to be based on an understanding of what needs to be done and why. Evidence should be collected on needs through a gap analysis and review of corporate, collective and individual needs as follows:

- gap analysis – identifying the gap between what people know and can do and what they should know and be able to do;
- business and workforce plans should indicate in general terms the types of skills and competencies that may be required in the future;
- special surveys can obtain the views of managers and other employees on what they need to learn;
- role analysis indicates the level of competencies required;
- skills analysis determines the skills required to achieve an acceptable standard of performance;
- performance management reviews include discussions on the extent to which the individual would benefit from some form of learning and development activity.

### Approaches to learning and development

Approaches to learning and development are influenced by learning theory, especially experiential learning theory.

They are concerned with the use of formal and informal learning, self-managed learning, learning how to learn, blended learning and the use of social media.

### Formal and informal learning

People learn both formally and informally. Formal learning is essentially classroom or training centre learning or prescribed e-learning. Informal learning is primarily experiential learning and may be self-managed, although support may be available from managers, coaches, mentors and social media.

### Self-managed learning

Self-managed learning is based on a process of recording achievement and action planning, which means that individuals review and reflect on what they have learnt, what they have achieved, what their goals are, how they are going to achieve those goals and what new learning they need to acquire.

### Blended learning

Blended learning is the use of a combination of learning methods to increase the overall effectiveness of the learning process by providing for different parts of the learning mix to complement and support one another.

### Connected learning

Connected learning involves the creation of knowledge between participants in semi-structured, semi-directed learning activities.

### Planning

Planning varies according to the type of event or programme but it generally takes place in the following phases:

- 1 analysis;
- 2 design;
- 3 development.

### Implementation

L&D or HR specialists are usually responsible for implementing formal training courses. They also have to provide guidance and encouragement to line managers in fulfilling their responsibilities for workplace learning. Line managers also play a crucial role.

### Evaluation of learning

Evaluation is an integral feature of learning activities. In essence, it is the comparison of objectives with outcomes to answer the question of how far the event has achieved its purpose. The four levels of evaluation in the Kirkpatrick methodology are: (1) reaction, (2) evaluate learning, (3) evaluate behaviour, (4) evaluate results.

Other methods of evaluation are return on investment, the use of learning analytics and return on expectations.

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# 35

## Learning and development practices

### Introduction

This chapter describes the following L&D practices: workplace learning, social and cooperative learning, digital learning, the use of artificial intelligence, personal development planning, and training.

#### Words of wisdom

Instead of putting learning *into* work (which is what a course essentially is) you extract learning *from* work and ensure it is accessible and shared.

Paine (2015)

### Workplace learning

Learning happens mainly in the workplace. Much of it is informal although line managers have an important part to play in facilitating it through coaching and by arranging supporting activities, including formal training sessions. Workplace learning is largely experiential learning – learning by doing. But is also social or cooperative learning – learning from other people. It involves self-managed learning and is enhanced by coaching, mentoring, e-learning and planned experience. But some more formal training activities can take place on the job. These include

induction training – ensuring that new starters have the necessary knowledge and skills and additional formal training may be provided later to develop new skills or enhance existing ones.

A study by Eraut *et al* (1998) established that in organizations adopting a learner-centred perspective, formal education and training provided only a small part of what was learnt at work. Most of the learning described by the researchers was non-formal, neither clearly specified nor planned. It arose naturally from the challenges of work. Effective learning was, however, dependent on the employees' confidence, motivation and capability. Some formal training to develop skills (especially induction training) was usually provided, but learning from experience and other people at work predominated.

#### Words of wisdom

The simple act of observing more experienced colleagues can accelerate learning; conversing, swapping stories, cooperating on tasks and offering mutual support deepen and solidify the process. This kind of learning – often very informal in nature – is thought to be vastly more effective in building proficiency than more formalized training methods.

Reynolds (2004)

But there are disadvantages. Learning on the job was once anathematized as ‘sitting by Nellie’ (this was when Nellie was a fairly common name), meaning that trainees were left to their own devices to pick up bad habits from their neighbours. It can be argued that formal training has its limits but at least it is planned and systematic. The systematic training movement of the 1960s was a reaction against traditional *laissez faire* approaches.

A further difficulty is that workplace learning depends largely on the willingness and ability of line managers and supervisors to take responsibility for it. Some will, many won't. This crucial aspect of learning may therefore be neglected unless the L&D or HR function does something about it. And that isn't easy.

## The characteristics of workplace learning

The characteristics of workplace learning were explained by Stern and Sommerlad (1999) as follows:

- 1 *The workplace as a site for learning.* In this case, learning and working are spatially separated with some form of structured learning activity occurring off or near the job. This may be in a ‘training island’ in the department or on the shop floor where the production process is reproduced for trainees.
- 2 *The workplace as a learning environment.* In this approach, the workplace itself becomes an environment for learning. Various on-the-job activities such as coaching, mentoring, job rotation, job shadowing and cross-functional or cross-site project work can be conducted. These are structured to different degrees. Learning is intentional and planned and the aim is to support, structure and monitor the learning of employees.
- 3 *Learning and working are inextricably mixed.* In this case, learning is informal. It becomes an everyday part of the job and is built into routine tasks. Zuboff (1988) commented that learning was at the heart of productive activity. Workers develop skills, knowledge and understanding through dealing with the challenges posed by the work. This can be described as continuous learning.

## Enhancing workplace learning

Experiential learning in the workplace is important but it should not be left to chance. It needs to be enhanced by such means as induction learning, planned experience, job rotation, coaching, mentoring, ‘buddying’, shadowing, performance management, personal development planning, e-learning, and the development of connected learning approaches, as described below.

### Induction training

Most new starters other than those on formal training schemes such as apprenticeships will learn on the job, although this may be supplemented with special off-the-job courses to develop particular skills or knowledge. On-the-job training can be haphazard, inefficient and wasteful. A planned, systematic approach is desirable. This can incorporate the definition to new starters of what they are expected to do (their roles), an assessment of what they need to learn (a learning specification), the use of designated and trained colleagues to act as guides and mentors, and coaching by team leaders or specially appointed and trained departmental trainers. A planned experience programme as described below may be desirable. These on-the-job arrangements can be supplemented by self-managed learning arrangements that offer access to e-learning material.

### Planned experience

Planned experience involves deciding on a sequence of experience that will enable people to obtain the knowledge and skills required in their jobs and prepare them to take on increased responsibilities. This enables experiential learning to take place to meet a learning specification. A programme is drawn up that sets down what people are expected to learn in each department or job in which they are given experience. This should spell out what they are expected to discover for themselves. A suitable person (a mentor) should be available in order to see that people in a development programme are given the right experience and opportunity to learn. Arrangements should be made to check progress. A good way of stimulating people to find out for themselves is to provide them with a list of questions to answer. It is essential, however, to follow up each segment of experience to check what has been learnt and, if necessary, modify the programme.



Planned experience can be provided by job rotation, which involves the movement of employees from one task to another to gain additional experience. It can also reduce monotony by increasing variety.

## Coaching

Coaching is a personal (usually one-to-one) approach to helping people develop their skills and knowledge and improve their performance. The need for coaching may arise from formal or informal performance reviews, but opportunities for coaching will emerge during everyday activities. Coaching as part of the normal process of management consists of:

- using whatever situations may arise as opportunities to promote learning;
- controlled delegation – ensuring that individuals not only know what is expected

of them but also understand what they need to know and be able to do to complete the task satisfactorily; this gives managers an opportunity to provide guidance at the outset: guidance at a later stage may be seen as interference;

- making people aware of how well they are performing by, for example, asking them questions to establish the extent to which they have thought through what they are doing;
- encouraging people to look at higher-level problems and how they would tackle them.

Coaching has an important role in workplace learning. Executive coaching is used frequently as part of a blended learning approach (ie one that includes a number of complementary learning activities) to leadership and management development. Coaching skills are described in Chapter 64.

## CASE STUDY

### Coaching at Marks & Spencer

Traditionally M&S trained its customer assistants by taking them off the shop floor for classroom-style training, but the company has introduced a new role, that of coach. When trainees join M&S, their coaches take them through all of the training required for their immediate role, as well as any

additional training they may need once qualified. Formal coaching cards are used, which address both service and technical skills and tell the coaches what to assess and what the learning should be. Each trainee is also provided with a booklet summarizing the main learning points.

## Mentoring

Mentoring is the process of using specially selected and trained individuals (mentors) to provide guidance, pragmatic advice and continuing support that will help the person or persons allocated to them to learn and develop. Mentoring promotes learning on the job. It also complements formal training by providing those who benefit from it with individual guidance from experienced managers who are ‘wise in the ways of the organization’. Mentoring can play an important part in a leadership and management development programme.

## Buddy system

In a ‘buddy system’ an individual works alongside someone with more experience. The buddy will be charged with assisting as and when required, providing guidance on how best to get the job done.

## Shadowing

Shadowing is a type of buddying except that the trainee is simply observing what an experienced colleague does. It will only work if the colleague is briefed on how to ensure that the trainee is really

learning what needs to be learnt. To this end, coaching sessions need to be held regularly so that the trainee can reflect on and learn from the experience.

## Performance management

Performance management processes as described in Chapter 38 enable managers and individual members of their teams to work together to identify any areas where there is a need to enhance skills or knowledge in order to help someone to progress or to deal with a performance problem.

## Personal development planning

Personal development planning as described later in this chapter is carried out by individuals with guidance, encouragement and help from their managers, usually on the basis of performance assessments.

### Pause for thought

How can L&D or HR specialists encourage and develop workshop learning? What difficulties might they meet and how can they overcome them?

## Making workplace learning effective

Workplace learning of a sort will take place even if nothing is done about it. But it will be haphazard and incomplete. People will pick up bad habits and will be lucky if they acquire the skills to do the work properly. Some or all of the activities described above need to take place as appropriate and it is only line managers and supervisors – the people on the spot – who can do this. In large departments, departmental learning advisors and trainers can be appointed on a full-time or part-time basis. In smaller departments a team leader can be given additional responsibilities for promoting learning. But L&D specialists still have an important role to play in promoting workplace learning by providing encouragement, advice and guidance to line managers.

### Pause for thought

If you were given the job of improving the quality of workplace learning in an organization, how would you set about doing it?

## Social and collaborative working

Social and collaborative working are synonymous terms. As defined by Hart (2014): ‘Social learning is about people connecting, conversing, collaborating and learning from, and with, one another on a daily basis at work... It’s about helping teams learn as they work, rather than taking them out and forcing them to endure a learning “experience”.’ Social learning theory as formulated by Bandura (1977) regards learning as a series of information-processing steps set in train by social interactions and emphasizes that effective learning requires such interaction. Wenger (1998) suggested that we all participate in ‘communities of practice’ (groups of people with shared expertise who work together) and that these are our primary sources of learning.

A survey conducted by Jane Hart (2014) into how people valued 10 different forms of learning established the following order of preference from respondents:

- 1 collaborative working within your team;
- 2 web search for resources;
- 3 general conversations and meetings with people;
- 4 personal and professional networks and communities;
- 5 external blogs and news feeds;
- 6 content curated from external sources;
- 7 self-directed study of external courses;
- 8 internal job aids;
- 9 internal documentation;
- 10 company training and e-learning.

As she commented, this clearly shows that social and collaborative learning activities – and in particular self-organized activities – are the main ways that the survey respondents preferred to learn. She noted that, in particular, knowledge workers want to learn as an integral part of their daily job and like to learn continuously from the constant flow of information they encounter from other people – which may come from both internal and external channels. Knowledge workers need to be able to find answers to their learning and performance problems as soon as they encounter them. They don't want to have to wait to go on a course or get some other response. They want to solve their problems immediately and get on with their jobs. If when sitting at their desk they encounter a problem with a task they are working on they tend either to seek help from their professional network or to go straight to Google and search for a solution.

### Words of wisdom

It is in the area of workforce collaboration where there are plenty of new opportunities for L&D to support work teams and groups. Since people learn from one another as a consequence of working together, rather than focusing exclusively on the learning, it is more about helping them work collaboratively and enabling continuous learning to take place as part of that process. It is also important to reiterate that supporting continuous learning in the flow of work is not about providing them with courses as they do their work, helping them to find their own courses, or even helping them to create their own courses for one another – rather it is about helping them share their knowledge, experiences, ideas and resources as part of their daily workflow.

Hart (2010)

Some form of social or collaborative learning happens continually in the workplace as individuals and groups work together. Groups solve problems jointly and learn in doing so. Project teams do the same. Individuals observe what their colleagues do and learn from their observations. But it shouldn't be left to chance. Social learning involves connected learning which addresses the learning needs and interests of individuals and how these can be linked with the opportunities for learning provided by fellow workers through such means as communities of practice and learning communities.

### Pause for thought

What can L&D or HR specialists do to promote social learning?

## Learning communities

Learning communities are groups of people carrying out similar or related work who get together to learn from one another. They can be established within departments by managers or individuals and operate in a fairly informal way. But L&D can and should encourage and support them as an approach to learning that offers more than traditional training. L&D may appoint a community facilitator who provides guidance and help but does not dictate what the community members discuss.

Learning communities can also be set up on a more formal basis by L&D professionals to support a training course or an online programme. They might be established before a course to prepare participants and give them some preliminary material to absorb. After the course community members can get together to discuss what they have learnt and how they are applying it. Problems can be raised and solutions considered. The emphasis is on interaction, sharing and conversations between the participants. In effect, learning communities may become communities of practice – groups of people bound together by shared expertise who meet together to share knowledge.

Although learning communities may sometimes be added on to a traditional training course they

work best if the community itself, with help as necessary from L&D, decides on what they need to learn together and how they will learn it. They can benefit from the use of online learning resources (digital learning) as described later in this chapter.

These enable people to share with others what they know and what they have learnt. The learning is real – based on the actual experiences of colleagues – and therefore more effective than a formal presentation by a trainer on a course.

## CASE STUDY

### Social networking in the Santa Fe Group

In the Santa Fe Group, a global organization with 1,700 employees involved in security risk management amongst other things, the learning and development team realized that the traditional model of residential workshops was not converting learning into practice. The solution was to develop The Academy Online, a learning management system fully integrated with a social networking platform. Based on the social media product Fuse, it enables

employees to produce, share and comment on learning content. They can quickly post links to online learning content and The Academy Online is used to deliver blended learning and development. An intervention may start with a presentation or workshop and go on to self-directed e-learning through an online platform. As a social network, the platform facilitates conversations between colleagues.

## Digital learning

Digital learning uses Web 2.0 technology. This is the second generation of the world wide web, where it moved static HTML pages to a more interactive and dynamic web experience. Digital learning focuses on the ability for people to collaborate and share information online via social media, blogging

and web-based communities. It takes the forms of e-learning, virtual learning environments, social network learning, knowledge sharing, seeking information online (Googling), the use of smart phones and the use of game-based learning. The power of cloud computing, which allows massive storage capacity and ready access for content, enhances the use of these learning technologies.

## CASE STUDY

### Learning system innovation at Rentokil

Rentokil introduced its revolutionary U+ platform in order to move away from classroom training to a new era of blended learning, allowing employees to develop at their own pace using digital resources. Crucially, these resources needed

to cater for colleagues in 64 countries, speaking more than 31 different languages, 34 per cent without an e-mail address or personal technology in a highly decentralized organization.

## E-learning

E-learning is the term used to describe formal training online. E-learning technology can provide content in the form of training courses or 'bite-sized' learning material delivered in small, easily assimilated nuggets lasting up to 10 minutes or so. As established by the CIPD (2011) survey it is most commonly used for compliance training (for example, health and safety, hygiene and data protection). It is also often used for induction training. E-learning supplements face-to-face (F2F) learning rather than replacing it and it can support informal learning in the workplace. It can be accessed at any time from anywhere.

The content of e-learning programmes is developed in-house or obtained from external suppliers. A form of e-learning can be provided by Massive Open Online Courses (MOOCs). These are online courses accessible to everyone, which often have an unlimited number of participants.

E-learning can be managed by means of a learning management system (LMS), a software applica-

tion for e-learning administration, curriculum management, documentation, tracking the progress of learners, reporting and delivery. E-learning modules, especially those designed for compliance training, often test participants on what they have learnt by getting them to tick boxes in such formats as multiple choice questions.

The drawbacks of e-learning are the time and effort required to develop and update material and the problem of providing adequate support to learners. The CIPD's 2015 Learning and Development Survey found that while e-learning was the fourth most used learning method after on-the-job training, in-house development programmes and coaching, it was rated as the seventh most effective. The CIPD's 2011 survey of e-learning found that the completion rates of e-learning modules were poor, as was user experience.

Innovative L&D departments are now focusing more on recent developments in learning technology described below, which provide for greater flexibility and increased scope for collaborative and self-directed learning.

## CASE STUDY

### Integrated e-learning in a telecommunications company

E-learning in this company was based on the establishment and promotion of a single platform for learning. This is a learning management system that is available to employees as a portal labelled 'iLEARN'. All training delivery channels are linked to this portal. The library of generic material consists of some 15,000 items plus about

60 modules commissioned by the company. In the first year since the e-learning system was launched, three-quarters of the workforce used it. Some 20,000 e-learning activities were accessed and 15,000 hours of e-learning were undertaken in total.

## Knowledge-sharing technologies

Knowledge-sharing and acquisition technologies include blogs (websites on which individuals or groups post their observations and experiences), podcasts (digital audio files made available on the internet for downloading to a computer or portable media player), wikis (websites which allow collaborative modification of their content and structure directly from a web browser) and rapid authoring

software (which enables those without programming skills to design content using programmes such as PowerPoint). One of the more popular forms of self-managed learning is through web searches (Googling). L&D professionals can 'curate' this type of learning by showing employees how to find the best material from external sources.

Microblogs can also be used. These are miniature blogs posted on sites such as Twitter. The process of microblogging can be harnessed for corporate

learning through knowledge-sharing tools like Yammer. Microblogs can be captured and distilled into learning points.

## Virtual learning environment

A virtual learning environment (VLE) or virtual learning system is a set of learning tools designed to enhance an individual's learning experience by including computers and the internet in the learning process. A VLE package will include online support for both trainer and learner, electronic communication such as e-mail, threaded discussions (online discussions initiated by a trainer – contributions are posted on a discussion forum) and internet links to outside resources. VLE tools such as Moodle take learners through a whole system of learning experiences and integrate the online interactions of the learner. It may involve the use of virtual classrooms and webinars.

A virtual classroom is an online learning environment. The environment can be either web-based and accessed through a portal, or software-based and therefore require a downloadable executable file. Trainers and individuals are logged into the virtual learning environment at the same time to provide and receive instruction.

Webinars (short for web-based seminars) are presentations, workshops or seminars that are transmitted over the web using video conferencing software. A key feature of a webinar is its interactive elements – the ability to give, receive and discuss information.

## Social media

Social media such as Facebook and LinkedIn can be used as platforms for learning, acting as conduits for locating expertise and information.

Social learning can be encouraged through social media by the use of an enterprise social network (ESN) such as Yammer. Enterprise social networks are open communication tools that combine various functions, including being able to post announcements, comments, micro-blogs, questions and resources, join and set up special interest groups, follow colleagues and take part in forum discussions. ESN technology is similar to public social networking tools like Facebook in that it supports a constant flow of real-time,

threaded conversations through user updates and replies. As the CIPD (2013) pointed out, enterprise social networks can support learning and development in a number of ways. They can generate discussion and engage employees with learning events before and after they take place, thus boosting interest and focusing attention in the first instance and helping embed learning in day-to-day work afterwards.

Social media itself provides a source for learning content. It helps to locate expertise within the organization and to catalogue insight and information for future reference. It can provide employees with access to bite-sized learning material so that they can learn in slots of five minutes or so. Forums can be created, as with Marks & Spencer, where employees can discuss training materials with the experts who created them, giving the employees greater clarity on how to use them.

Within an organization, people can share their experiences and thoughts and learn from one another. In using an ESN, individuals will be learning for themselves (self-managed learning) but also from their colleagues – their work teams and communities. Learning is no longer seen as a separate activity from working and it can become a continuous, social experience.

As the CIPD (2013: 14) reported: 'The main benefit of social media as a learning tool lies not in hosting formally designed tools and programmes, but in supporting informal learning. Through building relationships with new people and joining communities of interest, social media can help us locate the expertise we are looking for or, indeed, lead us to stumble upon useful or interesting information we were not aware of.'

On the basis of its research, the CIPD (2014: 4) concluded that: 'While there will always be a place for face-to-face learning interventions, social media can transform many aspects of learning and development, being used to curate knowledge, locate experts and facilitate peer-to-peer support, support self-directed learning and help employees prepare for and embed learning from training courses.' The CIPD also commented that: 'Social media blurs the traditional boundaries of learning and development. Sharing information and pointing to resources naturally leads to learner-led development, whereby people find out what they need to know when they need to know it' (ibid: 19).



## Smart phones

The development of smart phone technology has enabled mobiles to become an important part of the learning environment, and this trend has accelerated through the increased use of ‘apps’. These can be specifically designed for organizations and will contain learning material in ‘bites’, which facilitates learning in any place and at any time – ‘learning on the move’. Apps are available for note-taking on smart phones so that learning can be recalled and reflected on.

Research by Hird and Sparrow (2012) found that in one organization, apps were used in three ways:

- 1 Follow-ups to a learning intervention, broadening access out to different ‘layers’ of sites that provide basic information, and access to broader communities of practice.
- 2 Awareness-building material, for example enhancing leadership models with provision of additional guidance, and support tools that lay out different options for development, providing feedback and progress checks.
- 3 Process confirmation, where learners can record information, and the L&D function can check for process alignment and behavioural reinforcement.

## Game-based learning

Game-based learning involves the use of computer games as part of an online learning programme or during a more conventional formal course. Games offer ‘immersive experiences’ in which players can learn about problem solving, collaboration, leadership and communication. Players have to take in information from many sources, as in real life, and make decisions quickly, to deduce a game’s rules from playing rather than by being told, to create strategies for overcoming obstacles and to understand complex systems through experimentation.

The unlovely term ‘gamification’ is used to describe what is claimed to be a different approach to using games for learning purposes. But the only significant difference is that gamification is more

concerned with achieving the motivation of learners through competition, incentives and rewards such as the use of ‘leader boards’ (tables listing game leaders), the award of points for achieving higher levels and the provision of ‘badges’ (digital indications of the level of skills reached).

Game-based learning is not an easy option; time and effort are needed to plan and implement its use. The steps required are:

- 1 Define objectives – the sort of behaviours the game is intended to develop.
- 2 Select or produce a game which will focus on those behaviours and fits the people who are going to play it.
- 3 Decide on any help that can be provided through e-learning.
- 4 Define to participants how they should analyse their performance in the game under such headings as problem solving, teamwork and leadership.
- 5 Ensure that participants carry out this analysis and draw up a list of lessons learnt.
- 6 Get participants to define what action they intend to take at work to apply the lessons learnt.

## Use of artificial intelligence

The use of artificial intelligence (AI) in learning and development is still in its relative infancy but the following ways in which it can be applied have been identified by Eubanks (2019):

- helping with the scheduling, planning and resource allocation involved in delivering learning programmes;
- developing fully automated learning management systems;
- identifying skills gaps and skill development needs;
- providing for individualized instruction and coaching – learning programmes tailored to the needs of individuals;
- analysing the adoption rates of learning programmes to assess impact and indicate where changes may be required.



## Training

Training provides for face-to-face (F2F) learning by the use of systematic and planned instruction activities. It is one of several responses an organization can undertake to promote learning. As Reynolds (2004: 45) pointed out, training has a complementary role to play in accelerating learning: ‘It should be reserved for situations that justify a more directed, expert-led approach rather than viewing it as a comprehensive and all-pervasive people development solution.’ He also commented that the conventional training model has a tendency to ‘emphasize subject-specific knowledge, rather than trying to build core learning abilities.’

Training should be systematic in that it is specifically designed, planned and implemented to meet defined needs. It should be provided by people who know how to train and the impact of training should be carefully evaluated. The concept was originally developed for the industrial training boards in the 1960s and consists of a simple four-stage model:

- 1 identify training needs;
- 2 decide what sort of training is required to satisfy these needs;
- 3 use experienced trainers to implement training;
- 4 follow up and evaluate training to ensure that it is effective.

The systematic training model is illustrated in Figure 35.1.

Formal face-to-face training can be provided by on-the job or off-the-job courses. It uses instructional techniques, coaching and facilitation as described in Chapter 64. F2F learning can take place as part of a blended learning programme in which complementary methods of learning such as e-learning are incorporated.

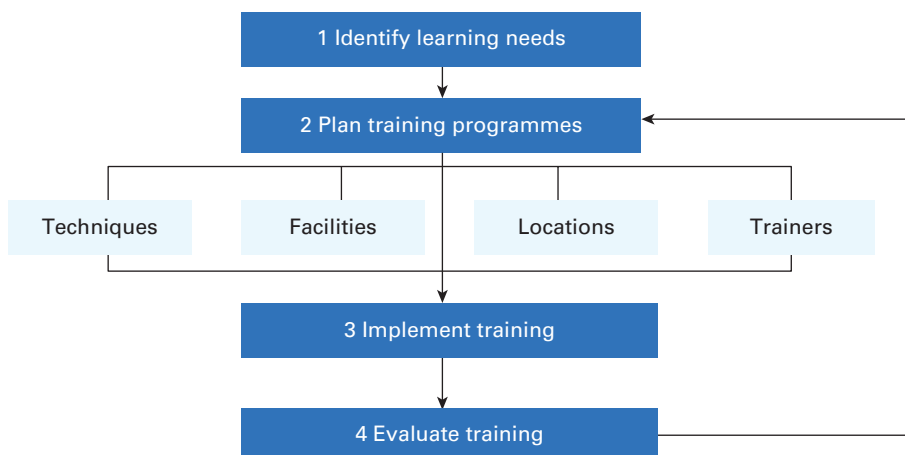
### Requirements for effective learning

Formal training provides for effective learning when it is systematic in that it is specifically designed, planned and implemented to meet defined needs. The purpose of the training should be clearly defined in terms of the behaviour required as a result of it (terminal behaviour). Learning will only be effective if learners are fully engaged in the process. This means providing them with the motivation to learn by convincing them of the benefits that will be forthcoming. The outcomes of training should be evaluated.

### Transfer of learning

The focus of off-the-job training should be to develop transferable skills and it will only be successful if those skills are put to good use in the place of work. Account should therefore be taken of the problem of transferring learning from a formal

**FIGURE 35.1** Systematic training model



training course programme. Training can seem to be remote from reality and the skills and knowledge acquired can appear to be irrelevant. Transfer of learning problems often occurs after management or supervisory training, but the manual skills learnt in a training centre can also be difficult to transfer.

### Words of wisdom

Some types of intervention can disrupt self-directed learning by paying insufficient attention to the needs of the learner in the work context. Methods that rely heavily on the transfer of external expertise or content to employees carry the highest risk in this regard, since their design is often removed from the context in which work is created. As a result it is impossible to meet learning needs adequately.

Reynolds (2004)

To tackle this problem it is necessary to make the training as relevant and realistic as possible, anticipating and dealing with any potential transfer difficulties. Individuals are more likely to apply learning when they can put what they have learned into practice, do not find it too difficult, believe what they learnt is relevant, useful and transferable, are supported by line managers, have job autonomy, believe in themselves, and are committed and engaged. A literature search by Burke-Smalley and Hutchins (2007) established that by far the most important factor in transferring learning was the opportunity to perform learned skills. They suggested that successful transfer of learning would be achieved by discussing the new learning, the participation of the supervisor in the development programme, providing opportunity and encouragement to use new skills in the workplace, assisting managers with overcoming obstacles to

performance, providing goals and accountability, managing workload during the development programme, and providing feedback on performance. Support from peers is important. Transfer is also more likely if 'bite-sized' and 'just-in-time' training approaches are used, as described below.

### **Bite-sized training**

Bite-sized training involves the provision of opportunities to acquire a specific skill or a particular piece of knowledge in a short training session focused on one activity, such as using a particular piece of software, giving feedback, or handling an enquiry about a product or service of the company. It is often carried out through e-learning. It can be a useful means of developing a skill or understanding by means of a concentrated session or learning activity without diversions. Support to the practice of bite-sized training is provided by the neuroscience concept of 'spacing', which states that it is better to distribute learning in discrete blocks delivered over short time periods than cram lots of content into a prolonged session. This results in more effective transfer and aids long-term memory. Bite-sized training is best for training employees in straightforward techniques that they can use immediately in their work.

### **Just-in-time training**

Just-in-time training is training that is delivered as close as possible to the time when the activity is taking place (just-in-time as distinct from just-in-case). It is effective because it happens in the working environment where the learning can be applied immediately. The training will be based on an identification of the current learning needs of the participants. It should address specific knowledge or skill gaps when they arise and be brief ('bite-sized') and easily assimilated. It can be provided on a bespoke social learning platform so that the material is easily accessible, for example, on a smart phone. Use can be made of infographics (graphic visual representations of information, data or knowledge intended to present information quickly and clearly) or a short piece of e-learning.

## CASE STUDIES

### Training overhaul for Scottish police

A radical overhaul of training for the Scottish police created more opportunities for promotion and culminated in a prestigious National Training Award. The improved training scheme uses facilitated learning delivery, where trainees pre-read all information before attending sessions and then discuss issues and learn from each other. Responsibility for learning is now firmly placed on the shoulders of the individual – you have got to want to be a

police officer and you have got to want to learn. After 15 weeks of initial training, a two-week ‘reconvention’ period helps staff with the areas they particularly need to address. This training is tailored to individual requirements; syndicates of recruits with similar needs are put together to receive it. This ‘partnership approach’ has helped the participants to focus on communication and problem-solving skills.

### Training and learning at a customer support centre

The customer support centre employs 300 people. Customer service agents work in a group of five, known as a ‘pod’. One of the pod members will be a team coach who provides support and advice to his or her agent colleagues.

A working knowledge of each customer support system is essential to do the job and one of the central tasks of the training department is to bring new entrants up to competence as quickly as possible. The following pattern is adopted. New entrants join in cohorts of 8 to 10 and spend their first week in the training room. As the week progresses

they spend periods in a pod sitting next to a ‘buddy’, listening to calls. At the end of that week they are allocated to a pod team and receive close ongoing support from the pod team coach.

Given the emphasis on learning in the workplace, the role of the team coach is critical and there are a number of steps in place to support and enhance their role. A set of skills and needs has been defined and these are delivered to the 30 centre team coaches in 90-minute modules in the training room.

## Personal development planning

Personal development planning is a method of formalizing self-managed learning. It is carried out by individuals with guidance, encouragement and help from their managers, usually on the basis of performance and development reviews. A personal development plan sets out the actions people propose to take to learn and to develop themselves. They take responsibility for formulating and implementing the plan but they receive support from their managers in doing so. The purpose is to provide what Tamkin *et al* (1995) called a ‘self-organized learning framework’. The stages of personal development planning are:

- 1 *Analyse current situation and development needs.* This can be done as part of a performance management process.
- 2 *Set goals.* These could include improving performance in the current job, improving or acquiring skills, extending relevant knowledge, developing specified areas of competence, moving across or upwards in the organization, or preparing for changes in the current role.
- 3 *Prepare action plan.* The action plan sets out what needs to be done and how it will be done under headings such as outcomes expected (learning objectives), the development activities, the responsibility for development (what individuals are expected to do and the support they will get from

their manager, the L&D or HR department or other people), and timing. A variety of activities tuned to individual needs should be included in the plan, for example observing what others do, project work, planned use of e-learning programmes and internal learning resource centres, working with a mentor, coaching by the line manager or team leader, experience in new tasks, guided reading, special assignments and action learning. Formal training to develop knowledge and skills may be part of the plan but it is not the most important part.

#### 4 *Implement.* Take action as planned.

The plan can be expressed in the form of a learning or capability contract, which is a formal agreement between the manager and the individual on what learning needs to take place, the objectives of such learning and what part the individual, the manager, the L&D function or a mentor will play in ensuring that learning happens. The partners to the contract agree on how the objectives will be achieved and their respective roles. It will spell out learning programmes and indicate what coaching, mentoring and formal training activities should be carried out. It is, in effect, a blueprint for learning.

### Pause for thought

Personal development planning sounds like a good idea but how do you get people to do it?

## Apprenticeships

As defined by the Education and Skills Funding Agency, an apprenticeship is a genuine job with an accompanying skills development programme. Through their apprenticeship, apprentices gain the technical knowledge, practical experience and wider skills they need for their immediate job and future career. The apprentice gains this through a wide mix of learning in the workplace, formal off-the-job training and the opportunity to practice new skills in a real work environment.

The Apprentice Levy Scheme was established by the UK Government in 2017 to encourage the extended use of apprenticeships to provide the skilled people the country needs. Under the scheme, all employers with a wage bill greater than £3m pay 0.5 per cent of their payroll into a central fund. In return they receive vouchers, which can be used to fund apprenticeships.

But research by the CIPD (2017) revealed that only 9 per cent of organizations planned to use the levy to create new apprenticeships, while 18 per cent said they would use the funding to enhance existing apprenticeship training programmes.

### Key learning points

#### Workplace learning

Learning in the workplace is mainly informal, although line managers have an important part to play in facilitating it through coaching and by arranging supporting activities, including formal training sessions.

Much of it is experiential learning – learning by doing and by reflecting on experience so that it can be understood and applied.

Workplace learning involves self-directed and self-managed learning and is enhanced by coaching, mentoring, e-learning and planned experience. But some more formal training activities can take place there.

#### Social learning

As defined by Hart (2014): ‘Social learning is about people connecting, conversing, collaborating and

learning from, and with, one another on a daily basis at work.’ Some form of social learning happens continually in the workplace as individuals and groups work together.

### Use of social media

Social media can be used within the organization as a learning and development aid through enterprise social networks – open communication tools that combine various functions, including being able to post announcements, comments, micro-blogs, questions and resources, join and set up special interest groups, follow colleagues and take part in forum discussions.

### Smart phones

The development of smart phone technology has enabled mobiles to become an important part of the learning environment. This trend has accelerated through the increased use of ‘apps’. These can be specifically designed for organizations and will contain learning material, in ‘bites’, which facilitates learning in any place and at any time – ‘learning on the move’.

### Game-based learning

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- developing fully automated learning management systems;
- identifying skills gaps and skill development needs;
- providing for individualized instruction – learning programmes tailored to the needs of individuals;
- analysing the adoption rates of learning programmes to assess impact and indicate where changes may be required.

### Training

Training is the use of systematic and planned instruction activities to promote learning.

Training should be systematic in that it is specifically designed, planned, implemented and evaluated to meet defined needs.

It may be difficult to transfer the learning acquired on a training course to the workplace. Special efforts need to be made to affect this transfer.

Just-in-time training is training that is closely linked to the pressing and relevant needs of people by its association with immediate or imminent work activities.

Bite-sized training involves the provision of opportunities to acquire a specific skill or a particular piece of knowledge in a short training session focused on one activity.

The process of planning and delivering training or learning events and programmes is described by the ADDIE model, which has five phases: analysis, design, development, implementation and evaluation.

### Apprenticeships

An apprenticeship is a genuine job with an accompanying skills development programme. Through their apprenticeship, apprentices gain the technical knowledge, practical experience and wider skills they need for their immediate job and future career.

The Apprentice Levy Scheme was established by the UK Government to encourage the extended use of apprenticeships.

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# 36

# Leadership and management development

## Introduction

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### Words of wisdom

Research on organizational climate over the past half-century has shown that 60 to 75 per cent of employees in any organization – no matter when or where the survey was completed and no matter what occupational group was involved – report that the worst (or most) stressful aspect of their job is their immediate supervisor.

Pfeffer and Sutton (2006)

This chapter is about what organizations can do to develop effective leaders and managers, bearing in mind the point made by Drucker (1955: 158) that: ‘The prosperity if not the survival of any business depends on the performance of its managers of tomorrow.’

The chapter starts with a definition of leadership and management development. This leads to a discussion of the nature of leadership and management as a basis for an analysis of what leadership and management development programmes might cover and an examination of the extent, if at all, to which leadership development and management development

programmes are different. The conclusion is reached that while they are closely associated, and indeed may be conducted jointly, they are sufficiently different to justify being examined separately, which is undertaken in the last two sections of the chapter.

## Leadership and management development defined

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Leadership and management development programmes aim to provide managers with the leadership and managerial qualities required to achieve success. They are concerned with unlocking potential and form a vital ingredient in talent management. A blended learning approach is used, which combines in programmes based on an analysis of learning needs a number of learning activities such as planned experience, self-managed learning, coaching, mentoring, action learning, outdoor learning and formal education and training.

## The nature of leadership and management

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There has been much debate on how leadership differs from management. The problem is that leadership involves management and management involves leadership so that it may be difficult to



separate the two. There is some consensus on the essential nature of both and the skills involved, as set out below, but there is more disagreement on which is the most important.

## Leadership

Leadership means inspiring people to do their best to achieve a desired result. It involves developing and communicating a vision for the future, motivating people and securing their engagement. As defined by Dixon (1994: 214): ‘Leadership is no more than exercising such an influence upon others that they tend to act in concert towards achieving a goal which they might not have achieved so readily had they been left to their own devices.’ Leadership skills include the ability to:

- inspire others;
- persuade others willingly to behave differently;
- clarify what needs to be done and why;
- communicate a sense of purpose to the team;
- understand, as established by research conducted by Tamkin *et al* (2010), that leaders cannot create performance themselves but are conduits for performance through their influence on others;
- get the team into action so that the task is achieved.

## Management

Management is the process of achieving goals by deciding what to do and then getting it done through the effective use of resources. Management has often been defined as ‘getting things done through people’. But managers are also responsible for guiding and controlling the business or their part of it by managing their other resources – finance, work systems and technology – as well as people.

Managers are doers. They deal with events as they occur. But they must also be concerned with where they are going. This requires strategic thinking, especially at higher levels. As strategic thinkers, managers develop a sense of purpose and frameworks for defining intentions and future directions. They are engaged in the process of strategic management.

The traditional model of what managers do is that it is a logical and systematic process of planning, organizing, motivating and controlling. But this is misleading. Managers often carry out their work on a day-to-day basis in conditions of variety, turbulence and unpredictability. Managers may have to be specialists in ambiguity, with the ability to cope with conflicting and unclear requirements.

## What are the differences?

Are leadership and management the same or different? Some commentators regard leadership as synonymous with management; others see them as distinct but closely linked and equally necessary activities; others consider management to be a subset of leadership; and yet others praise leadership and demonize management. Bennis (1989) viewed managers as those who promote efficiency, follow the rules and accept the status quo, while leaders focus on challenging the rules and promoting effectiveness. Kotter (1991) saw managers as being the ones who plan, budget, organize and control, while leaders set direction, manage change and motivate people. Hersey and Blanchard (1998) claimed that management merely consists of leadership applied to business situations; or in other words, management forms a subset of the broader process of leadership. It can be said that leadership is about managing people while management is about managing all the available resources, including people.

But as Birkinshaw (2010: 23) commented: ‘By dichotomizing the work of executives in this way, Kotter, Bennis and others squeezed out the essence of what managers do and basically left them with the boring work that “leaders” don’t want.’ His view was that: ‘To put it simply, we all need to be both leaders and managers’ (ibid: 23). Burgoyne (2010: 42) observed that: ‘Both [management and leadership] are needed and need to work closely together, often through the same person or team.’ Earlier, Mintzberg (2004: 22) summed it all up (as he often did) when he wrote: ‘Let’s stop the dysfunctional separation of leadership from management. We all know that managers who don’t lead are boring, dispiriting. Well, leaders who don’t manage are distant, disconnected.’

## Leadership and management development compared

In some quarters the term ‘leadership development’ has replaced ‘management development’, perhaps because the importance of ensuring that people have leadership qualities has been recognized, while it is believed that they can be safely left to acquire management skills in other ways, eg experience. However, they are not the same, although they are closely associated.

The difference between them is that leadership development tends to be concerned with nurturing the softer skills of leadership through various educational processes, including formal learning events and programmes and coaching. This is illustrated in the three case studies at the end of the next section of this chapter.

In contrast, management development relies more on ensuring that managers acquire the ability to do their jobs by managing a whole range of resources, including people. Because they have to work on a day-to-day basis in conditions of variety, turbulence and unpredictability their development largely takes place by gaining the right sequence of experience, although this may be supplemented by self-managed learning and courses on management techniques. Further guidance can be provided by coaching and from mentors.

### Pause for thought

What is the significance of the difference between management and leadership?

## Leadership development

Leadership development programmes prepare people for leadership roles and situations beyond their current experience. It is sometimes said that leaders are born not made. This is a rather discouraging

statement for those who are not leaders by birthright. It may be true to the extent that some exceptional people seem to be visionaries, have built-in charisma and a natural ability to impose their personality on others. However, even they probably have to develop and hone these qualities when confronted with a situation demanding leadership. Ordinary mortals need not despair; they too can build on their natural capacities and develop their leadership abilities. As defined by Burgoyne (2010: 43): ‘Leadership development in the widest sense involves the acquisition, development and utilization of leadership capability or the potential for it.’

### Words of wisdom

The will to lead is largely innate but the ability to do it well is largely learnt.

Burgoyne (2010: 42)

Yukl (2006) proposed the following conditions for successful leadership development:

- clear learning objectives;
- clear, meaningful content;
- appropriate sequencing of content;
- appropriate mix of training methods;
- opportunity for active practice;
- relevant, timely feedback;
- high trainee confidence;
- appropriate follow-up activities.

But it is not all about subjecting leaders to development programmes. The organization has to play its part in ensuring that leaders are provided with the support and the working conditions they need to carry out their role properly. As Fiedler (1967: 276) emphasized: ‘If we wish to increase organizational and group effectiveness we must learn not only to train leaders more effectively but also to build an organizational environment in which the leaders can perform well.’

## CASE STUDIES

### Cargill

Cargill is an international provider of food, agricultural and risk management products and services. Those in Cargill's different talent pools, such as the 'Next Generation Leaders' and 'Emerging Leaders' undertake both formal and informal development. In Cargill's high-performance Leadership Academy, entrants learn about the fundamentals of leadership and management in the company and work through a number of accelerated leadership modules, gaining the

knowledge to enable them to lead Cargill businesses. All of these courses are interspersed with more challenging projects and work assignments. Cargill corporate leaders also take part in the Leadership Academy, where they learn transformational leadership skills and the essentials of coaching and mentoring in formal programmes and informal learning activities, all of which form an important part of their leadership development.

### Diageo

At Diageo, the international beverages company, a series of development strategies, particularly for leadership, have been based on Diageo's five values, which were created as the common heartbeat of all the component businesses. The values – 'Be the best', 'Passionate about consumers', 'Proud of what we do', 'Freedom to succeed' and 'Valuing each other' – have become central to Diageo's success, alongside a comprehensive performance management framework. Conversations about performance are now on a 'partnership' basis, where managers, with their employees, are expected to discuss the latter's aspirations and how their growth needs can be satisfied by the business.

The company's first leadership development programme, 1998's 'Building Diageo talent', was designed to help link strategy and organizational performance with individual performance. This had many components, including coaching and benchmarking for leadership development for 4,000 managers. Over the past six years the company's leadership training has evolved to focus more on building 'a core Diageo mindset'. The senior team has prioritized developing a 'total talent strategy' and HR processes have been thoroughly embedded in management thinking worldwide.

### HML

At HML (a financial services company) the leadership development programme for middle and senior managers consisted of the following elements:

- orientation event – introduction and contracting;
- action learning sets (sets of six people, three sets in one programme group);
- four modules: profit, client, effectiveness, engagement;
- big event – transformational residential learning;
- self-directed modules;
- individual 360-degree feedback – benchmark scores;
- accreditation and celebration event.

## Interview

Leadership development – the views of Pierre Nanterme, former CEO of Accenture, the global professional services firm with 330,000 employees

*The following answer was given by Pierre Nanterme to the question: 'You served as Accenture's chief leadership officer at one point. What's your philosophy on the best way to train employees to be better leaders?'*

I learned a lot through that role, which frankly I had to figure out a bit, because it was quite new. My background is around economics and finance; yet of course, in professional services, talent is key. And for

many of our clients, whatever the industry, they all are coming to me saying their No. 1 challenge is getting the right talent. So first, I figured out that leadership and talent is the name of the game. Second, it's all about how you motivate people, how you're making sure they're going to stretch their own boundaries.

It's about selecting, hiring the best people, but that's not enough. Performance management is extraordinarily important to get people to their very best. Do you feel good in your role? If yes, that's the perfect time for you to experiment with something new, to get out of your comfort zone. This willingness to learn is probably the most important thing for leaders of today and tomorrow.

Cunningham (2015)

## Management development

Management development is concerned with improving the performance of managers in their present roles, preparing them to take on greater responsibilities in the future and also developing their leadership skills. It was defined by Peters (2010: 28) as: 'A complex process by which individuals learn to perform effectively in a management role.' A systematic approach to management development is necessary to meet the needs of organizations for the talented managers they require and because the increasingly onerous demands made on line managers mean that they have to possess a wider range of developed skills than ever before.

The aim of management development is to find ways in which the organization can produce, mainly from within, a supply of managers better equipped for their jobs at all levels. The principal method of doing this is to ensure that managers gain the right sequence and variety of experience, in good time, which will equip them for whatever level of responsibility they have the ability to reach in the course of their career. This experience can be supplemented – but never replaced – by courses carefully timed and designed to meet particular needs. Management development policies involve the use of both formal and informal approaches.

## Formal approaches to management development

Formal approaches to management development consist of processes and events that are planned and provided by the organization. These should be based on the identification of development needs. The methods of defining learning needs described in Chapter 34 can be used to determine collective needs. For individuals, performance management reviews are an important means of producing personal development plans and learning contracts as described in Chapter 35. This can be done more systematically at development centres. These consist of a concentrated (usually one or two days) programme of exercises, tests and interviews designed to identify managers' development needs and to provide counselling on their careers. Competency frameworks can be used as a means of identifying and expressing development needs and pointing the way to self-managed learning programmes or the provision of learning opportunities by the organization.

The formal approaches that can be used are:

- Planned experience – which includes job rotation, job enlargement, taking part in project teams or task groups and secondment outside the organization – this is possibly the most effective approach on the grounds that

managers learn to manage mainly by managing.

- Coaching – a personal and usually one-to-one approach to helping people develop their skills and levels of competence (coaching skills are dealt with in Chapter 64).
- Mentoring – the process of using specially selected and trained individuals (mentors) to provide guidance, pragmatic advice and continuing support that will help the person or persons allocated to them to learn and develop (see also Chapter 64).
- Action learning – a method originated by Revans (1989) of helping managers develop their talents by exposing them to real problems; they are required to analyse them, formulate recommendations and then take action.
- Outdoor learning – getting teams of participants to carry out physical activities so that they can learn about how they act under pressure as team leaders or team members.
- The use of performance management processes to provide feedback and satisfy development needs; these would be competency based in the sense that they would specify the competencies required and assess the degree to which individuals needed to develop those competencies.
- Structured self-development following a self-managed learning programme set out in a personal development plan and agreed as a learning contract with the manager or a management development adviser.
- Training by means of internal or external courses or through e-learning.

A blended approach using two or more of these methods is best, although in most programmes formal training plays an important part. Training should be action-oriented – care must be taken to ensure that what is learnt on a course is translated into action in the workplace. A useful checklist produced by the CIPD is set out below.

### Source review

Checklist for planning and delivering management training events:

- 1 Integrate the programme with the organization's business strategy.
- 2 Set multiple aligned goals for participants.
- 3 Keep senior management support.
- 4 Encourage participants to seek opportunities to apply new learning.
- 5 Consider a range of post-training activities.
- 6 Ensure the programme's goals and actions are integrated with the organization's performance management system.
- 7 Maintain opportunities for participants to practice and get feedback on their learning.
- 8 Enhance learning by using action learning sets.
- 9 Make participants accountable for applying their learning.
- 10 Create opportunities for participants to teach others.
- 11 Use after-event reviews and conduct follow-up with participants.
- 12 Use a mentor or colleague to hold participants accountable for applying learning.

### Pause for thought

How can L&D make a meaningful contribution to leadership and management development?

The content of training programmes and events will be determined by established learning needs. But the significance of the line manager's contribution to the implementation of HR policies and practices as explained in Chapter 10 suggests that a choice according to needs from the following areas of line manager HR responsibilities should be made:

- performance appraisal and review practices;
- assessing potential;
- selection interviewing;
- coaching and instructing;
- induction of employees;
- job design;
- handling absenteeism;
- handling discipline;
- conducting challenging conversations.

These are best made available in bite-sized learning modules using digital techniques as well as more formal classroom training. The self-management of learning through these modules should be encouraged and L&D should take the responsibility of keeping managers informed on sources of learning materials either provided by the firm or available elsewhere (curating).

### Informal approaches to management development

Informal approaches to management development make use of the learning experiences managers encounter during the course of their everyday work. Managers are learning every time they are confronted with an unusual problem, an unfamiliar task or a move to a different job. They then have to evolve new ways of dealing with the situation. They will learn if they reflect on what they did, in order

to determine how and why it contributed to success or failure. This retrospective or reflective learning will be effective if managers can apply it successfully in the future.

Managers also learn from their managers. This may include how not to do things as well as what to do. Again, they will learn more if they have the capacity to reflect on what they have learnt and apply it to their own circumstances.

Experiential and reflective learning is potentially the most powerful form of learning. It comes naturally to some managers. They seem to absorb, unconsciously and by some process of osmosis, the lessons from their experience, although in fact they have probably developed a capacity for almost instantaneous analysis, which they store in their mental databank to retrieve when necessary.

But many managers either find it difficult to do this sort of analysis or do not recognize the need. This is where informal or at least semi-formal approaches can be used to encourage and help managers to learn more effectively. These comprise:

- emphasizing self-assessment and the identification of development needs by getting managers to assess their own performance against agreed objectives and analyse the factors that contributed to effective or less effective performance – this can be provided through performance management;
- getting managers to produce their own personal development plans – self-managed learning programmes;
- encouraging managers to discuss their problems and opportunities with their manager, colleagues or mentors to establish for themselves what they need to learn or be able to do;
- helping managers to understand their own learning styles so that they can make the best use of their experience and increase the effectiveness of their learning activities (this guidance may have to be provided more formally).

### The role of the organization

The traditional view is that the organization need not concern itself with management development. The natural process of selection and the pressure of



competition will ensure the survival of the fittest. Managers, in fact, are born, not made. Cream rises to the top (but then so does scum). Management development has also been seen as a formal process using management inventories, multicoloured replacement charts, ‘Cook’s tours’ around different departments for newly recruited graduates, detailed job rotation programmes, elaborate points schemes to appraise personal characteristics, and lots of formal courses operating on the ‘sheep-dip’ principle (ie everyone undergoes them).

The true role of the organization in management development lies somewhere between these two extremes: on the one hand, it is not enough, in conditions of rapid growth (when they exist) and change, to leave everything to chance – to trial and error; on the other hand, elaborate management development programmes cannot successfully be imposed on the organization. A mix of formal and informal methods is required that has to fit the organization’s context and specific requirements.

The success of any management development programme depends upon the degree to which there is commitment to it at all levels of management. It is not a separate activity to be handed over to a specialist and forgotten or ignored. The development of subordinates must be recognized as a natural and essential part of any manager’s job. But the lead must come from the top.

### **The role of the individual**

As Drucker perceptively wrote many years ago (1955: 162): ‘Development is always self-development. Nothing could be more absurd than for the enterprise to assume responsibility for the development of a man. The responsibility rests with the individual, his abilities, his efforts.’ But he went on to make the following point:

#### **Words of wisdom**

Every manager in a business has the opportunity to encourage individual self-development or to stifle it, to direct it or to misdirect it. He should be specifically

assigned the responsibility for helping all men working with him to focus, direct and apply their self-development efforts productively. And every company can provide systematic development challenges to its managers.

Drucker (1955: 163)

The ability to manage is eventually something individuals mainly develop for themselves while carrying out their normal duties. But they will do this much better if they are given encouragement, guidance and opportunities by their organization and their managers.

#### **Words of wisdom**

Managers are grown – they are neither born nor made. The individual will grow into what he is capable of becoming, providing we can create the proper conditions for that growth.

McGregor (1960: 192)

### **The role of learning and development and HR specialists**

However, L&D and HR specialists still have an important role to play. They interpret the needs of the business and advise on how management development as a business-led activity can play its part in meeting these needs. They encourage managers to carry out their developmental activities, providing guidance as required, and they act as coaches or mentors. They also, of course, conduct or manage formal learning events and programmes, but their most important role is to help in developing a climate in which managers can grow.



## Criteria for leadership and management development

The effectiveness and value of any approach to leadership and management development include the extent to which it:

- links to organizational goals and context – and so has relevance for the organization as well as for individuals;
- builds on and develops the qualities, skills and attitudes of participants;
- is supported by appropriate HR policies to do with recruitment and selection, talent management, succession planning and reward;
- has the full commitment of those responsible for the operation of the process, including line managers;
- is motivating to those encouraged to participate in it.

### Key learning points

#### Leadership and management development defined

Leadership and management development programmes ensure that managers have the leadership and managerial qualities required to achieve success.

#### Leadership

Leadership means inspiring people to do their best to achieve a desired result. It involves developing and communicating a vision for the future, motivating people and securing their engagement.

#### Management

Defined as deciding what to do and then getting it done through the effective use of resources.

#### Leadership development compared with management development

Leadership development tends to be concerned with nurturing the softer skills of leadership through various educational processes, including formal learning events and programmes and coaching.

Management development relies more on ensuring that managers have the right sequence of experience, which may be supplemented by self-directed learning and courses on management techniques. Further guidance may be provided by coaching and from

mentors. Management development programmes traditionally also cover leadership skills.

#### Leadership development

Leadership development programmes prepare people for leadership roles and situations beyond their current experience.

#### Management development

Management development is concerned with improving the performance of managers in their present roles, preparing them to take on greater responsibilities in the future and also developing their leadership skills.

Formal approaches to management development consist of processes and events planned and provided by the organization. They include planned experience, coaching and mentoring, action learning, outdoor learning, performance management, formal training and structured self-development.

Informal approaches to management development make use of the learning experiences that managers encounter during the course of their everyday work.

#### Responsibility for management development

Individual managers are largely responsible for their own development but need guidance, support and encouragement from their own managers and the HR function.

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# PART IX

# Performance management

## PART IX CONTENTS

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- 38** Performance management systems
- 39** Reinventing performance management

## Introduction

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Performance management is a systematic and continuous process for improving organizational performance by developing the performance of individuals and teams. The purpose of this part is to explain how it can and should work. Chapter 37

explores the conceptual framework of performance management, its aims, the principles that influence how it is supposed to work and the requirements for success. Chapter 38 describes how, ideally, a performance management system functions. Chapter 39 reviews the inadequacies of traditional methods and suggests new approaches.

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# 37

# The concept of performance management

## Introduction

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The purpose of this chapter is to define the conceptual framework of performance management, its aims, the principles that influence how it is supposed to work and the requirements for success.

## Performance management defined

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Performance management is the continuous process of improving performance by setting individual and team goals that are aligned to the strategic goals of the organization, planning performance to achieve the goals, reviewing and assessing progress, and developing the knowledge, skills and abilities of people.

Managing performance is what line managers do and performance management is supposed to help them do it. Performance management is managing the business. It should be a powerful means of ensuring that the organization's strategic goals are achieved. It should also contribute to the achievement of culture change and be integrated with other key HR activities, especially human capital management, talent management, learning and development and reward management. Thus performance management helps to achieve horizontal integration and the 'bundling' of HR practices so that they are interrelated and therefore complement and reinforce each other. An effective system of performance management can play an important part in learning

and development and increasing levels of employee engagement.

## The conceptual framework

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The theoretical basis of performance management is discussed below under the following headings:

- the meaning of performance;
- measuring performance;
- the factors affecting performance;
- underpinning theories.

### *The meaning of performance*

It can be said that if you can't define performance you can't measure or manage it. Bates and Holton (1995) pointed out that performance is a multi-dimensional construct, the measurement of which varies depending on a variety of factors. They also stated that it is important to determine whether the measurement objective is to assess performance outcomes or behaviour or both.

Latham *et al* (2007) emphasized that an appropriate definition of performance is a prerequisite for feedback and goal-setting processes. They stated that a performance theory is needed which stipulates:

- the relevant performance dimensions;
- the performance standards or expectations associated with different performance levels;

- how situational constraints should be weighed (if at all) when evaluating performance;
- the number of performance levels or gradients;
- the extent to which performance should be based on absolute or comparative standards.

There are different views on what performance is. It could just mean outputs – the results obtained. Or it could mean behaviour – how the results were obtained. Or it could be both results and behaviour.

### Performance as outputs

Kane (1996) argued that performance ‘is something that the person leaves behind and that exists apart from the purpose’. Bernadin *et al* (1995) thought that performance should be defined as the outcomes of work.

### Performance as behaviour

Campbell (1990) explained that: ‘Performance is behaviour and should be distinguished from the outcomes because they can be contaminated by systems factors.’ Aguinis (2005) was positive that: ‘Performance is about behaviour or what employees do, and not about what employees produce or the outcomes of their work.’

Campbell *et al* (1993) focused on the measurement of performance, which they defined as behaviour or action relevant to the attainment of the organization’s goals that can be scaled, that is, measured. They suggested that performance is multi-dimensional and that each dimension is characterized by a category of similar behaviour or actions. The components consist of: (1) job-specific task proficiency, (2) non-job specific proficiency (eg organizational citizenship behaviour), (3) written and oral communication proficiency, (4) demonstration of effort, (5) maintenance of personal discipline, (6) facilitation of peer and team performance, (7) supervision/leadership and (8) management/administration.

Borman and Motowidlo (1993) formulated the notion of contextual performance, which covers non-job-specific behaviours such as cooperation, dedication, enthusiasm and persistence and is differentiated from task performance covering job specific behaviours. As Fletcher (2001) mentioned, contextual performance deals with attributes that

go beyond task competence and which foster behaviours that enhance the climate and effectiveness of the organization.

### Performance as both outcomes and behaviour

It can be argued that a more comprehensive view of performance is achieved if it is defined as embracing both outcomes and behaviour. When people are said to be performing well it does not solely refer to what results they deliver; it is also concerned with how they deliver them:

#### Words of wisdom

Performance means both behaviours and results. Behaviours emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviours are also outcomes in their own right – the product of mental and physical effort applied to tasks – and can be judged apart from results.

Brumbach (1988: 388)

Defining performance like this leads to the conclusion that when managing the performance of individuals and teams, both outputs (results) and inputs (behaviour) need to be considered. This is the generally accepted ‘mixed model’ of performance management, which is concerned with both the ‘what’ and the ‘how’.

#### Pause for thought

Why is it important to consider both the ‘what’ and the ‘how’ when assessing performance?

## Measuring performance

Performance is measured by comparing results with expectations. Quantitative measures can be financial or non-financial. Financial measures at organizational level include volumes – profits and sales – and ratios – for example, earnings per share, return on investment. Another important financial measure is added value – in accounting language, the difference between the value of sales and the cost of labour and bought-in parts; more generally the extra value (the benefit to the business) generated by the expenditure of effort, time or money. At individual level, financial measures include sales value, return on investment, added value, cost per unit of output and cost control.

Quantified non-financial measures consist of at organizational level market share, and at both organizational and individual levels output volumes, productivity ratios and data on such operational matters as customer service levels, waste, downtime and quality. For people, the key measures are levels of engagement, turnover, absenteeism and sickness.

Qualitative measures at organizational level refer to the extent to which values in the following areas have been upheld: care for the environment, care and consideration for people, competence, competitiveness, customer service, innovation, quality and teamwork. For individuals, the main qualitative measure is the extent to which their behaviour meets the standards set out in the organization's competency framework or agreed with their manager.

## Factors affecting performance

Four major influences on performance were identified by Harrison (1997):

- *the learner*, who needs the right level of competence, motivation, support and incentives in order to perform effectively;
- *the learner's work group*, whose members will exercise a strong positive or negative influence on the attitudes, behaviour and performance of the learner;
- *the learner's manager*, who needs to provide continuing support and act as a role model, coach and stimulator related to performance;
- *the organization*, which may produce barriers to effective performance if there is

no powerful, cohering vision, ineffective structure, culture or work systems, unsupportive employee relations policy and systems, or inappropriate leadership and management style.

These can be analysed into individual, systems and contextual factors.

## Individual factors

Vroom (1964) suggested that performance is a function of ability and motivation as shown in the formula:  $\text{Performance} = f(\text{Ability} \times \text{Motivation})$ . The effects of ability and motivation on performance are not additive but multiplicative. People need both ability and motivation to perform well and if either ability or motivation is zero there will be no effective performance.

The 'AMO' formula put forward by Boxall and Purcell (2003) is a development of Vroom's ideas. This model states that performance is a function of Ability + Motivation + Opportunity to Participate (note that the relationship is additive not multiplicative).

These formulas focus mainly on individual performance but systems factors are also important.

## Systems factors

Individual performance is influenced by systems factors as well as person factors (Cardy and Dobbins, 1994). Systems theory as formulated by Miller and Rice (1967) states that organizations should be treated as open systems that transform inputs into outputs within the environments (external and internal) upon which they are dependent. Systems theory is the basis of the input-process-output-outcome model of managing performance which assesses the entire contribution that an individual makes within the system in carrying out his or her allotted tasks. Inputs are the skills and knowledge that an individual brings to a job. Process is how people actually perform their jobs. Outputs are the results of performance expressed in quantified terms such as sales volume, income generated or units of production, and outcomes are a visible effect which is the result of effort but cannot necessarily be measured in quantified terms. The input-process-output-outcome model of managing performance is important first because it provides the basis for measuring performance, and second



because all the factors that influence performance, including the system and the context, can be taken into account when assessing it.

It was claimed by Deming (1986) that differences in performance were largely due to systems variations. Systems factors include the support people get from the organization and other factors outside the control of individuals. Jones (1995) proposed that the aim should be to manage context and not performance, and went on with the following explanation:

### Words of wisdom

In this equation, the role of management focuses on clear, coherent support for employees by providing information about organization goals, resources, technology, structure, and policy, thus creating a context that has multiplicative impact on the employees, their individual attributes (competency to perform), and their work effort (willingness to perform). In short, managing context is entirely about helping people understand; it is about turning on the lights.

Jones (1995: 428)

### Pause for thought

Do you agree that systems variations are the major factor affecting performance? If so, what can be done about them?

## Contextual factors

Systems operate within the context of the organization. The context includes the organizational

culture, the employment relations climate, the people involved and the internal environment in terms of the organization's structure, its size and its technology and working practices.

## Organizational culture

Organizational culture is the pattern of shared beliefs, norms and values in an organization that shape the way people act and interact and strongly influence the ways in which things get done. From the performance management viewpoint one of the most important manifestations of organizational culture is management style. This refers to the ways in which managers behave in managing people and how they exercise authority and use their power. If the prevailing management style in a command and control-type structure is autocratic, directive, task-oriented, distant and tough, then a 'caring and sharing' philosophy of performance management is not likely to work, even if it were felt to be desirable, which is unlikely. Alternatively, a non-directive, participative and considerate style is more likely to support a 'partnership' approach to performance management, with an emphasis on involvement, empowerment and ownership.

## Employment relations climate

The employment relations climate of an organization represents the perceptions of employees and their representatives about the ways in which relationships between management and employees are maintained. It refers to the ways in which formal or informal employee relations are conducted and how the various parties (managers, employees and trade unions or staff associations) behave when interacting with one another.

Clearly, a good climate will be conducive to the design and operation of effective performance management processes as long as these are developed jointly by the stakeholders and take account of the interests of all involved. An improved employee relations climate may also result from pursuing the development and implementation of performance management in accordance with the ethical principles set out later in this chapter.

## People

Performance management processes will vary in accordance with the composition of the workforce.

For example, a firm employing mainly knowledge workers is likely to adopt a different approach to that in a manufacturing firm. Within the organization, approaches may vary between different groups of employees. In the Victoria and Albert Museum, for example, it is recognized that the way in which objectives are agreed by a curator will be different from how the standards of performance are agreed for security guards.

## Structure

A hierarchical or functional structure with well-defined layers of authority is more likely to support a directive, top-down approach to setting objectives and reviewing performance. A flatter, process-based structure will encourage more flexible participative approaches with an emphasis on teamwork and the management of performance by self-directed teams.

A structure in which responsibility and authority are devolved close to the scenes of action will probably foster a flexible approach to performance management. A highly centralized organization may attempt to impose a monolithic performance management system, and fail.

## Technology and working practices

There is no conclusive evidence that advanced technology and working practices are associated with advanced approaches to performance management. But it is reasonable to assume that high-technology firms or sophisticated organizations are more likely to innovate in this field. Another aspect of work practices is the extent to which the work is computer or machine controlled, or routine.

Performance management tools using apps can provide continuous feedback that could be more effective than the formal feedback limited to the once-a-year performance appraisal meeting. Computerized performance monitoring (CPM) provides an entirely different method of measuring performance that is related directly to outputs and/or errors. As Bates and Holton (1995) noted following their research, this can have detrimental effects by transforming a helpful supervisory style into one that is more coercive. But earlier research conducted by Earley (1986) found that employees trusted feedback from a computer more than feedback from a supervisor. He claimed that computer feedback could have a greater impact on performance because of higher self-efficacy (ie the individual's

self-belief that he or she will be able to accomplish certain tasks).

Bureaucratic methods of working may also affect the design and operation of performance management. Organizations that function as bureaucracies, appropriately or inappropriately, are more likely to have a formalized performance management system. The system may be centrally controlled by HR and the emphasis will be on the annual appraisal carried out in accordance with strictly defined rules. The appraisal may be a top-down judgemental affair referring to personality traits. Performance and potential will be rated.

Organizations which work flexibly with an emphasis on horizontal processes and teamwork are more likely to have a less formal process of performance management, leaving more scope for managers and teams to manage their own processes in accordance with agreed principles.

## Underpinning theories

Performance management practice is underpinned and explained by the theories summarized below. Goal theory has perhaps been the most influential because setting goals and assessing performance against the goals is such a significant part of a conventional performance management system. But other theories are relevant, such as those relating to control and reinforcement that explain the fundamental mechanism of feedback, and expectancy theory that indicates how performance management can help to motivate people. Social learning theory links reinforcement and expectancy theory, and self-efficacy theory highlights the importance of helping people to believe in themselves and their ability to improve.

### Goal theory

Goal theory as developed by Latham and Locke (1979) highlights four mechanisms that connect goals to performance outcomes: (1) they direct attention to priorities; (2) they stimulate effort; (3) they challenge people to bring their knowledge and skills to bear to increase their chances of success; and (4) the more challenging the goal, the more people will draw on their full repertoire of skills. This theory underpins the emphasis in performance

management on setting and agreeing goals against which performance can be measured and managed. This was the premise upon which an earlier version of performance management – management by objectives – was based.

### Expectancy theory

Expectancy theory as originally formulated by Vroom (1964) states that effort (motivation) depends on the extent to which people expect that rewards will follow effort and that the reward is worthwhile.

Performance management is concerned with influencing behaviour to achieve better results. It operates in line with expectancy theory by defining the relationship between effort, achievement and reward, thus motivating people and providing them with a sense of direction. Positive feedback provides a reward in the shape of the recognition of work well done. This is intrinsic motivation provided by the work itself, which arises when work satisfies needs for accomplishment, provides opportunities for growth and the scope to use and develop abilities, and fosters self-belief.

### Control theory

Control theory focuses attention on feedback as a means of shaping behaviour. As people receive feedback they appreciate the discrepancy between what they are doing and what they are expected to do and take corrective action to overcome the discrepancy. Feedback is recognized as a crucial part of performance management processes.

Control theory provides the basis for feedback intervention theory as formulated by Kluger and DeNisi (1996). This focuses attention on feedback as a means of shaping behaviour.

### Reinforcement theory

Reinforcement theory (Hull, 1951) states that successes in achieving goals and rewards act as positive incentives and reinforce the successful behaviour that is repeated the next time a similar need arises. Positive feedback therefore provides for positive reinforcement. Constructive feedback can also reinforce behaviours, which seek alternative means of achieving goals.

### Social learning theory

Social learning theory as formulated by Bandura (1977), combines aspects of reinforcement and expectancy theory. It recognizes the significance of the basic concept of reinforcement as a determinant of future behaviour but also emphasizes the importance of internal psychological factors, especially expectations about the values of goals and the ability of individuals to reach them.

### Self-efficacy theory

Self-efficacy theory was also developed by Bandura (1982), and indicates that self-motivation will be directly linked to the self-belief of individuals that they will be able to accomplish certain tasks, achieve certain goals or learn certain things. An important aim of performance management is to increase self-efficacy by giving individuals the opportunity to consider and discuss with their managers how they can do more. But the onus is on managers to encourage self-belief in the minds of those with whom they discuss performance and development.

#### Pause for thought

Which do you think is the most significant theory relating to performance management and why?

## Aims of performance management

The overall objective of performance management is to develop and improve the performance of individuals and teams and therefore organizations. When done well, it ensures that people are clear about what success looks like and the part they play in delivering this success. A strategic approach means that performance management processes such as setting objectives are explicitly designed to align individual objectives with the organization's strategic objectives.

As noted by VerWeir and Van Den Bergh (2004), performance management involves creating motivation and commitment to achieve objectives. Shields (2007) pointed out that ‘it provides performance direction and recognition without which employees will be at a loss as to the nature and level of work effort required.’ Performance management aims to develop the capacity of people to meet and exceed expectations and to achieve their full potential to the benefit of themselves and the organization. It is about ensuring that the support and guidance people need to develop and improve is readily available.

### Pause for thought

What do you think of the argument that a formal performance management is not required when managers carry out their basic responsibilities of providing direction and recognition properly?

The following is definition of what performance management systems are there to do:

### Words of wisdom

The real goals of any performance management system are threefold – to correct poor performance, to sustain good performance and to improve performance... All performance management systems should be designed to generate information and data exchange so that the individuals involved can properly dissect performance, discuss it, understand it, and agree on its character and quality.

Lee (2005: 60)

As explained by Shields (2007), effective performance management has two other important purposes. First, it can communicate to employees the

strategic goals of the enterprise and specify what the organization expects from them in terms of behaviour and results in order to achieve those goals. This means defining what doing a good job entails. Second, it can help with relationship building between employees and their managers. Involving both managers and their staff in performance planning and review can widen the dialogue between them and enhance inter-personal trust.

A summary of what management and individuals can gain from performance management is given in Table 37.1.

The Lloyds Banking Group produced the following definition of the purpose of its performance management system.

### Source review

Performance management aims: Lloyds Banking Group

The aim is to improve performance. Rather than just saying that somebody’s been very effective and ticking a box, the process is actually to sit down and have a discussion around the requirements of the role, dealing with what aspects are being done well and what aspects are not so good. Overall the purpose is to make it clear to people how their performance links in with the performance of the business.

Managing performance is about coaching, guiding, appraising, motivating and rewarding colleagues to help unleash potential and improve organizational performance. Where it works well it is built on excellent leadership and high-quality coaching relationships between managers and teams. Through all this our colleagues should be able to answer three straightforward questions:

- 1 *What is expected of me?* How will I be clear about what is expected of me in terms of both results and behaviour?
- 2 *How am I doing?* What ongoing coaching and feedback will I receive to tell me how I am doing and how I can improve?
- 3 *What does it mean for me?* How will my individual contribution, potential and aspirations be recognized and rewarded?

**TABLE 37.1** What management and individuals can gain from performance management

What management can gain	What individuals can gain
<p>The opportunity to:</p> <ul style="list-style-type: none"> <li>• integrate individual, team and corporate objectives;</li> <li>• guide individual and team effort to meeting overall business needs;</li> <li>• motivate and engage employees;</li> <li>• recognize individual contribution;</li> <li>• plan individual careers (talent management);</li> <li>• introduce relevant and effective learning and development programmes to meet identified needs.</li> </ul>	<p>They will:</p> <ul style="list-style-type: none"> <li>• know what is expected of them;</li> <li>• know how they stand;</li> <li>• know what they need to do to reach their goals;</li> <li>• be able to discuss with their manager their present job, their development and training needs and their future.</li> </ul>

The following description of the purpose of performance management was produced by Hitachi Europe:

#### Source review

Performance management purpose:  
Hitachi Europe

The process is as much about building relationships with employees in order to agree what is reasonably attainable in the year as it is about setting objectives. It is effective because it focuses people's intentions and produces new thinking on the way they work rather than simply continuing to perform at the same level day in, day out.

Respondents to the e-reward 2014 survey of performance management reported that their most important performance management objective was:

- to improve organizational performance – 33 per cent;
- to align individual and organizational objectives – 22 per cent;

- to develop a performance culture – 17 per cent;
- to improve individual performance – 14 per cent;
- to align individual behaviour to organizational values – 6 per cent;
- to provide the basis for personal development – 3 per cent;
- to inform performance pay decisions – 3 per cent.

Note the low priority given to informing performance pay decisions.

Here is a typical statement of objectives from one respondent to the e-reward 2005 survey:

To support culture change by creating a performance culture and reinforcing the values of the organization with an emphasis on the importance of these in getting a balance between 'what' is delivered and 'how' it is delivered.

## Principles of performance management

The overarching principles governing the ideal approach to performance management were defined well by Egan (1995: 36)

### Source review

Most employees want direction, freedom to get their work done, and encouragement not control. The performance management system should be a control system only by exception. The solution is to make it a collaborative development system in two ways. First, the entire performance management process – coaching, counselling, feedback, tracking, recognition, and so forth – should encourage development. Ideally, team members grow and develop through these interactions. Second, when managers and team members ask what they need to be able to do to do bigger and better things, they move to strategic development.

Egan (1995: 36)

## Examples of approaches to performance management

### Performance management stages in Astra Zeneca

- 1 *Business role clarification* – clear statement of agreed role and objectives.
- 2 *Performance planning* – agreement of targets to achieve the ‘plan-do-evaluate’ elements of managing performance.
- 3 *Performance development* – agree skills required and prepare individual development plan.
- 4 *Performance measurement* – provide ongoing feedback and an annual summary of an employee’s performance (no overall ratings).

### Civil Service basic design principles

- Stretching objectives agreed at the beginning of the year.
- Individuals know the competencies and behaviours they are expected to demonstrate.

- Regular discussions during the year between individuals and their managers to discuss progress.
- Formal meeting at the end of the year to record whether objectives have been achieved and levels of competence demonstrated.

### What makes good performance management – Scottish Parliament

- New staff know what is expected of them from the outset.
- Everyone is clear about corporate goals and works towards them.
- Objectives are SMART.
- A system exists to accommodate day-to-day performance feedback.
- Evidence is available to support assessments.
- The personal development plan is used to help self-developmental activities or improve performance.
- The line manager provides and the jobholder undertakes the training needed to support the individual and the organization.

## The impact of performance management

Performance management is expected to improve organizational performance generally by creating a performance culture in which the achievement of high performance is a way of life. Improved performance is meant to happen when people understand what they are expected to do, receive feedback on how well they are doing it and agree and implement development plans that build on strengths and help to overcome weaknesses.

Jones (1995) suggested that performance management could:

- communicate a shared vision throughout the organization to establish and support appropriate leadership and management styles;
- define individual requirements and expectation of all employees in terms of the



inputs and outputs expected from them thus reducing confusion and ambiguity;

- provide a framework and environment for teams to develop and succeed;
- provide the climate and systems which support reward and communicate how people and the organization can achieve improved performance;
- help people manage ambiguity.

But this level of impact may be hard to attain. The requirements for success as set out below are demanding.

## Requirements for success

Strebler *et al* (2001) suggested that for performance management to work well it should:

- have clear aims and measurable success criteria;
- be designed and implemented with appropriate employee involvement;
- be simple to understand and operate;
- play a major part in the achievement of management goals;
- allow employees a clear 'line of sight' between their performance goals and those of the organization;
- focus on role clarity and performance improvement;

- be closely allied to a clear and adequately resourced training and development infrastructure;
- make crystal clear the purpose of any direct link to reward and build in proper equity and transparency safeguards;
- be regularly and openly reviewed against its success criteria.

Performance management also needs to be evidence-based. Assessments of performance and feedback should be based on facts not opinions. Evidence-based performance management refers to results, events, critical incidents and significant behaviours that have affected performance in specific ways. It compares what has actually happened with what was supposed to have happened. It refers to agreed objectives, goals, success criteria and performance measures, and uses the latter to establish outcomes.

### Pause for thought

What is the most important thing you have learned from the above list that would influence your approach to introducing and managing performance management?

## Key learning points

### Performance management defined

Performance management is the continuous process of improving performance by setting individual and team goals which are aligned to the strategic goals of the organization, planning performance to achieve the goals, reviewing and assessing progress, and developing the knowledge, skills and abilities of people.

### The meaning of performance

It can be said that if you can't define performance you can't measure or manage it. It can be argued that a more comprehensive view of performance is achieved if it is defined as embracing both behaviour and outcomes. When people are said to be performing well it does not solely refer to the results they deliver; it is also concerned with how they behave.



## Factors affecting performance

Four major influences on performance were identified by Harrison (1997):

- the learner;
- the learner's work group;
- the learner's manager;
- the organization.

## Underpinning theories

The following theories underpin performance management practice.

- **Goal theory:** This theory highlights four mechanisms that connect goals to performance outcomes: (1) they direct attention to priorities; (2) they stimulate effort; (3) they challenge people to bring their knowledge and skills to bear to increase their chances of success; and (4) the more challenging the goal, the more people will draw on their full repertoire of skills.
- **Expectancy theory:** Performance management is concerned with influencing behaviour to achieve better results. It operates in line with expectancy theory by defining the relationship between effort, achievement and reward, thus motivating people and providing them with a sense of direction. Positive feedback provides a reward in the shape of the recognition of work well done.
- **Control theory:** This focuses attention on feedback as a means of shaping behaviour.
- **Reinforcement theory:** This states that successes in achieving goals and rewards act as positive incentives and reinforce the successful behaviour which is repeated the next time a similar need arises.
- **Social learning theory:** This combines aspects of reinforcement and expectancy theory. It recognizes the significance of the basic concept of reinforcement as a determinant of future behaviour but also emphasizes the importance of internal

psychological factors, especially expectations about the values of goals and the ability of individuals to reach them.

## Aims of performance management

Ideally, the overall objective of performance management is to develop and improve the performance of individuals and teams and therefore organizations.

When done well, it ensures that we are all clear about what success looks like and the part we each play in delivering this success.

A summary of what management and individuals can gain from effective performance management is given in Table 37.1.

## Requirements for success

It was suggested by Strebler *et al* (2001) that the principles set out below were required for performance management to work well. They should:

- have clear aims and measurable success criteria;
- be designed and implemented with appropriate employee involvement;
- be simple to understand and operate;
- play a major part in the achievement of management goals;
- allow employees a clear 'line of sight' between their performance goals and those of the organization;
- focus on role clarity and performance improvement;
- be closely allied to a clear and adequately resourced training and development infrastructure;
- make crystal clear the purpose of any direct link to reward and build in proper equity and transparency safeguards;
- be regularly and openly reviewed against its success criteria.

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# 38

## Performance management systems

### Introduction

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A performance management system is defined as a set of procedures – planning, monitoring and reviewing performance – that in sequence constitute an organization’s formal approach to performance management. This chapter starts with an explanation of how such a system is supposed to operate as illustrated by various models. It continues by describing the three main elements of a system. The next section deals with the introduction of performance management and this is followed with a discussion of the realities of performance management systems – they don’t necessarily work as well as they are supposed to do. Finally, the chapter describes a version of performance management – 360-degree feedback.

### How a performance management system works

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Conceptually, a performance management system flows from the organization’s objectives and then through processes of planning, monitoring and reviewing. It operates as a continuous and self-renewing cycle as modelled in Figure 38.1. Other ways in which organizations model the system are shown in Figures 38.2–5. Naturally, there are variations, but they all contain the basic elements of the model shown in Figure 38.1 and all illustrate the ways in which these elements are expected to form a continuous process.

### Pause for thought

What are the common elements in these performance management models?

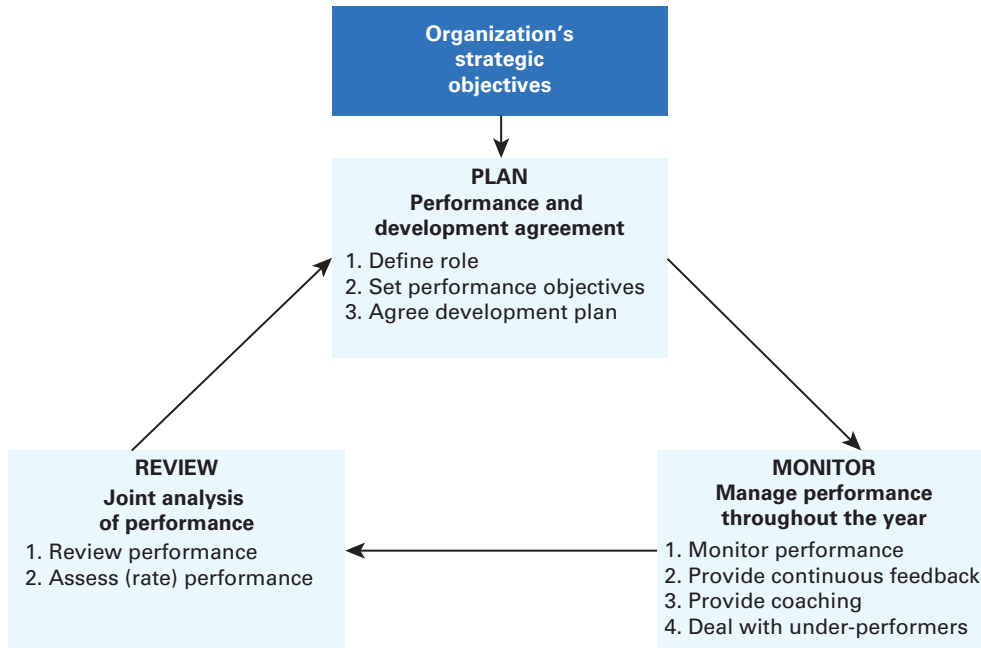
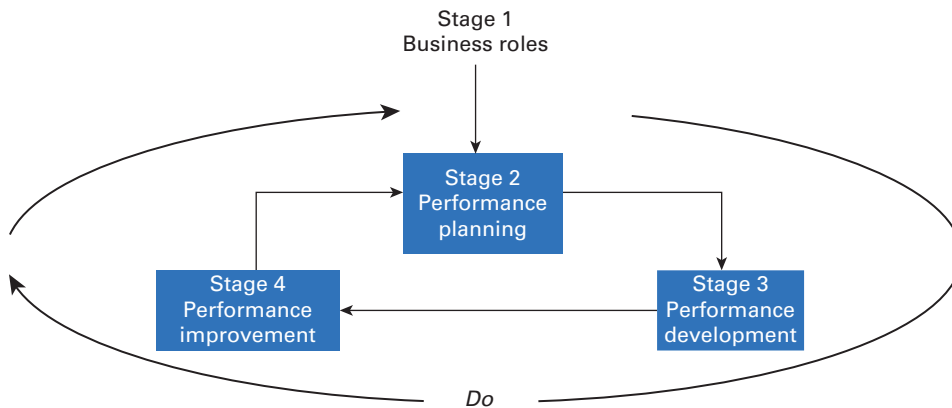
A model of how a performance management system is supposed to function over a year is shown in Figure 38.6.

These models depict an apparently logical sequence of activities, each of which contributes cumulatively to the achievement of the objective of improved performance. There is nothing wrong with the logic. But the success of the process depends on each stage being conducted properly. And this makes demands on the participants – managers and their team members – that can be very hard to meet. The nature of these demands under each of the three headings of the cycle as shown in Figure 38.1 is described below.

### Performance and development planning

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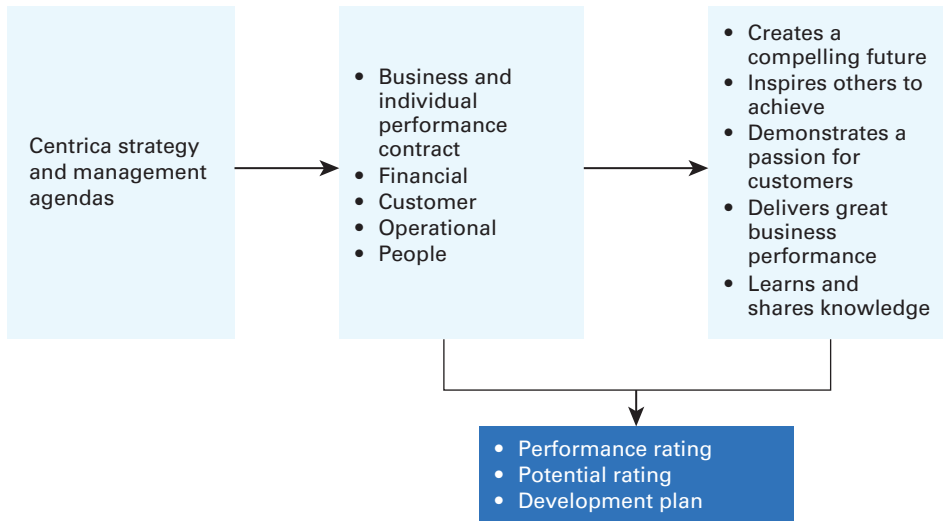
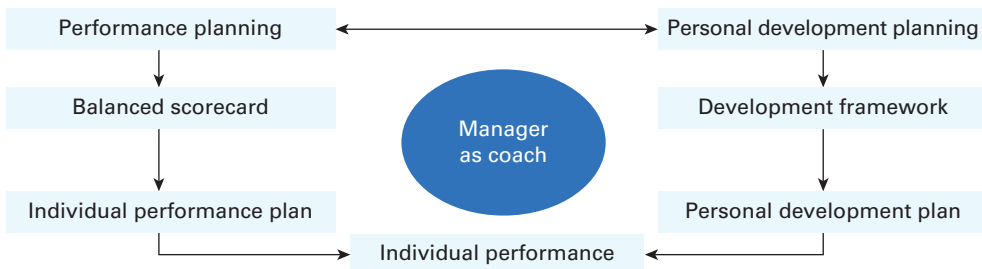
Performance and development planning is carried out within the context of the corporate strategy. It is based on performance agreements. These emerge from the analysis of role requirements and from performance reviews where assessments of performance lead to the definition of future requirements. Agreement is reached during the planning process

**FIGURE 38.1** The performance management cycle**FIGURE 38.2** Model of the performance management system in Astra-Zeneca

on how performance will be measured. The type of measures available were described in Chapter 37. Changes to the role profile and objectives can be made as required by changing circumstances.

Expectations are defined generally in role profiles that specify key result areas; the knowledge, skills and abilities (KSAs) required and the behavioural competencies needed to perform well. What has to be

accomplished in key result areas can be defined in the form of objectives or goals (the terms are synonymous). An important aspect of performance planning is the process of aligning individual goals with the strategic goals of the organization. The acronym ‘SMART’ is a popular way of defining a good objective. Traditionally, S stands for specific (sometimes ‘stretching’), M for measurable, A for agreed, R for

**FIGURE 38.3** Model of the performance management system in Centrica**FIGURE 38.4** Model of the performance management system in Halifax Bank**FIGURE 38.5** Model of the performance management system in Pfizer Inc



## Managing performance throughout the year

Perhaps one of the most important features of performance management is that it is a continuous process, which reflects normal good management practices of setting direction, monitoring and measuring performance and taking action accordingly. Performance management should not be imposed on managers as something ‘special’ they have to do. It should instead be treated as a natural function that all good managers carry out.

The process of managing performance throughout the year needs to take into account that in these turbulent times it is probable that an annual objective-setting exercise will not be appropriate. Objectives need to be reviewed as circumstances and demands change.

### Pause for thought

Is a formal performance management system required to ensure that managers manage performance throughout the year? Isn't that what managers are required to do anyhow?

## Performance reviews

Traditionally, formal performance reviews provided an annual (usually) focal point for the consideration of key performance and development issues. They led to the completion of the performance management process by informing performance agreements and often involved some form of assessment, as examined in the next section of this chapter. The following are some basic guidelines for the satisfactory conduct of a traditional formal review:

- The review should be rooted in the reality of the individual's performance.
- The review should be conducted as a dialogue between partners.

- Individuals should be encouraged to assess their own performance and become active agents for change in improving their results.
- Managers should adopt an enabling role, coaching and providing support and guidance.
- There should be no surprises – performance issues should have been dealt with as they arise throughout the year.
- Positive feedback should be given on the things that the individual did well in addition to areas for improvement.
- The review should be forward looking, focusing on the development needs of the individual and how they can be met by the individual with the help of the manager.

These guidelines may sound straightforward and obvious enough but they can be hard to apply in the traditional formal appraisal review. Too often, this takes the form of a dishonest annual ritual. Its primary purpose is often to inform performance pay decisions (or worse, in some systems, whether or not the individual should be retained). Reviews are backward looking and judgemental rather than looking to the future to establish development needs. Traditional formal reviews can be stressful for both parties. Managers often hate doing them and therefore do them badly, treating them as a ritual to be observed at the behest of HR and dishonestly fudging their judgements. Mueller-Hanson and Pulakos (2015) noted that: ‘Study after study has shown that the performance review is dreaded – it is not only perceived to be of little value but it is highly demotivating to employees.’

### Pause for thought

It [performance management] is surely the very bluntest of all the very blunt tools in the HR toolbox. Yet, each year, we drag ourselves through the soul-destroying ritualistic charade that is the annual performance appraisal. This is not thoughtful or considered performance management. Let's just not do it.

Briner (2015)

So, what's the solution?



## Performance assessment

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Performance management schemes usually include an assessment, often referred to as ‘performance appraisal’, which is conducted during or after a performance review meeting. This may be carried out by overall assessment, rating or visual assessment, as described below.

### Overall assessment

An overall assessment is based on a general analysis of performance under the headings of the performance agreement. The aim is to reach agreement about future action rather than to produce a summarized and potentially superficial judgement. Managers are expected to reach an understanding with each member of their team as a result of the analysis, which will ensure that the latter will appreciate how well or not so well they are doing. The analysis should also identify the high flyers and those who are failing to meet acceptable standards. An overall assessment is recorded in a narrative consisting of a written summary of views about the level of performance achieved. This at least ensures that managers have to collect their thoughts together and put them down on paper. But different people will consider different aspects of performance and there will be no consistency in the criteria used for assessment, so it is necessary to have a framework for the analysis. This could be provided on a ‘what’ and ‘how’ basis. The ‘what’ is the achievement of previously agreed objectives related to the headings on a role profile. The ‘how’ is behaviour relating to competency framework headings. The results for each ‘what’ and ‘how’ heading could be recorded following a joint analysis during a review meeting.

One problem with this form of assessment, indeed any form of assessment, is that we can recognize people at either extreme (top performers and inadequate performers) but cannot accurately distinguish performance differences in the bulk of people lying between those extremes. What managers can do is to tell an individual that he or she has done exceptionally well and that they will therefore be included in the talent management programme, or managers can inform another individual that he or she has not done very well and that they must discuss what needs to be done about it. The others

can be told that they are doing a perfectly good job and discussions can take place on how they can build on their strengths or on any learning activity (preferably self-managed) that might help them to do even better. Another problem with overall assessments is that they can be bland, superficial and overgeneralized. This is why many schemes use rating.

### Rating

Rating summarizes on a scale the views of the rater on the level of performance achieved. A rating scale is supposed to assist in making judgements that inform performance pay decisions, or it simply produces an instant summary for the record of how well or not so well someone is doing.

Rating scales can be defined alphabetically (a, b, c, etc), or numerically (1, 2, 3, etc). Initials (x for excellent, etc) are sometimes used in an attempt to disguise the hierarchical nature of the scale. The alphabetical or numerical points scale may be described adjectivally, for example, a = excellent, b = good, c = satisfactory and d = unsatisfactory.

The e-reward 2014 survey of performance management found that overall ratings were used by 79 per cent of respondents. The most popular number of levels was five (43 per cent of respondents). However, some organizations settled for three levels. There is no evidence that any single approach is superior to another, although the greater the number of levels the more is being asked of managers in the shape of discriminatory judgement. It is, however, preferable for level definitions to be positive rather than negative and for them to provide as much guidance as possible on the choice of ratings. It is equally important to ensure that level definitions are compatible with the culture of the organization and that close attention is given to ensuring that managers use them as consistently as possible.

The main problem with ratings is that they are largely subjective and it is difficult to achieve consistency between the ratings given by different managers. Because the notion of ‘performance’ is often unclear, subjectivity can increase. Even if objectivity is achieved, to sum up the total performance of a person with a single rating is a gross oversimplification of what may be a complex set of factors influencing that performance. To do this after a detailed discussion of strengths and weaknesses suggests

that the rating will be a superficial and arbitrary judgement. To label people as ‘average’ or ‘below average’, or whatever equivalent terms are used, is both demeaning and demotivating.

### Pause for thought

What are the arguments for and against ratings?

The whole performance review session may be dominated by the fact that it will end with a rating, thus severely limiting the forward-looking and developmental focus of the meeting, which is all important. This is particularly the case if the rating governs performance pay or contribution pay increases.

Another problem is that managers may inflate ratings to avoid confrontation with the individuals concerned. Some organizations attempt to counter this by using forced distribution, which requires the rater to conform to a laid-down distribution of ratings between different levels, for example: A = 5 per cent, B = 15 per cent, C = 60 per cent, D = 15 per cent and E = 5 per cent. This achieves consistency of a sort but managers and staff rightly resent being forced into this sort of straitjacket.

An alternative to forced distribution is forced ranking. This is most common in the United States where the outcome is sometimes known as a ‘vitality curve’. Managers are required to place their staff in order from best to worst. The problem with forced ranking, as with forced distribution, is that the notion of performance may not be defined and is therefore not measurable. In the case of ranking it is therefore unclear what the resulting order of employees truly represents.

Some organizations, mainly in the United States, have gone as far as adopting the practice of annually terminating the employment of 5 to 10 per cent of the consistently lowest performers. This is sometimes called ‘stack ranking’ and may be referred to colloquially as ‘rank and hank’. It is claimed that this practice ‘raises the bar’, ie it is said that it improves the overall level of performance in the

business, but there is no evidence that this is the case. A mechanistic ‘rank and yank’ system will only create a climate of fear and will at best inhibit and at worst destroy any possibility that performance management is perceived and used as a developmental process. It is better to have good processes for identifying performance problems and helping underperformers to improve, coupled with effective capability procedures.

### Pause for thought

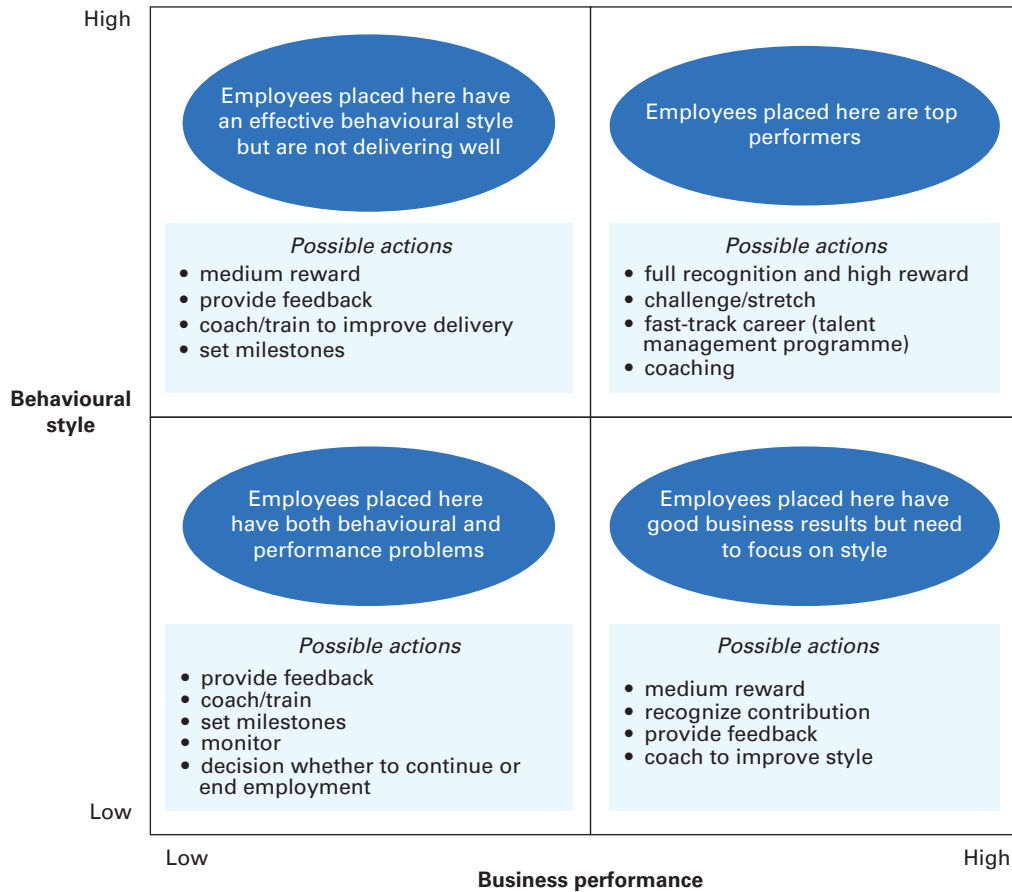
- Poor ratings can stigmatize performance and cause unnecessary resistance to the acceptance of feedback.
- The goal is to have the employee assist us in describing, interpreting and redirecting performance feedback, not reacting to the ratings. Feedback can accomplish the same positive goal as a rating without the negative side effects.
- If the goal is performance improvement, then feedback – not labelling past efforts – is the preferred tool.

Lee, C D (2005)

To what extent do you agree with these sentiments?

## Visual assessment

Visual assessment is an alternative to rating. It takes the form of an agreement between the manager and the individual on where the latter should be placed on a matrix or grid, as illustrated in Figure 38.7. The vertical axis of the grid in this example assesses the behavioural style adopted by the individual in carrying out the role, ie inputs. The elements of behaviour to be assessed would be defined in a competency framework and this would be amplified in schedules of what would be regarded as acceptable or unacceptable behaviour for each area of competency. The horizontal axis measures the level of business performance, ie outputs or what the individual delivers. The assessment can place someone

**FIGURE 38.7** Visual performance assessment matrix

anywhere in one of the four quadrants according to behavioural style and delivery. Examples of possible actions are provided. A picture is thus provided of the individual's overall contribution, which is presented visually and as such provides a better basis for analysis and discussion than a mechanistic rating.

## Recording the performance agreement and review

The performance agreement and outcomes of a review can be recorded on a performance management form; the simpler the form the better. It should

serve as a working document. It should be regularly used by managers and individuals as a reference document on objectives and plans when reviewing progress. It is a means of recording agreements on performance achievements and actions to be taken to improve performance or develop competence and skills. It should be dog-eared from much use – it should not be condemned to moulder away in a file. Examples of forms are given in Figures 38.8a and 38.8b.

In order to simplify the process and give managers the maximum degree of autonomy, some organizations do without forms completely. Managers and individuals simply make notes of the content of a role profile as updated and on the agreed development plan.

**FIGURE 38.8 (a)** Performance management form (part 1)

PERFORMANCE AND DEVELOPMENT: AGREEMENT AND PERSONAL DEVELOPMENT PLAN			
Name:		Forename(s):	
Job title:		Department:	
Reviewer's name		Job title:	
PERFORMANCE AND DEVELOPMENT AGREEMENT			
Objectives		Performance measures	
Competencies		Agreed actions	
PERSONAL DEVELOPMENT PLAN			
Development need	How it is to be met	Action by whom	Target completion date

### **Web-enabled performance management**

Web-enabled or online performance management makes it easier for managers and employees to record role profiles and performance agreements, monitor progress against the plans, access performance documents, and gather multisource (360-degree appraisal) comments. All this data can be used to assist in performance reviews and record further agreements emerging from the reviews. The aim is to reduce paperwork and simplify the process.

### **Introducing a performance management system**

The programme for introducing a performance management system should take into account that one of the main reasons why it fails is that either line managers are not interested, or they don't have the skills, or both. It is important to get buy-in from top management so that their leadership can encourage line managers to play their part. Line managers should be involved in planning the scheme

**FIGURE 38.8 (b)** Performance management form (part 2)

PERFORMANCE AND DEVELOPMENT REVIEW	
Objectives	Achievements
Competencies	Actions taken
Development needs	Actions taken
Comments by reviewer:	
Signed:	Date:
Comments by person reviewed:	
Signed:	Date:

and its implementation. They have to be convinced that the time they spend will pay off in terms of improved performance. To encourage buy-in, the process has to be simple (not too much paper). The demanding skills of concluding performance agreements, setting objectives, assessing performance, giving feedback and coaching need to be developed by formal training, and supplemented by coaching and the use of mentors.

## Requirements for success

Research by Haines and St-Onge (2012) established that performance management is more likely to be successful when:

- there is more performance management training for managers covering performance coaching and constructive feedback;

- employee recognition is emphasized;
- the corporate culture values engagement;
- performance management is strategically integrated with human resource management and the business plans of the organization;
- human capital is valued;
- there is a positive employee relations climate.

To which could be added the following comments:

### Words of wisdom

Managers at all levels in a hierarchy can play an important role in the operation of the performance management system. If the performance management system is going to be tied into the business strategy, it is critical that senior management take a role and make the tie between business strategy and the performance management system. The behaviour of management is also an indication of how important the performance management system is and as a result is likely to have a strong influence on how the system is actually executed.

Lawler and McDermott (2003: 55)

But getting performance management to work well is hard. The need to ‘reinvent performance management’ was argued convincingly in the *Harvard Business Review* by Buckingham and Goodall (2015) and many other commentators since then. These views and the actions that can be taken are considered in the next chapter.

## 360-degree feedback

360-degree feedback, also known as multi-source feedback, is the assessment of someone’s performance

by a number of people which is fed back to the individual. The assessors usually include their manager and subordinates but to these may be added colleagues and even, rarely, customers. It is also known as multi-source feedback. Assessors rate aspects of performance such as leadership, teamwork, communication, organizational skills, decisiveness, drive and adaptability. Questionnaires are normally processed with the help of software developed within the organization or, most commonly, provided by external suppliers. Feedback is presented to individuals, often anonymously but sometimes by their manager.

If the purpose of the system is primarily developmental, as should be the case, the action may be left to individuals as part of their personal development plans, but the planning process may be shared between individuals and their managers if they both have access to the information. Even if the data only goes to the individual it can be discussed in a performance review meeting so that joint plans can be made, and there is much to be said for adopting this approach. Expert counselling and coaching for individuals as a result of the feedback may be provided by a member of the HR department or an outside consultant.

The advantage of 360-degree feedback is that individuals can get a more rounded view of their performance from different perspectives than they can obtain if their only assessment is by their manager. The disadvantages are that the process can be stressful, people do not necessarily give frank or honest feedback, and it involves quite a lot of administration. Grint (1993: 68) argued that 360-degree feedback ‘merely replaces single-assessor subjectivity with multi-assessor subjectivity’.

The term ‘360-degree feedback’ is sometimes used loosely to describe upward feedback where this is given by subordinates to their managers. This is the most common approach and is more properly described as 180-degree feedback. The 360-degree feedback or a variant of it was used by only 19 per cent of the respondents to the 2014 e-reward survey.

## Key learning points

### Performance management system defined

A performance management system is the defined set of procedures – planning, monitoring and reviewing performance – that in sequence constitute an organization's formal approach to performance management.

### Models of the performance management system

Ideally, the system flows from the organization's objectives and then through processes of planning, monitoring and reviewing as a continuous and self-renewing cycle as modelled in Figure 38.1.

### Performance and development planning

Performance and development planning is carried out within the context of the corporate strategy. It is based on performance agreements. These emerge from the analysis of role requirements and from performance reviews where assessments of performance lead to the definition of future requirements. Agreement is reached during the planning process on how performance will be measured.

### Managing performance throughout the year

Perhaps one of the most important features of performance management is that it is a continuous process, which reflects normal good management, practices of setting direction, monitoring and measuring performance and taking action accordingly.

### Performance reviews

Traditionally, formal performance reviews provided an annual (usually) focal point for the consideration of key

performance and development issues. They led to the completion of the performance management process by informing performance agreements and often involved some form of assessment.

### Introducing performance management

The programme for introducing performance management should take into account that one of the main reasons why it fails is that either line managers are not interested, or they don't have the skills, or both.

The demanding skills of concluding performance agreements, setting objectives, assessing performance, giving feedback and coaching need to be developed by formal training supplemented by coaching and the use of mentors.

### Requirements for success

These are:

- more performance management training;
- emphasis on employee recognition;
- the corporate culture emphasizes the importance of performance and values engagement;
- performance management is strategically integrated with human resource management and the business plans of the organization;
- a positive employee relations climate.

### 360-degree feedback

360-degree feedback is the assessment of someone's performance by a number of people which is fed back to the individual. The assessors usually include their manager and subordinates but to these may be added colleagues and even, rarely, customers. It is also known as multi-source feedback.



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# 39

## Reinventing performance management

### Introduction

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#### Words of wisdom

Performance management is known as the 'Achilles heel' of human capital management, and it is the most difficult HR system to implement in organizations.

Pulakos (2009: 3)

This observation by one of the most distinguished US researchers and commentators on performance management rings true. Anyone who has had the experience of introducing and running a performance management system, like the writer, will agree with it. The traditional approach to performance management has been heavily criticized, as reviewed in the first section of the chapter. There are also problems with the system itself and the role of line managers and these are considered in the next two sections. The chapter continues with a discussion of what can be done to deal with the issues by 'reinventing' performance management. It is concluded with a proposal on a radical new approach.

### Performance management criticisms

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Some years ago Grint (1993: 62), referring to performance appraisal, asserted, famously, that: 'Rarely in the history of business can such a system have promised so much and delivered so little.' Coens and Jenkins delivered the following judgement later:

#### Words of wisdom

Throughout our work lives, most of us have struggled with performance appraisal. No matter how many times we redesign it, retrain the supervisors, or give it a new name, it never comes out right. Again and again, we see supervisors procrastinate or just go through the motions, with little taken to heart. And the supervisors who do take it to heart and give it their best mostly meet disappointment.

Coens and Jenkins (2002: 1)

Shields (2007: 6) argued that: ‘Ill-chosen, badly designed or poorly implemented performance management schemes can communicate entirely the wrong messages as to what the organization expects from its employees.’

Performance management can be modelled convincingly as a system but the acts or failures to act of fallible human beings prejudice the effectiveness of the system in practice. The following comment refers to this issue.

### Words of wisdom

The problems [of performance management] are... not of ambition or intent, but rather practice and delivery. Low rates of coverage and even more frequently low-quality conversations and non-existent follow-up are commonplace, in the wake of uncommitted directors, incompetent line managers, uncomprehending employees and hectoring HR with their still complex and bureaucratic HR processes.

Brown (2010: 1)

On the basis of research conducted by the Institute for Employment Studies, Brown (2011: 16) also observed that: ‘The main areas of concern [about performance management] were the skills and attitudes of reviewing managers, the consistency and quality of approach across large organizations, the complexity of the paperwork and the value of outputs... Performance management, it appears, isn’t working.’

Postuma and Campion (2008: 50) noted that: ‘Too much attention has been placed on the design of a [performance management] system and not enough on how it works when implemented’ (ibid: 50).

A number of senior HR leaders were surveyed by the CIPD (2016) to obtain their opinions about performance management. Their views were compared with those of a sample of business leaders working

outside the area of HR. It was found that while nearly half (49 per cent) of the HR leaders’ organizations used annual appraisals, most of them (55 per cent) did not consider them effective. Six-monthly appraisals seem to work slightly better, but were still seen as ineffective in a third (37 per cent) of cases. Senior leaders from outside HR were even more critical, with three in four (73 per cent) considering annual appraisals ineffective and nearly half (46 per cent) considering six-monthly appraisals ineffective.

There is also the issue of the extent to which employees believe that performance management has improved their performance. A survey by the CIPD (2014) found that only 22 per cent of respondents thought that performance management had been effective in improving their performance, while 22 per cent felt that it was ineffective and 16 per cent that it was very ineffective.

### Pause for thought

If 38 per cent of the CIPD’s respondents thought that their performance management system was ineffective, why on earth don’t they do something about it?

Performance management can indeed be very hard to do well. This is partly because of its many-faceted nature in its traditional form. Cascio summed it up as follows:

### Words of wisdom

It [performance management] is an exercise in observation and judgement, it is a feedback process, it is an organizational intervention. It is a measurement process as well as an intensely emotional process.

Above all, it is an inexact, human process.

Cascio (2010: 334)

This is what Julian Richer, the founder and chairman of the highly successful hi-fi and TV business Richer Sounds had to say:

### Words of wisdom

If you have to sit down with your staff to find out how they're doing, as a manager you're not doing your job properly. You should already be familiar with the quality of their work.

An annual assessment is purely a snapshot, it captures the employee's performance at that time, their views and moods (and their manager's) on that day only. People aren't machines, they have their ups and downs and so a snapshot is not a realistic portrayal of anyone's performance. Too often the assessment is carried out in a rush to hit some arbitrary deadline.

Assessments can be very intimidating, especially as they are normally linked to pay rises. Just as some people do badly in interviews, some otherwise good people get freaked out over assessments and do not do themselves justice.

Richer (2017: 111)

## Performance management system issues

Performance management system issues are concerned with the annual performance review, performance rating, forced ranking, performance pay and objective setting.

## Performance reviews

Performance reviews or appraisals are often expected to fulfil numerous functions including performance improvement, feedback, coaching, goal setting, skill development, the assessment of potential, pay determination and the identification of underperformers. No performance appraisal system can meet all these ends. Peter Reilly (2015) commented that: 'All-singing, all-dancing performance appraisal... requires managers to review a wide range of content (reward, training needs, business alignment, etc) and use of multiple processes (eg personal development planning, performance ranking, potential assessment etc), but also to apply different modes of management – appreciation, evaluation and coaching – which can be very tough on them to deliver.' It is no wonder that line managers do not live up to the expectations of HR or that the perfunctory training in performance management provided by most organizations fails to produce the multi-skilled, multi-tasking paragon the system demands.

This might explain why the e-reward 2014 survey of performance management established that one of the main problems concerning respondents about their performance management processes was line managers who are reluctant to conduct performance management reviews.

## Performance ratings

The main problem with performance ratings is that they are largely subjective and it is difficult to achieve consistency between the ratings given by different managers. Because the notion of 'performance' is often unclear, subjectivity can increase. A meta-analytic study of the reliability of performance ratings by Viswesvaran *et al* (1996) found that on average, two supervisors rating the same employee on average correlate at around .5, implying only 25 per cent overlap between their evaluations. As Chamorro-Peremizic (2017: 56) commented: 'In other words, if two managers are asked to rate 10 employees, their views would be different for at least seven of those employees.'

Research by Scullen and Mount (2000) revealed the subjective nature of ratings. Their study – in

which 4,492 managers were rated on certain performance dimensions by two bosses, two peers, and two subordinates – showed that 62 per cent of the variance in the ratings could be accounted for by individual raters' peculiarities of perception. Actual performance accounted for only 21 per cent of the variance. This led the researchers to conclude that: 'Our results show that a greater proportion of variance in ratings is associated with biases of the rater than with the performance of the ratee.'

Neuroscience research reported by Rock *et al* (2014) has shown why numbers-based performance management is obsolete. He noted that labelling people with any form of numerical rating or ranking automatically generates an overwhelming 'fight or flight' response that impairs good judgement. This neural response is the same type of 'brain hijack' that occurs when there is an imminent physical threat like a confrontation with a wild animal. It primes people for rapid reaction and aggressive movement. But it is ill-suited for the kind of thoughtful, reflective conversation that allows people to learn from a performance review.

Pulakos *et al* (2008) noted that if a system is strictly developmental, there is less need for ratings and in fact they may detract from development. This is because employees tend to be more concerned about their 'score' than understanding of their development needs.

Even if objectivity is achieved, to sum up the total performance of a person with a single rating is a gross oversimplification of what may be a complex set of factors influencing that performance. To do this after a detailed discussion of strengths and weaknesses suggests that the rating will be a superficial and arbitrary judgement. To label people as 'average' or 'below average', or whatever equivalent terms are used, is both demeaning and demotivating.

### Forced ranking

In a forced ranking or 'stack ranking' system, the rank order is divided into percentiles, eg the top 20 per cent, the middle 70 per cent and the bottom 10 per cent. The aim is to place employees into categories such as high flyers (eg the top 20 per cent in this example), unacceptable (the bottom 10 per cent) or those performing at an acceptable but not exceptional level (the remaining 70 per cent).

Supporters of forced ranking say it is a good way of weeding out unsatisfactory employees as well as identifying and rewarding the top players. But the following trenchant criticism of forced ranking has been made:

#### Words of wisdom

We couldn't find a shred of evidence that it is better to have just a few alpha dogs at the top and treat everyone else as inferior. Rather, the best performance comes in organizations where as many people as possible are treated as top dogs. If you want people to keep working together and keep earning together, it is better to grant prestige to many rather than few, and to avoid big gaps between who gets the most rewards and kudos.

Pfeffer and Sutton (2006: 28):

A forced ranking approach will not work unless employees understand what is expected of them, there are fair procedures for reviewing and classifying levels of performance, and employees trust their managers to use these procedures to assess their performance correctly. These are exacting requirements.

### Performance pay

Focusing on performance management as a means of deciding on performance pay awards may conflict with the developmental purposes of performance management. This is more likely to be the case if ratings are used – the performance review meeting will concentrate on the ratings that emerge from it and how much money will be forthcoming. The non-financial reward elements of performance management associated with feedback and recognition will be subordinated to this preoccupation with pay. Many organizations attempt to get over this problem by holding development and pay review meetings on separate dates, often several

months apart (decoupling). Some do without formulaic approaches (ratings) altogether, although it is impossible to dissociate performance pay completely from some form of assessment, even if this is limited to making decisions on which employees should have above average, average or below average increases or no increase at all.

### Pause for thought

What do you think should be done about performance ratings?

## Objective setting

There are three issues relating to setting objectives: (1) an over-emphasis on quantification; (2) the use of the ‘SMART’ acronym; and (3) linking individual and organizational objectives.

### Over-emphasis on quantification

A performance objective or goal (the terms are interchangeable) describes what someone has to accomplish. Ideally objectives should be defined as specific targets – eg ‘reduce reject levels by 3 per cent within nine months’, ‘introduce x by y’. The problem is that, as a hangover from the largely discredited management-by-objectives system, some organizations insist that all objectives should be quantified in this way. For some jobs or parts of jobs where the job holder is responsible for providing advice this can be difficult. For example, HR business partners are there, amongst other things, to provide advice and support to their line manager clients. A quantified target of, say: ‘Provide a minimum of five pieces of good advice a week’ would be meaningless. But it is possible to define the conditions that would exist if the task of providing advice has been well done, for example: ‘The advisory aspect of the job will have been done well when the job holder consistently provides prompt, good and actionable advice to line manager clients as required.’ This can be termed a standard of performance. Line managers risk being frustrated by having to pursue the will-of-the-wisp of quantification for the sake of quantification.

## Use of the SMART acronym

The acronym ‘SMART’ is often used to define a good performance objective or goal. Traditionally, S stands for specific (sometimes stretching), M for measurable, A for agreed, R for realistic and T for time-related. But an emphasis on being SMART may give managers the impression that everything has to be quantified, which leads to frustration when they find out that it can’t be done and results in the setting of unrealistic targets. And a formulaic approach like this can lead to superficial assessments.

## Aligning individual and organizational objectives

The text books on performance management usually recommend that individual objectives should be aligned to those of the organization. But they do not make it clear how this can be done. It is difficult. Individual roles can seem to be remote from the organization’s goals. Where the attempt is made to establish a link it can too easily be expressed as a bland declaration of intent rather than a specific objective. Only half the respondents to e-reward’s 2014 performance management survey said they did it.

## The role of line managers

However well designed, the effectiveness of a performance management system ultimately depends on the commitment and skills of line managers. Postuma and Campion remarked that:

### Words of wisdom

One of the most dreaded tasks managers face is meeting with employees to discuss their job performance. These meetings present a dilemma for managers. On one hand, managers need to give constructive criticism so that employees can improve their performance. On the other hand, managers do not like to give negative

feedback because of the bad feelings that often result. It is not surprising, then, that managers avoid giving accurate evaluations, give overly generous evaluations or avoid the process altogether.

Postuma and Campion (2008: 47)

those who expect too much of them in handling over-complex systems and fail to provide them with the training, guidance and help they need to develop and apply the demanding skills required.

### Pause for thought

Is this a fair comment?

Line managers are often blamed for the failure of performance management for lack of commitment or skill but the real blame should be attached to

The following were the findings of research conducted by the Institute for Employment Studies:

### Source review

Training in performance management was quite haphazard or cursory in several of the cases. It could be included as a small item in a general introduction to management. Such training often concentrated on how to fill in the forms rather than the purpose of performance management (PM) or how to have performance and development conversations. Some

cases had modules in managing poor performance, but PM training was often not mandatory. Training still tends to the 'sheep dip' approach rather than being tailored to the manager's needs and level of existing expertise.

Institute for Employment Studies (2011: 15)

## CASE STUDIES

Reinvented performance management at Adobe

### Background

- 13,000 employees.
- Adobe estimated that managers spent 80,000 hours on PM.
- Had tried to realign and make incremental changes for five years and failed to satisfactorily align to needs for collaboration, creativity and innovation.
- 'Genuine, Exceptional, Innovative and Involved' – Adobe's founding values.
- Super-competitive industry.

### The changes

- No annual review, no ratings, no prescribed format, no forms, no PM technology 'system'.
- Manager and employee 'check-ins'.
- Check-in content: expectations, feedback, growth and development agenda.
- Frequency of check-ins – whenever sensible but at least quarterly.
- Employee support centre established.



- Extensive training support for managers – role plays, lectures and online.
- Managers manage pay outcomes and allocated budgets – entirely.
- Regular pulse survey provides insights on decisions and impact.
- Managers able to define their own processes and requirements for HR support.
- Fear of feedback gone.
- Frequent feedback is the new currency for employees and managers.
- Demand for training on coaching others, difficult conversations, mentoring, career development and managing reward up.
- Focus on process, chasing numbers and ratings wiped out.
- Belief in changes being real and aligned to values up.
- Regularity of ‘check-ins’, average of one a month per employee.
- Managers’ knowledge of performance of individuals significantly greater than ever before.

## Results

- Voluntary turnover down 30 per cent in two years.
- Employee engagement up.

## Reinvented performance management at Deloitte

The performance management system developed by Deloitte is underpinned by a new way of collecting reliable performance data. It has no cascading objectives, no once-a-year reviews, and no 360-degree-feedback tools.

It was decided that the first objective of the new system would be to recognize performance, particularly through variable compensation. But to recognize performance it is necessary to see it clearly.

The second objective was therefore to measure performance. Note was taken of the fact that while people may rate other people’s skills inconsistently, they are highly consistent when rating their own feelings and intentions. It was therefore decided to get team leaders to decide on what future actions they wanted taken for each of their team members rather than rate their skills. Team leaders are asked what they would *do* with each team member rather than what they *think* of that individual.

The third objective was to *fuel* performance. Research into the practices of the best team leaders in Deloitte revealed that they conduct regular check-ins with each team

member about current work. These brief conversations allow leaders to set expectations for the upcoming week, review priorities, comment on recent work, and provide correction, coaching, or important new information and clarify what is expected of the team member and why, what great work looks like, and how the best work can be accomplished.

Every team leader is now required to check in with each team member once a week. These check-ins are not *in addition* to the work of a team leader; they *are* the work of a team leader. There was a direct and measurable correlation between the frequency of these conversations and the engagement of team members. However, team leaders have many demands on their time and it was established that the best way to ensure frequency was to have check-ins initiated by the team member – who more often than not is eager for the guidance and attention they provide – rather than by the team leader.

Buckingham and Goodall (2015)

## Reinvented performance management at Microsoft

The formal annual performance review has been replaced by less formal but regular performance and development conversations between managers and employees called ‘Connects’. Every employee is expected to have a minimum of two Connects a year – but beyond this,

Microsoft does not apply any strict rules. Ratings were abolished.

As Microsoft’s Director – Global Performance Programmes, Lisa Dodge explained: ‘The outcome of the old end-of-year review usually felt like a judgement, rather

than an opportunity for employees to learn and get better. The focus of our current approach is designed to help people deliver great impact by working together, reflecting and getting feedback more often, and more intentionally considering learning and growing – and as a result deliver continually better business results. Regular performance conversations have been separated from the reward conversations. Instead of the end-of-year review, managers and employees have a short reward discussion to share the merit, bonus and stock outcomes with the employee.

Meanwhile, the regular discussions employees and managers have during the year focus on the impact someone is having, what they are learning and what they can do in the upcoming few months – there is no discussion of rewards.'

Lisa Dodge also observed that: 'Our employees don't need ratings to know how they are doing... We want rich conversations rather than assuming an employee's performance can be boiled down to a simple label.'

e-reward (2017)

## Dealing with the issues – reinventing performance management

A number of companies such as those in the above case studies have recently introduced radical changes to their performance management systems. They have come to realize that, in the words of one of them, 'traditional performance management is broken'. As proposed by Buckingham and Goodall (2015), it has to be reinvented. This applies to the annual performance review meeting, appraisal rating, especially forced distribution, the direct link with performance-related pay, and the use of SMART objectives.

The focus is now on continuous coaching and development rather than one annual and stressful review, the abolition of ratings, and 'de-coupling' performance management from performance-related pay. Accenture has scrapped annual appraisals for its 300,000-plus workforce and instead has instituted a 'continuous feedback' culture. Expedia has introduced a 'Passport to Performance' system of regular performance and development conversations that are more coaching-oriented.

### Approach to reinvention

The approach adopted to reinventing performance management has to recognize the problems involved in meeting possibly demanding aims and overcoming the practical and political difficulties that will occur. The following comments by Strebler and colleagues based on their research were made on design issues:

#### Source review

Personnel management textbooks are full of touching accounts of how to design and implement performance appraisal and management schemes in organizations. The models they propose are based on a rational and linear logic, which assumes that an organization's goals can be translated into individual goals, which, in turn, can be delivered through feedback, training, development and reward. The reality of organizational life is somewhat different.

Strebler *et al* (2001: 53)

The research conducted by the Institute for Employment Studies led to the conclusions set out below.

#### Source review

Performance management is about how people are managed all year round. This is the central message, which so often seems to get lost. So managers and employees need to hear about performance management throughout the year, not just when the forms have to be filled in. They should hear about performance management in terms of priorities, feedback and development and how these link to business results. These messages need to come from senior managers, not just from HR. Even just talking about managing performance

(what people do) rather than performance management (an odd piece of HR jargon) may help HR people remember what this is really about when they are talking to others. Once performance is genuinely an all-the-year-round activity this opens the door to using different conversations for different aspects of performance management and not cramming everything into the end-of-year review.

The fundamentals of performance management are setting priorities, giving feedback and agreeing action, especially development action. All the other things – ratings, links to reward, competencies, potential and talent assessments – are legitimate concerns but should not be allowed to compromise the quality of actually managing performance. If your managers are still struggling with giving honest feedback or with agreeing sensible priorities, leave the other clutter out for now.

Institute for Employment Studies (2011: 17-18)

## Advice from practitioners

The practitioners who responded to the e-reward (2014) performance management survey recommended the following actions:

- ‘Train, communicate, evaluate performance management through employee engagement surveys, have HR business partners work with line managers, organize round tables (calibration), provide details of expected competency levels per job type/level, clarify that good is acceptable (not everyone can be a star), encourage ongoing performance management. It’s more than just an annual administrative hoop – it’s a powerful management tool.’
- ‘Keep it very, very simple, be able to translate strategy to individual goals and give people a clear line of sight, ensure all people managers are capable to deliver performance management, ie have a performance dialogue (this is the key!) at any time and not just at the annual review.’
- ‘Focus on the positives, create a culture of continual performance management rather than restricting it to an annual appraisal (to

avoid surprises when it comes to ratings and encourage individuals to focus on performance throughout the year). Make a performance management system open and available all year round rather than releasing an appraisal at certain set times of the year. Analyse the data on performance ratings to see trends, highlight areas for improvement and ensure no discriminatory bias. Train.’

- ‘Ensure the paperwork (hardcopy or e-) does not drive the process. The appraisal should be clearly aligned to the organization’s strategic objectives and values. It is the conversation between the manager and employee that is most important. Managers need to be given the skills to manage difficult conversations and all staff need to know how to give and receive feedback.’
- ‘Ensure the system isn’t hampered by bureaucracy and tedious paperwork. Make it easy for all to actively engage with the system and put the focus on having quality open conversation between reviewer and reviewee.’
- ‘Consistency – one scheme for all, make it about good conversations, not just a process.’
- ‘Clear line of sight between objective setting, performance review and business goals. Regularly review and update in accordance with any changes in business needs.’
- ‘Acknowledge any link to remuneration – if you don’t, people will create their own links.’

## Possible new arrangements

A framework for analysing possible new performance management arrangements is shown in Table 39.1.

### Pause for thought

To what extent do you think it would be a good idea to adopt the suggestions made above?

**TABLE 39.1** Analysis of possible new performance management arrangements

Possible new arrangement	Advantages	Disadvantages
<p><b>Annual performance review</b></p> <p>Replace the annual performance review with more frequent 'performance and development conversations', which provide informal feedback and include the discussion and revision of priorities and development plans.</p>	<p>Gets rid of the 'dishonest annual ritual' of the yearly formal performance review and appraisal session, which is often dreaded by both managers and individuals and, if done at all, is carried out perfunctorily. This is replaced by much less formal conversations, which arise naturally out of the normal process of work.</p>	<p>Abolishing the annual review means that there will no longer be an opportunity to hold what might be called a stock taking exercise which provides a defined framework for development planning and objective setting.</p>
<p><b>Ratings</b></p> <p>Abolish ratings</p>	<p>Overcomes the fundamental objections to rating performance. These are that ratings are largely subjective and it is difficult to achieve consistency between the ratings given by different managers. Even if objectivity is achieved, to sum up the total performance of a person with a single rating is a gross over-simplification of what may be a complex set of factors influencing that performance. To label people as 'average' or 'below average', or whatever equivalent terms are used, is both demeaning and demotivating.</p>	<p>Abolishing ratings would mean that the following advantages would disappear:</p> <ul style="list-style-type: none"> <li>• they provide a convenient means of summing up judgements</li> <li>• they motivate people by giving them something to strive for in the shape of higher ratings</li> <li>• they provide a basis for identifying potential.</li> </ul> <p>It can also be argued that it is impossible to have performance pay without rating, but there are ways of overcoming this.</p>
<p><b>Forced ranking</b></p> <p>Abolish forced ranking</p>	<p>Get rid of the climate of fear and the likelihood that those ranked highest on the scale are more competitive and less cooperative than those ranked.</p>	<p>No longer possible to use forced ranking as a means of identifying those employees who should be dismissed for poor performance.</p>
<p><b>Link with performance pay</b></p> <p>Decouple performance pay decisions from performance reviews</p>	<p>Avoids the conflict between focusing on performance management as a means of deciding pay increases and satisfying its developmental purposes.</p>	<p>Makes the process more complex. It is easy to rate performance at an annual review and link the rating directly to a performance pay increase.</p>

*(continued)*

**TABLE 39.1** (Continued)

Possible new arrangement	Advantages	Disadvantages
<p><b>Objective setting</b></p> <p>Replace complex objective-setting procedures involving, for example the requirement for 'SMART' objectives, key result areas and key performance indicators, with a system based simply on determining and agreeing a limited number of key priorities. The priorities can include targets and delivery time scales as appropriate and will indicate how the extent to which they have been met can be assessed.</p>	<p>The process is simpler and easier to understand and operate. Managers can feel that they have better things to do than draw up lists of key result areas and performance indicators and may find it difficult to meet the SMART objective criteria.</p>	<p>Abandoning the discipline of setting SMART objectives related to rigorous definitions of key result areas and performance indicators might result in a vacuum, which will not be filled by the vaguer concept of priorities. This might fail to provide people with adequate information about job requirements and leave them with insufficient direction.</p>

## Training line managers

Some managers such as those quoted later in this chapter are naturally good at managing performance because they are effective managers and have learned to be so over the years from experience, observing other successful managers and more formal coaching and mentoring procedures. However, these skills are not shared amongst all managers and steps need to be taken to develop the essential skills, namely:

- defining roles and setting objectives;
- conducting informal performance and development discussions;
- giving feedback;
- handling challenging conversations.

The learning required will not be achieved by a 'sheep-dip' process of half-day training sessions. It is far better to cater for it by an extended leadership development programme, an important part of which should be conducted through mentoring and coaching. Experienced managers who have demonstrated that they have the skills required and are keen to help can usefully act as mentors.

The recommendations made by the Institute for Employment Studies of training are:

### Source review

Train all managers, especially new ones or newly recruited ones, in how to do performance management, not just in how to fill in the paperwork. That means understanding how to align priorities, how to give and receive feedback, how to coach, how to motivate, how to manage poor performance. All employees should be equipped to play their role fully in the process – written guidance or a half-hour session is probably not enough to achieve this. Experienced managers are likely to need refresher training and senior managers need skill progression in the art of performance management so they can give wise advice to others on how to handle trickier situations. Not all performance conversations are 'difficult conversations' but they are all important ones. Coaching managers as they tackle demanding performance management situations may be an effective complement to formal training. Such coaching can come from more senior managers or HR experts in performance management or from HR Business Partners as part of the way they work with the line.

Institute for Employment Studies (2011: 20-21)

## A radical way ahead?

Reinvention along the lines described above may be desirable but there is a fundamental question that should be answered: ‘To what extent is there any need for a formal performance management system at all?’ Clearly it is essential to have some sort of process for clarifying objectives, providing feedback on performance, reviewing performance and identifying development needs. But does it need to be formalized in a performance management system?

Julian Richer does not have annual formal assessments at Richer Sounds. Instead, assessment is seen as a normal process of management (see below) and a system of career counselling has been introduced. An employee can request a meeting with a senior person at any time in order to discuss their career, whether there is a specific problem or whether they are concerned with their whole future direction.

The Institute for Employment Studies published in 2013 the results of interesting research by Dilys Robinson on how managers who had achieved high levels of engagement in their teams went about it. Here is what four of those managers told her about how they managed performance:

- ‘So, the key for me is just one-to-one time, and they know what they’re aiming for, and we talk about it regularly. So it never really gets to the situation where there’s like a really great big formal sit-down to say let’s review everything you’ve done.’
- ‘I think it’s regular dialogue... at least once a fortnight for an extended period of time, just one to one and just about them and the work they’re doing and what’s going on... just so that I understand what they’re doing and so I can give a bit of a steer or give them a bit of coaching if they need some coaching; help them if they want some help and support.’

- ‘Every week I have a one-to-one session with people who work for me. And it’s half an hour; it’s the opportunity to talk things over with people. I say to people it’s your time with me. But, to be honest, it’s not just that; it’s me getting to talk to them.’
- ‘This organization has a very structured performance management framework, as you would imagine from a big company. I try and avoid using it unless I have to; I would rather try and develop the personal relationship with someone, to understand their issue and try and improve their performance by working with them, rather than going through procedural ways of managing performance.’

Perhaps the best way to deal with the annual performance review issue, indeed the whole problem of making performance management work, is for managers to act like this rather than compel them to conform to the bureaucratic requirements of a typical performance management system. These managers are managing performance, not operating a system. They are constantly communicating with their team members, they clarify what has to be done and take swift action to deal with underperformance, they praise when praise is due and they coach their staff. To get this sort of manager is a matter of selection, development through coaching and mentoring, and constant encouragement. It would take a lot of time and effort but it would be time well spent.

### Pause for thought

What do you think of this idea? Is it utopian or can something be done about it? If so, what?



## Key learning points

The problem with performance management

Performance management can be modelled convincingly as a system but the acts or failures to act of fallible human beings prejudice the effectiveness of the system in practice.

Performance management can indeed be very hard to do well. This is partly because of its many-faceted nature in its traditional form.

Performance management system issues

Performance management system issues are concerned with the annual performance review, performance rating, forced ranking, performance pay and objective setting.

The role of line managers

However well designed, the effectiveness of a performance management system ultimately depends on the commitment and skills of line managers.

What is happening to performance management?

The focus is now on continuous coaching and development rather than one annual and stressful review, the abolition of ratings, and 'de-coupling' performance management from performance-related pay.

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# PART X

## Reward management

### PART X CONTENTS

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### Introduction

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Reward management as described in this part is defined as how organizations develop and implement a reward system of interrelated reward practices.

The part covers: (a) an analysis of the process of reward management – what it is and how, in general, it works; (b) descriptions of the main reward

activities of market pricing, job evaluation, managing grade and pay structures (base pay management), contingent pay, employee recognition, employee benefits and reward administration; (c) rewarding special groups (executives, knowledge workers, sales and customer service staff and manual workers; and (d) the steps required to reduce the gender pay gap.

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## 40

# The basis of reward management

## Introduction

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Reward management can be described as a process that is based on a philosophy and guiding principles and is put into effect by a reward system that consists of a number of interrelated reward practices. The effective management of reward can make a significant impact on the performance of the organization by ensuring that high-quality people are attracted and retained and that they are motivated by rewards that recognize their value and contribution.

This chapter contains:

- A definition of reward management
- An analysis of the factors that drive reward
- Explanations of the aims, values and beliefs of reward management
- An examination of the nature of reward policy and strategy
- A description of the reward system
- A review of three of the key elements of a reward system: financial rewards, non-financial rewards and total reward

## Reward management defined

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Reward management deals with the strategies, policies and practices required to ensure that the value of people and the contribution they make to achieving organizational, departmental and team goals is recognized and rewarded. It provides answers to

two fundamental questions: (1) How do we value people? and (2) How are we going to reward them according to that value?

Reward management in action is about the design, implementation and maintenance of reward systems. These consist of reward processes, practices and procedures and cover: how jobs and people should be valued; the design and administration of grade and pay structures (base pay management); rewarding and recognizing achievements and performance; providing employee benefits; and implementing procedures for managing reward.

Reward systems exist to satisfy the needs of the organization to attract, retain and motivate high-quality people and thus improve performance and achieve corporate goals. But importantly, they are also there to meet the needs of the people in the organization. And they must also meet various external requirements such as complying with government regulations, for example, those requiring certain organizations to report on the ratio of their chief executives' remuneration to the median pay of their UK employees, employment law and taxation.

Reward management is not just about pay and employee benefits. It is equally concerned with non-financial rewards such as recognition, autonomy, learning and development opportunities, and increased job responsibility.

## *Aims of reward management*

The aims of reward management are to:

- support the achievement of business goals by developing a performance culture and stimulating high performance;

- attract and retain the high-quality people the organization needs;
- motivate and win the engagement of employees;
- reward people according to the value they create;
- deliver value on the investment in rewards to both the employer and the employees;
- align reward practices with employee needs.

But Ghoshal and Bartlett (1995) reminded us that reward management is essentially about *adding* value to people. It is not just about attaching value to them.

### Reward drivers

Reward is a complicated field, but it can be argued that there are three fundamental determinants of any reward management system as illustrated in Figure 40.1 below: internal considerations of fairness and relativities, supported by job evaluation systems and grading structures; external considerations of market rates of pay, to

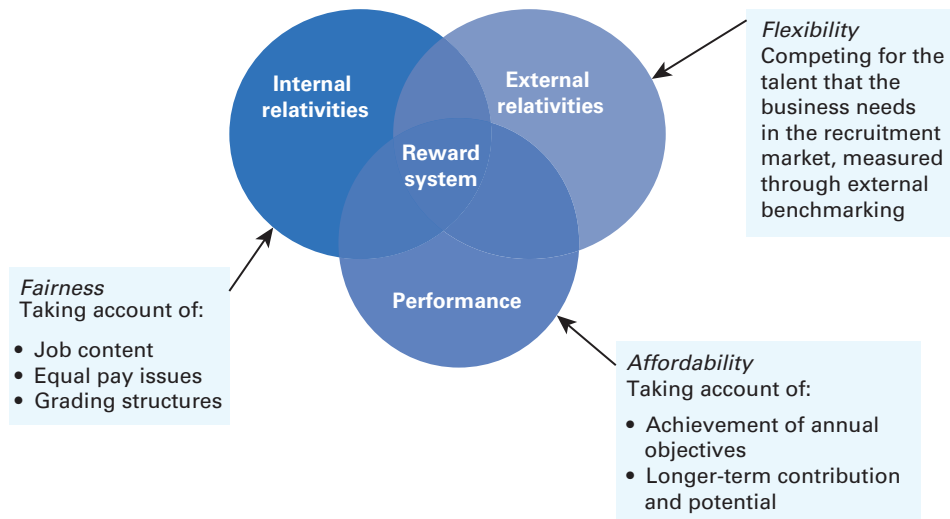
enable the employer to recruit and retain people, supported by internal pay levels and ranges; and performance-related factors linked to guaranteeing the delivery of the strategic goals of the organization and ensuring pay budgets are affordable, as well as rewarding and recognizing employee performance.

## Values and beliefs

Reward policies and practices are affected by the values and beliefs of the organization about how people should be rewarded and how the reward system should be managed. These may be articulated as a reward philosophy that sets out the broad values of the organization or as a set of guiding principles such as:

- developing reward policies and practices which support the achievement of business goals;
- providing rewards which help to develop a high-performance culture and attract, retain and motivate staff;

**FIGURE 40.1** Reward drivers



Source Brown (2018)

- maintaining competitive rates of pay;
- rewarding people according to their contribution;
- recognizing the value of all staff who are making an effective contribution, not just the exceptional performers;
- emphasizing the importance of dealing with gender pay issues;
- accepting the need to deal with reward matters ethically;
- allowing a reasonable degree of flexibility in the operation of reward processes and in the choice of benefits by employees;
- devolving more responsibility for reward decisions to line managers.

Reward management can be controversial and principles are therefore important to define the desired state in the organization, what ‘good’ and ‘effective’ mean from a reward perspective in any employer setting. Some employers for example regard paying market rates as the be all and end all of their pay systems, while others regard internal relativities as more important; and some employers focus heavily on cash rewards while others believe in offering a good benefits package. These policies are driven by their beliefs and principles about what motivates people, what the organization stands for, and what they believe is right.

Guiding principles are often agreed by top management with advice from company reward specialists or external consultants. But they will be more acceptable if members of the organization are involved in their definition. Guiding principles can then be communicated generally to increase understanding of what underpins reward policies and practices. However, employees will suspend their judgement of the principles until they experience how they are applied. What matters to them is not the principles themselves but the pay practices emanating from them and the messages about the employment ‘deal’ that they get as a consequence. It is the reality that is important, not the rhetoric.

The following are examples of a reward philosophy produced by Colt Telecom and the guiding principles adopted by Diageo.

### Source review

#### Colt: Reward philosophy

Colt believes that talented and motivated people make a difference; talented people put us ahead of the competition and deliver the results on which the success of Colt is built. Colt seeks to offer a compensation and benefits package that rewards people for their contribution to the success of the company and ensures that external market competitiveness and internal relativities are taken into account.

### Source review

#### Reward guiding principles at Diageo

- *Performance*: rewards are developed that reflect team and individual achievements.
- *Market*: rewards reflect the market in which an employee is based, whether that be geographical or functional, and compare favourably with those of competitors.
- *Communication*: Diageo aims to explain to ‘everyone the components and value of their reward package, the criteria that affect it, and how they can influence it’.
- *Effectiveness*: the company seeks ‘best practice’ and ensures its benefits programmes ‘remain effective for the business and our employees’.

## Reward policy

Reward policy sets guidelines for decision making and action and therefore provides the framework for managing a reward system. It indicates what the organization and its management are expected to do



about managing reward and how they will behave in given circumstances when dealing with reward issues. It can be distinguished from guiding principles, which usually express a more generalized philosophy. Reward policy areas are described below.

## Level of rewards

The policy on the level of rewards indicates whether the company is a high payer, is content to pay median or average rates of pay or even, exceptionally, accepts that it has to pay below the average. Policies on pay levels will also refer to differentials and the number of steps or grades that should exist in the pay hierarchy. This will be influenced by the structure of the company. In today's flatter organizations an extended or complex pay hierarchy may not be required on the grounds that it does not reflect the way in which work is organized and will constrain flexibility. Policies on the level of rewards also cover employee benefits – pensions, sick pay, health care, holidays and perks such as company cars.

Policies on the level of rewards can be explained in general terms by the theories summarized in Table 40.1.

The process of determining pay levels and the rates of pay for individual jobs within organizations are influenced generally by the factors described above. Levels of pay are affected by an implicit belief in efficiency wage theory – that higher rates of pay attract good candidates (the sorting effect), enhance performance (the incentive effect) and help to retain employees. There will be policies and practices on the range or dispersion of pay between different levels in the organization. The organization will have a defined or implicit 'pay stance' policy, ie the relationship desired between the levels of pay within the organization and market rates.

Specific factors affecting rates of pay are beliefs about the value of the job and the value of the person, internal relativities, financial considerations (the ability to pay), the influence of trade unions and the minimum or living wage.

## Value of the job

The intrinsic value of a job is a measure of what a job (not a person) is worth in terms of what it contributes to achieving the purpose of the organization. An intrinsic value is attached to jobs because

of the impact they make on organizational results and by reference to the levels of responsibility and skill required to perform them. Increases in impact and these levels lead to higher rates of pay. This concept provides the theoretical base for job evaluation. However, as an explanation of the value attached to jobs it is limited because it ignores external relativities.

## Value of the person

Individuals are valued by organizations for three main reasons: (1) the contribution they make to organizational success, (2) their competencies and skills and (3) the experience they bring to their jobs. People also have their own value in the marketplace – their market worth – which has to be taken into account by employers in setting their rates of pay.

### Pause for thought

Can you think of a time when you were really happy about the way in which you had been rewarded for an achievement? If you can, why did you feel that way?

## Internal relativities

It can be argued that the value of anything, including jobs, is always relative to something else, that is, other jobs. Views on job values within organizations are based on perceptions of the worth of one job compared with others. This may be a matter of opinion, but attempts can be made to measure relative worth through job evaluation, which is essentially a comparative process. The aim is to achieve internal equity, which occurs when people are rewarded appropriately in relation to others according to the value of their contribution. The case for equal pay for work of equal value is based on the imperative to achieve internal equity.

## Financial circumstances of the organization

Affordability is an important concept in reward management. The aim is to ensure that pay systems

**TABLE 40.1** Theories explaining pay levels

Name of theory	Summary of theory	Practical significance
The law of supply and demand	Other things being equal, if there is a surplus of labour and supply exceeds demand, pay levels go down; if there is a scarcity of labour and demand exceeds supply, pay goes up.	Highlights the role of labour market factors in affecting rates of pay and therefore emphasizes the importance of market pricing, ie establishing the level of market rates.
Efficiency wage theory	Firms will pay above the market rate because they believe that high levels of pay will increase productivity by helping to motivate and retain employees.	Firms use efficiency wage theory (although they will not call it that) when they formulate pay policies that place them as above the average, eg in the upper quartile of the distribution of market rates.
Human capital theory	Workers have a set of skills developed by education and training that generate a stock of productive capital.	Employers and employees each benefit from investment in creating human capital. Pay should be fixed at a level which supplies both parties with a reasonable return on that investment.
Agency theory (also known as principal agent theory)	The owners of a firm (the principals) are separate from the employees (the agents). The difference can create 'agency costs' because the agents may not be so productive as the principals would like them to be. The latter therefore have to devise ways of motivating and controlling the efforts of the employees.	A system of incentives is needed to motivate and reward acceptable behaviour. This process of 'incentive alignment' consists of paying for measurable results that are deemed to be in the best interests of the owners. (Agency theory is particularly relevant as a means of explaining the high levels of executive pay.)
Tournament theory	The motivation of high-quality staff will be increased by offering lucrative prizes (ie pay) for a small number of people who are promoted to higher-level jobs, with the highest prize of all to the person who wins the tournament by getting the top job.	Provides a rationale for increasingly large pay differentials between jobs in the hierarchy. Is also a justification for high levels of pay for chief executives.
The effort/reward bargain	Workers aim to strike a bargain about the relationship between what they regard as a reasonable contribution and what their employer is prepared to pay to elicit that contribution.	Management has to assess what level and type of inducement it has to offer in return for the contribution it requires from its workforce. Pay negotiations in effect centre on the effort bargain.

do not cost more than the organization can afford and this will influence the level of pay that can be offered to employees. Extra expenditure on pay, eg bonus payments, should add value in the sense that the benefits resulting from improved performance outweigh the cost.

### Trade union influence

Pay levels may be determined through collective bargaining with trade unions. They will want their members' pay to keep ahead of inflation, to match market rates and to reflect any increases in the pro-

perity of the business. The amount of pressure they can exert on pay levels will depend on the relative bargaining strengths of the employer and the union.

### The minimum or living wage

Minimum or living wage regulations in the UK sets minimum rates of pay. The amount is increased from time to time.

### Example of pay policy

An example of a policy on pay levels is given below.

## CASE STUDY

### Pay policy at Aegon UK

The reward system is designed to recognize three core factors which affect the level of pay individuals should receive for their 'personal commitment and consistent contribution within their roles'. These are:

- *Internal job value* – the bigger the job, the higher the reward.
- *External job value* – the level of reward will be influenced by external market rates and the degree to

which market forces affect the salaries required to attract and retain quality staff.

- *Value of the person* – individual employees may be rewarded at a higher level because they are making a greater contribution, are performing better, meeting objectives and have achieved a higher level of skill or competence than their colleagues (measured through the performance management process).

### External competitiveness versus internal equity

Reward policy is also concerned with the extent to which rewards are market driven (ie primarily influenced by market rate pressures) rather than equitable (ie employees are paid fairly in relation to one another). The policy will be influenced by the culture and reward philosophies of the organization and the pressures on the business to obtain and keep high-quality staff. Any organizations that have to attract and retain staff who are much in demand and where market rates are therefore high, may, to a degree, have to sacrifice their ideals (if they have them) of internal equity to the realism of the marketplace. They will provide 'market pay'; in other words, they will be 'market driven'.

The pay management process must cope as best it can when the irresistible force of market pressures meets the immovable object of internal equity. There will always be some degree of tension in these circumstances, and while no solution will ever be simple or entirely satisfactory, there is one basic principle that can enhance the likelihood of success. That principle is to make explicit and fully identifiable the compromises with internal equity that have to be made in response to market pressures.

The policy may indicate that market considerations will drive levels of pay in the organization. It may, however, allow for the use of market supplements – a payment that reflects market rates in addition to the rate for a job as determined by internal equity. The policy may lay down that these payments should be reviewed regularly and no longer

offered if they are unnecessary. Market supplements for those who have them may not be withdrawn (the people concerned would not have their pay reduced), but adjustments may be made to pay progression to bring their rates more into line with those for comparable jobs. Market pay and market supplements can lead to gender inequalities if, as is often the case, men in comparable jobs are paid more generally or more men get market supplements than women. Equal pay case law has ruled that market pay and market supplements should be 'objectively justified' by reference to observable market pressures, and the requirement to do this should be included in the pay policy.

The 2007 e-reward survey of grade and pay structures revealed that respondents with market supplements adopted the following policies when such supplements were no longer required:

- remove immediately – 33 per cent;
- retain until upgraded – 30 per cent;
- reduce progressively – 19 per cent;
- protect in line with policy – 18 per cent.

### Pause for thought

In what circumstances, if any, can recruiting someone at a considerably higher salary than existing staff in jobs of a similar level be justified?

If an organization did this, (1) how would it explain it to existing staff, and (2) what should it do, if anything, to reduce the inequity?

## Segmentation

Segmentation involves varying the reward package for different jobs either to reflect the types and levels of contribution people make, or to provide rewards that are tailored to meet individual needs.

A policy on segmentation will recognize that parts of the workforce and individuals in the successive stages of their career may be motivated by different combinations of rewards. A total reward

package can be tailored to meet these needs. Rewards may be segmented to take account of key employee differences. This could mean individual performance-related pay for some, team reward for others, and other forms of pay progression and recognition rather than incentives for a third group. This is a flexible approach to reward management although it should be flexibility within a framework, the framework being provided by guiding principles that apply to all aspects of reward.

## Reward strategy

Reward strategy provides the impetus for reward system design and operation in order to achieve three major objectives: performance, competitiveness and fairness. It aims to provide answers to two basic questions: (1) what do we need to do about our reward practices to ensure that they are fit for purpose, and (2) how do we intend to do it?

Reward strategy is a declaration of intent that defines what the organization wants to do in the future to develop and implement reward policies, practices and processes that will further the achievement of its business goals and meet the needs of its stakeholders. The aim is to provide a sense of purpose and direction and a basis for developing reward policies, practices and processes. The strategy is based on an understanding of the needs of the organization *and* its employees and how they can best be satisfied.

### Words of wisdom

Strategic reward is a means of enhancing company performance and securing competitive advantage, through the alignment of pay strategies, systems, practices and processes to the organizational strategy. As a management tool, pay is no longer purely a cost of hiring necessary labour, but a means of aligning a company's unique and inimitable asset – their employees – to the strategic direction of the organization.

Trevor (2011: 8)

## The content of reward strategy

As Armstrong and Murlis (2007: 33) stated: 'Reward strategy will be characterized by diversity and conditioned both by the legacy of the past and the realities of the future.' All reward strategies are different, just as all organizations are different. Of course, similar aspects of reward will be covered in the strategies of different organizations but they will be treated differently in accordance with variations between organizations in their contexts, business strategies and cultures. But the reality of reward strategy is that it is not such a clear-cut process as some believe. It evolves, it changes and it has sometimes to be reactive rather than proactive.

Reward strategy often has to be a balancing act because of potentially conflicting goals. For example, it may be necessary to reconcile the competing claims of being externally competitive *and* internally equitable – paying a specialist more money to reflect market rate pressures may disrupt internal relativities. Or the belief that a universally applicable reward system is required may conflict with the perceived need to adopt a policy of segmentation.

Reward strategy may be a broad-brush affair, simply indicating the general direction in which it is thought reward management should go. Additionally or alternatively, reward strategy may set out a list of specific intentions dealing with particular aspects of reward management, for example:

- the development of a 'total reward' system;
- the introduction of performance pay;
- replacement of an existing contingent pay scheme;
- the introduction of a new grade and pay structure;
- the replacement of a decayed job evaluation scheme;
- the introduction of a formal recognition scheme;
- the development of a flexible benefits system;
- the conduct of equal pay reviews with the objective of ensuring that work of equal value is paid equally.

### Source review

#### Examples of key themes in reward strategies

*Airbus*: Introduce performance pay for all employees, ensure that its rates are competitive with the external market and deal with anomalies caused by previous rigidities, such as grade drift brought about by people having to be promoted to a higher grade to receive additional pay.

*AstraZeneca*: Promote a culture that values, recognizes and rewards outstanding performance.

*Centrica*: Establish a link between pay and performance and align pay with the market.

*The Children's Society*: Develop flexible and fair reward systems, which will support its mission and corporate objectives by recognizing contribution, accountability, team working and innovation, and are market sensitive but not market led.

*Diageo*: Release the potential of every employee to deliver Diageo's performance goals.

*Kent County Council*: Pay people a fair rate for the job and give additional reward for excellent contribution.

*National Union of Teachers*: Develop a new broad-graded pay structure and introduce a new job evaluation scheme as a basis for the structure.

*Tesco*: Reward staff for their contribution in a way that enables them to benefit directly from the success they help to create.

## Critical evaluation of the concept of reward strategy

The problem with a strategic approach to reward is that it can promise more than it achieves. This contradicts the main message that it provides a powerful lever for improving business performance delivered by US writers such as Lawler (1990) in his *Strategic Pay* and Schuster and Zingheim (1992) in their *The New Pay*.

### Words of wisdom

The most that companies can hope to do in their approach to reward is to make sure that it does not distort the relationship between management and employees. Managing reward is thus a job of damage limitation and perhaps not the 'strategic

lever for organizational transformation' that appears so seductive in the writing of American commentators.

Thompson (1998: 70)

Trevor (2011) posed the question: to what extent can pay be strategic? He claimed that rationalism is limited and pointed out that pay systems tend to be selected for their legitimacy (best practice as advocated by institutions such as the CIPD and by management consultants) rather than for purely economic reasons. He observed (ibid: 35) that: 'What is desired (approach), and what is intended (design), may not be reflected in what is achieved (operation).'

However, it cannot be denied that to have a sense of purpose and direction is a good thing and with all its limitations, this justifies a strategic approach to reward which is implemented by the reward system as described below.

## CASE STUDY

### Reward strategy at BT

Reward strategy at BT (British Telecom) is a fairly broad-brush affair simply indicating the general direction in which it is thought reward management for the 90,000 staff at BT should go, with an emphasis on adopting a more holistic, total reward approach. It is summarized as follows:

Use the full range of rewards (salary, bonus, benefits and recognition) to recruit and retain the best people, and to encourage and reward achievement where actions and behaviours are consistent with the BT values.

### Guiding principles

BT's reward strategy is underpinned by a set of guiding principles defining the approach the organization takes to dealing with reward. These guiding principles are the basis for reward policies and provide guidelines for the actions contained in the reward strategy. They express the reward philosophy of the organization – its values and beliefs about how people should be rewarded. The six guiding principles governing the design of the reward system at BT are as follows:

- 1 business linkage;
  - 2 clarity and transparency;
  - 3 market competitiveness;
  - 4 performance differentiation;
  - 5 choice and flexibility;
  - 6 equal pay.
- 2 The competitiveness of the individual's existing salary, together with the actual (and anticipated) salary movement in relevant local markets – how does salary align to the external market?
  - 3 The company's business results and ability to pay – can the company afford to invest money in terms of additional reward?

Broadly speaking, the three principal elements driving individual reward are:

- 1 The individual's performance and contribution in the role – what does it mean to have high individual performance?

Underpinning these pillars are the principles of clarity (a 'focus on roles'), equal pay and choice.

## The reward system

The reward system as illustrated in Figure 40.2 consists of the interrelated processes and practices that combine to ensure that reward management is carried out effectively to the benefit of the organization and the people who work there. The system is driven by the business and HR strategies from which flow the reward strategy. As described below, its major components are financial and non-financial rewards that are combined to form the system. Performance management plays an important part in supporting non-financial rewards and

may be used to inform performance or contribution pay decisions. All these components combine to achieve the aims of reward management.

Three basic elements of a reward system – financial rewards, non-financial rewards and total rewards – are described below. The components of the financial reward system are described in the next chapter. These are market pricing, job evaluation, the management of grade and pay structures (base pay management), pay progression through contingent pay (pay for performance, competence or contribution), employee recognition and employee benefit and pension schemes.

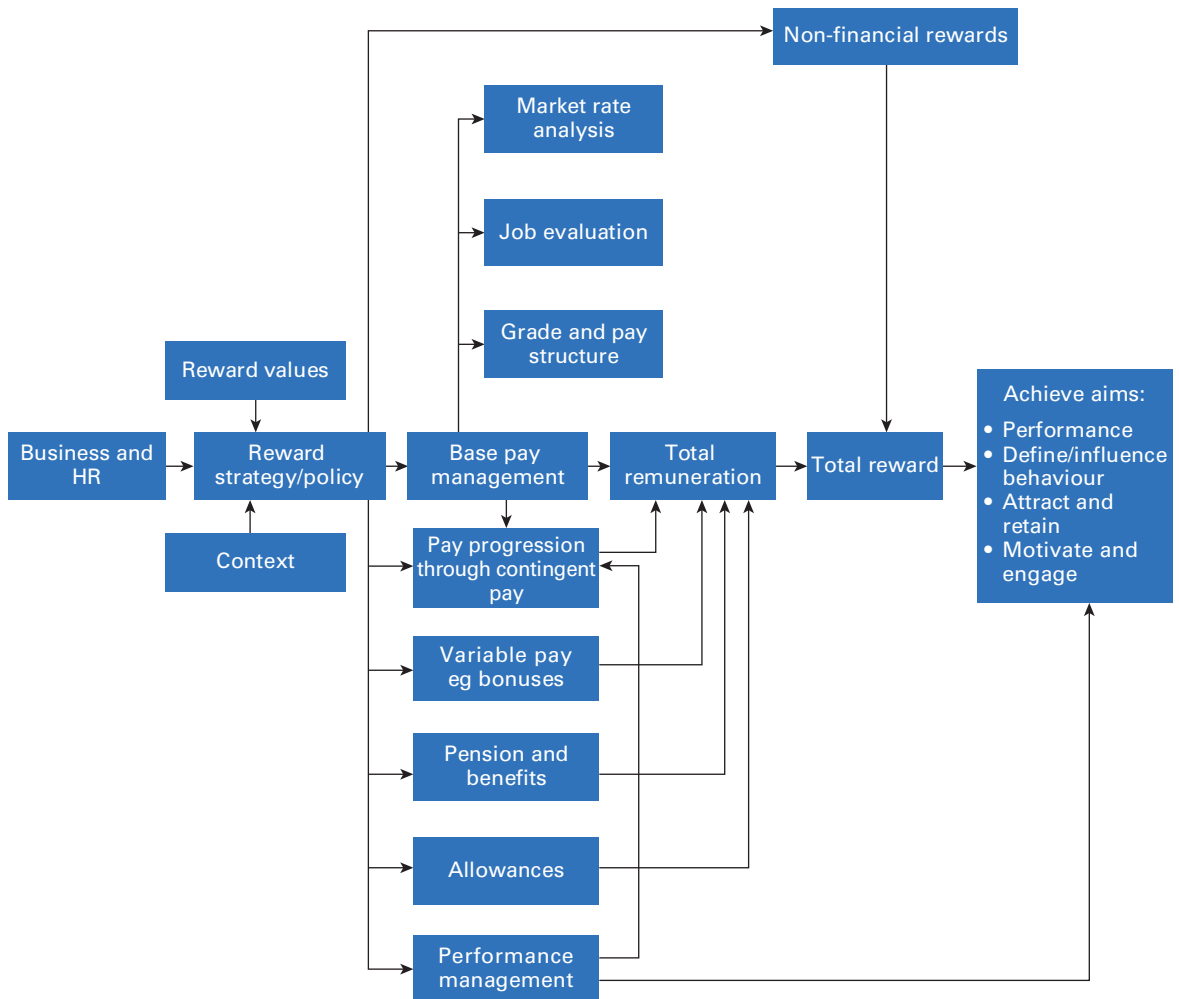
## CASE STUDY

### Reward system development in a technology company

This smaller, entrepreneurial technology company evolved a more logical, structured approach to its pay and rewards in order to better align them with its growth plans, rather than largely reflecting the history of its development. The Head of Reward and Development emphasized that reward systems development is an evolutionary process that can't just be determined on the basis of abstract reward principles and hard measures of effectiveness. A subtler

understanding of culture and change processes is at least as important as the technical design of reward plans if improvements are to be achievable and delivered into practice. He stressed the need to: 'Pay attention to the organization, its culture and its needs, gather information and evidence for (reward) change, then establish consistent frameworks to guide decisions and help managers to understand, support and make necessary changes.'



**FIGURE 40.2** The reward system

## Financial rewards

Financial rewards consist of job-based pay, which provides pay related to the value of the job, and person-based pay, which provides rewards that recognize the individual's contribution. They also include employee benefits and pensions and financial recognition schemes. The management of job- and person-based pay involves:

- *Pay determination* – making decisions on the value of jobs by means of market pricing and job evaluation. The factors that affect pay

levels are examined in the last section of this chapter.

- *Base pay management* – developing and operating pay structures which group jobs into grades, bands or levels in accordance with internal and external relativities and usually provide for pay progression.
- *Contingent pay* – planning and managing schemes which provide for pay progression related to performance, contribution, competence, skill or length of service.

Labour economists distinguish between the incentive effect of financial rewards (generating more engagement and effort) and the sorting effect (attracting better-quality employees). The fundamental issue is the extent to which financial rewards provide an incentive effect. The sorting effect is important but creates less controversy, perhaps because it is more difficult to pin down.

The case for and against financial rewards as incentives and a description of the contingent pay schemes that provide such awards are dealt with in Chapter 41.

### Non-financial rewards

Non-financial rewards focus on the needs people have to varying degrees for recognition, achievement, personal growth and acceptable working conditions. They include the non-financial recognition of achievements as described in Chapter 41, the design of fulfilling jobs, giving people the scope to develop their skills and careers, and offering a work environment which provides a high quality of working life and an appropriate relationship between

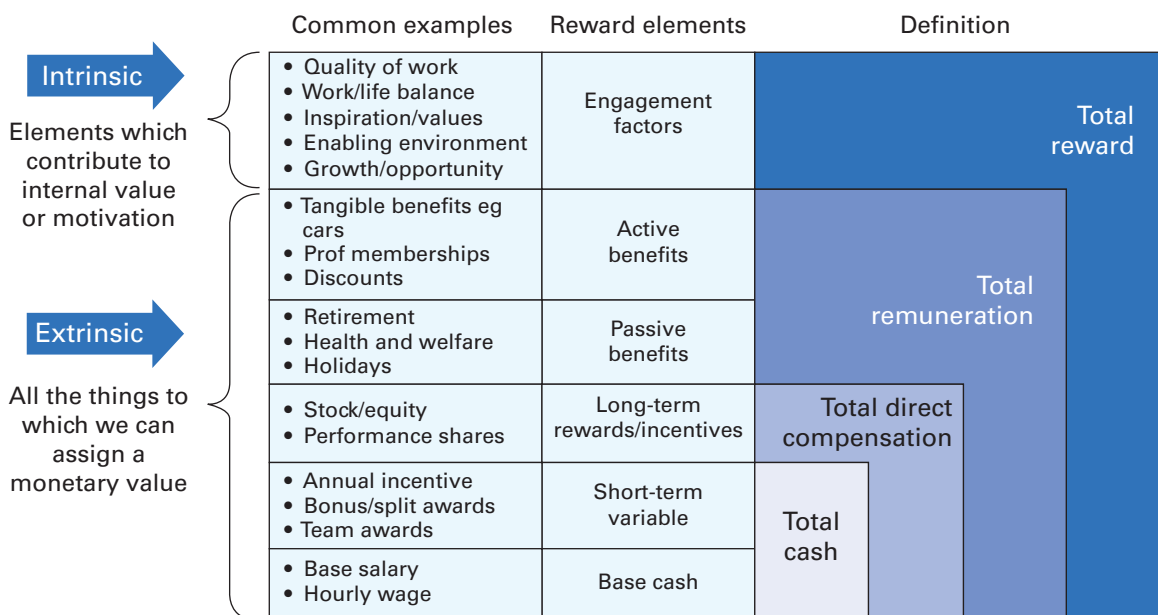
work and private life (work-life balance). Non-financial rewards can be extrinsic, such as praise or recognition, or intrinsic, associated with job challenge and interest and feelings that the work is worthwhile.

### Total reward

In total reward, the various aspects of reward, namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and cohesive whole as shown in Figure 40.3. The concept of total reward describes an approach to reward management that emphasizes the need to consider all aspects of the employee experience, not just a few such as pay and employee benefits. It is therefore a major vehicle for improving that experience.

A total reward approach recognizes that it is necessary to get financial rewards (pay and benefits) right. But it also appreciates the importance of providing people with rewarding experiences that arise

**FIGURE 40.3** Total reward model



Source Armstrong (2019)

from their work environment (the job they do and how they are managed) and the opportunity to develop their skills and careers. It contributes to the production of an employee value proposition that provides a clear, compelling reason why talented people should work for a company and is an important approach to improving the employee experience (see Chapter 30).

## Critical evaluation of the total reward concept

The basic premise of total reward – that it is important to consider both financial and non-financial means of rewarding people – is sound. Intrinsic motivation factors – those that arise from the work itself – can have a more powerful affect in the longer term than the short-lived satisfaction resulting from a pay increase. Why not therefore treat these as rewards in the sense that they are what people get when they work for an organization and do something about enhancing them in order to make the best use of both financial and non-financial rewards? Even if the prescriptions in the models for non-financial rewards are simply good HR practices or typical components in a high-performance work system, they do clarify that these should be associated with the reward system. As Giancola (2009) suggested, the main purpose of total reward is to consider the standard list of human resource programmes from a reward perspective when developing strategy. It is necessary to consider these elements as well as the more obvious financial rewards. Total reward sounds like common sense. But does it work as it is supposed to?

Total reward is not an easy option. WorldatWork (2000) commented that total reward is ‘simple in concept but, at best, complex in execution’. And the extent to which it is being applied by organizations in practice can be questioned. According to Duncan Brown (2014), exaggerated claims for what total reward can do have led to lots of aspirations but few achievements. He suggested that the terminology and concept of total reward is becoming increasingly meaningless and outdated in our post-recessionary economy of austerity and inequality. Its generic and unthinking application in uniform packages risks isolating the rewards profession into an administrative backwater.

### Words of wisdom

Employers have clung to the rhetoric of total reward strategies, claiming for the past two decades to be replacing inflexible, paternalistic, fixed-cost-focused rewards with attractive business and employee-driven flexible packages. In reality, many were simply following market practice and in the United Kingdom, looking for tax and National Insurance contribution savings.

Brown (2014: 149)

Brown, probably the leading commentator on reward matters in the UK, returned to the fray in 2019:

### Words of wisdom

The boardroom and recruitment website rhetoric has never matched the shop floor reality on total rewards. The practical impact never lived up to the policy intent. Rather than being genuinely motivated by delivering higher levels of choice and perceived value to employees in an increasingly tight and diverse labour market, too often the concept was used – as trade unions often alleged – as an alternative to decent pay levels and increases and, even worse, as a front to cut pension and benefit costs and shift risk from employer to employee.

Brown (2019: 4)

These are convincing arguments. It seems that the concept of total reward is good in theory but dubious in practice.

### Pause for thought

Do you agree with that last comment?

## CASE STUDIES

### McDonald's: demonstrating reward effectiveness

McDonald's is a company with a strong culture of measurement and has built its own people-profit chain methodology to produce impressive evidence that demonstrates how rewards can enhance employee engagement and thereby business performance. The operational and cost focus in

the business means that reward arrangements are reviewed regularly and changed if they are not found to be delivering. But the subtler processes of consultation and change management are equally vital in maintaining and strengthening reward effectiveness.

### The NSPCC: approaches to achieving reward effectiveness

The experience of the NSPCC was that while measures of organizational and reward effectiveness may differ, the delivery of them is every bit as critical, if not more so, in voluntary organizations. It also shows that limited resources need not be a barrier to assessing and demonstrating effectiveness. Establishing links to the core

purpose of the organization was the major driver behind the extensive research undertaken into effectiveness. The culture of the organization and its values were important considerations, as was ensuring that the values of the people in the organization were aligned to them.

## Key learning points

### Reward management defined

Reward management deals with the strategies, policies and processes required to ensure that the value of people and the contribution they make to achieving organizational, departmental and team goals is recognized and rewarded.

### Aims of reward management

Reward management provides answers to two fundamental questions: (1) How do we value people? and (2) How are we going to reward them according to their value?

### Values and beliefs

Reward policies and practices are affected by the values and beliefs of the organization about how people should be rewarded and how the reward system should be managed. These may be articulated as a reward philosophy that sets out the broad values of the organization or as a set of guiding principles.

### Reward policy

Reward policy sets guidelines for decision making and action and therefore provides the framework for managing a reward system. It indicates what the

organization and its management are expected to do about managing reward and how they will behave in given circumstances when dealing with reward issues.

Reward policies can cover:

- external competitiveness versus internal equity;
- level of rewards;
- segmentation.

### Reward strategy

Reward strategy defines what an organization wants to do about reward in the next few years and how it intends to do it.

Reward strategy may be a broad-brush affair, simply indicating the general direction in which it is thought reward management should go. Additionally or alternatively, reward strategy may set out a list of specific intentions dealing with particular aspects of reward management.

### Reward system

A reward system consists of the interrelated processes and practices of financial and non-financial rewards that combine into a total rewards approach to ensure that reward management is carried out to the benefit of the organization and the people who work there.

### Financial rewards

Financial rewards consist of job-based pay, which provides pay related to the value of the job, and person-based pay, which provides rewards that recognize the individual's contribution. They also include employee benefits and pensions and financial recognition schemes.

The management of job- and person-based pay involves:

- *Pay determination* – making decisions on the value of jobs by means of market pricing and job evaluation.
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- *Contingent pay* – planning and managing schemes which provide for pay progression related to performance, contribution, competence, skill or length of service.

### Non-financial rewards

Non-financial rewards focus on the needs people have to varying degrees for recognition, achievement, personal growth and acceptable working conditions. Non-financial rewards can be extrinsic, such as praise or recognition, or intrinsic, associated with job challenge and interest and feelings that the work is worthwhile.

### Total reward

In total reward the various aspects of reward, namely base pay, contingent pay, employee benefits and non-financial rewards, which include intrinsic rewards from the work itself, are linked together and treated as an integrated and cohesive whole.

The concept of total rewards describes an approach to reward management that emphasizes the need to consider all aspects of the work experience of value to employees, not just a few such as pay and employee benefits.

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## 41

# The practice of reward management

## Introduction

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In this chapter the following reward management practices are described:

- Market pricing (salary surveys)
- Job evaluation
- Base pay management
- Pay progression through individual contingent pay
- Team pay
- Paying for organizational performance
- Bonus schemes
- Recognition schemes
- Employee benefits
- Administering reward management

## Market pricing

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Market pricing is the process of making decisions on pay structures and individual rates of pay and obtaining information on market rates (market rate analysis or a salary survey). A policy decision is required on the relationship between market rate levels and levels of pay within the organization. This is called the ‘market or pay stance’, which may be expressed in such terms as matching median (average) rates or paying upper quartile rates (within the top 25 per cent).

### *Use of market pricing*

Market pricing informs decisions on base rates of pay, ie the amount of pay that constitutes the basic

rate for the job or the person. The aim is to ensure that the rates are competitive. It helps to develop the pay structure – the pay ranges attached to grades. Information on market rates may lead to the introduction of market supplements for individual jobs or the creation of separate pay structures (market groups) to cater for particular market rate pressures. It is referred to as ‘extreme market pricing’ when market rates are the sole means of deciding on internal rates of pay and relativities, and conventional job evaluation is not used. An organization that adopts this method is said to be ‘market-driven’. Market pricing may be associated with formal job evaluation, which establishes internal relativities and the grade structure.

### *Acceptability of market pricing*

The acceptability of either form of market pricing is dependent on the availability of robust market data and, when looking at external rates, the quality of the job-to-job matching process, ie comparing like with like. It can therefore vary from analysis of data by job titles to detailed matched analysis collected through bespoke surveys focused on real market equivalence. Extreme market pricing can provide guidance on internal relativities. But it can lead to pay discrimination against women, where the market has traditionally been discriminatory, and it does not satisfy UK equal pay legislation.

### *The concept of a market rate*

Market pricing attempts to establish the market rate for jobs, but the notion of a market rate is a more elusive concept than it seems. There is no such



thing as a definitive market rate for any job, even when comparing identically sized organizations in the same industry and location. Different market information sources for the same types of jobs produce different results because of variations in the sample, the difficulty of obtaining precise matches between jobs in the organization and jobs elsewhere (job matching), and timing (the dates on which the data is collected may differ).

This means that market rate analysis is most unlikely to produce definite information on the rate for the job. The possibly incomplete data from a number of sources, some more reliable than others, has to be interpreted to indicate what the organization should do about it. This may be expressed as a 'derived market rate', which is an average of averages covering a range of pay information – a dubious notion. Data may be available for some jobs but not for others that are unique to the organization.

### Pause for thought

It has been said that 'a job is worth what the market says it is worth'. Do you agree?

## Market rate analysis

Market rate analysis involves the following steps:

- 1 Identify and define the jobs for which market rate data is required. These are benchmark jobs that are representative of different levels and occupations and can be compared with similar jobs. In conducting the survey the aim will be to 'match' these jobs as closely as possible with jobs elsewhere.
- 2 Identify the sources of information in the form of salary surveys. These can include published surveys conducted by a pay consultancy or research organization, surveys conducted specially by the organization, 'pay clubs' (groups of employers who exchange pay information) and advertisements. Published surveys are likely to provide the most convenient source of robust information. Special surveys and pay clubs can produce useful data but they are time-consuming.

More than one source should be used if possible. Advertisements are useless.

- 3 Collect, analyse and interpret the information. The pay data for jobs may be presented in the form of a range of pay from lowest to highest, the median rate (the midpoint in a distribution of rates of pay) and the upper and lower quartiles (the values which, respectively, are exceeded by a quarter of the values in the distribution or below which a quarter of the values in a distribution occur). Interpreting the data may mean producing a derived market rate from the different sources.
- 4 Apply the information in line with a policy decision on market stance – the pay levels required to be competitive and affordable.

## Job evaluation

Job evaluation is a systematic and formal process for defining the relative worth or size of jobs within an organization in order to establish internal relationships. It is carried out through either an analytical or a non-analytical scheme.

### Analytical job evaluation schemes

Analytical job evaluation is based on a process of breaking down whole jobs into a number of defined elements or factors and then comparing them factor by factor, either with a graduated scale of points attached to a set of factors, or with grade or role profiles analysed under the same factor headings.

The advantages of an analytical approach are that: first, evaluators have to consider each of the characteristics of the job separately before forming a conclusion about its relative value; second, evaluators are provided with defined yardsticks or guidelines that help to increase the objectivity and consistency of judgements. It can also provide a defence in the UK against an equal pay claim.

The main analytical schemes, as described below, are point-factor rating and analytical matching.

### Point-factor rating

Point-factor schemes are the most common forms of analytical job evaluation. They were used by

70 per cent of the respondents with job evaluation schemes to the e-reward 2017 job evaluation survey.

The basic methodology is to break down jobs into factors. These are the elements in a job such as the level of responsibility, knowledge and skill or decision making that represent the demands made by the job on job holders. For job evaluation purposes it is assumed that each of the factors will contribute to the value of the job and is an aspect of all the jobs to be evaluated, but to different degrees.

Each factor is divided into a hierarchy of levels, typically five or six. Definitions of these levels are produced to provide guidance on deciding the degree to which the factor applies in the job to be evaluated. A maximum points score is allocated to each factor. The scores available may vary between different factors in accordance with beliefs about their relative significance. This is termed ‘explicit weighting’. If the number of levels varies between factors, this means that they are implicitly weighted because the range of scores available will be greater in the factors with more levels.

The total score for a factor is divided between the levels to produce the numerical factor scale. The complete scheme consists of the factor and level definitions and the scoring system (the total score available for each factor and distributed to the factor levels). This comprises the ‘factor plan’.

Jobs are ‘scored’ (ie allocated points) under each factor heading on the basis of the level of the factor in the job. This is done by comparing the features of the job with regard to that factor with the factor level definitions in order to find out which definition provides the best fit. The separate factor scores are then added together to give a total score, which indicates the relative value of each job and can be used to place the jobs in rank order, or allocate them into grades in a graded pay structure that have been defined in terms of job evaluation points.

### Analytical job matching

Like point-factor job evaluation, analytical job matching is based on the analysis of a number of defined factors. Profiles of roles to be evaluated that have been analysed and described in terms of job evaluation factors are compared with grade, band or level profiles that have been analysed and described in terms of the same job evaluation factors. The role profiles are then ‘matched’ with the range of grade or level profiles to establish the best fit and thus grade the job.

Analytical matching can be used to grade jobs or place them in levels following the initial evaluation of a sufficiently large sample of benchmark jobs, ie representative jobs that provide a valid basis for comparisons. This can happen in big organizations when it is believed that it is not necessary to go through the whole process of point-factor evaluation for every job, especially where ‘generic’ roles are concerned. It takes much less time than using a point-factor scheme and the results can be just as accurate.

### Non-analytical job evaluation

Non-analytical job evaluation schemes enable whole jobs to be compared in order to place them in a grade or a rank order – they are not analysed by reference to their elements or factors. They can operate on a job-to-job basis in which a job is compared with another job to decide whether it should be valued more, less, or the same (ranking and ‘internal benchmarking’ processes). Alternatively, they may function on a job-to-grade basis in which judgements are made by comparing a whole job with a defined hierarchy of job grades (job classification) – this involves matching a job description to a grade description. Non-analytical schemes are simple to introduce and operate but provide no defined standards of judgement. Differences between jobs are not measured and they do not provide a defence in an equal pay case.

#### Pause for thought

Many organizations, especially in the United States, rely on market pricing rather than job evaluation to establish the relative value. (1) Why should this be the case? (2) Are there any risks involved?

### Base pay management

The management of base pay (the rate for the job or the person) uses the information from market pricing and job evaluation to design and operate grade

and pay structures that cater for job-based pay and allow scope for pay to progress within the structure through person-based pay.

## Formal grade and pay structures

Grade and pay structures provide the framework for base pay management in order to implement an organization's pay policies. They enable the organization to determine where jobs should be placed in a hierarchy, define pay levels and the scope for pay progression and provide the basis upon which relativities can be managed, equal pay can be achieved and the processes of monitoring and controlling the implementation of pay practices can take place. Grade and pay structures also enable organizations to communicate the career and pay opportunities available to employees

A grade structure consists of a sequence or hierarchy of grades, bands or levels into which groups of jobs which are broadly comparable in size are placed. A pay structure consists of pay ranges, brackets or scales that are attached to each grade, band or level in a grade structure. Pay structures are defined by the number of grades they contain and the span or width of the pay ranges attached to each grade. Span is the scope the grade provides for pay progression and is usually measured as the difference between the lowest point in the range and the highest point in the range as a percentage of the lowest point. Thus a range of £20,000 to £30,000 would have a span of 50 per cent. Pay progression takes place in the grades on the basis of performance, contribution or time served in the grade.

## Guiding principles for grade and pay structures

Grade and pay structures should:

- be appropriate to the culture, characteristics and needs of the organization and its employees;
- facilitate the management of relativities and the achievement of equity, fairness, consistency and transparency in managing gradings and pay;
- enable jobs to be graded appropriately and not be subject to grade drift (unjustified upgradings);

- be flexible enough to adapt to pressures arising from market rate changes and skill shortages;
- facilitate operational flexibility and continuous development;
- provide scope as required for rewarding performance, contribution and increases in skill and competence;
- clarify reward, lateral development and career opportunities;
- be constructed logically and clearly so that the basis upon which they operate can readily be communicated to employees;
- enable the organization to exercise control over the implementation of pay policies and budgets.

## Types of grade and pay structures

The most typical types of pay structures are illustrated in Figure 41.1.

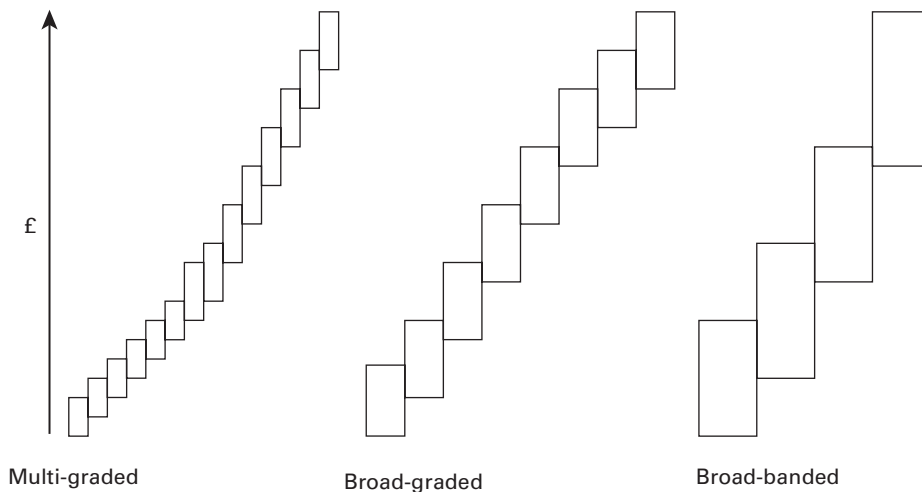
The main types of grade and pay structures and their advantages and disadvantages are summarized in Table 41.1.

## Unstructured pay systems

Many organizations (41 per cent of the respondents to the CIPD 2017 survey) do not have a graded structure at all for any jobs, or for certain jobs such as directors. Instead they use spot rates or individual job grades as described below. Smaller organizations responding to the survey were more likely to adopt this approach. These arrangements are also common for manual workers irrespective of the organization's size.

## Spot rates

A spot rate is a rate for a job which does not define or prescribe any scope for the progression of base pay. This means that there are no pay ranges or salary brackets although cash bonuses may be provided on top of the base rate. There will be scope for moving on to higher spot rates as skill, competence or contribution increases. Spot rates may be attached to a person rather than a job (person-based pay) and thus reflect the perceived value of the individual to the organization.

**FIGURE 41.1** Typical grade and pay structures**TABLE 41.1** Summary description of different formal grade and pay structures

Type of structure	Features	Advantages	Disadvantages
Narrow-graded	<ul style="list-style-type: none"> <li>• A sequence of job grades – 10 or more</li> <li>• Narrow pay ranges eg 20–40%</li> <li>• Progression usually linked to performance</li> </ul>	<ul style="list-style-type: none"> <li>• Clearly indicate pay relativities</li> <li>• Facilitate control</li> <li>• Easy to understand</li> </ul>	<ul style="list-style-type: none"> <li>• Create hierarchical rigidity</li> <li>• Prone to grade drift</li> <li>• Inappropriate in a delayed organization</li> </ul>
Broad-graded	<ul style="list-style-type: none"> <li>• A sequence of between 6 and 9 grades</li> <li>• Fairly broad pay ranges eg 40–50%</li> <li>• Progression linked to contribution and may be controlled by thresholds or zones</li> </ul>	<p>As for narrow-graded structures but in addition:</p> <ul style="list-style-type: none"> <li>• the broader grades can be defined more clearly</li> <li>• better control can be exercised over grade drift</li> </ul>	<ul style="list-style-type: none"> <li>• Too much scope for pay progression</li> <li>• Control mechanisms can be provided but they can be difficult to manage</li> <li>• May be costly</li> </ul>
Broad-banded	<ul style="list-style-type: none"> <li>• A series of, often, 5 or 6 'broad' bands</li> <li>• Wide pay bands – typically between 50% and 80%</li> <li>• Progression linked to contribution and competence</li> </ul>	<ul style="list-style-type: none"> <li>• More flexible</li> <li>• Reward lateral development and growth in competence</li> <li>• Fit new-style organizations</li> </ul>	<ul style="list-style-type: none"> <li>• Create unrealistic expectations of scope for pay rises</li> <li>• Seem to restrict scope for promotion</li> <li>• Difficult to understand</li> <li>• Equal pay problems</li> </ul>

*(continued)*

**TABLE 41.1** (Continued)

Type of structure	Features	Advantages	Disadvantages
Job family	<ul style="list-style-type: none"> <li>• Separate grade and pay structures for job families containing similar jobs</li> <li>• Progression linked to competence and/or contribution</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate pay differentiation between market groups</li> <li>• Define career paths against clear criteria</li> </ul>	<ul style="list-style-type: none"> <li>• Can appear to be divisive</li> <li>• May inhibit lateral career development</li> <li>• May be difficult to maintain internal equity between job families unless underpinned by job evaluation</li> </ul>
Pay spine	<ul style="list-style-type: none"> <li>• A series of incremental pay points covering all jobs</li> <li>• Grades may be superimposed</li> <li>• Progression linked to service</li> </ul>	<ul style="list-style-type: none"> <li>• Easy to manage</li> <li>• Pay progression not based on managerial judgement</li> </ul>	<ul style="list-style-type: none"> <li>• No scope for differentiating rewards according to performance</li> <li>• May be costly as staff drift up the spine</li> </ul>

## Individual job grades

Individual job grades are spot rates to which a defined pay range of, say, 20 per cent on either side of the rate has been attached to provide scope for pay progression based on performance, competency or contribution. The mid-point of the range may be fixed by reference to market rates or, less often, by means of job evaluation. Individual grades are usually attached to jobs, not persons.

## Incidence of pay structures

Research by Incomes Data Services (2014) for the Office for Manpower Economics (OME) showed

pay systems based on salary ranges in a graded structure (54 per cent of respondents) to be more common than those based on spot rates (26 per cent) or incremental scales (20 per cent). The survey also established that, typically, organizations with graded pay structures had eight pay ranges while those with incremental scales (pay spines) had seven.

The CIPD 2017 reward survey found that 35 per cent of respondents had multi- or narrow-graded structures, 34 per cent had pay spines and 25 per cent had broad-banded or broad-graded structures.

## CASE STUDIES

### Broad grading at Bristol-Myers Squibb

Pay is determined in relation to the market, and is pitched at the median, though the total reward package is upper quartile. There are eight overlapping bands, each with a

span of between 80 per cent and 100 per cent, covering everyone apart from the UK's dozen or so senior executives. The bands are:

- D1 Basic clerical, factory semi-skilled.
- D2 Clerical and factory semi-skilled.
- D3 Clerical and factory supervisor.
- D4 Senior supervisor, entry level for professionals (eg scientists), customer-facing sales staff.
- D5 Customer-facing sales staff.
- D6 First-level manager, head of department.

- D7 Function heads.
- D8 Business heads, eg oncology, finance.

These eight bands are used in all the countries in which Bristol-Myers Squibb operates, though the salaries attached to them are locally determined. But the bands are seen as more of a safety net than anything else and something that the US parent is keen to retain, although the market is more important in the UK. The company says the bands are helpful if there is an intention to recruit someone at a salary way over or under the band, which signals that the job may need to be regraded.

### Broad grading at Camelot

The broad-graded structure at Camelot is market driven – its focus is on paying the market rate for each job. Every salary is benchmarked against the market to ensure that jobholders are being ‘paid fairly for the job that they do’, with base pay set at the median market rate. The following six-level banding structure, covering everyone except the chief executive, is used:

*Bands A and B* cover administrative support and IT roles.

*Band C* includes supervisors, professionals and specialists.

*Band D* is for middle management.

*Band E* is for heads of department.

*Band F* covers functional directors.

Bands have some overlap, and each job has its own pay range within a band. The range is 85 per cent to 115 per cent, with 100 per cent being the rate for the job. The ranges are benchmarked against the market twice a year.

### The practice of managing pay in grade and pay structures

The research by Incomes Data Services (2014) identified the following pay management practices adopted by respondents:

- The majority of respondents set the ‘market rate’ at the mid-point of the pay range and treated that as the ‘target rate’.

- Around a fifth of employers appoint new joiners at the bottom of the range; however, respondents operating salary ranges were more likely to appoint new joiners at the target rate (38 per cent) compared to those with incremental scales (14 per cent).
- Respondents with salary ranges said staff can either progress to the maximum (69 per cent), or there is no upper limit to progression (22 per cent).
- It takes longer for a standard performer to progress from entry level to the top of the grade at firms with salary ranges (6.5 years) than those with incremental scales (5 years).
- The survey showed market rates have a greater impact on progression for those employers using salary ranges, with 36 per cent of respondents reporting employees progressed at a different rate when paid above the market rate, compared to only 8 per cent of those with incremental scales.
- Just over half of respondents said they continue to award cost-of-living increases or revalorize pay scales for staff once they reach the maximum of the pay range.
- Around a third award discretionary increases to staff at the maximum and a fifth pay one-off, non-consolidated bonuses to staff at the maximum.
- Performance matrices are used by some employers to give the highest pay rises to the highest performers low in their salary range. Some systems provide managers with the discretion to vary pay awards within the overall pay matrix.

### Source review

One of the problems with a graded pay structure is what should be done about someone who reaches the top of their scale but for whom there are no opportunities for promotion to a higher grade. Do they now remain on the same rate apart from cost-of-living increases? Or is there some other way of rewarding exceptional performance?

## Contingent pay

Contingent pay provides financial rewards that take two forms as summarized below and described in more detail later in this section.

- 1 Consolidated increases to base pay that are related to individual performance, competence, contribution, skill or length of service and provide for pay progression through a pay range or an increase to a spot rate. These are referred to in this chapter as individual contingent pay. When service-related pay is excluded they are sometimes called merit pay. Especially when performance-related, individual contingent pay is the most typical method of rewarding individuals financially – 74 per cent of the respondents to the 2017 CIPD reward survey used it as the criterion for base pay progression.
- 2 Cash bonuses related to individual, team or organizational performance. Individual cash bonuses are sometimes referred to as variable pay although this term could equally well be used as an alternative to individual contingent pay.

### Individual contingent pay

The features, advantages and disadvantages and the appropriateness of individual contingent pay schemes are set out in Table 41.2.

There is a choice between the different types of scheme. A segmented approach might be adopted, ie the schemes vary for different categories of staff. Typically, directors and senior executives may have separate schemes. In making the choice and then designing and managing the scheme, account should

be taken of the following five criteria for effective individual contingent pay:

- 1 Individuals have a clear line of sight between what they do and what they will get for doing it.
- 2 Rewards are worth having.
- 3 Fair and consistent means are available for measuring or assessing performance, competence, contribution or skill.
- 4 People are able to influence their performance by changing their behaviour and developing their competencies and skills.
- 5 The reward follows as closely as possible the accomplishment that generated it.

These requirements are exacting and few schemes meet them in full. That is why contingent pay arrangements can often promise more than they deliver. Research conducted by Thompson into the operation of performance-related pay (by far the most popular form of individual contingent pay) led to the following conclusion:

### Words of wisdom

The benefits most often claimed for PRP (performance-related pay) are not met in practice. Firstly, PRP does not serve to motivate (even those with high performance ratings) and may do more to demotivate employees. Secondly, there was little evidence to suggest that PRP could help to retain high performers and no evidence to point to poor performers seeking to leave the organizations. Thirdly, employees were negative or broadly neutral on its impact on organizational culture even in schemes that had been in operation for three or more years. Lastly, employees were unclear whether PRP rewards fairly (neither agreeing nor disagreeing).

Thompson (1992: ix)



**TABLE 41.2** Summary of individual contingent pay schemes

Type of scheme	Main features	Advantages	Disadvantages	When appropriate
Performance-related pay (performance pay)	Increases to basic pay or bonuses are related to assessment of performance	<ul style="list-style-type: none"> <li>• May motivate (but this is uncertain)</li> <li>• Links rewards to objectives</li> <li>• Meets the need to be rewarded for achievement</li> <li>• Delivers message that good performance is important and will be rewarded</li> </ul>	<ul style="list-style-type: none"> <li>• May <i>not</i> motivate</li> <li>• Relies on judgements of performance which may be subjective</li> <li>• Prejudicial to teamwork</li> <li>• Focuses on outputs, not quality</li> <li>• Relies on good performance management processes</li> <li>• Difficult to manage well</li> </ul>	<ul style="list-style-type: none"> <li>• For people who are likely to be motivated by money</li> <li>• In organizations with a performance-oriented culture</li> <li>• When performance can be measured objectively</li> </ul>
Competency-related pay	Pay increases are related to the level of competency	<ul style="list-style-type: none"> <li>• Focuses attention on need to achieve higher levels of competency</li> <li>• Encourages competency development</li> <li>• Can be integrated with other applications of competency-based HR management</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of competency levels may be difficult</li> <li>• Ignores outputs – danger of paying for competencies that will not be used</li> <li>• Relies on well-trained and committed line managers</li> </ul>	<ul style="list-style-type: none"> <li>• As part of an integrated approach to HRM where competencies are used across a number of activities</li> <li>• Where competency is a key factor where it may be inappropriate or hard to measure outputs</li> <li>• Where well-established competency frameworks exist</li> </ul>
Contribution-related pay	Increases in pay or bonuses are related both to inputs (competency) and outputs (performance)	Rewards people not only for what they do but how they do it	As for both PRP and competence-related pay – it may be hard to measure contribution and it is difficult to manage well	When it is believed that a well-rounded approach covering both inputs and outputs is appropriate
Skill-based pay	Increments related to the acquisition of skills.	Encourages and rewards the acquisition of skills	Can be expensive when people are paid for skills they don't use	On the shop floor or in retail organizations
Service-related pay	Increments are related to service in the grade	It is perceived to be fair and is easy to manage	Fails to recognize differences in performance	In public-sector organizations where it is favoured by the unions

No research conducted since then has contradicted these findings.

### Pause for thought

A lot of people, for example Alfie Kohn (1993), Jeffrey Pfeffer (1998) and Daniel Pink (2009) have strongly criticized PRP. But if you believe that people should be rewarded when they perform well, what's the alternative?

## Individual bonuses

Individual bonus schemes provide cash payments to employees that are related to their performance. A single criterion for bonus payments such as profit before tax may be used for directors, with a threshold performance level to generate a bonus and a sliding scale up to a maximum that determines the size of the bonus. In a scheme applying to all staff, ratings may be used that determine the size of the bonus for individuals by reference to the extent to which objectives have been achieved. The advantages of bonus schemes are that cash sums, as long as they are sizeable, can have a more immediate impact on motivation and engagement and they have to be re-earned; unlike consolidated contingent pay increases they are not 'a gift that goes on giving'.

Individual bonus schemes providing lump-sum payments are an increasingly important part of the remuneration package. The 2017 CIPD reward survey established that 66 per cent of the respondents have them. The 2012 CIPD survey found that the highest bonuses went to the more senior employees – for executives and directors the most common maximum bonus amounts available were 59 per cent of base pay, for senior and middle managers they were 19 per cent of base pay, and for technical, professional, clerical and manual employees they were less than 10 per cent.

## Team pay

Team pay links bonus payments in cash payments to members of a formally established team to the performance of that team. The rewards are shared

among the members of the team in accordance with a published formula or on an *ad hoc* basis in the case of exceptional achievements. Rewards for individuals may also be influenced by assessments of their contribution to team results.

Team pay can:

- encourage team working and co-operative behaviour;
- enhance flexible working within teams and encourage multi-skilling, clarify team goals and priorities and provide for the integration of organizational and team objectives;
- encourage less effective performers to improve in order to meet team standards;
- serve as a means of developing self-managed or self-directed teams.

But:

- The effectiveness of team pay depends on the existence of well-defined and mature teams and they may be difficult to identify and, even if they can be, do they need to be motivated by a purely financial reward?
- Team pay may seem unfair to individuals who could feel that their own efforts are unrewarded.
- Pressure to conform, which is accentuated by team pay, could result in the team maintaining its output at lowest common denominator levels – sufficient to gain what is thought collectively to be a reasonable reward but no more.
- It can be difficult to develop performance measures and methods of rating team performance that are seen to be fair – team pay formulae may well be based on arbitrary assumptions about the correct relationship between effort and reward.
- There may be pressure from employees to migrate from poorly performing teams to high-performing teams which, if allowed, could cause disruption and stigmatize the teams from which individuals transfer, or if refused, could leave dissatisfied employees in the inadequate teams, making them even worse.

For many organizations, the disadvantages outweigh the advantages. The notion of team pay appeals to many people but the number of organizations using it is relatively small. The CIPD 2012 survey found that only 18 per cent of respondents had team pay.

### Pause for thought

Surely the advantages of team performance pay are so strong and the disadvantages of individual performance pay so powerful that team pay must be the answer. Why, therefore, has it not become more popular?

## Pay for organizational performance

Many organizations believe that their financial reward systems should extend beyond individual contingent pay, which does not recognize collective effort, or team pay, which is difficult. They believe that their system should help to enhance engagement and commitment and convince employees that they have a stake in the business as well as providing them with additional pay. The response to this belief is to offer financial rewards which are related to business or organizational performance (sometimes known as company-wide or factory-wide schemes).

The three types of formal business performance schemes are:

- 1 *Profit sharing* – the payment of sums in cash or shares related to the profits of the business; the 2017 CIPD reward survey found that 47 per cent of respondents had such a scheme.
- 2 *Share schemes* – employees are given the opportunity to take out share options or participate in a save-as-you-earn scheme of a share incentive plan; 41 per cent of the respondents to the 2012 CIPD survey had a share scheme.
- 3 *Gain sharing* – the payment of cash sums to employees related to the financial gains made by the company because of its improved performance; only 3.6 per cent of the CIPD 2012 respondents had such schemes.

## Recognition schemes

Recognition involves showing appreciation to individuals for their achievements, either informally on a day-to-day basis or through formal recognition arrangements. It can take place quietly between managers and their teamworkers or be a visible celebration of success.

A recognition scheme can be formal and organization-wide, providing scope to recognize achievements by gifts or treats or by public applause. Typically, the awards are non-financial but some organizations provide cash awards. Importantly, recognition is also given less formally when managers simply say, 'Well done', 'Thank you', or 'Congratulations' – face to face or in a brief note of appreciation.

But a survey by the Aberdeen Group (2013) found that only 14 per cent of organizations provided managers with the necessary tools for rewards and recognition.

## Employee benefits

Employee benefits consist of arrangements made by employers for their employees that enhance the latter's wellbeing. They are provided in addition to pay and form important parts of the total reward package. As part of total remuneration, they may be deferred or contingent such as a pension scheme, insurance cover or sick pay, or they may be immediate such as a company car or a loan. Employee benefits also include holidays and leave arrangements, which are not strictly remuneration. Benefits are sometimes referred to dismissively as 'perks' (perquisites) or 'fringe benefits', but when they cater for personal security or personal needs they could hardly be described as 'fringe'. Flexible benefit schemes give employees a choice, within limits, of the type or scale of benefits offered to them by their employers. The CIPD (2018) reward management survey found that three of the most common benefits were pensions (75 per cent of respondents), child care vouchers (61 per cent) and employee assistance programmes (60 per cent).

Pension provision has undergone considerable change recently. The traditional defined benefit scheme, which provides a pension based on final

salary, is disappearing rapidly (too costly) and is being replaced by defined contribution schemes where the retirement pension is whatever annual payment can be purchased with the money accumulated in the fund for a member (cheaper).

Employee benefits are a costly part of the remuneration package. They can amount to one-third or more of basic pay costs and therefore have to be planned and managed with care.

## Administering reward management

The administration of reward management is conducted through three main activities: base pay management by means of compa-ratio analysis, general pay reviews, and individual pay reviews. It is also affected by the legislation for pay reporting.

### Base pay management through compa-ratio analysis

A compa-ratio (short for ‘comparative ratio’) measures the relationship in a graded pay structure between actual and policy rates of pay as a percentage. The policy value used is the mid-point or reference point in a pay range, which represents the ‘target rate’ for a fully competent individual in any job in the grade. This point is aligned with market rates in accordance with the organization’s market stance.

Compa-ratios can be used to define the extent to which pay policy is achieved (the relationship between the policy and actual rates of pay). The analysis of compa-ratios indicates what action may have to be taken to slow down or accelerate increases if compa-ratios are too high or too low compared with the policy level. This is sometimes called ‘mid-point management’. Compa-ratios can also be used to measure where an individual is placed in a pay range and therefore provide information on the size of pay increases when a pay matrix is used, as described later in this chapter. Compa-ratios are calculated as follows:

$$\frac{\text{actual rate of pay}}{\text{mid or reference point of range}} \times 100$$

A compa-ratio of 100 per cent means that actual pay and policy pay are the same. Compa-ratios

higher or lower than 100 per cent mean that, respectively, pay is above or below the policy target rate. For example, if the target (policy) rate in a range were £20,000 and the average pay of all the individuals in the grade were £18,000, the compa-ratio would be 90 per cent. Compa-ratios establish differences between policy and practice. The reasons for such differences need to be established.

### General pay reviews

General reviews take place when employees are given an increase in response to general market rate movements, increases in the cost of living, or union negotiations. General reviews are often combined with individual reviews, but employees are usually informed of both the general and individual components of any increase they receive. Alternatively, the general review may be conducted separately to enable better control to be achieved over costs and to focus employees’ attention on the performance-related aspect of their remuneration.

Some organizations have completely abandoned the use of across-the-board reviews. They argue that the decision on what people should be paid should be an individual matter, taking into account the personal contribution people are making and their ‘market worth’ – how they as individuals are valued in the marketplace. This enables the organization to adopt a more flexible approach to allocating pay increases in accordance with the perceived value of individuals to the organization.

The steps required to conduct a general review are:

- 1 decide on the budget;
- 2 analyse data on pay settlements made by comparable organizations and rates of inflation;
- 3 conduct negotiations with trade unions as required;
- 4 calculate costs;
- 5 adjust the pay structure – by either increasing the pay brackets of each grade by the percentage general increase or by increasing pay reference points by the overall percentage and applying different increases to the upper or lower limits of the bracket, thus altering the shape of the structure;
- 6 inform employees.

## Individual pay reviews

Individual pay reviews determine contingent pay increases or bonuses. The e-reward 2009 survey of contingent pay found that the average size of the pay awards made by respondents was 3.3 per cent. Individual awards may be based on ratings, an overall assessment that does not depend on ratings, or ranking, as discussed below.

### Individual pay reviews based on ratings

Managers propose increases on the basis of their performance management ratings within a given pay review budget and in accordance with pay review guidelines.

There is a choice of methods. The simplest way is to have a direct link between the rating and the pay increase. An example is given in Table 41.3.

A more sophisticated approach is to use a pay matrix, as illustrated in Table 41.4. This indicates the percentage increase payable for different performance ratings according to the position of the individual's pay in the pay range (the individual 'compa-ratio').

Many people argue that linking performance management too explicitly to pay through ratings prejudices the essential developmental nature of performance management. However, realistically, it is accepted that decisions on performance-related or contribution-related increases have to be based on some form of assessment. One solution is to 'decouple' performance management and the pay review by holding them several months apart. There is still

**TABLE 41.3** A direct link between ratings and pay increases

Rating	Percentage increase
A	6
B	4
C	3
D	2
E	0

a read-across but it is not so immediate. Some try to do without formulaic approaches (ratings and pay matrices) altogether, although it is impossible to dissociate merit pay completely from some form of assessment.

### Guidelines to managers on conducting individual pay reviews

Guidelines have to be issued to managers on how they should conduct reviews. The guidelines will stipulate that they must keep within their budgets and may indicate the maximum and minimum increases that can be awarded, with an indication of how awards could be distributed. For example, when the budget is 4 per cent overall, it might be suggested that a 2.5 per cent increase should be given to the majority of staff and the others given higher or lower increases as long as the total percentage increase does not exceed the budget. Managers in some companies are instructed that they must follow a forced pattern of distribution (a forced choice system).

### Steps required

The steps required to conduct an individual pay review are:

- 1 agree the budget;
- 2 prepare and issue guidelines on the size, range and distribution of awards and on methods of conducting the review;
- 3 provide advice and support;
- 4 review proposals against budget and guidelines and agree modifications to them if necessary;
- 5 summarize and cost proposals and obtain approval;
- 6 update the payroll;
- 7 inform employees.

**TABLE 41.4** A pay matrix

Rating	Percentage pay increase according to performance rating and position in pay range (compa-ratio)			
	Position in pay range			
	80–90%	91–100%	101–110%	111–120%
Excellent	12%	10%	8%	6%
Very effective	10%	8%	6%	4%
Effective	6%	4%	3%	0
Developing	4%	3%	0	0
Ineligible	0	0	0	0

### **Reporting pay information: government regulations**

The following two government regulations require organizations to report on certain details of their pay arrangements.

#### **The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017**

These require organizations with 250 or more employees to publish statutory calculations every year showing how large the pay gap is between their male and female employees.

#### **The Companies (Miscellaneous Reporting) Regulations 2018**

A section of these regulations makes it a statutory requirement from 2020 for companies listed on the London Stock Exchange with more than 250 staff to disclose the ratio of their chief executives' remuneration to the median pay of their UK employees every year, and to justify the difference. They will also need to explain how directors take staff and other stakeholder interests into account when they decide on salaries and bonuses.

### **Key learning points**

#### **Market pricing**

Market pricing is the process of making decisions on pay structures and individual rates of pay and obtaining information on market rates (market rate analysis).

#### **Job evaluation**

Job evaluation is a systematic and formal process for defining the relative worth or size of jobs within an organization in order to establish internal relativities.

## Base pay management

The management of base pay uses the information from market pricing and job evaluation to design and operate grade and pay structures that cater for job-based pay and allow scope for pay to progress within the structure through person-based pay.

## Grade and pay structures

Grade and pay structures provide a framework within which an organization's pay policies can be implemented.

A grade structure consists of a sequence or hierarchy of grades, bands or levels into which groups of jobs that are broadly comparable in size are placed. A grade structure becomes a pay structure when pay ranges, brackets or scales are attached to each grade, band or level. The main types of grade and pay structures are narrow-graded, broad-graded, broad-banded and pay spines.

## Contingent pay

Contingent pay provides financial rewards in two forms:

- consolidated increases to base pay that are related to individual performance, competence, contribution, skill or length of service and provide for pay progression through a pay range or an increase to a spot rate;
- cash bonuses related to individual, team or organizational performance.

## Team pay

Team pay links payments to members of a formally established team to the performance of that team. The notion of team pay appeals to many people but the

number of organizations using it is relatively small. The CIPD 2012 survey found that only 18 per cent of respondents had team pay.

## Pay for organizational performance

The provision of financial rewards that are related to business or organizational performance (sometimes known as 'company-wide' or 'factory-wide' schemes). They include profit sharing, share schemes and gain sharing.

## Recognition schemes

Recognition schemes as part of a total reward package enable appreciation to be shown to individuals for their achievements, informally on a day-to-day basis or through formal recognition arrangements.

## Employee benefits

Employee benefits consist of arrangements made by employers for their employees that enhance the latter's wellbeing. They are provided in addition to pay and form important parts of the total reward package.

## Administering reward management

The administration of reward management is conducted through three main activities: base pay management through compa-ratio analysis, conducting general pay reviews, and conducting individual pay reviews.

Government regulations require all organizations with 250 or more employees to report on their gender pay gap and all organizations listed on the Stock Exchange with 250 or more employees to report on the ratio between the pay of their chief executive and the average pay of their employees.



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# Managing reward for special groups

## Introduction

Many organizations have one reward system applied to all categories of staff below the levels of chief executive and executive directors. However, others find it necessary to cater for the needs of special groups of staff by adopting different reward practices. This is called reward segmentation and, as described in this chapter, frequently applies to the methods used for directors and senior executives, knowledge workers, sales and customer service staff, expatriate employees and manual workers.

## Executive remuneration

Chief executive officers are well paid and so are the directors and executives associated with them. The CIPD (2019) reported that the pay of CEOs rose from 59 times the mean pay of their employees in 1999 to nearly 145 times in 2017. The main reason for this is the perceived need to compete in the marketplace for executives by offering high levels of remuneration. The views of the CIPD are given below:

### Source review

The myth of 'super talent' continues to drive excessive pay – remuneration committees continue to fear that executives will walk out on the company if their pay demands are refused, and worry about stock market

reactions to an abrupt departure. This is despite questionable evidence of the impact of a single executive on company performance.

CIPD (2019: 6)

In the opinion of the CIPD (2019: 10), high executive pay awards are a major driver of economic inequality across the UK economy as a whole, with negative consequences for the incomes of low and middle earners.

Decisions on executive pay are affected by the decisions of remuneration committees.

### Pause for thought

What do you think should be done about excessively high levels of executive pay?

## Remuneration committees

The Financial Reporting Council Corporate Governance Code (2018) contains a provision for remuneration committees to provide an independent basis for setting the salary levels and the rules covering incentives, share options, benefit entitlements and contract provisions for executive directors. Such committees are accountable to

shareholders for the decisions they take and the non-executive directors who sit on them should have no personal financial interests at stake. The Code states that when determining executive director remuneration policy and practices, the remuneration committee should address the following:

- Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.
- Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.
- Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.
- Predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.
- Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.
- Alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.

Remuneration committees are now well established as bodies for making recommendations on directors' pay, often with the advice of remuneration consultants. But as Perkins and Hendry (2005) observed following their discussions with remuneration committee members, these consultants tend to adopt a 'pernicious process of choosing comparators that just leads to the ratcheting up of top pay... The problem becomes particularly acute when companies all strive to achieve the statistically impossible feat of setting reward levels to locate themselves in the upper quartile of their benchmark group.' They also noted the ambiguities and weaknesses of the non-executive directors who were committee members. The CIPD (2019: 22) commented that: 'Remuneration committees' conceptions of company performance are... too narrow and they place

too much importance on external benchmarks while giving too little consideration to internal fairness.' They recommended that companies should consider establishing a formal 'people and culture' committee in place of their remuneration committee.

## **The elements of executive remuneration**

The main elements of executive remuneration are basic pay, short- and long-term bonus or incentive schemes, share option and share ownership schemes, benefits and service contracts. The salary is usually a one-off, negotiated rate and commonly incorporates a golden hello or pay-off deal. It should be set through a remuneration committee that meets good practice guidelines.

### **Basic pay**

Decisions on the base salary of directors and senior executives are usually founded on views about the market worth of the individuals concerned. Remuneration on joining the company is commonly settled by negotiation, often subject to the approval of a remuneration committee. Reviews of base salaries are then undertaken by reference to market movements and success as measured by company performance. Decisions on base salary are important not only in themselves but also because the level may influence decisions on the pay of both senior and middle managers. Bonuses are expressed as a percentage of base salary, share options may be allocated as a declared multiple of basic pay and, commonly, pension will be a generous proportion of final salary.

### **Bonus schemes**

Virtually all major employers in the UK have incentive (bonus) schemes for senior executives. Bonus schemes provide directors and executives with cash sums or shares based on the measures of company and, frequently, individual performance. They are often paid annually but can be deferred for a longer period.

Typically, bonus payments are linked to achievement of profit and/or other financial targets and they are sometimes 'capped'; that is, a restriction is placed on the maximum amount payable. There

may also be elements related to achieving specific goals and to individual performance. Bonuses tend to be high – 70 per cent of base salary or more. They are ostensibly intended to motivate directors to achieve performance improvements for the business. A more common although not always disclosed reason for bonuses is to ensure that what is believed to be a competitive remuneration package is available: ‘Everyone else is doing it so we must too.’

One of the problems with high bonus expectations is that of the ‘moral hazard’ involved. For example, directors might be tempted to manipulate reported profits to drive up the share price, frequently an important determinant of bonuses. Or they may go for high returns in risky short-term projects, ignoring the possible downside of longer-term losses.

Executives may benefit by receiving bonuses for performance which meets objectives but they do not lose pay when their objectives are not achieved. They only gain, they never lose. It can be argued that they should get their base salary for doing their jobs, ie achieving their objectives, and only receive more in the shape of a bonus if they exceed expectations. It could also be argued that if they fail to meet their objectives they should be penalized by not receiving a portion of their base salary which would then truly be pay-at-risk. Earn-back pay schemes try to remedy this situation. Such schemes require executives to meet agreed objectives in order to earn back an element of base pay placed at risk. If they do not succeed against the objectives, some or all of the earn-back pay will be lost.

### Long-term bonuses

Cash bonus schemes can be extended over periods of more than one year on the grounds that annual bonuses focus too much on short-term results. The most common approach to providing longer-term rewards is through share ownership schemes as described later.

### Deferred bonus schemes

Some companies have adopted deferred bonus schemes under which part of the executive’s annual bonus is deferred for, say, two years. The deferred element is converted into shares, each of which is matched with an extra, free share on condition the executive remains employed by the company at the end of the deferral period. Such a scheme is designed to reward performance and loyalty to the company.

### Share option schemes

Many companies have share option schemes that give directors and executives the right to buy a block of shares on some future date at the share price ruling when the option was granted. They are a form of long-term incentive on the assumption that executives will be motivated to perform more effectively if they can anticipate a substantial capital gain when they sell their shares at a price above that prevailing when they took up the option.

### Performance share schemes

Some companies have performance share schemes under which executives are provisionally awarded shares. The release of the shares is subject to the company’s performance, typically determined on a sliding scale by reference to the company’s total shareholder return (a combination of share price growth and dividend yield) ranking against its chosen peer companies over a three-year period. Release is also conditional on the executive remaining employed by the company at the vesting date. Such a scheme rewards loyalty to the company and the value delivered to shareholders in the form of share price performance and dividends but does not link directly to business performance.

### Executive restricted share schemes

Under such schemes, free shares are provisionally awarded to participants. These shares do not belong to the executive until they are released or vested; hence they are ‘restricted’. The number of shares actually released to the executive at the end of a defined period (usually three or, less commonly, five years) will depend on performance over that period against specific targets. Thereafter there may be a further retention period when the shares must be held, although no further performance conditions apply.

### Benefits

Employee benefits for executives may amount to over 20 per cent of the total reward package. The most important element is the pension scheme, and directors may be provided with a much higher accrual rate than in a typical final salary scheme. This means that, typically, the maximum two-thirds pension can be achieved after 20 years’ service or even less, rather than the 40 years it takes in a typical one-sixtieth scheme. Pensions are easily inflated, as in a recent notorious case, by

presenting the departing director with a last-minute substantial increase in pensionable salary.

### Service contracts

Long-term service contracts for directors have been fairly typical, but they are disliked in the City because of the high severance payments to departing chief executives and directors that are made if the contract is two or three years, even when it was suspected or actually the case that they had been voted off the board because of inadequate performance. Rolling contracts for directors are now more likely to be restricted to one year.

## Reward management for sales and customer service staff

Sales and customer service staff make an immediate impact on business results. This has led to an emphasis on financial incentives, especially for sales representatives and sales staff in retailers, who are often treated quite differently from other employees. The reward system for sales and service staff also has to take account of the fact that they are the people who are in direct contact with

customers, and this also applies to people in call centres.

There are no hard-and-fast rules governing how sales representatives or customer service staff should be paid. It depends on the type of company, the products or services it offers its customers and the nature of the sales process – how sales are organized and made.

### Rewarding sales representatives

Sales representatives are more likely to be eligible for commission payments or bonuses than other staff on the grounds that their sales performance will depend on or at least be improved by financial incentives. Many companies believe that the special nature of selling and the type of person they need to attract to their sales force requires some form of additional bonus or commission to be paid. The nature of the work of sales staff means that it is usually easy to specify targets and measure performance against them, and sales incentive schemes are therefore more likely to meet the line of sight requirement (ie that there should be a clear link between effort and performance) than schemes for other staff such as managers and administrators. Sales staff, including those in retail establishments, are often paid spot rates with a commission on sales. A summary of pay arrangements for sales staff is given in Table 42.1.

**TABLE 42.1** Summary of payment and incentive arrangements for sales staff

Method	Features	Advantages	Disadvantages	When appropriate
<i>Salary only</i>	Straight salary, no commission or bonus.	Encourage customer service rather than high-pressure selling; deal with the problem of staff who are working in a new or unproductive sales territory; protects income when sales fluctuate for reasons beyond the individual's control.	No direct motivation through money; may attract under-achieving people who are subsidized by high achievers; increases fixed costs of sales because pay costs are not flexed with sales results.	When representing the company is more important than direct selling; staff have little influence on sales volume (they may simply be 'order takers'); customer service is all important.

(continued)

**TABLE 42.1** (Continued)

Method	Features	Advantages	Disadvantages	When appropriate
<i>Salary plus commission</i>	Basic salary plus cash commission calculated as a percentage of sales volume or value.	Direct financial motivation is provided related to what sales staff are there to do, ie generate sales; but they are not entirely dependent on commission – they are cushioned by their base salary.	Relating pay to the volume or value of sales is too crude an approach and may result in staff going for volume by concentrating on the easier-to-sell products, not those generating high margins; may encourage high-pressure selling as in some financial services firms in the '80s and '90s.	When it is believed that the way to get more sales is to link extra money to results but a base salary is still needed to attract the many people who want to be assured of a reasonable basic salary which will not fluctuate but who still aspire to increase that salary by their own efforts.
<i>Salary plus bonus</i>	Basic salary plus cash bonus based on achieving and exceeding sales targets or quotas and meeting other selling objectives.	Provide financial motivation but targets or objectives can be flexed to ensure that particular sales goals are achieved, eg high-margin sales, customer service.	Do not have a clear line of sight between effort and reward; may be complex to administer; sales representative may find them hard to understand and resent the use of subjective judgements on performance other than sales.	When flexibility in providing rewards is important; it is felt that sales staff need to be motivated to focus on aspects of their work other than simply maximizing sales volume.
<i>Commission only</i>	Only commission based on a percentage of sales volume or value is paid, there is no basic salary.	Provide a direct financial incentive; attract high-performing sales staff; ensure that selling costs vary directly with sales; little direct supervision required.	Lead to high-pressure selling; may attract the wrong sort of people who are interested only in money and not customer service; focus attention on high volume rather than profitability.	When sales performance depends mainly on selling ability and can be measured by immediate sales results; staff are not involved in non-selling activities; continuing relationships with customers are relatively unimportant.

(continued)

**TABLE 42.1** (Continued)

Method	Features	Advantages	Disadvantages	When appropriate
<i>Additional non-cash rewards</i>	Incentives, prizes, cars, recognition, opportunities to grow.	Utilize powerful non-financial motivators.	May be difficult to administer; do not provide a direct incentive.	When it is believed that other methods of payment need to be enhanced by providing additional motivators.

### Rewarding customer service staff

Customer service staff work mainly in retail establishments and in call or customer contact centres. Their rewards need to reflect the nature of their duties, ie enhancing levels of customer service as well as selling.

Research conducted by West *et al* (2005) established that most employees in the researched organizations had the opportunity to progress their base pay on the basis of their performance or competence, either through a range or up a pay spine, or between grades/levels of job. Such arrangements have generally supplanted spot rates for service roles in call centres and retail shops. Low base pay/high commission arrangements were rare.

At Boots the Chemists, shop staff can progress up through a number of pay points according to their level of performance and skill – from entry level, to experienced, to advanced, to expert/specialist. At B&Q, customer advisors are paid on one of six different spot rates. Pay progression is based on the acquisition – and application – of skills and knowledge. There are four additional spot rates beyond the established rate designed to reward high performance. Each additional level represents an hourly increase up to a maximum rate. At House of Fraser, employees are allocated to one of four competency bands – training, bronze, silver and gold – with staff assessed for a ‘promotion’ every six months. At Lands’ End, there is a six-grade pay structure for hourly paid staff, with spot rates for starters.

### Rewarding expatriates

The policy of most organizations is to ensure that expatriates are no worse off because they have been posted abroad. In practice, various additional allowances or payments, such as hardship allowances, mean that they are usually better off financially than if they had stayed at home. The basic choice is whether to adopt a home-based or host-based policy.

#### Home-based pay

The home-based pay approach aims to ensure that the value of the remuneration (pay, benefits and allowances) of expatriates is the same as in their home country. The home-base salary may be a *notional* one for long-term assignments (ie the salary that it is assumed would be paid to expatriates were they employed in a job of equivalent level at the parent company). For shorter-term assignments it may be the *actual* salary of the individual. The notional or actual home-base salary is used as the foundation upon which the total remuneration package is built. This is sometimes called the ‘build-up’ or ‘balance sheet’ approach.

The salary ‘build-up’ starts with the actual or notional home-base salary. To this is added a cost-of-living adjustment that is applied to ‘spendable income’ – the portion of salary that would be used at home for everyday living. It usually excludes income tax, social security, pensions and insurance and can exclude discretionary expenditure on major purchases or holidays on the grounds that these do not constitute day-to-day living expenses.



The expatriate's salary would then consist of the actual or notional home-base salary plus the cost-of-living adjustment. In addition, it may be necessary to adjust salaries to take account of the host country's tax regime in order to achieve tax equalization. Moves of less than one year, which might give rise to double taxation, require particular attention. Some or all of the following allowances may be added to this salary:

- 'incentive to work abroad' premium;
- hardship and location;
- housing and utilities;
- school fees;
- 'rest and recuperation' leave.

### Host-based pay

The host-based pay approach provides expatriates with salaries and benefits such as company cars and holidays that are in line with those given to nationals of the host country in similar jobs. This method ensures equity between expatriates and host country nationals. It is adopted by companies using what is called a market rate system, which ensures that the salaries of expatriates match the market levels of pay in the host country.

Companies using the host-based approach commonly pay additional allowances such as school fees, accommodation and medical insurance. They may also fund long-term benefits such as social security, life assurance and pensions from home.

The host-based method is certainly equitable from the viewpoint of local nationals, and it can be less expensive than home-based pay. But it may be much less attractive as an inducement for employees to work abroad, especially in unpleasant locations, and it can be difficult to collect market rate data locally to provide a basis for setting pay levels.

#### Pause for thought

Is it right that if allowances are added to pay and pay is determined on the home-based method as it commonly is, expats are likely to be much better remunerated than local nationals?

## Paying manual workers

The pay of manual workers takes the form of time rates, also known as day rates, day work, flat rates or hourly rates. Incentive payments by means of payment-by-results schemes may be made on top of a base rate.

### Time rates

Time rates provide workers with a predetermined rate for the actual hours they work. They are commonly used when it is thought that it is impossible or undesirable to use a payment-by-results system, for example in maintenance work. From the viewpoint of employees the advantage of time rates is that their earnings are predictable and steady and they do not have to engage in endless arguments with rate fixers and supervisors about piece rate or time allowances. The argument against them is that they do not provide a direct incentive relating the reward to the effort or the results. Two ways of modifying the basic time rate approach are to adopt high day rates as described below or measured day work.

Time rates may take the form of what are often called high day rates. These are higher than the minimum time rate and may contain a consolidated bonus rate element. The underlying assumption is that higher base rates will encourage greater effort without the problems created when operating an incentive scheme. High day rates are usually above the local market rates to attract and retain workers.

### Pay structures

Pay systems for manual workers are seldom graded in the ways described in Chapter 41 unless their conditions have been harmonized, ie brought into line with salaried staff. Time rates are usually paid in the form of spot rates: that is, a fixed rate for a job or an individual. However, spot rates may be designated for different levels of skill. A person-based pay system may be adopted with three basic rates of pay attached to people – unskilled, semi-skilled and skilled – above which there might be special rates for highly skilled occupations such as toolmakers. Earnings from payment-by-result schemes are added to these rates. Other arrange-

ments include the use of a more discerning hierarchy of rates linked to skill levels (a type of skills-based pay), a job-based pay system with different rates for different jobs, or individual job grades which are, in effect, spot rates to which a defined pay is attached to provide scope for pay progression based on performance.

## Payment-by-result schemes

Payment-by-result (PBR) schemes provide incentives to workers by relating their pay or, more usually, part of their pay to the number of items they produce or the time taken to do a certain amount of work. The main types of PBR or incentive schemes for individuals are piece work, work measured schemes, measured day work and performance-related pay. Team bonus schemes

are an alternative to individual PBR and plant-wide schemes can produce bonuses which are paid instead of individual or team bonuses or in addition to them. Each of these methods is described in Table 42.2 together with an assessment of their advantages and disadvantages for employers and employees and when they are appropriate.

### Pause for thought

What is the case for and against harmonizing the pay arrangements with those of salaried staff?

## Key learning points

### Segmentation

Many organizations have one reward system applied to all categories of staff below the level of chief executive. However, others find it necessary to cater for the needs of special groups of staff by adopting different reward practices. This is called reward segmentation.

### Executive pay levels

The level of executive pay is excessive. The main reason for this is the perceived need to compete in the marketplace for executives by offering high levels of remuneration.

### Elements of directors' and senior executives' pay

Basic, pay, bonus schemes, share options, executive restricted share schemes.

### Payment and incentive schemes for sales staff

Summarized in Table 42.1.

### Pay for customer service staff

Customer service staff usually have the opportunity to progress their base pay on the basis of their performance or competence, either through a range or up a pay spine, or between grades/levels of job.

### Rewarding expatriates

The policy of most organizations is to ensure that expatriates are no worse off because they have been posted abroad. In practice, various additional allowances or payments, such as hardship allowances, mean that they are usually better off financially than if they had stayed at home. The basic choice is whether to adopt a home-based or host-based policy.

### Pay for manual workers

The pay of manual workers takes the form of time rates, also known as day rates, day work, flat rates or hourly rates. Incentive payments by means of payment-by-results schemes may be made on top of a base rate.

**TABLE 42.2** Comparison of shop floor payment-by-result schemes

Scheme	Main features	For employers		For employees		When appropriate
		Advantages	Disadvantages	Advantages	Disadvantages	
<i>Piece work</i>	Bonus directly related to output.	Direct motivation; simple, easy and to operate.	Lose control over output; quality problems.	Predict and control earnings in the short term; regulate pace of work themselves.	More difficult to predict and control earnings in the longer term; work may be stressful and produce RSI.	Fairly limited application to work involving unit production controlled by the person, eg agriculture, garment manufacture.
<i>Work measured schemes</i>	Work measurement used to determine standard output levels over a period or standard times for job/tasks; bonus based by reference to performance ratings compared with actual performance or time saved.	Provides what appears to be a 'scientific' method of relating reward to performance; can produce significant increases in productivity, at least in the short term.	Schemes are expensive, time-consuming and difficult to run and can too easily degenerate and cause wage drift because of loose rates.	Appear to provide a more objective method of relating pay to performance; employees can be involved in the rating process to ensure fairness.	Ratings are still prone to subjective judgement and earnings can fluctuate because of changes in work requirements outside the control of employees.	For short-cycle repetitive work where changes in the work mix or design changes are infrequent, down time is restricted, and management and supervision are capable of managing and maintaining the scheme.

(continued)

**TABLE 42.2** (Continued)

Scheme	Main features	For employersw		For employees		When appropriate
		Advantages	Disadvantages	Advantages	Disadvantages	
<i>Measured day work</i>	Pay fixed at a high rate on the understanding that a high level of performance against work-measured standards will be maintained.	Employees are under an obligation to work at the specified level of performance.	Performance targets can become easily attained norms and may be difficult to change.	High predictable earnings are provided.	No opportunities for individuals to be rewarded in line with their own efforts.	Everyone must be totally committed to making it work; high standards of work measurement are essential; good control systems to identify shortfalls on targets.
<i>Performance-related pay</i>	Payments on top of base rate are made related to individual assessments of performance.	Reward individual contribution without recourse to work measurement; relevant in high-technology manufacturing.	Measuring performance can be difficult; no direct incentive provided.	Opportunity to be rewarded for own efforts without having to submit to a pressured PBR system.	Assessment informing performance pay decisions may be biased, inconsistent or unsupported by evidence.	As part of a reward harmonization (shop floor and staff) programme; as an alternative to work measured schemes or an enhancement of a high day rate system.

<i>Group or team basis</i>	Groups or teams are paid bonuses on the basis of their performance as indicated by work measurement ratings or the achievement of targets.	Encourage team co-operation and effort; not too individualized.	Direct incentive may be limited; depends on good work measurement or the availability of clear group output or productivity targets.	Bonuses can be related clearly to the joint efforts of the group; fluctuations in earnings minimized.	Depend on effective work measurement, which is not always available; individual effort and contribution not recognized.	When team working is important and team efforts can be accurately measured and assessed; as an alternative to individual PBR if this is not effective.
<i>Factory wide bonuses</i>	Bonuses related to plant performance – added value or productivity.	Increase commitment by sharing success.	No direct motivation.	Earnings increased without individual pressure.	Bonuses often small and unpredictable.	As an addition to other forms of incentive when increasing commitment is important.

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## 43

# The gender pay gap

## Introduction

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The gender pay gap is the difference between the average hourly earnings (excluding overtime) of men and women as a proportion of the average hourly earnings (excluding overtime) of men.

As reported by the Office of National Statistics, the gender pay gap for full-time employees in April 2018 was 8.6 per cent in favour of men. It ranged from 4.8 per cent for sales and customer service occupations to 23.9 per cent for skilled trades.

The gender pay gap is an overall figure and should be distinguished from equal pay which deals with the pay differences between men and women who carry out the same jobs, similar jobs or work of equal value. Unequal pay does contribute to a pay gap but, as explained below, there are other important factors. This chapter starts with an explanation of why the gender pay gap occurs and continues with suggestions on what can be done about it.

## Reasons for the gender pay gap

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Respondents to the CIPD reward survey in 2017 cited a lack of women in high-paid jobs as the major cause of a gender gap. Forty-three per cent of them thought that this was the main issue for managers but a considerably smaller proportion (18 per cent) believed that it applied to other employees. Much less importance was attached to unequal pay as a cause (9 per cent for both managers and other employees).

Contrary to popular belief it seems that unequal pay is not the principle reason for gender pay gaps. The equal pay legislation does seem to have had some effect on pay practice. In the 49 years since the original UK Equal Pay Act was introduced, gender

pay gaps have been virtually halved as obviously discriminatory structures have been outlawed and the minimum wage has reduced disparities amongst lower-paid employees.

The lack of women in higher-paying roles was noted by Brown and Rickard (2018), who reported that because of the vertical segregation of the UK labour market, two-thirds of the UK's low-paid employees are female while over 80 per cent of high-earning executives are men. Research by Brown (2017) has indicated that the uneven distribution of jobs between men and women is key to the maintenance of gender disparities.

Brown and Rickard (2018), commented that: 'Our research and consulting experience at IES (Institute for Employment Studies) points to the complex, deeply rooted historical, cultural and social causes of gender pay gaps.' Unequal pay may not be the major cause in many cases but it is still an important factor. An analysis of the other main causes is set out below.

### *Lack of transparency*

Being secretive about pay structures allows gender gaps to flourish. A study by the Equality and Human Rights Commission in 2016 revealed that employers with greater pay transparency have narrower gender pay gaps. And the research by Brown (2017) showed how the gender gap is reduced or at least controlled when employers are transparent about pay ranges.

### *Pay increase decisions*

Brown (2017) found that when there is considerable flexibility for managers to make individual and discretionary decisions on pay increases, men seem to be better than women in exploiting such flexibility to their advantage.



## Recruitment

A number of studies, for example Parken *et al* (2014) have identified that the uneven distribution of jobs between men and women is key to the maintenance of gender disparities. Gender bias against women can limit those shortlisted for interview, lead to selection decisions that favour men, and result in men being offered higher starting salaries.

## Return to work after maternity leave

A major problem for women returning to work after maternity leave is that they may have missed out on opportunities for promotion and opportunities to gain more experience and acquire additional skills. The combined effect of these is that they will have lost ground with their male colleagues who have remained at work. This problem is exacerbated by the likelihood that the pay of those colleagues will have been increased during the leave period, especially when incremental pay scales are in operation.

## Under-representation of women on boards

The under-representation of women on boards contributes directly to gender pay gaps. But it also makes a difference to how organizations respond to the gap. Cardoso and Winter-Ebmer (cited by Hensvik, 2014) found that female earnings increased when organizations appointed a female chief executive and Bell (also cited by Hensvik) found that the earnings of female executives were higher and women were more likely to be among the highest-paid executives in female-led firms.

In 2015, as reported by the Department for Business, Innovation and Skills, the proportion of women directors on the boards of FTSE 100 companies was 28.5 per cent but of the 263 women directors only 24 were executive directors; the remaining 239 held non-executive and therefore less influential posts.

## Performance management

There may be bias, conscious or unconscious, by men against women when rating performance and

potential, which can restrict pay increases and reduce promotion prospects.

## Learning and development

A limitation of learning opportunities for women can contribute to a gender pay gap by restricted access to more skilled and therefore better-paid jobs. An analysis was made in 2017 by the Knowledge Academy (cited by Brown and Rickard, 2018). This covered data from Eurostat alongside a survey of more than 6,000 adults conducted by the UK Commission for Employment and Skills and the National Institute of Adult Continuing Education (NIACE). It revealed that just 6 in 10 women were offered training by their employer, compared with 8 in 10 men. This appeared to be related to its finding that 32 per cent of full-time staff said that they had accessed both on- and off-the-job training in the last year, compared with just 19 per cent of part-time workers, who are predominantly female (Kirton, 2017). Olsen *et al* (2010) found that training paid for by employers was associated with six per cent higher hourly wages.

The problem starts at school where fewer girls tend to opt for A level 'STEM' (science, technology, engineering and maths) subjects. This can restrict earning opportunities. Research by London Economics (2015) showed that pay is greater when a STEM A level is undertaken – girls taking one such level can expect annual wages to be £4,500 higher, on average, than if they had not.

## Careers advice

Careers advice to girls can lead them towards occupations or industries that are believed by advisors to be more suitable for women. This reinforces high occupational gender skews in industries such as engineering and IT and increases gender gaps in those industries.

## Actions to reduce gender pay gaps

It was concluded by O'Reilly *et al* (2015) on the basis of their research that 'progress towards closing the gender pay gap will not be easy, will require

a collective effort of various actors, and will not be quick.’ It was also concluded by Brown and Rickard (2018) that: ‘There is no magic “silver bullet” solution and that only multiple actions over sustained periods of time involving all key stakeholders can be effective in addressing such a complex, deep-rooted and intractable social, cultural and economic phenomenon.’ But attempts are being made, as described below, through government legislation and initiatives and within organizations.

## Reporting gender pay gaps

Various parts of the public sector have been required to promote equality and report on their gender pay gaps for some time. But in the private sector the issue was generally being given low priority. At first the government tried to encourage companies to report on and address their gaps voluntarily, but while more than 250 major employers initially signed up to the UK government’s ‘Think, Act, Report’ voluntary initiative, only 11 of these companies had voluntarily published their gaps by the start of 2016.

This lack of progress led the government to compel employers to report. The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 require all UK-based employers with 250 or more employees to calculate and publicly report on the gaps in pay between their female and male employees each year on a fixed date. An employer must publish six calculations showing their:

- average gender pay gap as a mean average;
- average gender pay gap as a median average;
- average bonus gender pay gap as a mean average;
- average bonus gender pay gap as a median average;
- proportion of males receiving a bonus payment and proportion of females receiving a bonus payment;
- proportion of males and females when divided into four groups ordered from lowest to highest pay.

The results must be published on the employer’s website and a government website. Employers have the option to provide a narrative with their

calculations. This should generally explain the reasons for the results and give details about actions that are being taken to reduce or eliminate the gender pay gap.

The following advice on examining the data in a report was given by Emma Codd, Managing Partner for Talent, Deloitte:

### Source review

The picture the data provides is critical – while you need to make sure you have the right processes in place to confirm the data’s accuracy, it is also equally important to analyse the data to really understand what the figures say about your organization. Our data overwhelmingly confirmed that Deloitte’s gender pay and bonus gaps are due to the disproportionate number of men in senior positions; however, it also told us some things we had not previously realized, in particular that more of our women than men avail themselves of some of our salary sacrifice benefits (in particular purchasing extra holiday).

Codd (2017)

## Equal Pay

The Equal Pay Act (1970) ended the previous common practice of employers paying men and women different amounts of money for doing jobs that were either the same or very similar. It became unlawful to operate separate male and female pay scales or to pay men and women differently for doing jobs that should have been paid at the same grade when a job evaluation system was in operation. Later, in 1983 after the UK joined the European Union, it became possible for employees to pursue claims in an Employment Tribunal when they believed that their work, despite being different in nature from that of a comparator of the opposite sex, was nonetheless of ‘equal value to his or hers’. The relevant law is now all found in the Equality Act 2010. It applies equally to men and to women, but in practice the large majority of cases are brought by women using men as their comparators.

Aside from these three headings under which a claim can be brought (ie like work, work that has been rated as equivalent, and work of equal value), the Equality Act sets out the major defences that are available to employers. The most widely deployed is known as the ‘material factor defence’, which involves satisfying the tribunal that the difference in the level of payment between the claimant and her comparator is genuinely explained by factors that have nothing to do with gender. The most common examples are situations in which a man works longer hours or takes on a less desirable shift pattern than the woman and those in which there are marked differences in relative levels of skill, performance or experience. It is also common for employers to pay more to people who have achieved certain formal qualifications and also to pay London-based employees more than those living elsewhere in the UK. These are both accepted as ‘material factors’ provided that they genuinely explain the difference in pay. The same is true of situations in which a group of employees enjoys a higher level of ‘protected pay’ following a merger or acquisition that brings together two groups of people who were previously employed by different employers.

### **Minimum pay**

The introduction of the UK’s National Minimum Wage, followed by the more rapidly increasing National Living Wage in 2015, benefited women, as they hold the majority of minimum wage jobs. However, the impact on the national gender pay gap has been limited by the preponderance of low-paid females in part-time work.

### **Representation of women on boards**

The UK government is encouraging employers to voluntarily set targets and improve board-level female representation. A new five-year plan was agreed in 2016, focusing on building the talent pool

below board level and greater representation in executive as opposed to non-executive roles. Although a voluntary initiative rooted in individual corporate actions, the tacit threat of legislation has undoubtedly also encouraged progress.

### **Educational opportunities and careers advice**

Government action is needed to encourage girls to take STEM subjects at A level and to ensure that careers advice covers the whole spectrum of occupations rather than only those in which women predominate.

## **Narrowing the gap at organizational level**

There are a number of initiatives that can be taken to narrow gender pay gaps at organizational level, as summarized in Table 43.1. A multi-pronged approach is required. Appointing a diversity manager with the responsibility for initiating and coordinating actions to reduce the gap will be a great help. But perhaps the most important thing to do is to develop a culture that will ensure that ‘the way we do things around here’ as far as gender equality is concerned is one that supports, indeed drives, initiatives to reduce a gap and maintain any reductions achieved. The two case studies at the end of this chapter illustrate this point perfectly. But changing an embedded culture can be a long haul.

### **Pause for thought**

What would you do if you were asked to investigate why the pay gap in an organization was too high?

**TABLE 43.1** Actions that can be taken by organizations to reduce a gender pay gap

Area	Possible actions by the organization
Unequal pay	Conduct an equal pay audit, communicate the results to employees and take action to deal with any equal pay problems it reveals. Ensure job evaluation scheme is unbiased. Ensure pay structure is unbiased.
Lack of transparency	Adopt a policy of complete transparency on pay structures and use it as the basis upon which pay decisions are made.
Pay increase decisions	Provide awareness training on avoiding bias in making pay decisions. Monitor proposed increases to detect and correct any bias.
Recruitment issues	Ensure that a good proportion of women are included in shortlists. Introduce 'blind' applications, ie interviewers are not told the name, sex, age or race group of applicants. Issue clear guidelines on recruitment salaries which emphasize that all applicants have to be treated the same. Monitor proposed starting salaries and question any apparent bias. Use structured interviews with prepared and gender neutral questions.
Return to work after maternity leave	Provide enhanced support for maternity returners including flexible working opportunities, mentoring and confidence-building activities. Fix returning pay at the rates the returner would have achieved had she not been on maternity leave. Provide unconscious bias training for managers dealing with maternity returners.
Under-representation on boards and in more senior roles	Talent management – plan and manage the talent pipeline to ensure that women have the same opportunities as men to benefit from career development programmes and to be classified as potential senior management. Review all board and senior appointments to ensure that eligible women are given a fair share of positions.
Learning and development	Monitor distribution of learning and development opportunities to ensure that women get their fair share.
Flexible working	Educate all employees on the right to request flexible working arrangements and ensure that it is available whenever possible.
Performance management	Provide unconscious bias training to assessors. Ensure criteria for assessment are unbiased, clear and understood. Monitor ratings to identify possible bias and take corrective action where needed.

## CASE STUDIES

### Managing the gender pay gap in the FDM Group

The FDM Group is a global professional services provider with a focus on IT. The firm had almost 2,000 UK employees in 2017 and over 1,500 in the rest of the world. The FDM Group's 2017 gender pay report indicated that the median pay gap was 0.0 per cent and the mean pay gap was 6.0 per cent. A contributory factor to the achievement of a zero median and a 6 per cent mean pay gap is that globally, 26 per cent of FDM employees and about 50 per cent of the senior management team are female. FDM adopts a multi-pronged and evolving approach to reducing the gap.

#### Culture

The culture is deliberately managed by FDM because the company sees it as important for both a positive employee experience as well as the customer experience. To communicate and practice this culture in a dispersed organization, extensive staff communications refer to its initiatives around diversity, inclusion and gender balance through employee newsletters, company events and digital screens in the office to ensure that all employees are aware of the strong commitment to diversity. Gender pay reporting as it takes place at FDM is a manifestation of an open, high-communications culture in which relevant gender and other diversity data is regularly circulated and discussed.

#### Recruitment policy

First, the firm recruits people who have the aptitude, skills and the potential required, regardless of background, creed or colour. Second, FDM has a very strong 'grow your own' staffing policy, rather than trying to recruit in a tight labour market for large numbers of experienced and, still, mostly male IT consultants,

FDM has clear and well-written policies on pay, equal opportunities, development, diversity and inclusion, based on a principle 'of being open and transparent' and fully accessible on its intranet. Diversity Champions are spread across the business to publicize and promote the benefits that stem from diversity, as well as ensuring that these principles are put into practice day to day.

The firm supports career labs in schools and runs about 600 events on university campuses each year. It also sponsors the FDM Everywoman in Technology awards, championing the advances and achievements of women in STEM and technology careers. FDM was one of the *Guardian's* Most Popular Graduate Employers in 2017/18.

#### Recruitment and selection practice

The firm goes to considerable lengths to ensure that when applications are considered, being a woman has no implications whatsoever on their chances of being selected by the firm. Specific practices to support this include:

- unconscious-bias training for recruiters;
- use of 'blind CVs' that omit personal and university detail so that only the specific job and skill requirements are considered;
- use of structured, strength-based interviewing techniques; and
- game-based testing at assessment centres.

#### Learning and development

The company operates a mentoring scheme aimed at all new and developing employees with an equal male/female senior management team taking part as mentors. This is thought to be particularly important in helping to role model and prepare women for future senior management roles.

#### Pay structure

A key feature of the FDM pay structure is that base pay is the same for all individuals in the same role. There are no pay ranges around these rates and therefore no scope for managers and employees to bargain over base pay level, which research studies suggest may contribute to gender pay disparities.

**Source** Brown (2017)

## Managing the gender pay gap in Lewisham Council

Lewisham Council had 6,912 employees in 2018 of whom 60 per cent were women. The average pay for women has exceeded that of men since at least 2010, and Lewisham currently has a gender pay differential in favour of women of 10.9 per cent. There has been a long history at the Council of an informal, tactical and pragmatic approach to securing gender equality.

A values-based, culture-driven and pragmatic approach over many years was seen as being at the heart of the progress made, with senior managers setting the example and signalling and monitoring its importance, followed by a range of HR policies reinforcing it, particularly in terms of talent management and development.

Management and career development was the key HR activity to achieving gender parity. The approach to achieving parity was pragmatic rather than a hard adherence to set targets and quotas. Opportunities were seized to make 'signalling appointments' in key areas when a female appointment would be very noticeable in the Council.

The Council's pay policy is to balance reward and fairness. The reward policy has been used to drive gender parity, the cornerstone of which is a single status approach, which involved the re-evaluation of all roles through a rigorous job evaluation process to ensure equity. This is supplemented by monitoring and pay audits.

Lewisham adopts a comprehensive and consistent approach to monitoring people management processes and profiling its workforce. Managers are provided with regular people management metrics on pay, attendance, learning and appointments, analysed by under-represented areas including gender. Annually, each management team is asked to consider the profile of their workforce, particularly by gender, as part of their workforce planning process. The data has been used to change people management practices such as recruitment and job evaluation, which have the greatest impact on gender parity.

**Source** Brown (2016)

### Key learning points

#### The gender pay gap

The gender pay gap is the difference between the average hourly earnings (excluding overtime) of men and women as a proportion of the average hourly earnings (excluding overtime) of men.

#### Reasons for the gender pay gap

A lack of women in highly paid jobs is the major cause of a gender gap. In detail, the reasons are a failure to give sufficient attention to gender equality in the following areas:

- lack of transparency;
- pay increase decisions;
- recruitment;

- return to work after maternity leave;
- under-representation of women on boards.

#### Actions at national level

- equal pay;
- minimum pay;
- representation of women on boards;
- educational opportunities.

#### Actions at organizational level

See Table 43.1.

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# PART XI

## Employment relations

### PART XI CONTENTS

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- 47** The practice of industrial relations
- 48** Employee voice
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### Introduction

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Employment relations, also known as employee relations, are concerned with managing the employment relationship and the psychological contract and relating to employees either collectively through trade unions or other formal groups or individually. Employment relations also involve providing employees with a voice and developing communications between them and management.

Employment relations cover a wider spectrum of the employment relationship than industrial relations, which are essentially about what goes on between management and trade union representatives and officials involving collective agreements, collective bargaining and disputes resolution. This wider definition of employment relations recognizes the

move away from collectivism towards individualism in the ways in which employees relate to their employers.

This part starts with a review of the basis of employment relations – strategies, policies, and the approaches used by organizations to managing with or without trade unions. The next two chapters examine the fundamental concepts that affect employment relations, namely the nature of the employment relationship and the psychological contract. These chapters provide the background to Chapter 47, which deals with the practice of industrial relations, covering union recognition, the concept of mutual gains and the processes of collective bargaining and dispute resolution. The last two chapters deal respectively with employee voice (participation and involvement) and communications.

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## 44

# The basis of employment relations

## Introduction

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This chapter deals with:

- The meaning of employment relations
- Employment relations policies and strategies
- The concept of the employment relations climate
- Approaches to managing with and without unions

## The meaning of employment relations

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Employment relations are concerned with managing and maintaining the employment relationship – how managements and employees live together and what can be done to make that work. This includes relating to people individually and dealing with them collectively through trade unions where they exist (industrial relations).

There are two views about the relationship. The first is the unitarist viewpoint which is the belief that management and employees share the same concerns and it is therefore in both their interests to cooperate – ‘what is good for the firm is good for the worker’. This was referred to by Walton (1985: 64) as the principle of mutuality. A similar belief is expressed in the idea of social partnership, which states that as stakeholders, the parties involved in employment relations should aim to work together to the greater good of all. Partnership agreements try to put this idea into practice.

In contrast, the pluralist viewpoint is that the interests of employees will not necessarily coincide with their employers and that the unitary view is naive, unrealistic and against the interests of employees. In the radical pluralist view, as pointed out by Dundon *et al* (2017: 67), ‘the employer-worker relationship is fundamentally grounded in coercive relations and arises in a context of power and dependence.’ This was called ‘structural antagonism’ by Edwards (1996) which means that employers and workers are locked into a relationship of dependency that is compounded by contradictory tensions. People who believe this claim that partnership agreements can never work. Perhaps the difference between the unitarist and the pluralist views is that the former is idealistic while the latter is realistic.

The meaning of employment relations can be described somewhat simplistically in terms of the pay-work bargain – the agreement made between employers and employees whereby the former undertakes to pay for the work done by the latter. According to this notion, many employers simply want employees who will do what they are told without costing too much. They want engagement and commitment on their own terms. But employees want a ‘fair day’s pay for a fair day’s work’ and a say in their terms and conditions of employment and the way in which their work is organized. They want security of employment, good working conditions, a healthy and safe working environment and the scope to raise and resolve grievances. Conflicts of interest can arise between employers and employees on these issues, and where there are unions these conflicts are resolved by the various industrial relations procedures described in Chapter 47. Because of this,

employment relations need to be managed by reference to understood and communicated policies and strategies.

## Employment relations policies

Employment relations policies express the philosophy of the organization on what sort of relationships are wanted between management and employees and, where necessary, their unions, and how the pay-work bargain should be managed. A social partnership policy will aim to develop and maintain a positive, productive, cooperative and trusting climate of employment relations.

### Approaches

There are four approaches to employment relations:

- 1 **Adversarial:** the organization decides what it wants to do, and employees are expected to fit in. Employees only exercise power by refusing to cooperate.
- 2 **Traditional:** a reasonably good day-to-day working relationship but management proposes and the workforce reacts through its elected representatives, if there are any; if not, employees just accept the situation or walk.
- 3 **Partnership:** the organization involves employees in the drawing up and execution of organization policies, but retains the right to manage.
- 4 **Power sharing:** employees are involved in both day-to-day and strategic decision making.

Adversarial approaches are much less common now than in the 1960s and '70s. The traditional approach is still the most typical but more interest is being expressed in partnership. Power sharing is rare.

### Objectives of employment relations policies

The objectives of employment relations policies may include the maintenance of good relations with

employees and their unions, the construction of a cooperative and constructive employment relations climate, the effective management of the work process, the control of labour costs, and the development of an engaged and committed workforce. When these policies are articulated, they provide guidelines for taking action on employment relations issues and can help to ensure that these issues are dealt with consistently. They provide the basis for defining management's intentions (its employment relations strategy) on key matters such as union recognition and collective bargaining.

### Employment relations policy areas

The areas covered by employment relations policies are:

- *The employment relationship* – the extent to which terms and conditions of employment should be governed by collective agreements or based on individual contracts of employment (ie collectivism versus individualism).
- *Trade union recognition* – whether trade unions should be recognized or de-recognized, which union or unions the organization would prefer to deal with, and whether or not it is desirable to recognize only one union for collective bargaining and/or employee representational purposes. The policy will have to consider the factors affecting managing with or without unions, as discussed later in this chapter.
- *Collective bargaining* – the extent to which it should be centralized or decentralized and the scope of areas to be covered by collective bargaining.
- *Employment relations procedures* – the nature and scope of procedures for redundancy, grievance handling and discipline.
- *Participation and involvement* – how far the organization is prepared to go in giving employees a voice on matters that concern them.
- *Partnership* – the extent to which a partnership approach is thought to be desirable.

- *Harmonization* – providing the same terms and conditions of employment for staff and manual workers.
- *Working arrangements* – the degree to which management has the prerogative to determine working arrangements without reference to trade unions or employees (this includes job-based or functional flexibility).

## Policy choices

The following policy options for organizations on industrial relations and HRM were set out by Guest (1995):

- *The new realism* – a high emphasis on HRM and industrial relations. The aim is to integrate HRM and industrial relations.
- *Traditional collectivism* – priority to industrial relations without HRM. This involves retaining the traditional industrial relations arrangements within an unchanged industrial relations system. Management may take the view in these circumstances that it is easier to continue to operate with a union, since it provides a useful, well-established channel for communication and for the handling of grievance, discipline and safety issues.
- *Individualized HRM* – high priority to HRM with no industrial relations. According to Guest, this approach is not very common except in US-owned firms. It is, he believes, essentially piecemeal and opportunistic.
- *The black hole* – no industrial relations. This option is becoming more prevalent in organizations in which HRM is not a policy priority for management but where they do not see that there is a compelling reason to operate within a traditional industrial relations system. When such organizations are facing a decision on whether or not to recognize a union, they are increasingly deciding not to do so.

### Pause for thought

Make out the case for any of these options.

## Employment relations strategies

Employment relations strategies set out how policy aims are to be achieved. The intentions expressed by strategies may direct the organization towards any of the following:

- altering the forms of recognition, including single union recognition, or de-recognition;
- changes in the form and content of procedural agreements;
- new bargaining structures, including decentralization or single-table bargaining (ie bringing all the unions in an organization together as a single bargaining unit);
- developing a ‘partnership’ with trade unions, recognizing that employees are stakeholders and that it is to the advantage of both parties to work together;
- deliberately bypassing trade union representatives to communicate directly with employees;
- the achievement of increased levels of commitment through involvement or participation;
- increasing the extent to which management controls operations in such areas as flexibility;
- generally improving the employment relations climate, as discussed below, to produce more harmonious and cooperative relationships.

## Employment relations climate

The employment relations climate of an organization refers to the perceptions of the parties involved (management, employees and their representatives) about the ways in which employment relations are conducted and how those parties behave when dealing with one another. An employment relations climate may be created by the management style adopted by management (see below), by the behaviour of the trade unions or employment representatives (cooperative, hostile, militant, etc), or by

the two interacting with one another. It can be good, bad or indifferent according to perceptions about the extent to which:

- management and employees trust one another;
- management treats employees fairly and with consideration;
- management is open about its actions and intentions – employment relations policies and procedures are transparent;
- harmonious relationships are generally maintained with trade unions and employees generally;
- a mutual gains approach (see Chapter 47) is adopted;
- conflict, when it does arise, is resolved without resort to industrial action and resolution is achieved by integrative processes that result in a ‘win-win’ solution;
- employees are generally committed to the interests of the organization and, equally, management treat them as stakeholders whose interests should be protected as far as possible.

### Source review

The development of a positive employment climate is important as it forms the backdrop against which mutual gains may occur. In a positive employment climate, management may seek to make assurances about job security... If workers believe that partnership helps to enhance individual job security and the long-term survival of the workplace, levels of buy-in are likely to be higher. Second, a positive employment climate is associated with a sophisticated approach to HR; this includes the development of a complementary HR infrastructure and integrated practices. Third, a positive employment climate requires the development of meaningful relationships with unions.

Glover *et al* (2014: 896)

## Improving the climate

Improvements to the climate can be attained by developing fair employment relations policies and procedures and implementing them consistently. Line managers and team leaders who are largely responsible for the day-to-day conduct of employment relations need to be educated and trained on the approaches they should adopt. Transparency should be achieved by communicating policies to employees, and commitment increased by involvement and participation processes. Problems that need to be resolved can be identified by simply talking to employees, their representatives and their trade union officials. Importantly, as discussed below, the organization can address its obligations to employees as stakeholders and take steps to build trust.

### Pause for thought

What does treating employees as stakeholders mean?

## Management style in employment relations

The term ‘management style’ refers to the overall approach the management of an organization adopts to the conduct of employment relations. Purcell and Sisson (1983) identified five typical styles:

- 1 Authoritarian – employment relations are not regarded as important and people issues are not attended to unless something goes wrong.
- 2 Paternalistic – in some ways this resembles the authoritarian style but a more positive attitude to employees is adopted.
- 3 Consultative – trade unions are welcomed and employment consultation is a high priority.

- 4 Constitutional – there is a trade union presence but the management style tends to be adversarial.
- 5 Opportunistic – management style is determined by local circumstances, which in turn determine whether or not unions are recognized and the extent to which employment involvement is encouraged.

Purcell (1987: 535) defined management style as ‘a guiding set of principles which delineate the boundaries and direction of acceptable management action in dealing with employees.’ He described two major dimensions: (1) individualism, which refers to the extent to which personnel policies are focused on the rights and capabilities of individual workers; and (2) collectivism, which is concerned with the extent to which management policy is directed towards encouraging the development of collective representation by employees and allowing employees a collective voice in management decision making. According to Purcell, style is a deliberate choice linked to business policy. Organizations may choose to focus on one or both aspects. Not all firms have a distinctive preferred management style.

### **An ethical approach**

Businesses aim to achieve prosperity, growth and survival. Ideally, success should benefit all the stakeholders in the organization – owners, management, employees, customers and suppliers. However, the single-minded pursuit of business objectives can act to the detriment of the wellbeing and security of employees. There may be a tension between accomplishing business purposes and the social and ethical obligations of an organization to the people who work there. But the chances of attaining a good climate of employment relations are slight if no attempt is made to recognize and act on an organization’s obligations to its members.

An ethical approach will be based on high-commitment and high-involvement policies. The commitment will be mutual and the arrangements for involvement will be genuine, ie management will be prepared not only to listen but to act on the views expressed by employees or, at least, if it cannot take action, explain why. It will also be transparent and, although the concept of a ‘job for life’ may no longer be valid in most if not all organizations, an attempt will be made to maintain full employment policies.

## **Managing with unions**

Managements and trade unions can learn to live together, often on a give-and-take basis, the presumption being that neither would benefit from a climate of hostility or by generating constant confrontation. It would be assumed in this situation that mutual gains would be achieved by acting in accordance with the spirit as well as the letter of agreed joint regulatory procedures. However, both parties would probably adopt a realistic pluralist viewpoint. This means recognizing the inevitability of differences of opinion, even disputes, but believing that with goodwill on both sides they could be settled without resorting to industrial action.

The reality back in the 1960s and ’70s was often different. In certain businesses, for example in the motor and shipbuilding industries, hostility and confrontation were rife, and newspaper proprietors tended to let their unions hold sway in the interests of peace and profit. Times have changed. Trade union power has diminished in the private sector, if not in the public sector. Managements in the private sector have tended to seize the initiative. They may be content to live with trade unions but they give industrial relations lower priority. They may feel that it is easier to continue to operate with a union because it provides a useful, well-established channel for communication and for the handling of grievance, discipline and safety issues. In the absence of a union, management would need to develop its own alternatives, which would be costly and difficult to operate effectively. The management perspective may be that it is safer to marginalize the unions than to formally derecognize them and risk provoking a confrontation.

The pattern varies considerably but there is general agreement based on studies such as the Workplace Employment Relations Survey (2004) that employers have been able to assert their prerogative – ‘management must manage’ – in the workplace. They seem generally to have regained control over how they organize work, especially with regard to the flexible use of labour and multi-skilling. The ‘status quo’ clause, typical of many agreements in the engineering industry whereby management could not change working arrangements without union agreement, has virtually disappeared in the private sector.



Four types of industrial relations managements have been identified by Purcell and Sisson (1983):

- *Traditionalists*, who have unitary beliefs and are anti-union with forceful management.
- *Sophisticated paternalists*, who are essentially unitary but they do not take it for granted that their employees accept the organization's objectives or automatically legitimize management decision making. They spend considerable time and resources in ensuring that their employees adopt the right approach.
- *Sophisticated moderns*, who are either constitutionalists – where the limits of collective bargaining are codified in an agreement but management is free to take decisions on matters that are not the subject of such an agreement – or consulters – they accept collective bargaining but do not want to codify everything in a collective agreement, and instead aim to minimize the amount of joint regulation and emphasize joint consultation with 'problems' having to be solved rather than 'disputes' settled.
- *Standard moderns*, who are pragmatic or opportunist. Trade unions are recognized, but industrial relations are seen as primarily fire-fighting and are assumed to be non-problematic unless events prove otherwise. This is by far the most typical approach.

On the whole, pluralism prevails and management and unions will inevitably disagree from time to time on employment issues. The aim is to resolve

these issues before they become disputes. This means adopting a more positive partnership approach. Where collective agreements are being made, a cooperative or integrative bargaining philosophy can be adopted, based on perceptions about the mutual interdependence of management and employees and the recognition by both parties that this is a means to achieve more for themselves.

## Managing without unions

Some firms, especially larger ones, manage without trade unions by adopting what is in effect a union substitution policy which offers employment policies and pay packages that employees will see as an attractive alternative to trade union membership. They may focus on communications and information sharing but they will basically deal with people individually rather than collectively. Others, especially smaller firms, simply deal with employees individually – sometimes well, sometimes not – and make no attempt to provide substitute arrangements.

### Pause for thought

How would you persuade management to recognize a union in the absence of one or to derecognize a union if one already exists?

### Key learning points

#### Employment relations

Employment relations are concerned with managing and maintaining the employment relationship, taking into account the implications of the concept of the psychological contract. Employment relations are basically about how managements and employees live together and what can be done to make that work.

#### Employment relations policies

Employment relations policies express the philosophy of the organization on what sort of relationship is wanted between management and employees and their unions, and how the pay-work bargain should be managed. The areas covered by employment relations policies are trade union recognition, collective bargaining, employment relations procedures,

participation and involvement, partnership harmonization and working arrangements.

### Employment relations strategies

Employment relations strategies set out how employment relations policy objectives are to be achieved. The intentions expressed by employment relations strategies may direct the organization towards any of the following:

- altering the forms of recognition, including single union recognition, or derecognition;
- changes in the form and content of procedural agreements;
- new bargaining structures, including decentralization or single-table bargaining (ie bringing all the unions in an organization together as a single bargaining unit);
- the achievement of increased levels of commitment through involvement or participation;
- deliberately bypassing trade union representatives to communicate directly with employees;
- increasing the extent to which management controls operations in such areas as flexibility;
- developing a 'partnership' with trade unions, recognizing that employees are stakeholders and that it is to the advantage of both parties to work together;
- generally improving the employment relations climate to produce more harmonious and cooperative relationships.

### Employment relations climate

The employment relations climate of an organization refers to the perceptions of management, employees

and their representatives about the ways in which employment relations are conducted and how the various parties (managers, employees and trade unions) behave when dealing with one another. An employment relations climate may be created by the management style adopted by management, by the behaviour of the trade unions or employee representatives (cooperative, hostile, militant, etc), or by the two interacting with one another.

### Managing with unions

Ideally, managements and trade unions learn to live together, often on a give-and-take basis, the presumption being that neither would benefit from a climate of hostility or by generating constant confrontation. It would be assumed in this ideal situation that mutual advantage would come from acting in accordance with the spirit as well as the letter of agreed joint regulatory procedures. However, both parties would probably adopt a realistic pluralist viewpoint. This means recognizing the inevitability of differences of opinion, even disputes, but believing that with goodwill on both sides they could be settled without recourse to industrial action.

### Managing without trade unions

Some firms, especially larger ones, manage without trade unions by adopting a union substitution policy that offers employment policies and pay packages that employees will see as an attractive alternative to trade union membership. They may focus on communications and information sharing but they will basically deal with people individually rather than collectively. Others, especially smaller firms, simply deal with employees individually – sometimes well, sometimes not – and make no attempt to provide substitute arrangements.

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# 45

# The employment relationship

## Introduction

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The employment relationship describes how employers and employees work together. A positive employment relationship is one where there is mutual trust and in which management and employees are interdependent and both benefit from this interdependency. Such a relationship may be difficult to achieve but it can provide a sound basis for employment relations policies. This chapter describes the employment relationship, how it is managed and how a climate of trust can be created.

## The nature of the employment relationship

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It is possible to express the employment relationship formally by what Rubery *et al* (2002) regarded as its cornerstone, namely the contract of employment. It can additionally be defined by such means as procedure agreements and work rules. But it is essentially an informal and constant process that happens whenever an employer has dealings with an employee, and vice versa.

Thus the employment relationship is concerned with the employee experience of working in an organization, which covers everything that people encounter, observe and feel during the course of their employment. This includes the effect on employees of management practices such as providing leadership, exercising control, performance management,

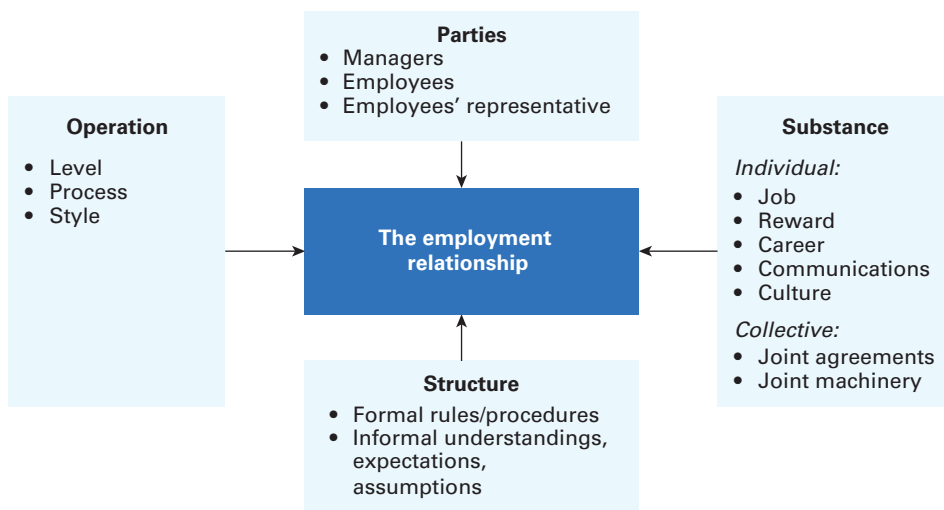
concern for employee wellbeing and dealing with employment problems.

Underpinning the employment relationship is the psychological contract, which expresses certain assumptions and expectations about what managers and employees have to offer and are willing to deliver. The dimensions of the employment relationship as described by Kessler and Undy (1996) are shown in Figure 45.1.

## The basis of the employment relationship

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The starting point of the employment relationship is an undertaking by an employee to provide skill and effort to the employer in return for which the employer provides the employee with a salary or a wage (the pay-work bargain). Initially the relationship is founded on a legal contract. This may be a written contract, but the absence of such a contract does not mean that no contractual relationship exists. Employers and employees still have certain implied legal rights and obligations even if there is no formal contract. The employer's obligations include the duty to pay salary or wages, provide a safe workplace, act in good faith towards the employee and not to act in such a way as to undermine the trust and confidence of the employment relationship. The employee has corresponding obligations, which include obedience, competence, honesty and loyalty.

**FIGURE 45.1** Dimensions of the employment relationship

Source Kessler and Undy (1996)

### Source review

At the heart of the employment relationship lies a 'zone of acceptance' within which employees agree to let management direct their labour. This may relate to the range of tasks that employees are willing to undertake at management's direction, but it may also include the priority to be accorded to different types of work, and the willingness to vary working time according to management's requirements. Depending on how large this zone is, and how its boundaries are drawn, it provides organizations with varying degrees of flexibility to respond to changing production and market requirements.

Marsden (2007: 1263)

Marsden and Canibano (2010) referred to this as the 'frontier of control'.

The employment relationship exists at different levels in the organization (management to employees generally, and managers to individual employees and their representatives or groups of people). The operation of the relationship will also be affected by processes such as communications and consultation,

and by the management style prevailing throughout the organization or adopted by individual managers.

An important point to remember about the employment relationship is that, generally, it is the employer who has the power to dictate the contractual terms unless they have been fixed by collective bargaining. Individuals, except when they are in demand, have little scope to vary the terms of the contract imposed upon them by employers. Inevitably there are conflicts of interest, between employers who want to control compliant and high-performing employees, and the employees who want to maintain their rights to 'a fair day's pay for a fair day's work'.

## Labour process theory and the employment relationship

The employment relationship is sometimes explained by labour process theory. In its original form, as defined by Braverman (1974), this stated that the application of modern management techniques, in combination with mechanization and automation, secures the subordination of labour and deskilling of work in the office as well as on the shop floor. Thompson and Harley (2007: 149)

noted that: ‘The notion of the workplace as contested terrain is a central motif of labour process theory.’ They pointed out that what is happening is a process of ‘capitalizing on humanity’ rather than investing in human capital. However, they did comment that: ‘In the employment relationship there will always be (actual and potential) conflict, but simultaneously there will be shared interests’ (ibid: 156). And they suggested that: ‘In an environment where employee skills and commitment are central to organizational success, it is precisely by giving more that organizations will gain more’ (ibid: 149).

### Pause for thought

What is the contribution of labour process theory to our understanding of the employment relationship?

## Employment relationship contracts

Two types of contracts defining the employment relationship have been distinguished by Rousseau and Wade-Benzoni (1994), namely transactional contracts and relational contracts. Transactional contracts are formal contracts that have well-described terms of exchange between employer and employees, often expressed financially. They contain specified performance requirements. Relational contracts are largely informal contracts with more abstract terms and refer to an open-ended membership of the organization. Performance requirements attached to this continuing membership are incomplete or ambiguous. There is also the psychological contract, which is implied rather than stated.

More specifically, the employment relationship is governed by express agreements between employers and employees. These consist of written contracts of employment but they may be conveyed orally at an interview or even set out in an advertisement. In addition, express terms may be included in collective agreements or works rules. The employment relationship is also affected by the terms implied by common law and statutory requirements.

## Managing the employment relationship

The dynamic and often nebulous nature of the employment relationship increases the difficulty of managing it. The problem is compounded by the multiplicity of factors that influence the contract – the culture of the organization, the prevailing management style, the values (espoused and practised) of top management, the existence or non-existence of a climate of trust, day-to-day interactions between employees and line managers, and the HR policies and practices of the business.

The latter are particularly important. The nature of the employment relationship is strongly influenced by HR actions. These cover all aspects of HRM, especially how people are treated in such areas as recruitment, performance reviews, promotion, career development, reward, involvement and participation, grievance handling, disciplinary procedures and redundancy. A significant impact on the employment relationship is also made by the ways in which people are required to carry out their work (including flexibility and multiskilling), how performance expectations are expressed and communicated, and how people are managed. HR specialists can contribute to the development of a positive and productive employment relationship in the following ways:

- *during recruitment interviews* – presenting the unfavourable as well as the favourable aspects of a job in a ‘realistic job preview’;
- *in induction (onboarding) programmes* – communicating to new starters the organization’s HR policies and procedures and its core values, indicating to them the standards of performance expected in such areas as quality and customer service, and spelling out requirements for flexibility;
- *by encouraging the maximum amount of contact between managers and team leaders and their team members* – to achieve mutual understanding of expectations and to provide a means of two-way communications;

- *by adopting a general policy of transparency* – ensuring that on all matters affecting them, employees know what is happening, why it is happening and the impact it will make on their employment, development and prospects.

These approaches to managing the employment relationship cover all aspects of people management. It is important to remember, however, that this is a continuous process. The effective management of the relationship means ensuring that values are upheld and that a transparent, consistent and fair approach is adopted in dealing with all aspects of employment. It is also important to remember that perhaps the best way of improving the employment relationship is to develop a climate of trust in the organization.

## Developing a climate of trust

### Source review

Trust in one's employer relates to an employee's belief about the likelihood that the employer's future actions will be beneficial, favourable or at least not harmful to an employee's own interest, and is therefore a crucial factor influencing an employee's behaviour.

Alfes *et al* (2012: 412)

A climate of trust in the shape of a high-trust organization is an essential ingredient in a positive employment relationship. Trust should be regarded as social capital – the fund of goodwill in any social group that enables people within it to collaborate with one another.

## Building trust

As Thompson (1998: 69) noted, trust is an outcome of good management. He also commented that a number of writers have generally concluded that trust is 'not something that can, or should, be directly managed'. He cited Sako (1994) who wrote that: 'Trust is a cultural norm which can rarely be created intentionally because attempts to create trust in a calculative manner would destroy the effective basis of trust.'

In the end, trust is about relationships and mutual support. Trust is created and maintained by managerial behaviour and by the development of better mutual understanding of expectations – employers of employees, and employees of employers. The sort of behaviour that is most likely to engender trust is when management is honest with people, keeps its word (delivers the deal) and practises what it preaches. Organizations that espouse core values ('people are our greatest asset') and then proceed to ignore them will be low-trust organizations. More specifically, trust will be developed if management acts fairly, equitably and consistently; if a policy of transparency is implemented; if intentions and the reasons for proposals or decisions are communicated both to employees generally and to individuals; if there is full involvement in developing HR processes; and if mutual expectations are agreed through performance management. Leaders have a crucial role. As O'Toole and Bennis (2009: 54) pointed out: 'We won't be able to rebuild trust in institutions until leaders learn how to communicate honestly – and create organizations where that's the norm.'

### Pause for thought

What contribution can HR make to building trust?



## Key learning points

### The employment relationship defined

The employment relationship describes how employers and employees work together and relate to one another.

### Basis of the employment relationship

The basis of the employment relationship is an undertaking by an employee to provide skill and effort to the employer in return for which the employer provides the employee with a salary or a wage. The employer's obligations also include the duty to provide a safe workplace, to act in good faith towards the employee and not to act in such a way as to undermine the trust and confidence of the employment relationship. The employee has corresponding obligations, which include *obedience*, *competence*, *honesty* and *loyalty*.

### Employment relationship contracts

The three types of employment relationship contracts are transactional, relational and psychological.

### Managing the employment relationship

The nature of the employment relationship is strongly influenced by HR actions. These cover all aspects of HRM. Of particular importance is how people are treated in such areas as recruitment, performance reviews, promotion, career development, reward, involvement and participation, grievance handling, disciplinary procedures and redundancy. The ways in which people are required to carry out their work (including flexibility and multiskilling), how performance expectations are expressed and communicated, how work is organized, and how people are managed will also have a significant impact on the employment relationship.

### Developing a high-trust organization

A high-trust organization exists when management is honest with people, keeps its word (delivers the deal) and practises what it preaches. Trust is created and maintained by managerial behaviour and by the development of better mutual understanding of expectations – employers of employees, and employees of employers.

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# 46

## The psychological contract

### Introduction

The psychological contract underpins the employment relationship. This chapter defines the psychological contract, explains its significance and describes how a positive contract can be developed.

### The psychological contract defined

A psychological contract is a set of unwritten expectations that exist between individual employees and their employers. As Guest (2007: 133) explained, it is concerned with: ‘The perceptions of both parties to the employment relationship, organization and individual, of the reciprocal promises and obligations implied in that relationship.’ It is a system of beliefs that encompasses the actions employees believe are expected of them and what response they expect in return from their employer, and, reciprocally, the actions employers believe are expected of them and what response they expect in return from their employees.

The following is an expanded definition.

#### Source review

Psychological contracts refer to beliefs that individuals hold regarding promises made, accepted and relied upon between themselves and another. (In the case of organizations, these parties include an employee, client, manager, and/or

organization as a whole.) Because psychological contracts represent how people interpret promises and commitments, both parties in the same employment relationship (employer and employee) can have different views regarding specific terms.

Rousseau and Wade-Benzoni (1994: 464)

Within organizations, as Katz and Kahn (1966) pointed out, every role is basically a set of behavioural expectations. These expectations are often implicit – they are not defined in the employment contract. Basic models of motivation such as expectancy theory (Vroom, 1964) maintain that employees behave in ways that they expect will produce positive outcomes. But they do not necessarily know what to expect, although they are likely to believe that they should be treated fairly as human beings, be provided with work that uses their abilities, be rewarded equitably in accordance with their contribution, be able to display competence, have opportunities for further growth, know what is required of them and be given feedback (preferably positive) on how they are doing. Employers may expect employees to do their best on behalf of the organization – ‘to put themselves out for the company’ – to be fully committed to its values, to be compliant and loyal, and to enhance the image of the organization with its customers and suppliers. Sometimes these assumptions are justified – often they are not. Mutual misunderstandings can cause friction and stress and lead to recriminations and poor performance, or eventually to a termination of

the employment relationship. As observed by Guest and Conway (1998: ix), the psychological contract lacks many of the characteristics of the formal contract: 'It is not generally written down, it is somewhat blurred at the edges, and it cannot be enforced in a court or tribunal.'

## The significance of the psychological contract

The concept of the psychological contract highlights the fact that employee/employer expectations take the form of unarticulated assumptions. Disappointments on the part of management as well as employees may therefore be inevitable. These disappointments can, however, be alleviated if management appreciate that one of their key roles is to manage expectations, which means clarifying what they believe employees should achieve, the competencies they should possess and the values they should uphold. This is a matter not just of articulating and stipulating these requirements but of discussing and agreeing them with individuals and teams.

## The psychological contract and the employment relationship

As described by Guest *et al* (1996), the psychological contract may provide some indication of the answers to the two fundamental employment relationship questions that individuals pose: 'What can I reasonably expect from the organization?' and 'What should I reasonably be expected to contribute in return?' But it is unlikely that the psychological contract, and therefore the employment relationship, will ever be fully understood by either party.

The aspects of the employment relationship covered by the psychological contract will include, from the employees' point of view:

- how they are treated in terms of fairness, equity and consistency;
- security of employment;

- scope to demonstrate competence;
- career expectations and the opportunity to develop skills;
- involvement and influence;
- trust in the management of the organization to keep their promises.

The CIPD (2012: 16) suggested that to build trust leaders need to tell the truth and be willing to admit mistakes. They must share information openly, support transparency, and seek information from multiple sources, not merely relying on what they are told by their close advisers. Finally, and importantly, they should be candid in their dealings with followers.

From the employer's point of view, the psychological contract covers such aspects of the employment relationship as competence, effort, compliance, commitment and loyalty. The research conducted by Guest and Conway led to the following conclusion:

### Words of wisdom

The management of the psychological contract is a core task of management and is acknowledged as such by many senior HR and employment relations managers, and shows that it has a positive association with a range of outcomes within the employment relationship and is a useful way of conceptualizing that relationship.

Guest and Conway (2002: 22)

## How psychological contracts develop

Psychological contracts are not developed by means of a single transaction; they evolve over time and can be multifaceted. There are many contract makers who exert influence over the whole duration of an employee's involvement with an organization.

### Words of wisdom

Every day we create relationships by means other than formal contracts... As individuals form relationships they necessarily bring their accumulated experience and developed personalities with them. In ways unknown to them, what they expect from the relationship reflects the sum total of their conscious and unconscious learning to date.

Spindler (1994: 326)

## The problem with psychological contracts

The problem with psychological contracts is that employees are often unclear about what they want from the organization or what they can contribute to it. Some employers are equally unclear about what they expect from their employees.

Because of these factors, and because a psychological contract is essentially implicit, it is likely to develop in an unplanned way with unforeseen consequences. Anything that management does or is perceived as doing that affects the interests of employees will modify the psychological contract. Similarly, the actual or perceived behaviour of employees, individually or collectively, will affect an employer's concept of the contract.

## Developing and maintaining a positive psychological contract

As Guest *et al* (1996: v) explained: 'A positive psychological contract is worth taking seriously because it is strongly linked to higher commitment to the organization, higher employee satisfaction and better employment relations. Again this reinforces the benefits of pursuing a set of progressive HRM practices.' They also emphasized the importance of a high-involvement climate and suggested in particular that HRM practices such as the provision of opportunities for

learning, training and development, focus on job security, promotion and careers, minimizing status differentials, fair reward systems and comprehensive communication and involvement processes will all contribute to a positive psychological contract. The steps required to develop such a contract are:

- 1 define expectations during recruitment and induction programmes;
- 2 communicate and agree expectations as part of the continuing dialogue implicit in good performance management practices;
- 3 adopt a policy of transparency on company policies and procedures and on management's proposals and decisions as they affect people;
- 4 generally treat people as stakeholders, relying on consensus and cooperation rather than control and coercion.

Guest and Conway (2002), on the basis of their research, emphasized the importance of communications in shaping the psychological contract, especially at the recruitment and induction stage when promises and commitments can be made by employers on such matters as interesting work, learning and development opportunities, not making unreasonable demands on employees, feedback on performance, fair treatment, work-life balance, a reasonable degree of security and a safe working environment. At this stage it is advisable to provide what is called a 'realistic job preview', which means communicating to candidates any special demands that will be made on them in the job for which they are applying, such as the standards they will be expected to achieve, the working conditions, the hours they may have to work, the travelling they have to do and any requirement for mobility in the UK or abroad.

Guest and Conway concluded that following the recruitment and induction stage, communications are most effective if they are personal and job-related. Top-down communications are less important. They also stressed that a positive psychological contract can only be achieved if management keeps its word – if it does not breach the contract.

### Pause for thought

What is the role of HR in developing a positive psychological contract?

## Key learning points

### The psychological contract defined

A psychological contract is a set of unwritten expectations that exist between individual employees and their employers. It is a system of beliefs encompassing the actions employees believe are expected of them and the response they expect in return from their employer, and, reciprocally, the actions employers believe are expected of them and the response they expect in return from their employees.

### The significance of the psychological contract

The concept of the psychological contract highlights the fact that employee/employer expectations take the form of unarticulated assumptions. Disappointments on the part of management as well as employees may therefore be inevitable.

### The psychological contract and the employment relationship

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- how they are treated in terms of fairness, equity and consistency;
- security of employment;
- scope to demonstrate competence;

- career expectations and the opportunity to develop skills;
- involvement and influence;
- trust in the management of the organization to keep their promises.

From the employer's point of view, the psychological contract covers such aspects of the employment relationship as competence, effort, compliance, commitment and loyalty.

### How psychological contracts develop

Psychological contracts are not developed by means of a single transaction; they evolve over time and can be multifaceted. The steps required to develop a positive psychological contract are:

- 1 define expectations during recruitment and induction programmes;
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- 3 adopt a policy of transparency on company policies and procedures and on management's proposals and decisions as they affect people;
- 4 generally treat people as stakeholders, relying on consensus and cooperation rather than control and coercion.

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# The practice of industrial relations

## Introduction

Industrial relations is concerned with how management and trade unions relate to one another in concluding collective agreements, collective bargaining, disputes resolution and dealing with issues concerning the employment relationship and the working environment. This chapter begins with an analysis of trade union membership and the factors affecting union recognition. It continues with a description of the formal procedures and arrangements that take place when unions are recognized. But industrial relations are also conducted on a daily informal and semi-formal basis, and this is considered in the last section. The employment relations processes of providing employees with a voice and communicating with employees, which can take place in either a unionized or a non-unionized environment, are covered in the next two chapters.

### Words of wisdom

Unions and collective bargaining need to be packaged as a sort of cooperative adjunct to the employers' quest for increased profit, competitiveness and effective management of change.

Dundon *et al* (2017: 81)

## Trade union membership

As published by the Department for Business, Energy and Industrial Strategy (2018), trade union membership in the UK in 2017 was 6.2 million. Union density (ie the proportion of those in employment who are union members) was 23.5 per cent of employees – 14.2 per cent in the private sector and 54.3 per cent in the public sector. The overall density in 2017 was down from 32.4 per cent in 1995. According to the 2011 Workplace Employment Relations Survey (WERS), 22 per cent of workplaces with five or more employees recognized at least one trade union.

Overall union membership has declined significantly in the UK from its peak of some 12 million in 1979. This has been largely in the private sector for structural reasons – the demise of large manufacturing firms, the rise in the service industries and the growing numbers of part-time workers. Trade unions remain strong in the public sector.

### Pause for thought

What effect do you think the decline in union membership in the private sector has had on the conduct of employment relations?

## Union recognition

An employer fully recognizes a union for the purposes of collective bargaining when pay and conditions of employment are jointly agreed between management and trade unions. Partial recognition takes place when employers restrict trade unions to representing their members on issues arising from employment (representational rights). Full recognition provides unions with negotiating and representational rights; partial recognition only gives unions representational rights. The following discussion of union recognition is only concerned with the more common practice of full recognition. Unions can be derecognized, although this does not happen often. But as established by the 2011 Workplace Employment Relations Study (van Wanrooy *et al.*, 2013: 59), in the private sector only around 10 per cent of workplaces with five or more employees recognized a union for collective bargaining purposes compared with 90 per cent of public sector establishments.

### Factors influencing recognition or derecognition

Employers in the private sector are in a strong position now to choose whether they recognize a union or not, which union they want to recognize and the terms on which they would grant recognition: for example, a single union and a no-strike agreement.

When setting up on greenfield sites employers may refuse to recognize unions. Alternatively, they can hold ‘beauty contests’ to select the union they prefer to work with, one that will be prepared to reach an agreement in line with what management wants.

An organization deciding whether or not to recognize a union will take some or all of the following factors into account:

- the perceived value or lack of value of having a process for regulating collective bargaining;
- if there is an existing union, the extent to which management has freedom to manage; for example, to change working arrangements and introduce flexible working or multiskilling;

- the history of relationships with the existing union;
- the proportion of employees who are union members and the degree to which they believe they need the protection that their union provides; a decision on derecognition has to weigh the extent to which its perceived advantages outweigh the disadvantages of upsetting the status quo;
- any preferences as to a particular union, because of its reputation or the extent to which it is believed that a satisfactory relationship can be maintained.

In considering recognition arrangements, employers may also consider entering into a ‘single-union deal’ ie recognizing only one union.

## Collective bargaining

Relationships with unions involve collective bargaining – the establishment by negotiation and discussion of agreements on matters of mutual concern to employers and unions covering the employment relationship and terms and conditions of employment. Collective bargaining is a joint regulating process, dealing with the regulation of management in its relationships with work people as well as the regulation of conditions of employment. It was described by Flanders (1970) as a social process that continually turns disagreements into agreements in an orderly fashion.

Collective bargaining can also be seen as a political relationship in which trade unions, as Chamberlain and Kuhn (1965) noted, share with managements industrial sovereignty or power over those who are governed – the employees. The sovereignty is held jointly by management and union in the collective bargaining process.

Above all, collective bargaining is a power relationship that takes the form of a measure of power sharing between management and trade unions (although recently the balance of power has shifted markedly in the direction of management in the private sector). Bargaining power is the ability to induce the other side to make a decision or take a course of action that it would otherwise be unwilling to make. Each side is involved in assessing the bargaining preferences and bargaining power of the

other side. The process of collective bargaining as described below takes account of the concept of mutual gains and takes different forms.

### Words of wisdom

The relevance of collective bargaining lies in accepting that divergent interests and concerns need to be ‘worked out’.

Employers and employees should *negotiate* the terms on which cooperation is provided.

Negotiations involve not just the art of persuasion and force of argument but the effective threat of power and sanction.

Dundon *et al* (2017: 80)

## The concept of mutual gains

The concept of mutual gains was originated by Kochan and Osterman (1994), who argued that rather than being blockages to productivity improvements, worker representatives, in collaboration with management and underpinned with institutional supports, could engage in joint problem solving to improve both firm performance and returns for workers. Management and workers are still held to maintaining their own separate interests, but ultimately seek to satisfy such contiguous interests through cooperation. They suggested that: ‘Employees must commit their energies to meeting the economic objectives of the enterprise. In return, owners (stakeholders) must share the economic returns with employees and invest those returns in ways that promote the long-run economic security of the workforce’ (ibid: 46).

As described by Cullinane *et al* (2014: 810), the idea of mutual gains ‘outlines that whilst management and workers’ interests may diverge, there is ample opportunity, through problem-solving arrangements, to create shared benefits for both parties.’ They also observed that: ‘Mutual gains rotates on an assumption that, in the process of problem solving, both sides exchange information to advance interests that are deemed beneficial to both

parties, with the subsequent generation of options and finally, the choosing of those that offer the highest joint returns’ (ibid: 819).

Boxall (2013: 5) set out three conditions under which the quality of employment relationships may facilitate the achievement of mutual gains: (a) capability match – fit between employer’s need for a competent workforce and employees’ need for a conducive work environment; (b) commitment match – fit between employer’s need for employees’ commitment and employees’ need for job security and fair treatment from the employer; and (c) contribution match – the extent to which the employer and employees perceive that their respective needs are being met.

The concept of mutual gains is associated with the notion of mutuality as formulated by Walton (1985). Mutuality was defined by Guest and Peccei (2001: 212) as: ‘The idea of focusing on the shared interests and shared goals of two or more interdependent parties while recognizing that they have other potentially differing interests.’ But the term mutual gains is used more nowadays, perhaps because it conveys more clearly the outcomes of mutuality by defining what happens when the principle of mutuality is applied, for example, as a basis for negotiation.

### Pause for thought

What do you think the concept of mutual gains adds, if anything, to older concepts such as mutuality?

## Forms of collective bargaining

Walton and McKersie (1965) made the distinction between distributive bargaining, defined as the complex system of activities instrumental to the attainment of one party’s goals when they are in basic conflict with those of the other party, and integrative bargaining, defined as the system of activities that are not in fundamental conflict with those of the other party and which therefore can be integrated to some degree.

### Source review

Distributive bargaining has the function of resolving pure conflicts of interests and aims to allocate fixed sums of resources (dividing the pie) and hence often has a 'zero-sum', or conflictual, outcome. Tactics centre on developing the negotiators' relative power, convincing the other party of the first party's power and resolution, modifying the other party's expectations, closely guarding information and preventing the other side from using the same tactics. Integrative bargaining, by contrast, aims to identify common or complementary interests and fosters a problem-solving collaboration between both parties. The aim is to work towards achieving joint gains (expanding the size of the pie) and identifying opportunities for 'win-win' outcomes.

Wilkinson *et al* (2014: 740–41)

Another analysis of collective bargaining forms was made by Chamberlain and Kuhn (1965), who distinguished between conjunctive bargaining, in which both parties are seeking to reach agreement, and cooperative bargaining, in which it is recognized that each party is dependent on the other and can achieve its objectives more effectively if it wins the support of the other.

## Collective agreements

The formal outcomes of collective bargaining are agreements between management and unions dealing with terms and conditions of employment or other aspects of the relationships between the two parties. They consist of substantive agreements, procedural agreements and partnership agreements.

### Substantive agreements

Substantive agreements set out agreed terms and conditions of employment covering pay, allowances and overtime, working hours and holidays. They may be single-union deals that provide for one union to represent all employees. In line with the

development in the 1990s of the so-called 'new style' agreements, they might include a no-strike clause to the effect that issues should be resolved without recourse to industrial action. They might also provide for agreements on flexibility arrangements and the achievement of single status (ie no differences in basic conditions of employment) or the harmonization of terms and conditions by, for example, placing all employees in the same grade and pay structure.

### Procedural agreements

Procedural agreements set out the methods to be used and the procedures or rules to be followed in the processes of collective bargaining and the settlement of industrial disputes. Their purpose is to regulate the behaviour of the parties to the agreement, but they are not legally enforceable and the degree to which they are followed depends on the goodwill of both parties or the balance of power between them. Like substantive agreements, procedural agreements are seldom broken and, if so, never lightly – the basic presumption of collective bargaining is that both parties will honour agreements that have been made freely between them.

The scope and content of such agreements varies widely. Some provide for full negotiating rights but others allow representational rights only. Most have provisions for dispute resolution as described below.

### Dispute resolution

The aim of dispute resolution is to resolve differences between management and a trade union. The aim of collective bargaining is, of course, to reach agreement, preferably to the satisfaction of both parties. Grievance or negotiating procedures provide for various stages of 'failure to agree' and often include a clause providing for some method of reaching agreement in the event of the procedure being exhausted. The types of dispute resolution are conciliation, arbitration and mediation.

### Conciliation

Conciliation is the process of reconciling disagreeing parties. It is carried out by a third party, in the UK often an ACAS conciliation officer, who acts in effect as a go-between, attempting to get the

employer and trade union representatives to agree on terms. Conciliators can only help the parties to come to an agreement. They do not make recommendations on what that agreement should be; that is the role of an arbitrator or a mediator.

The incentives to seek conciliation are the hope that the conciliator can rebuild bridges and the belief that a determined, if last-minute, search for agreement is better than confrontation, even if both parties have to compromise.

## Arbitration

Arbitration is the process of settling disputes by getting a third party, the arbitrator, to review and discuss the negotiating stances of the disagreeing parties and make a recommendation on the terms of settlement, which is binding on both parties, who therefore lose control over the settlement of their differences. The arbitrator is impartial and the role is often undertaken in the UK by ACAS officials, although it is sometimes carried out by industrial relations academics. Arbitration is the means of last resort for reaching a settlement, where disputes cannot be resolved in any other way. Procedure agreements may provide for either side unilaterally to invoke arbitration, in which case the decision of the arbitrator is not binding on both parties. The process of arbitration in its fullest sense, however, only takes place at the request of both parties, who agree in advance to accept the arbitrator's findings. ACAS will not act as an arbitrator unless the consent of both parties is obtained, conciliation is considered, any agreed procedures have been used to the full, and a failure to agree has been recorded.

The notion of 'pendulum' or 'final offer' arbitration emerged in the 1980s. It increases the rigidity of the arbitration process by allowing an arbitrator no choice but to recommend either the union's or the employer's final offer – there is no middle ground. The aim is to get the parties to avoid adopting extreme positions. But the evidence from the Workplace Employee Relations Survey (2004) was that the full version of pendulum arbitration as defined here was rare.

## Mediation

Mediation takes place when a third party (often ACAS) helps the employer and the union by making recommendations that they are not, however, bound

to accept. It is a cheap and informal alternative to an employment tribunal and offers a quick resolution to problems, privacy and confidentiality.

## Partnership agreements

In partnership agreements both parties (management and the trade union) agree to collaborate to their mutual advantage and to achieve a climate of more cooperative and therefore less adversarial industrial relations. Management may offer job security linked to productivity and the union may agree to more flexible working. The perceived benefits of partnership agreements are that management and unions will work together in a spirit of cooperation and mutuality. This is clearly preferable to an adversarial relationship. Glover *et al* (2014) noted that the distinction between employee gains from partnership and gains from traditional collective bargaining is that employees will come to enjoy a higher level of influence in day-to-day decision-making processes. Partnership agreements were described by Freeman and Medoff (1984: 165) as 'management and unions working together to produce a bigger pie as well as fighting over the size of their slices'.

Guest and Peccei (2001) described partnership as a hybrid that draws on both pluralist and unitarist perspectives on trade union relations, arguing that the role of partnership within a mutual gains model was to combine integrative systems of employee representation with direct forms of employee participation. They suggested that the distinctive feature of the partnership process was the nurturing of trust between managers, workers and their representatives. Guest *et al* (2008: 128) later noted that an essential condition for successful partnership is not just the establishment of high-trust relationships between the 'champions of partnership among management and employee representatives' but also the creation of 'positive attitudes towards, and enthusiasm for the principles and practices associated with partnership among a wider section of management and the workforce'.

But research findings on partnership have been mixed. Guest and Peccei (2001) found what they called 'constrained mutuality' meant that, despite employees enjoying some benefits, the balance of advantage was likely to be skewed towards employers. An analysis by Guest *et al* (2008) of evidence

from the 2004 Workplace Employee Relations Survey suggested that partnership practice remains relatively undeveloped and that it is only weakly related to trust between management and employee representatives and to employees' trust in management. They observed that direct forms of participation generally have a more positive association with trust than representative forms.

In contrast, data gathered by Roche (2009) from a large representative sample of employees in Ireland showed that some mutual gains are associated with partnership. Employees gained from enhancement to the intrinsic aspects of their work, eg autonomy, but did not gain security or more pay and did not seem to be more willing to accept change. Employers gained more commitment, an improved climate of employee relations, and better supervisor/employee relationships. Unions gained influence and more members.

## Informal employment relations processes

The formal processes of union recognition, collective bargaining and dispute resolution described above provide the framework for industrial relations in so far as this is concerned with agreeing terms and conditions of employment and working arrangements and settling disputes. But within or

outside that framework, informal employee relations processes are taking place continuously.

Informal employee relationships happen whenever a line manager or team leader is handling an issue in contact with a union representative, an individual employee or a group of employees. The issue may concern methods of work, allocation of work and overtime, working conditions, health and safety, achieving output and quality targets and standards, discipline, or pay – in the latter case especially if a payment-by-results scheme is in operation, which can generate continuous arguments about times, standards, re-timings, payments for waiting time or when carrying out new tasks, and fluctuations or reductions in earnings because of alleged managerial inefficiency.

Line managers and supervisors handle day-to-day grievances arising from any of these issues and are expected to resolve them to the satisfaction of all parties without involving a formal grievance procedure or allowing the issue to become a formal dispute. The thrust for devolving responsibility to line managers for HR matters has increased the onus on them to handle employee relations effectively. A good team leader will establish a working relationship with the union representative of his or her staff that will enable issues arising on the shop floor or with individual employees to be settled amicably before they become a problem. The 2011 Workplace Employment Relations Survey found that in 78 per cent of the workplaces employment relations issues were part of the wider duties of the owner or general manager.

### Key learning points

#### Union recognition

An employer fully recognizes a union for the purposes of collective bargaining when pay and conditions of employment are jointly agreed between management and trade unions. Partial recognition is when employers restrict trade unions to representing their members on issues arising from employment.

#### Collective bargaining

Collective bargaining is a joint regulating process, establishing by negotiation and discussion agreements on matters of mutual concern to employers and unions covering the employment relationship and terms and conditions of employment.

The formal outcomes of collective bargaining are substantive, procedural and partnership agreements, and dispute resolution procedures.

#### Mutual gains

The mutual gains perspective indicates that organizations should pursue employment policies that produce benefits for both employees and themselves.

#### Disputes resolution

The processes of dispute resolution are conciliation, arbitration and mediation.



Informal industrial relations

Informal industrial relations processes take place whenever a line manager or team leader is handling

an issue in contact with an individual employee, a group of employees or an employee representative.

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# 48

## Employee voice

### Introduction

Employee voice is ‘a means by which employees’ independent, and often collective, concerns are articulated at work’ (Dundon *et al*, 2017: 121). The CIPD (2019: 3) defined it as ‘the ability of employees to express their views, opinions, concerns and suggestions, and for these efforts to influence decisions at work.’

#### Words of wisdom

[It is] possible to be a free citizen in the public sphere but a slave in the workplace. Democracy [cannot] end outside the factory gates: workers [are] stakeholders in the firm and must have industrial citizenship rights.

Hyman (2015: 12)

The chapter covers in turn the need for voice, the degrees of voice and the forms of direct and indirect voice.

### The need for employee voice

#### Source review

Employee voice institutions are important for reasons of social legitimacy, both inside the organization and in wider society. They help to ensure that companies respect employment laws and important social norms, and they help to

enhance the legitimacy of management within the organization. This, ultimately, is their justification.

Boxall and Purcell (2016: 147)

Employee voice is an expression of the desire of workers to have their own say over matters that affect their working lives (Dundon and Rollinson, (2011). As explained by Boxall and Purcell (2003: 164), employee voice is important because ‘it was necessary to recognize a plurality of interests and interest groups which would need to learn to live together and resolve their differences without the use of force.’ Budd (2004: 23) asserted that ‘voice does not need to fulfil a constructive purpose; it is sufficient in itself for voice to be a means of employee self-determination.’ The CIPD (2019) research showed that voice and job satisfaction are strongly linked.

#### Source review

Two potential purposes of voice are highlighted in the management literature. First, the ‘organizational voice’ perspective focuses on the positive benefits that voice can bring to the organization, such as higher innovation, a more engaged workforce and lower absenteeism. Initiatives such as suggestion schemes, for example, enable this type of voice by allowing organizations to benefit from employees’ ideas. A second purpose of voice flows from the so-called social justice perspective. According to this view, voice is a fundamental individual right required for work to have meaning, allowing worker involvement in decision-making through deepening industrial democracy.

CIPD (2019: 2)

### Words of wisdom

The workplace is where we spend much of our lives doing things under the direction of others. Given this, workers need a voice to express their concerns and creativity, while employers should provide them with the opportunity to do so.

Dundon *et al* (2017: 99–100)

But as Tony Dundon and his colleagues pointed out, this doesn't always happen.

### Words of wisdom

Most businesses (at least in the private sector) are designed to produce profits and wealth for the firm's owners, not to provide employee voice. This harsh reality in turn is echoed in the sentiments of employers who

simply view workers as a disposable means to a profitable end and see worker involvement, participation and voice as irksome and unnecessary.

Dundon *et al* (2017: 100)

And Boxall and Purcell (2016: 143) observed that 'the quality of employee voice is extremely variable.'

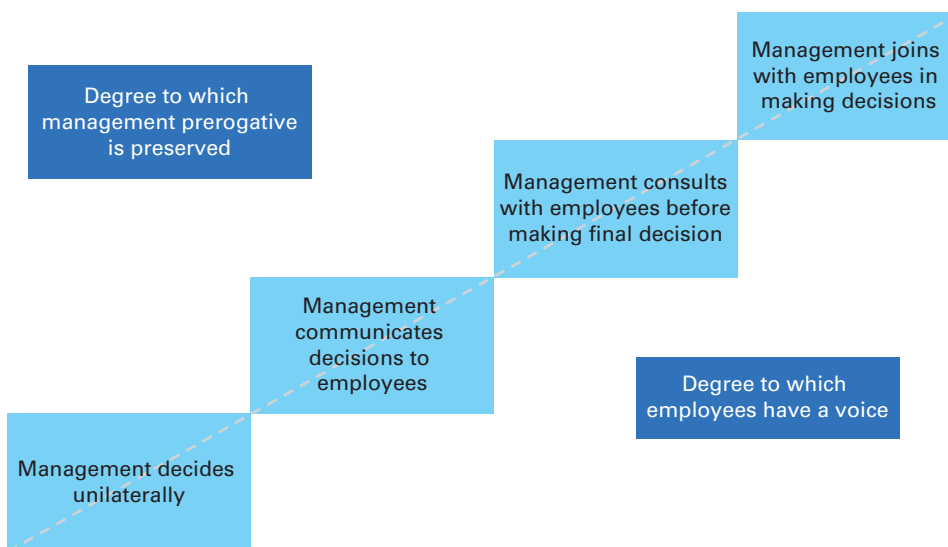
### Pause for thought

What would be your response to someone who said to you, 'Management has the right to manage'?

## Degrees of employee voice

There are degrees, as shown in Figure 48.1, to which employee voice can be expressed and to which managements are prepared to give up their prerogative to

**FIGURE 48.1** Stages of employee voice



command and control. At one end of the scale, management makes decisions unilaterally and exercises its full prerogative; at the other end, decisions are made jointly. Between these extremes there are three intermediate points. The point on this scale at which arrangement for the expression of employee voice should or can take place depends on the attitudes, willingness and enthusiasm of both management and employees. Management may be reluctant to give up much of its authority except under pressure from a trade union (which is less likely today, at least in the private sector).

Where managements and managers are at least prepared to listen and respond, employee voice can be expressed in two forms: direct voice and indirect voice.

## Direct voice

Direct voice takes place when individuals or work teams communicate directly to management or individual managers rather than through some form of representative body. This may involve informal face-to-face communications on matters of interest or concern, workforce meetings when a number of employees are gathered together to hear from management and discuss issues, ‘speak up’ programmes that provide channels for individual employees to raise points with management and, as described in more detail below, employee surveys, social media, team briefing, suggestion schemes and quality circles. As established by the CIPD (2019) research, the most important channel for employee voice is the informal one of day-to-day contacts with line managers.

Managements often prefer to use direct voice rather than adopt collective approaches through trade unions or works councils (indirect voice). Purcell and Hall (2012: 4) noted that the 2009 European Company Survey found that 72 per cent of the UK respondents agreed that ‘we would prefer to consult directly with our employees’.

There is quite a lot of direct voice activity about. The 2011 Workplace Employment Relations Survey (van Wanrooy *et al*, 2013) found that in workplaces with 20 or more employees, 95 per cent have either workforce meetings or team briefings or both and 38 per cent conduct an employee survey. The 2011 Workplace Employment Relations Survey also

recorded that 80 per cent of workplace managers agreed or strongly agreed that they would not introduce changes ‘without first discussing the implications with employees’.

## Employee surveys

Employee surveys, also known as attitude or opinion surveys, seek the views of employees on matters affecting their work and are used extensively by managements to measure levels of engagement, but they can also address particular issues such as pay and benefits. Pulse surveys measure employee feelings on a quarterly, monthly or even weekly basis rather than the more usual annual survey. Surveys typically include about 20 or 30 questions or items. Respondents may be invited to indicate the extent to which they agree or disagree with statements such as ‘My work is very satisfying’. The response can be on a five-point ‘Likert’ scale: ‘Strongly agree’, ‘Inclined to agree’, ‘Neither agree nor disagree’, ‘Inclined to disagree’ and ‘Strongly disagree’. The responses are scored 5 for the most positive option, 1 for the most negative option. Adding these item scores produces an overall score for, say, engagement, which can be used to assess trends as measured by successive surveys or, as part of an HR analytics exercise to assess the impact of an HR innovation or policy. But there are drawbacks as, the CIPD pointed out:

### Source review

Because senior managers love the simplicity of numbers, there’s a huge over-reliance on standardized tick boxes, particularly the notorious agree/disagree Likert scale. The focus on quantitative scores means that leaders can often get distracted by historical, sub-group and external comparisons, rather than focusing on the real task at hand: acting on the results. Moreover, survey reports solely comprising metrics often make it very difficult for leaders to obtain any meaningful insight to initiate an effective action plan.

CIPD (2013)

The CIPD also referred to the problem of the time it takes surveys to be distributed, completed and analysed. Organizational trends can develop quickly if left undetected, and no matter how frequently surveys are conducted they will never be able to provide feedback in real time. The CIPD suggests that the use of social media as a channel for voice can overcome these objections in that it is immediate and allows much more scope for employees to express their views.

## Social media

Social media has become such an important feature of many people's personal lives that employees are ready to use it in their working lives. Organizations are responding to this by establishing internal social networks (enterprise social networks such as those provided by Yammer, Chatter and Jive). These function in the same way as social networks like Facebook, and allow people to post opinions, join in discussions and respond to questions. This has moved voice on from giving employees a say behind closed doors to enabling them to engage in an open forum. Social media can enable people to 'speak-up' more readily than in the face-to-face sessions used in traditional speak-up programmes.

Communication is no longer one way or two way but multidimensional. This involves 'crowd-sourcing', which encourages groups of people to exchange knowledge and generate ideas and enables these to be aggregated so that the organization acquires comprehensive and current information about what people are thinking. Internal social media platforms can also be used by management to hold regular question and answer sessions online, thus giving scope for immediate responses, which are not constrained by the tick boxes in employee surveys.

## Team briefing

Team briefing (sometimes called cascade briefing) aims to overcome the limited scope for communication through individuals or even joint consultative committees by involving everyone in an organization, level by level, in face-to-face meetings to present, receive and discuss information.

## Suggestion schemes

Suggestion schemes are procedures for submitting and evaluating ideas from employees for increased productivity or efficiency with tangible recognition for those that have merit. They have traditionally used 'suggestion boxes' but can now be part of a social media arrangement. A highly successful scheme is run by Richer Sounds, the hi-fi and TV retailer. The founder and chairman of Richer Sounds gave the following advice on how one should be run based on the arrangements in his business (Richer, 2017: 37–41):

- the most senior person in the organization should be involved in the scheme;
- make it easy for people to enter their suggestions;
- answer all the suggestions;
- answer questions quickly;
- encourage people to meet in small groups to generate ideas;
- reward little and often;
- measure and publish the results;
- use the ideas;
- remember that suggestions are not just about saving money – they should cover such things as customer service.

## Quality circles

A quality circle or improvement group is a number of volunteers engaged in related work who meet regularly to discuss and propose ways of improving working methods under a trained leader. The idea was imported from Japan in the 1970s but quality circles were difficult to manage and maintain and have largely faded away.

## Indirect voice

Indirect voice takes place when representatives are collectively involved in discussions with management, either through joint consultation or their trade unions. This can take the form of participation or involvement, although as Wilkinson and Dundon

(2010: 168) noted: ‘Employee participation, involvement and voice are somewhat elastic terms with considerable width in the range of definitions.’ However, an attempt to define the difference between them was made by Brewster *et al* as follows:

### Source review

At the most modest level, involvement entails consultation, or soliciting of opinions that may or may not be acted on, rather than bargaining. In contrast, participation accords employees a genuine – clearly demarcated – input into how the firm is governed, even if this input is limited.

Brewster *et al* (2007: 1248)

## Joint consultation

Joint consultation involves management and employee representatives meeting regularly to exchange views and deal with matters of common interest that are not the subject of collective bargaining. It can take place in works councils or joint consultative committees (JCCs). The 2011 Workplace Employment Relations Survey (WERS) established that the latter existed in 74 per cent of workplaces with between 200 and 999 workers and 80 per cent of workplaces with 1,000 or more employees (Adam *et al*, 2014). But it was also found that there was a fall in their use from 67 per cent in 2004 to 44 per cent in companies with 10,000 or more employees.

For joint consultation to work well it is initially necessary first to discuss, define and agree its objectives. These should be concerned with tangible and significant aspects of work and the policies and plans of management that affect the interests of employees. They should not focus on peripheral matters such as social amenities and the quality of the sausages in the canteen, which can happen. Management must believe in and be seen to believe in involving employees. It should listen, aim to achieve consensus decisions and take action accordingly. Equally, employees should be prepared to listen and respond. But although consultative committees can serve a useful purpose, direct involvement with the line manager can be a more effective means of exercising voice.

## Trade unions

Trade unions with representational rights can express the views of their members on terms and conditions of employment, health and safety, learning opportunities and any other issues that affect employees. But private sector workers are not very interested in trade unions. This raises a problem for managements on how they should deal with joint consultation in situations when union membership and influence is declining and when unions have the monopoly of consultative rights, thus leaving a large proportion of the workforce out of the consultation process. It was suggested by Boxall and Purcell (2016) that one solution to this problem would be for management to set up a joint consultative body for all employees while preserving collective bargaining on pay and conditions with the union. An alternative would be to get the union to sit on joint consultative committees alongside non-union members, although trade unions might not want to do this.

## Employees’ experience of voice

The CIPD (2019) survey found that only a quarter of employees felt they were able to express themselves at work and that this was particularly low in the public sector. One quarter of the respondents reported that they often chose not to speak up at work although they had something to say. But just over a fifth stated that they had plenty of opportunity to speak up and express new ideas. It was established that employee voice is encouraged by leadership and is most likely to flourish in an organization climate of innovation and flexibility. The survey established the importance of informal mechanisms, especially one-to-one conversations with line managers which were the main voice channel for employees.

### Pause for thought

In the light of these findings, what do you think the role of HR should be in promoting voice?

## CASE STUDY

### Cougar Automation: Creating effective voice mechanisms

Involvement of staff in the decisions that impact the organization is a distinctive feature of the way Cougar Automation, a medium-sized software engineering company, is run. This way of working was demonstrated at a particularly difficult time during the recession. At the time, the company was struggling to maintain cash flow and was forced by the creditor to make more cuts to remain in operation. One of the current employees said:

When the recession came, we were at the lowest point of the spend cycle in the water industry [that the business relied on] so it hit us quite heavily financially. And the management team put a proposal together: 'Either the whole company sinks or we have to make some changes'. The two options were making colleagues redundant or everybody tightening their belts and we ride it through.

It was put up for a vote, and everybody decided that they would take a salary sacrifice. I think that was the first big vote that we had in the organization, where it could affect the business as a whole. It was spelled out that everybody had to vote, and unless it was

unanimous, unfortunately we'd have to go down the redundancy route.

Since then transparency and employee involvement in decision making are principles for Cougar Automation. The leadership team commented on the value that employee voice brings to making the right decisions for the organization:

This doesn't mean we always give a 'yes' answer on the suggestions that are made. But we must explain why we're taking the decision we're taking, and how we came to that decision. The question might get referred to the company council, so a selection of employees across the company will discuss it, and then there might be a resounding 'no'. So we have to be consistent.

There have been a couple of occasions where things were put on for discussion at the company council [and the leadership team thought] people were going to love this, but the discussion showed they didn't. So, had we decided as a leadership team to go ahead with that, without asking the staff, it would have been hated within the company.

**Source** CIPD (2015)

### Key learning points

#### Employee voice

Employee voice is the say employees have in matters of concern to them in their organization.

#### Direct voice

Direct voice takes place when individuals or work teams communicate directly to management or individual managers rather than through some form of representative body. This may involve:

- informal face-to-face communications on matters of interest or concern;
- workforce meetings when a number of employees are gathered together to hear from management and discuss issues;
- 'speak up' programmes that provide channels for individual employees to raise points with senior management;
- employee surveys;
- social media;
- team briefing;
- suggestion schemes;
- quality circles.

## Indirect voice

Indirect voice takes place when representatives are collectively involved in discussions with

management, either through joint consultation or their trade unions.

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# 49

# Employee communications

## Introduction

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Employee communication processes and systems are used by managements to inform employees on matters that concern them and to persuade employees to accept a management initiative or request. They also provide for upward communication by giving employees a voice – ‘two-way communication’. Voice can be provided either to individuals through workforce meetings, ‘speak up’ programmes, social media and team briefings or collectively through trade unions or joint consultation. These ‘upward’ means of communication were described in the last chapter; this chapter therefore focuses mainly on the process of ‘downward’ communication from management to employees. It starts with an assessment of the importance of communicating and then considers what should be communicated, the approach to communication and methods of communicating. It is completed with a discussion of employee communications strategy.

### Words of wisdom

In order to function effectively in a social context and make accurate attributions about a situation, an employee must have adequate and unambiguous information.

Bowen and Ostroff, C (2004: 208)

## The importance of employee communications

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Good communications from management to employees are important for three reasons:

- 1 They are a vital part of any change management programme. If any change is proposed – in terms and conditions of employment, HR processes such as performance pay, working methods, technologies, products and services, or organization (including mergers and acquisitions) – employees need to know what is proposed and how it will affect them. Resistance to change often arises simply because people do not know what the change is or what it implies for them.
- 2 Commitment to the organization will be enhanced if employees know what the organization has achieved or is trying to achieve and how this benefits them.
- 3 Effective communication generates trust as organizations take the trouble to explain what they are doing and why.

It should be emphasized, however, that these three benefits of good communications will only be realized in full if employees are given a voice – the opportunity to comment and respond to the information they obtain from management.

## What should be communicated

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Managements need to communicate to employees about the objectives, strategies, policies and performance of the organization; what they are expected to do; learning and development opportunities; and any proposed changes to conditions of employment, working arrangements and requirements, or the structure, policies and HR practices of the organization. In each case they need to explain why the changes have been made and how they affect employees.

Employees need the opportunity to communicate upwards their comments and reactions to what is proposed will happen or what is actually happening in matters that affect them, for example, pay and other terms of employment, working conditions, work-life balance, equal opportunity, job security, health and safety, and learning and development programmes.

## Approach to communication

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To be effective, communication needs to be clear, easily understood and concise. Information should be presented systematically on a regular basis and be as relevant, local and timely as possible. Empathy is required by management in the sense of appreciating the concerns of employees and what they want and need to hear. Possible reactions to proposed changes should be assessed and anticipated in the communication. Attitude surveys can be used to find out what information employees want and where they feel there are any gaps that need to be filled.

The purpose of communication can simply be to provide information but it is also a means of what is called ‘message-based persuasion’. This takes the form of a two-step process of ‘reception’ – encoding of the message (exposure to the message, attention to its content, comprehension of the content) – and ‘yielding’ – acceptance of the message (agreeing with the message and storing it in memory). For a message to have its desired effect, both reception and yielding are necessary.

A variety of communication methods will be needed: via an intranet, spoken and written, direct and indirect. Face-to-face communication to individuals

or groups is both direct and swift and it provides an opportunity to gauge the reactions of people who can respond on the spot and ask questions. But it should be supplemented by written material or intranet communications, particularly where the information is important or complex.

Written communication is most effective when the information is important, the topic requires detailed and accurate explanation, the audience is widespread or large, and there is need for a permanent record or a back-up to face-to-face communication. Judicious use should be made of a mix of face-to-face and written communication, using a selection of the methods described below.

## Communication methods

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### *Individual face-to-face communication*

This is, of course, the most common method of communication but it can be the most problematic. The quality, accuracy and acceptability of the information depend largely on the skill of the managers or team leaders involved and on their commitment to doing it well. Information can be distorted or plain wrong. Briefing notes are helpful but they will not necessarily be used well. Individual communications are inevitable and necessary but should not be relied upon by themselves when the subject matter is important.

### *Intranet*

An internal e-mail system (the intranet) can be used to communicate information, especially in workplaces where all or most of the employees have access to a computer. The advantage of intranet communications is that they can be transmitted swiftly to a wide audience.

A communication dashboard can be created for departmental websites which displays performance metrics in a visual form (as on a car dashboard).

### *Social media*

Enterprise social networking using internal social networks such as Yammer is increasingly being used instead of the intranet for communicating to

employees. Their advantages are that they provide for more interaction, facilitate the sharing of information and avoid cluttering up computers with e-mails. As the CIPD (2014) observed, by drawing people into conversations (a ‘pull’ style of communications) rather than simply broadcasting messages (a ‘push’ style), social media can be used to engage people who are interested and help get the ‘right’ information to the ‘right’ people.

### Pause for thought

Is social media the future of employee communication?

## Team briefing

Team briefing (sometimes called cascade briefing) aims to overcome the limited scope for communication through individuals or even joint consultative committees by involving everyone in an organization, level by level, in face-to-face meetings to present, receive and discuss information. It operates as follows:

- *Organization* – covers all levels in the business with the fewest possible steps from top to bottom. There should be between 4 and 18 in each group and the group should be run by its team leader or manager (who must be given training).
- *Subjects* – policies, plans, progress and people.
- *Operation* – work to a brief prepared by the board on key issues. The brief is written up and cascaded down the organization. Briefs are discussed at meetings and comments are fed back to the top to provide for two-way communication.
- *Timing and duration* – meet when there is something to discuss. Meetings last no more than 20–30 minutes.

### Pause for thought

What are the conditions required for a successful team briefing system?

## Consultative committees

Joint consultation provides a channel for two-way communication. But committees are not always effective. Their discussions can be confined to relatively trivial issues and there is still the problem of disseminating information around the organization – committee members cannot do this on their own. Minutes can be posted on notice boards or through the intranet but may not be read. It is better to highlight key points either on notice boards or through other channels.

## Notice boards

Notice boards are the most obvious and familiar means of communication but they can too easily be cluttered up with redundant information. It is necessary to control what goes on to boards and ensure that out-of-date or unauthorized notices are removed.

## Magazines

Glossy magazines or house journals are obvious ways to keep employees informed about the activities and achievements of the organization. There is, however, a danger of such magazines being more about public relations than about matters of real interest to employees.

## Newsletters and bulletins

Newsletters can appear more frequently than magazines and can angle their contents more to the concerns of employees. They may be distributed in addition to a house magazine, treating the latter mainly as a public relations exercise. Bulletins can be used to give employees immediate information that cannot wait for the next issue of a newsletter. They can be issued as hard copy or on the intranet.

## Employee communication strategy

A strategy for employee communications will deal with what information the organization wants to

give to employees and how it wants to provide it. Provision should also be made for upward communications.

### **Information to be made available**

The strategy should be based on an analysis, on a regular basis, of what management wants to say and what employees want to hear. It should also cover provision for upwards communications. The analysis could refer to the areas of interest set out earlier in this chapter.

It may also be necessary to develop a specific communications strategy for any proposed major changes to terms and conditions, working arrangements such as downsizing, or organization structure, including mergers and acquisitions. For example,

the introduction of a new pay structure is a major change exercise and will need to be supported by a planned communications strategy.

### **Providing the information**

The strategy should cover the mix of methods that will be used to convey the information – face to face (individual or team), notice boards, intranet, social media, and magazines, newsletters or bulletins.

### **Upward communication**

The strategy should also provide for upward communication through consultative committees, team briefing, speak-up programmes and the intranet.

## **Key learning points**

The importance of employee communications

Communication is a vital part of a change management programme, in order to increase commitment and generate trust.

What should be communicated

Managements and individual managers need to communicate to employees about terms and conditions of employment; what they are expected to do; learning and development opportunities; the objectives, strategies, policies and performance of the organization; and any proposed changes to conditions of employment, working arrangements and requirements, or the structure and policies of the organization. Employees need the opportunity to communicate upwards their comments and reactions to what is proposed will happen or what is actually happening in matters that affect them.

The approach to communication

Communication needs to be clear, easily understood and concise. Information should be presented systematically on a regular basis and be as relevant, local and timely as possible. More than one medium should be used.

Communication methods

Individual face-to-face communication, intranet, social media, team briefing, consultative committees, notice boards, speak-up programmes, magazines, newsletters and bulletins.

Employee communication strategy

A strategy for employee communications will deal with what information the organization wants to give to employees and how it wants to provide it. Provision should also be made for upward communications.

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# PART XII

## Employee wellbeing

### PART XII CONTENTS

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- 50 The principles and practice of employee wellbeing
- 51 Health and safety

### Introduction

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Wellbeing is defined by the *Oxford English Dictionary* as ‘the state of being comfortable, healthy or happy’. Healthy and safe working conditions are clearly vital to wellbeing and comfort and happiness are important. But wellbeing at work is a broader concept than happiness. For people in work the level of wellbeing is also related to how satisfied they are with their job and how the organization treats them, the quality of relationships with their line manager and their colleagues, the extent to which they have a sense of purpose and how much

they feel in control of what they do. It is about both their physical wellbeing (working conditions and safety) and, importantly, their mental wellbeing, including stress.

The first chapter of this part (Chapter 50) covers the case for paying close attention to wellbeing, the dimensions of wellbeing, the factors affecting wellbeing and the steps that can be taken to promote wellbeing including the provision of individual and group employee services. The focus is on subjective experiences arising from work and the psychological aspects of wellbeing. The physiological aspects of wellbeing – occupational health and safety – are dealt with in Chapter 51.

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## 50

# The principles and practice of employee wellbeing

## Introduction

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Employee wellbeing has been defined by Warr (1987) as ‘the overall quality of an individual’s subjective experience and functioning at work’. The wellbeing of employees depends on the quality of working life provided by their employers – the work environment and the feelings of satisfaction and happiness arising from the work itself.

A long time ago, Martin (1967: 21) put up a good case for welfare, as it was then known, as follows: ‘People [at work] are entitled to be treated as full human beings with personal needs, hopes and anxieties.’ There has been no change in this requirement since then.

This chapter deals with the principles of employee wellbeing, the case for caring about it, the factors that affect wellbeing and, taking account of these factors, the practice of wellbeing in terms of what organizations can do to develop a wellbeing strategy.

## The principles of wellbeing

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Wellbeing is about how people feel and function, and how they evaluate their lives. The concept of wellbeing can be separated into three key aspects:

hedonic, eudaimonic, and evaluative. The hedonic aspect of wellbeing refers to people’s feelings or emotions, such as happiness or anxiety. The eudaimonic aspect of wellbeing refers to leading ‘a life well lived’, interacting with the world around you to meet basic psychological needs. The evaluative aspect of wellbeing refers to the way that people evaluate their lives with regard to their own appraisals of how life is going, or particular aspects of their lives, such as job satisfaction (New Economics Foundation, 2014: 10).

## The dimensions of wellbeing

Two main dimensions of wellbeing have been described by Peccei *et al* (2013: 18). The first dimension is concerned with individuals’ subjective experiences of work, and is sometimes called ‘happiness wellbeing’ (Grant *et al*, 2007). This dimension refers to elements such as job satisfaction and positive and negative responses to the work environment. The second dimension covers the physiological and psychological aspects of employee health at work including, for example, job-related anxiety and burnout (exhaustion). The latter is sometime referred to as mental wellbeing as described below.

### Source review

Mental wellbeing is a dynamic state in which the individual is able to develop their potential, work productively and creatively, build strong and positive relationships with others and contribute to their community. It is enhanced when an individual is able to fulfill their personal and social goals and achieve a sense of purpose in society. Mental wellbeing at work is determined by the interaction between the working environment, the nature of the work and the individual.

NICE (2009)

## The case for caring about wellbeing

Employers have a duty of care. This means adopting a socially responsible approach to looking after their people by creating a good work environment. As Brown *et al* (2019: 5–6) pointed out: ‘Employers seem to be becoming more, not less, focused on the wellbeing of their employees, recognizing that high performance in a service- and knowledge-based economy generally can’t be programmed and regulated into people; that they have to be engaged, supported and enabled by leaders and HR professionals to deliver it.’

### Words of wisdom

Compassionate leadership is a far from fluffy concept. It is supported by a hard business case showing desired outcomes such as improved relationships as well as higher motivation and job satisfaction levels, all of which can lead to enhanced performance and productivity. Not surprisingly, there is also a strong association with better health and wellbeing because a compassionate culture is one which engenders trust and openness, and

where people feel more confident to discuss any health issues and receive the support they need. Employers who are intent on creating a healthy workplace could therefore benefit from considering how to integrate compassion as part of their wellbeing strategy.

Sir Cary Cooper in CIPD (2019: 3)

The moral case for caring about wellbeing is strong but there is also a business case. The CIPD (2017a: 2) reported that academic and practitioner evidence demonstrates that employee health, wellbeing and engagement are important for organizational success. For example, in a meta-analysis, Peccei (2004) suggested that wellbeing had a key role in enhancing organizational performance. Donald *et al* (2005) found that almost a quarter of the variance in employee productivity is explained by psychological wellbeing. Ford *et al* (2011) established links between employee psychological health and wellbeing and overall performance.

An assessment of 55 wellness programmes throughout industry by PricewaterhouseCoopers (2008) found that on average the interventions resulted in a 45 per cent reduction in sickness absence, 18 per cent reduction in staff turnover, 16 per cent reduction in accidents/injuries, an increase in employee job satisfaction of 14 per cent, an 8 per cent increase in productivity and a drop of 7 per cent in health and employer liability claims.

David Guest (2017: 22–23) made a strong ethical case for focusing on employee wellbeing. He noted the following wellbeing issues:

- Changes in technology can increase demand and create work overload (Derks and Bakker, 2010), lead to work-home interference (Derks *et al*, 2014).
- New technologies contribute to skill obsolescence and associated job insecurity.
- Felstead *et al* (2015) find that in the UK, average levels of autonomy have declined while work demands have increased, notably in low-skill jobs.
- Bryson and Forth (2015) found widespread increases in workload alongside static wages.

This has reduced fairness and threatened wellbeing but failed to improve productivity.

- Countries with less dispersion of wealth show higher wellbeing among their populations.
- Growth of temporary employment has increased the numbers within what Standing (2011) describes as the ‘precariat’ and created employment insecurity. Research on job insecurity convincingly demonstrates its negative impact on wellbeing (De Witte *et al*, 2016).
- Wellbeing may also be affected by lack of optimism about the future; at work, this is reflected in threats to career prospects, to employment security and to the long-term economic security of a decent pension.
- Krekel *et al* (2019) of the Saïd Business School surveyed the evidence in a meta analysis of 339 independent research studies,

including the wellbeing of 1,882,131 employees and the performance of 82,248 business units, originating from 230 independent organizations across 49 industries in the Gallup database. A significant and strong positive correlation was found between employees’ satisfaction with their company and employee productivity and customer loyalty, and a strong negative correlation with staff turnover. Ultimately, higher wellbeing at work is positively correlated with more business-unit level profitability.

## Factors affecting wellbeing

The internal factors that affect wellbeing and possible actions to deal with them are set down in Table 50.1.

**TABLE 50.1** Wellbeing factors and actions

Wellbeing factor	Description	Possible actions
The work environment	Physical and mental wellbeing resulting from the system of work, working conditions, and health and safety considerations.	Provide a good work environment in terms of working conditions and take account of the need to provide a healthy and safe system of work including minimalizing stress and paying attention to ergonomic considerations in the design of equipment and work stations. Provide amenities such as subsidized restaurants, sports and social clubs, gyms and childcare facilities.
Job design and demands	The extent to which the jobs people have match their abilities and allow individuals to control their work (self-determination) and use their skills and abilities. The physical and mental demands involved in meeting job requirements especially when work intensification has taken place.	Review job design practices to ensure that the principles of good design are being met. Account needs to be taken of the principle of self-determination and the job demands-resources model (see Chapter 20). Review job demands to ensure that they are not excessive and therefore negatively affect work-life balance and lead to undue stress and even burnout. Review working conditions and ergonomic factors to ensure that they provide for the physical wellbeing of employees.

(continued)

**TABLE 50.1** (Continued)

Wellbeing factor	Description	Possible actions
Relationships with line managers	<p>How people are treated at work by their managers can strongly affect wellbeing. Research by Pfeffer and Sutton (2006) found that 60 to 75 per cent of the employees in the organization surveyed reported that the worst or most stressful aspect of their job was their immediate supervisor.</p> <p>Line managers are in regular contact with the employees they are responsible for, so they are in a good position to identify the early signs of stress. A line manager can have a significant influence on employee attitudes and behaviours.</p>	<p>Select people as managers who are likely to have the leadership qualities to create and maintain good working relationships with their team members.</p> <p>Make responsibility for employee health and wellbeing an important part of the line manager's role so that they help to ensure employees feel valued, content and able to discuss any concerns before they reach a crisis point (NICE, 2009).</p> <p>Provide training and coaching in approaches to managing stress including the leadership skills needed and the skills required to plan tasks and design jobs.</p>
Relationships with colleagues	<p>The quality of social relationships and the extent to which negative behaviours such as bullying and harassment exist.</p>	<p>Provide facilities for socializing at work.</p> <p>Introduce robust bullying and harassment policies and ensure that they function effectively.</p>
Work-life balance	<p>The achievement of a satisfying equilibrium between work and non-work (eg family) activities. A survey by Eurofound (2013) established that poor ratings of work-life balance were the strongest predictor of stress.</p>	<p>Introduce family-friendly policies providing for a reasonable degree of flexibility (see Chapter 32). Minimize excessive job demands.</p>
Financial wellbeing	<p>Financial wellbeing is defined by the CIPD (2017b) as 'a state of both emotional and physical wellbeing, produced by a set of conditions and abilities. It includes making the most of an adequate income to enjoy a reasonable quality of life and having the skills and capabilities to manage money well, both on a daily basis and for the future.'</p>	<p>Pay people fairly. Provide counselling for employees with financial worries.</p>
Stress	<p>Stress at work is a major factor. It can be caused by problems in any of the areas set out above.</p>	<p>Take action as required in any of the areas set out above. Introduce an Employee Assistance programme (EAP) to provide counselling and advice (See the B&amp;Q case study below). Dealing with stress is considered in more detail in Chapter 51.</p>

### Pause for thought

There are a lot of factors and a lot of things to do. What do you think are likely to be the priorities in a typical organization?

External factors affecting employee wellbeing include the pressure on organizations from the government, regulatory authorities and the media to behave responsibly in the way they treat their people. But there is also a need for organizations to take account of the pressures their employees have to face outside the organization; these include maintaining a reasonable balance between life and work, taking care of children and dependents, health issues and financial problems.

## Employee wellbeing strategy

### Source review

Building and integrating a health and wellbeing strategy for the organization that is contingent on its specific requirements is how employers can avoid the pitfall of developing a 'menu' of initiatives that are not joined up or closely linked to the needs of employees.

CIPD (2019: 9)

The purpose of an employee wellbeing strategy is to provide a framework for the introduction of policies and practice designed to increase the level of wellbeing amongst the employees of an organization. The following case for developing and implementing a wellbeing strategy was made by Professor Sir Cary Cooper and Ian Hesketh:

### Words of wisdom

Stress at work is rising year on year, with long working hours seemingly becoming the norm. This is not only having a detrimental effect on employee health, happiness and productivity, but also impacting on the organization's bottom line. Human resources (HR) professionals are uniquely placed to manage this modern workplace crisis by implementing a wellbeing strategy.

Cooper and Hesketh (2019: 1)

The strategy should also take into account the following factors affecting wellbeing as established by Guest (2017: 27)

- Warr (1987) identified 10 antecedents of work-related wellbeing: opportunity for control, opportunity for skill use, variety at work, opportunity for interpersonal contact, externally generated goals, environmental clarity, availability of money, physical security and a valued social position.
- The job demands-resources model (Bakker and Demerouti, 2007) proposed that wellbeing is a function of balancing the demands of work and the resources available to do the work.
- The quality of working life (QWL) concept – Walton (1974) summarized eight core conditions for a high QWL covering a safe and healthy working environment, the development of human capacities, growth and security, social integration, rights and representation, the social relevance of work, consideration of the total life space, and adequate and fair compensation.

On this basis Guest (ibid: 30–31) suggested five sets of practices that might be included in a wellbeing strategy:

- 1 *Investment in employees* – enhancing competence through training and development and providing a sense of an attractive career future leading to a feeling of security and the development of self-efficacy, an important antecedent of wellbeing.
- 2 *Engaging work* – the provision of opportunities for autonomy, control, skill use and variety at work through the core HR practice of job design.
- 3 *The creation of a positive social and physical environment* – prioritizing employee health and safety, providing opportunities for social interaction at work, avoiding bullying and harassment, promoting equal opportunities and diversity, ensuring fair rewards, often linked to high basic pay rather than incentive schemes, and providing employment security, including steps to maintain employability.
- 4 *Enhancing the role of voice* – extensive two-way communication, opportunities for individual expression of voice, including attitude surveys, and relevant forms of collective representation.
- 5 *The provision of organizational support* – participative, supportive management, an organization climate that facilitates employee involvement, participative and developmental rather than judgemental and potentially punitive performance management, and family-friendly and flexible working arrangements.

The strategy should be evidence-based. Pulse surveys should be conducted, possibly through an enterprise social network (ESN), to measure the

reactions of employees to key aspects of wellbeing: the work environment, their jobs, relationships with their managers and work-life balance. HR analytics should be used to analyse the causes of any sickness absence to identify the incidence of stress and to examine indicators of employee dissatisfaction such as absenteeism and disputes.

The evidence should indicate any areas in which prioritized action is required. Consideration should be given to possible developments in consultation with employees at meetings and/or through the ESN. When decisions have been agreed, the work of developing policy and practices such as those set out in Table 50.1 can begin. Account should be taken not only of the form and contents of the policy or practice but also of how it is to be implemented.

Proposals should be discussed with those affected by them and managers and employees enlisted to support their detailed development and implementation. A change management programme may have to be drawn up with provision for communications, further involvement and any training required for those concerned. The implementation plan may be phased or test runs could be carried out. The whole implementation process should be carefully monitored to ensure that it is going according to plan.

The wellbeing strategy should be aware of the implications of research conducted by Alfes *et al* (2012: 422), which found that employees who perceive HRM practices positively experience higher levels of wellbeing. This shows the advisability of reviewing all the key HR policy practices that may affect wellbeing, including learning and development, performance management and reward to identify any areas where changes may enhance wellbeing.

## CASE STUDIES

### B&Q's employee assistance programme

The aims of the B&Q employee assistance programme are to:

- Support employees of all ages and backgrounds through the full spectrum of life experiences by offering advice, information, practical help and emotional support free of charge and in confidence.
- Support carers of the chronically sick, disabled or elderly by offering advice and information; locate care options and community resources.
- Save time for working parents by helping them find and arrange good-quality, affordable and reliable care arrangements for children of all ages.

- Support parents through a wide range of parenting issues, including understanding and choosing education options, and understanding and monitoring behaviour of children.
- Reduce unplanned absence by encouraging employees with personal, practical, emotional and financial problems to seek early help and advice.
- Offer information and support to managers and HR staff with their personal issues, and issues facing their staff.
- Raise employee morale and commitment by showing the caring face of the employer.
- Improve customer service and productivity by saving employees' time and solving and avoiding work-life conflicts.

## Nuffield Health Support Centre

The Nuffield Health support centre includes an onsite fitness and wellbeing centre, dedicated clinical and relaxation rooms, a bespoke learning and development

academy, and a modern wellbeing café with a series of breakout points encouraging employees to share initiatives and ideas on a regular basis.

## Key learning points

### Employee wellbeing defined

Employee wellbeing has been defined by Warr (1987) as 'the overall quality of an individual's subjective experience and functioning at work'. The wellbeing of employees depends on the quality of working life provided by their employers – the work environment and the feelings of satisfaction and happiness arising from the work itself.

### The dimensions of wellbeing

Two main dimensions of wellbeing have been described by Peccie *et al* (2014: 18). The first dimension is concerned with individuals' subjective experiences of work. It is sometimes called 'happiness wellbeing'. This dimension refers to elements such as job satisfaction and positive and negative responses to the work environment. The second dimension covers the physiological and psychological aspects of employee health at work including, for example, job-related anxiety and burnout (exhaustion).

### The case for wellbeing

The moral case for caring about wellbeing is strong but there is also a business case.

### Factors affecting wellbeing

- The work environment.
- Job design and demands.
- Relationships with line managers.
- Relationships with colleagues.
- Financial wellbeing.
- Stress.

### Employee wellbeing strategy

The purpose of an employee wellbeing strategy is to provide a framework for the introduction of policies and practice designed to increase the level of wellbeing amongst the employees of an organization. The strategy should be evidence-based.



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# 51

## Health and safety

### Introduction

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Health and safety policies and programmes provide for employee wellbeing by protecting employees – and other people affected by what the company produces and does – against accidents and risks of ill-health arising from their employment or their links with the company.

*Safety programmes* deal with the prevention of accidents and with minimizing the resulting loss and damage to people and property. They relate more to systems of work than the working environment.

*Occupational health programmes* deal with the prevention of ill health and the reduction of stress arising in the working environment.

This chapter starts with a general discussion on the importance of paying attention to health and safety at work as an important element in an employee wellbeing programme. It then deals in turn with the following aspects of health and safety: health and safety policies, risk assessments, audits, inspections, accident prevention, occupational health, managing stress, measuring performance, communications, training, and organizing health and safety management.

### Managing health and safety at work

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The achievement of a healthy and safe place of work and the elimination to the maximum extent possible of hazards to health and safety are the responsibility of everyone employed in an organization, as well as

those working there under contract. But the onus is on management to achieve and indeed go beyond the high standard in health and safety matters required by the legislation – the Health and Safety at Work etc Act 1974 and the various regulations and Codes of Practice.

The importance of healthy and safe policies and practices is, sadly, often underestimated by those concerned with managing businesses and by individual managers within those businesses. But the achievement of the highest standards of health and safety in the workplace is important because the elimination, or at least minimization, of health and safety hazards and risks is the moral as well as the legal responsibility of employers – this duty of care is the overriding reason. Close and continuous attention to health and safety is important because ill health and injuries created by the system of work or working conditions cause suffering and loss to individuals and their dependents. In addition, accidents and absences through ill health or injuries result in losses and damage for the organization. This ‘business’ reason is much less significant than the ‘human’ reasons, but it is still a consideration, albeit a tangential one.

### Health and safety policies

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Written health and safety policies are required to demonstrate that top management is concerned about the protection of the organization’s employees from hazards and risks to health at work and to indicate how this protection will be provided. The policies are, therefore: (1) a declaration of intent; (2) a definition of the means by which that

intent will be realized; (3) a statement of the guidelines that should be followed by everyone concerned – which means all employees – in implementing the policy.

The policy statement should consist of three parts:

- 1 the general policy statement;
- 2 the description of the organization of health and safety;
- 3 details of arrangements for implementing the policy.

### **The general policy statement**

The general policy statement should be a declaration of the intention of the employer to safeguard the health and safety of employees. It should emphasize four fundamental points:

- that the health and safety of employees and the public is of paramount importance;
- that health and safety takes precedence over expediency;
- that every effort will be made to involve all managers, team leaders and employees in the development and implementation of health and safety procedures;
- that health and safety legislation will be complied with in the spirit as well as the letter of the law.

### **Organization**

This section of the policy statement should describe the health and safety organization of the business through which high standards are set and achieved by people at all levels in the organization.

This statement should underline the ultimate responsibility of top management for the health and safety performance of the organization. It should then indicate how key management personnel are held accountable for performance in their areas. The role of safety representatives and safety committees should be defined, and the duties of specialists such as the safety adviser and the medical officer should be summarized.

## **Implementing health and safety policies**

The basis for implementing health and safety policies is provided by three review methods:

- 1 risk assessments, which identify the existence of hazards;
- 2 health and safety audits, which provide for a comprehensive review of all aspects of health and safety policies, procedures and practices;
- 3 health and safety inspections, which locate and define any faults in the system, equipment, plant or machines, or any operational errors that might be a danger to health or the source of accidents.

## **Conducting risk assessments**

Risk assessments are concerned with the identification of hazards and the analysis of the risks attached to them. A hazard is anything that can cause harm (working on roofs, lifting heavy objects, chemicals, electricity, etc). A risk is the chance, large or small, of harm being actually done by the hazard.

The purpose of risk assessments is to initiate preventative action. They enable control measures to be devised on the basis of an understanding of the relative importance of risks. Risk assessments must be recorded if there are five or more employees.

### **Types of risk assessment**

There are two types of risk assessment. The first is quantitative risk assessment, which produces an objective probability estimate based upon risk information that is immediately applicable to the circumstances in which the risk occurs. The second is qualitative risk assessment, which is more subjective and is based on judgement backed by generalized data. Quantitative risk assessment is preferable if the specific data is available. Qualitative risk assessment may be acceptable if there is little or no specific data, as long as it is made systematically on the basis of an analysis of working conditions and hazards and an informed judgement of the likelihood of harm actually being done.

Typical hazards that can be identified by risk assessments include:

- lifting and carrying, eg heavy or unwieldy objects;
- stacking and storage, eg falling materials;
- movement of people and materials, eg falls, collisions;
- processing of raw materials, eg exposure to toxic substances;
- maintenance of buildings, eg roof work, gutter cleaning;
- maintenance of plant and machinery, eg lifting tackle, installation of equipment;
- using electricity, eg using hand tools, extension leads;
- operating machines, eg operating without sufficient clearance or at an unsafe speed; not using safety devices;
- failure to wear protective equipment, eg hats, boots, clothing;
- distribution of products or materials, eg movement of vehicles;
- dealing with emergencies, eg spillages, fires, explosions;
- health hazards arising from the use of equipment or methods of working, eg VDUs, repetitive strain injuries from badly designed work stations or working practices.

Most accidents are caused by a few key activities. Assessors should concentrate initially on those that could cause serious harm. Operations such as roof work, maintenance and transport movement cause far more deaths and injuries each year than many mainstream activities.

When carrying out a risk assessment it is also necessary to consider who might be harmed. This means both employees and visitors (including cleaners and contractors and the public when calling in to buy products or enlist services).

Hazards should be ranked according to their potential. A simple three-point scale can be used such as 'low', 'moderate' and 'high', or 'negligible', 'marginal' and 'critical'.

## Assessing the risk

When the hazards have been identified it is necessary to assess how high the risks are. This involves answering three questions:

- 1 What is the worst result?
- 2 How likely is it to happen?
- 3 How many people could be hurt if things go wrong?

A probability rating system can be used such as:

- 1 Probable – likely to occur immediately or shortly.
- 2 Reasonably probable – probably will occur in time.
- 3 Remote – may occur in time.
- 4 Extremely remote – unlikely to occur.

## Taking action

Risk assessment should lead to action. The type of action can be ranked in order of potential effectiveness in the form of the following safety precedence sequence:

- *Hazard elimination* – use of alternatives, design improvements, change of process.
- *Substitution* – for example, replacement of one chemical with another that is less risky.
- *Use of barriers* – removing the hazard from the worker or removing the worker from the hazard.
- *Use of procedures* – limitation of exposure, dilution of exposure, safe systems of work (these depend on human response).
- *Use of warning systems* – signs, instructions, labels (these also depend on human response).
- *Use of personal protective clothing* – this depends on human response and is used as a side measure only when all other options have been exhausted.

## Monitoring and evaluation

Risk assessment is not completed when action has been initiated. It is essential to monitor the hazard and evaluate the effectiveness of the action in eliminating it or at least reducing it to an acceptable level.

## Health and safety audits

Risk assessments identify specific hazards and quantify the risks attached to them. Health and safety audits provide for a much more comprehensive review of all aspects of health and safety policies, procedures and practices.

### Who carries out a health and safety audit?

Safety audits can be conducted by safety advisers and/or HR specialists, but the more that managers, employees and employee representatives are involved the better. Audits are often carried out under the auspices of a health and safety committee, with its members taking an active part in conducting them. Some organizations also use outside agencies such as the British Safety Institute to conduct independent audits.

Managers can also be held responsible for conducting audits within their departments and, even better, individual members of these departments can be trained to carry out audits in particular areas. The conduct of an audit will be facilitated if checklists are prepared and a simple form used to record results.

### What is covered by a health and safety audit?

A health and safety audit should cover policies, procedures and safety practices, as outlined below.

### Policies

The following questions should be asked:

- Do health and safety policies meet legal requirements?
- Are senior managers committed to health and safety?

- How committed are other managers, team leaders and supervisors to health and safety?
- Is there a health and safety committee? If not, why not?
- How effective is the committee in getting things done?

### Procedures

How effectively do the procedures:

- support the implementation of health and safety policies?
- communicate the need for good health and safety practices?
- provide for systematic risk assessments?
- ensure that accidents are investigated thoroughly?
- record data on health and safety that is used to evaluate performance and initiate action?
- ensure that health and safety considerations are given proper weight when designing systems of work or manufacturing and operational processes (including the design of equipment and work stations, the specification for the product or service, and the use of materials)?
- provide safety training, especially induction training and training when jobs or working methods are changed?

### Safety practices

The following questions should be considered:

- To what extent do health and safety practices in all areas of the organization conform to the general requirements of the Health and Safety at Work etc Act and the specific requirements of the various regulations and Codes of Practice?
- What risk assessments have been carried out? What were the findings? What actions were taken?
- What is the health and safety performance of the organization as shown by the performance indicators? Is the trend positive or negative? If the latter, what is being done about it?

- How thoroughly are accidents investigated? What steps have been taken to prevent their recurrence?
- What is the evidence that managers and supervisors are really concerned about health and safety?

### **What should be done with the audit?**

The audit should cover the questions above but its purpose is to generate action. Those conducting the audit will have to assess priorities and costs and draw up action programmes for approval by top management.

## **Health and safety inspections**

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Health and safety inspections are designed to examine a specific area of the organization – an operational department or a manufacturing process – to locate and define any faults in the system, equipment, plant or machines, or any operational errors that might be a danger to health or the source of accidents. Health and safety inspections should be carried out on a regular and systematic basis by line managers and supervisors with the advice and help of health and safety specialists. The steps to be taken in carrying out health and safety inspections are as follows:

- Allocate the responsibility for conducting the inspection.
- Define the points to be covered in the form of a checklist.
- Divide the department or plant into areas and list the points to which attention needs to be given in each area.
- Define the frequency with which inspections should be carried out – daily in critical areas.
- Use the checklists as the basis for the inspection.
- Carry out sample or spot checks on a random basis.
- Carry out special investigations as necessary to deal with special problems, such as operating machinery without guards to increase throughput.
- Set up a reporting system (a form should be used for recording the results of inspections).
- Set up a system for monitoring that safety inspections are being conducted properly and on schedule.
- Ensure that corrective action is taken where necessary.

## **Accident prevention**

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The prevention of accidents is achieved by the following actions:

- Identify the causes of accidents and the conditions under which they are most likely to occur.
- Take account of safety factors at the design stage – build safety into the system.
- Design safety equipment and protective devices and provide protective clothing.
- Carry out regular risk assessments, audits, inspections and checks and take action to eliminate risks.
- Investigate all accidents resulting in damage or harm in order to establish the cause and to initiate corrective action.
- Maintain good records and statistics in order to identify problem areas and unsatisfactory trends.
- Conduct a continuous programme of education and training on safe working habits and methods of avoiding accidents.
- Encourage approaches to leadership and motivation that do not place excessive demands on people.

## **Occupational health programmes**

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Occupational health programmes are designed to minimize the impact of work-related illnesses. The



control of occupational health and hygiene problems can be achieved by taking the following actions:

- Eliminate the hazard at source through design and process engineering.
- Isolate hazardous processes and substances so that workers do not come into contact with them.
- Change the processes or substances used in order to promote better protection or eliminate the risk.
- Provide protective equipment, but only if changes to the design, process or specification cannot completely remove the hazard.
- Train workers to avoid risk.
- Maintain plant and equipment to eliminate the possibility of harmful emissions, controlling the use of toxic substances and eliminating radiation hazards.
- Adopt good housekeeping practices to keep premises and machinery clean and free from toxic substances.
- Conduct regular inspections to ensure that potential health risks are identified in good time.
- Carry out pre-employment medical examinations and regular checks on those exposed to risk.
- Ensure that ergonomic considerations (ie those concerning the design and use of equipment, machines, processes and work stations) are taken into account in design specifications, establishing work routines and training – this is particularly important as a means of minimizing the incidence of repetitive strain injury (RSI).
- Maintain preventive medicine programmes that develop health standards for each job and involve regular audits of potential health hazards and regular examinations for anyone at risk. Particular attention needs to be exercised in the control of noise, fatigue and stress. The management and control of stress should be a major part of any occupational health programme.
- Use stress management approaches to deal with the major problem of the effects of stress at work as described below.

## Managing stress

Stress is a state of mental or emotional strain or tension resulting from adverse or demanding circumstances. Undue stress can seriously affect mental health. In the workplace it can impact significantly on productivity, performance and happiness. The UK Health and Safety Executive reported in 2018 that 12.5 million working days were lost to absence caused by stress, anxiety and depression in 2016/17 in the UK and that this accounted for 49 per cent of all working days lost. Research by the Institute for Employment Studies (Bevan, 2018) found that over 60 per cent of UK manufacturers surveyed intervened to assess the risk of physical injury and to promote better physical safety, but the majority of investment remained in traditional areas of risk assessment, prevention and rehabilitation for those exposed to physical hazards. Fewer than 15 per cent assessed the risk that work will damage mental health and only one in five invested in measures to reduce the risk. Yet, productivity increases are most likely when the mental health of employees is positive and when employees operating in ‘lean’ production environments are given appropriate support, training and a ‘voice’ in the way production processes are run.

There are many causes of stress, as indicated by the factors affecting employee wellbeing set out in Chapter 50 (Table 50.1), and individuals vary hugely in their resilience – their ability to withstand pressure, cope with adversity and bounce back. Good levels of personal resilience are required to cope physiologically and psychologically with stress. Evidence quoted by Cooper and Hesketh (2019) shows that that higher levels of resilience can improve performance and enhance psychosocial functioning. Southwick and Charney (2012: 7) defined the following factors affecting resilience:

- a positive attitude;
- cognitive flexibility;
- moral compass;
- role models;
- facing fears;
- coping skills;
- supportive networks;
- physical wellbeing;

- regular training;
- signature (character) strengths.

There are four reasons why organizations should be concerned about stress and do something about it. First, they should act in a socially responsible way to provide a good quality of working life; second, because excessive stress causes illness; third, because it can result in inability to cope with the demands of the job, which of course creates more stress; and fourth, because excessive stress can reduce employee effectiveness and therefore organizational performance.

The overall approach to managing stress proposed by Cooper and Hesketh is as follows:

### Words of wisdom

Employees should feel that their working environment is one that, to a large extent, increases or enhances their ability to cope with the work... A supportive, well-planned, well-thought-out and well-led working environment should feature highly and, of course, be subject to regular review and/or evaluation.

Cooper and Hesketh (2019: 45)

The specific ways in which stress can be managed are:

- *Job design* – clarifying roles, reducing the danger of role ambiguity and conflict, and giving people more autonomy within a defined structure to manage their responsibilities.
- *Job placement* – taking care to place people in jobs that are within their capabilities.
- *Career development* – planning careers and promoting staff in accordance with their capabilities, taking care not to over- or under-promote.

- *Targets and performance standards* – setting reasonable and achievable targets that may stretch people but do not place impossible burdens on them.
- *Performance management processes* – encouraging a dialogue to take place between managers and individuals about the latter's work problems and ambitions.
- *Counselling* – giving individuals the opportunity to talk about their problems with someone, preferably a trained counsellor reached through an employee assistance programme.
- *Anti-bullying campaigns* – bullying at work is a major cause of stress.
- *Management training* – training in what managers can do to alleviate their own stress and reduce it in others.
- *Resilience training* – helping to cope with stress.
- *Mindfulness programmes* involving meditation which focus the attention of people on their current experiences – 'the present moment'.

### Pause for thought

If you were given the job of introducing a stress reduction programme in an organization, what approach would you adopt?

## Measuring health and safety performance

It is essential to measure health and safety performance as a means of identifying in good time where actions are necessary. Account should be taken not only of current and recent figures but also trends. The most common measures are:

*The frequency rate*

$$\frac{\text{number of injuries}}{\text{number of hours worked}} \times 100,000$$

*The incidence rate*

$$\frac{\text{number of injuries}}{\text{average number employed during the period}} \times 1,000$$

Some organizations adopt a ‘total loss control’ approach, which covers the cost of accidents to the business under such headings as ‘pay to people off work’, ‘damage to plant or equipment’ and ‘loss of production’. A cost severity rate can then be calculated, which is the total cost of accidents per 1,000 hours worked.

## Communicating the need for better health and safety practices

It is necessary to deliver the message that health and safety is important; this should supplement rather than replace other initiatives. The following steps can be taken to increase the effectiveness of safety messages:

- *Avoid negatives* – successful safety propaganda should contain positive messages, not warnings of the unpleasant consequences of actions.
- *Expose correctly* – address the message to the right people at the point of danger.
- *Use attention-getting techniques carefully* – lurid images may only be remembered for what they are, not for the message they are trying to convey.
- *Maximize comprehension* – messages should be simple and specific.
- *Messages must be believable* – they should address real issues and be perceived as being delivered by people (ie managers) who believe in what they say and are doing something about it.
- *Messages must point the way to action* – the most effective messages call for positive actions that can be achieved by those who receive them and will offer them a tangible benefit.

## Approaches to briefing staff on the importance of health and safety

Advice to a group of staff on the importance of health and safety in the workplace must be based on a thorough understanding of the organization’s health and safety policies and procedures and an appreciation of the particular factors affecting the health and safety of the group of people concerned. The latter can be based on information provided by risk assessments, safety audits and accident reports. But the advice must be positive – why health and safety is important and how accidents can be prevented. The advice should not be overweighted by unpleasant warnings. The points to be made include:

- A review of the health and safety policies of the organization with explanations of the reasoning behind them and a positive statement of management’s belief that health and safety is a major consideration because: (1) it directly affects the wellbeing of all concerned; and (2) it can, and does, minimize suffering and loss.
- A review of the procedures used by the organization for the business as a whole, and in the particular area, to assess risks and audit the safety position.
- An explanation of the roles of the members of the group in carrying out their work safely and giving full consideration to the safety of others.
- A reiteration of the statement that one of the core values of the organization is the maintenance of safe systems of work and the promotion of safe working practices.

## Health and safety training

Health and safety training is a key part of the preventative programme. It should start as part of the induction course. It should also take place following a transfer to a new job or a change in working methods. Safety training spells out the rules and provides information on potential hazards and how to avoid them. Further refresher training should be

provided and special courses laid on to deal with new aspects of health and safety or areas in which safety problems have emerged.

## Organizing health and safety

Health and safety concerns everyone in an establishment, although the main responsibility lies with management in general and individual managers in particular. Specific roles should be defined as follows:

- *Management* develops and implements health and safety policies and ensures that procedures for carrying out risk assessments, safety audits and inspections are implemented. Importantly, management has the duty of monitoring and evaluating health and safety performance and taking corrective action as necessary.
- *Managers* can exert a greater influence on health and safety. They are in immediate control and it is up to them to keep a constant watch for unsafe conditions or practices and to take immediate action. They are also directly responsible for ensuring that employees are conscious of health and safety hazards and do not take risks.
- *Employees* should be aware of what constitute safe working practices as they affect them and their fellow workers. While management and managers have the duty to communicate and train, individuals also have the duty to take account of what they have heard and learnt and apply it in the ways that they carry out their work.
- *Health and safety advisers* advise on policies and procedures and on healthy and safe methods of working. They conduct risk assessments, safety audits and investigations into accidents (in conjunction with managers and health and safety representatives), maintain statistics and report on trends and necessary actions.
- *Health and safety representatives* deal with health and safety issues in their areas and are members of health and safety committees.
- *Medical advisers* have two functions: preventative and clinical. The preventative function is most important, especially on occupational health matters. The clinical function is to deal with industrial accidents and diseases and to advise on the steps necessary to recover from injury or illness arising from work. They do not usurp the role of the family doctor in non-work-related illnesses.
- *Safety committees* consisting of health and safety representatives advise on health and safety policies and procedures, help in conducting risk assessments and safety audits, and make suggestions on improving health and safety performance.

### Key learning points

#### Managing health and safety at work

The achievement of a healthy and safe place of work, and the elimination to the maximum extent possible of hazards to health and safety, is the responsibility of everyone employed in an organization, as well as those working there under contract. But the onus is on the management to achieve and indeed go beyond the high standard in health and safety matters required by the legislation – the Health and Safety at Work etc Act 1974 and the various regulations laid down in the Codes of Practice.

#### Health and safety policies

Written health and safety policies are required to demonstrate that top management is concerned about the protection of the organization's employees from hazards at work and to indicate how this protection will be provided.

#### Risk assessments

Risk assessments are concerned with the identification of hazards and the analysis of the risks

attached to them. The purpose is to initiate preventative action.

### Health and safety audits

Health and safety audits provide for a much more comprehensive review of all aspects of health and safety policies, procedures and practices.

### Health and safety inspections

Health and safety inspections should be carried out on a regular and systematic basis by line managers and supervisors, with the advice and help of health and safety advisers.

### Accident prevention

Checklist:

- Identify the causes of accidents.
- Take account of safety factors at the design stage.
- Design safety equipment and protective devices and provide protective clothing.
- Carry out regular risk assessment audits and inspections and take action to eliminate risks.
- Investigate all accidents.
- Maintain good records and statistics in order to identify problem areas and unsatisfactory trends.
- Conduct a continuous programme of education and training on safe working habits.

### Occupational health programmes

Implementing occupational health programmes can:

- eliminate the hazard at source through design and process engineering;

- isolate hazardous processes and substances so that workers do not come into contact with them;
- change the processes or substances used to promote better protection or eliminate the risk;
- provide protective equipment, but only if changes to the design, process or specification cannot completely remove the hazard;
- train workers to avoid risk;
- control stress as a major part of a programme.

### Measuring health and safety performance

This is important as a guide to action using the standard measures of frequency, incidence and severity rate.

### Communicating the need for better health and safety practices

It is necessary to deliver the message that health and safety is important as long as this supplements rather than replaces other initiatives.

### Health and safety training

Health and safety training is a key part of the preventative programme. It should start as part of the induction course. It should also take place following a transfer to a new job or a change in working methods.

### Organizing health and safety

Health and safety concerns everyone in an establishment, although the main responsibility lies with management in general and individual managers in particular. The specific roles should be defined for managers and employees, health and safety advisers, medical advisers and the health and safety committee.

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# PART XIII

## HRM policies and practices and employment law

### PART XIII CONTENTS

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### Introduction

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This part describes four areas of HRM that are concerned with administering the employment relationship.



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# 52

## HR policies

### Introduction

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HR or people policies set out the approaches that the organization adopts to dealing with key aspects of HRM and provide continuing guidelines on how these approaches should be applied. They define the philosophies and values of the organization on how people should be treated, and from these are derived the principles upon which managers are expected to act when dealing with HR matters.

HR policies should be distinguished from HR procedures. A policy provides generalized guidance on how HR issues should be dealt with. A procedure spells out precisely what steps should be taken to deal with major employment issues such as grievances, discipline, capability and redundancy. In this chapter consideration is given to the reason for HR policies, the areas in which general and specific policies are formulated and the development and implementation of policies.

### Why have HR policies?

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HR policies define how the organization wants to handle key aspects of people management. As guidelines the aim is to ensure that any HR issues are dealt with consistently in accordance with the values of the organization and in line with certain defined principles. All organizations have HR policies. Some, however, exist implicitly as a philosophy of management and an attitude to employees that is expressed in the way in which HR issues are handled; for example, the introduction of a new grade and pay structure. The advantage of explicit policies in terms

of consistency and understanding may appear to be obvious, but there are disadvantages: written policies can be inflexible, constrictive, platitudinous, or all three. To a degree, policies have often to be expressed in abstract terms and managers do not generally care for abstractions. But they do want to know where they stand – people like structure – and formalized HR policies can provide the guidelines they need.

Formalized HR policies can be used in induction, team leader and management training to help participants understand the philosophies and values of the organization and how they are expected to behave within that context. They are a means for defining the employment relationship and the psychological contract. HR policies can be expressed formally as overall statements of the values of the organization or in relation to specific areas, as discussed in this chapter.

### Overall HR policy

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The overall HR policy defines how the organization fulfils its social responsibilities for its employees and sets out its attitudes towards them. It is an expression of its values or beliefs about how people should be treated. The values expressed in an overall statement of HR policies may explicitly or implicitly refer to the following concepts:

*Wellbeing* – paying close attention to all aspects of the work experience that contribute to feelings of satisfaction, fulfilment and happiness at work. This includes concern with the quality of working life and working conditions.

*Quality of working life* – consciously and continually aiming to improve the quality of working life. This involves increasing the sense of satisfaction that people obtain from their work by – so far as possible – reducing monotony; increasing variety, autonomy and responsibility; avoiding placing people under too much stress; and providing for an acceptable balance between work and life outside work.

*Working conditions* – providing healthy, safe and – so far as practicable – pleasant working conditions.

*Equity* – treating employees fairly and justly by adopting an ‘even-handed’ approach. This includes protecting individuals from any unfair decisions made by their managers, providing equal opportunities for employment and promotion, and operating an equitable payment system.

*Consideration* – taking account of individual circumstances when making decisions that affect the prospects, security or self-respect of employees.

*Organizational learning* – a belief in the need to promote the learning and development of all the members of the organization by providing the processes and support required.

*Performance through people* – the importance attached to developing a performance culture and to continuous improvement; the significance of performance management as a means of defining and agreeing mutual expectations; the provision of fair feedback to people on how well they are performing.

These values are espoused by many organizations in one form or another. But to what extent are they practised when making ‘business-led’ decisions (which can, of course, be highly detrimental to employees if, for example, they lead to redundancy)? One of the dilemmas facing all those who formulate HR policies is: how can we pursue policies focusing on business success and at the same time fulfil our obligations to employees in such terms as equity, consideration, quality of working life, security and working conditions? To argue, as some do, that HR

policies should be entirely business led implies that human considerations are unimportant. Yet organizations have obligations to all their stakeholders, not just their owners.

It may be difficult to express these overall policies in anything but generalized terms, but employers increasingly have to recognize that they are subject to external as well as internal pressures and moral imperatives, which act as constraints on the extent to which they can disregard the higher standards of behaviour towards their employees that are expected of them. What needs to be done to avoid accusations that general HR policy statements are mere rhetoric is to convert them into reality through specific HR policies and enforce their application.

## Specific HR policies

The most common areas in which specific HR policies exist are age and employment, AIDS, bullying, discipline, diversity management, e-mails and the internet, employee development, employee relations, employee voice, the employment relationship, equal opportunity, grievances, health and safety, new technology, promotion, redundancy, reward, sexual harassment, substance abuse, whistleblowing and work-life balance.

### Age and employment

The policy on age and employment should take into account the UK legislation on age discrimination and the following facts:

- Age is a poor predictor of job performance.
- It is misleading to equate physical and mental ability with age.
- More of the population are living active, healthy lives as they get older.

### AIDS

An AIDS policy could include the following points:

- The risk through infection in the workplace is negligible.
- Where the occupation does involve blood contact – as in hospitals, doctors’ surgeries and laboratories – the special precautions

advised by the Health and Safety Commission will be implemented.

- Employees who know that they are infected with AIDS will not be obliged to disclose the fact to the company, but if they do it will remain completely confidential.
- There will be no discrimination against anyone with or at risk of acquiring AIDS.
- Employees infected by HIV or suffering from AIDS will be treated no differently from anyone else suffering a severe illness.

## **Bullying**

An anti-bullying policy will state that bullying will not be tolerated by the organization and that those who persist in bullying staff will be subject to disciplinary action, which could be severe in particularly bad cases. The policy will make it clear that individuals who are being bullied should have the right to discuss the problem with another person, a representative or a member of the HR function, and to make a complaint. The policy should emphasize that if a complaint is received it will be thoroughly investigated.

## **Discipline**

The disciplinary policy should state that employees have the right to know what is expected of them and what could happen if they infringe the organization's rules. It should also make the point that, in handling disciplinary cases, the organization will treat employees in accordance with the principles of natural justice. It should be supported by a disciplinary procedure (see Chapter 53).

## **Diversity and inclusion**

A policy on managing diversity and inclusion sets out the ways in which the organization, while recognizing the differences between people, ensures that those of different ethnic backgrounds, religions, gender and age groups are brought together to work in cohesive and productive organizational units. The policy will indicate how a culture is developed and maintained in which individuals of all

backgrounds are fairly treated and valued for who they are. This was considered in more detail in Chapter 31.

## **E-mails and use of the internet**

The policy on e-mails could state that the sending or downloading of offensive e-mails is prohibited and that the senders or downloaders of such messages are subject to normal disciplinary procedures. The policy may also prohibit internet browsing, for example of social networks, or downloading material not related to the business, although this can be difficult to enforce. Some companies have always believed that reasonable use of the telephone is acceptable and that policy may be extended to the internet.

If it is decided that employees' e-mails should be monitored to check on excessive or unacceptable use, this should be included in an e-mail policy, which would therefore be part of the contractual arrangements. A policy statement could be included to the effect that: 'The company reserves the right to access and monitor all e-mail messages created, sent, received or stored on the company's system.'

## **The employment relationship**

Employment policies should be concerned with fundamental aspects of the employment relationship. They should take account of the requirements of relevant UK and European legislation and case law, as covered in Chapter 55.

## **Employee development**

The employee development policy could express the organization's commitment to the continuous development of the skills and abilities of employees in order to maximize their contribution and to give them the opportunity to enhance their skills, realize their potential, advance their careers and increase their employability, both within and outside the organization. The policy could also express the belief that age should not be a barrier to learning opportunities from which everyone can benefit, irrespective of how old they are.

## Employee voice

The employee voice policy should spell out the organization's belief in giving employees an opportunity to have a say in matters that affect them. It should define the mechanisms for employee voice such as joint consultation and suggestion schemes.

## Equal opportunity

The equal opportunity policy should spell out the organization's determination to give equal opportunities to all, irrespective of sex, sexual orientation, race, creed, disability, age or marital status. The policy should also deal with the extent to which the organization wants to take 'affirmative action' to redress imbalances between the numbers employed according to sex or race or to differences in the levels of qualifications and skills they have achieved. The policy could be set out as follows:

- We are an equal opportunity employer. This means that we do not permit direct or indirect discrimination against any employee on the grounds of race, nationality, sex, sexual orientation, disability, religion, marital status or age.
- Direct discrimination takes place when a person is treated less favourably than others are or would be treated in similar circumstances.
- Indirect discrimination takes place when, whether intentional or not, a condition is applied that adversely affects a considerable proportion of people of one race, nationality, sex, sexual orientation, religion or marital status, or those with disabilities or older employees.
- The firm will ensure that equal opportunity principles are applied in all its HR policies and in particular to the procedures relating to the recruitment, training, development and promotion of its employees.
- Where appropriate and where permissible under the relevant legislation and codes of practice, employees of under-represented groups will be given positive training and encouragement to achieve equal opportunity.

## Grievances

The policy on grievances could state that employees have the right to raise their grievances with their manager, to be accompanied by a representative if they so wish, and to appeal to a higher level if they feel that their grievance has not been resolved satisfactorily. The policy should be supported by a grievance procedure (see Chapter 53).

## Health and safety

Health and safety policies cover how the organization intends to provide healthy and safe places and systems of work (see Chapter 51).

## Industrial relations

The employment relations policy will set out the organization's approach to the rights of employees to have their interests represented to management through trade unions, staff associations or some other form of representative system. It will also cover the basis upon which the organization works with trade unions, eg emphasizing that this should be regarded as a partnership.

## New technology

A new technology policy statement could state that there will be consultation about the introduction of new technology and the steps that would be taken by the organization to minimize the risk of compulsory redundancy or adverse effects on other terms and conditions or working arrangements.

## Promotion

A promotion policy could state the organization's intention to promote from within wherever this is appropriate as a means of satisfying its requirements for high-quality staff. The policy could, however, recognize that there will be occasions when the organization's present and future needs can only be met by recruitment from outside. The point could be made that a vigorous organization needs infusions of fresh blood from time to time if it is not to stagnate. In addition, the policy might state that

employees will be encouraged to apply for internally advertised jobs and will not be held back from promotion by their managers, however reluctant the latter may be to lose them. The policy should define the approach that the organization adopts to engaging, promoting and training older employees. It should emphasize that the only criterion for selection or promotion should be ability to do the job.

## Redundancy

The redundancy policy should state that the aim of the organization is to provide for employment security. It is the organization's intention to use its best endeavours to avoid involuntary redundancy through its redeployment and retraining programmes. However, if redundancy is unavoidable, those affected will be given fair and equitable treatment, the maximum amount of warning and every help that can be provided to obtain suitable alternative employment. The policy should be supported by a redundancy procedure (see Chapter 53).

## Reward

The reward policy could cover such matters as:

- providing an equitable pay system;
- equal pay for work of equal value;
- paying for performance, competence, skill or contribution;
- sharing in the success of the organization (gain sharing or profit sharing);
- the relationship between levels of pay in the organization and market rates;
- the provision of employee benefits, including flexible benefits, if appropriate;
- the importance attached to the non-financial rewards resulting from recognition, accomplishment, autonomy and the opportunity to develop.

## Sexual harassment

The sexual harassment policy should state that:

- Sexual harassment will not be tolerated.

- Employees subjected to sexual harassment will be given advice, support and counselling as required.
- Every attempt will be made to resolve the problem informally with the person complained against.
- Assistance will be given to the employee to complain formally if informal discussions fail.
- A special process will be available for hearing complaints about sexual harassment. This will provide for employees to bring their complaint to someone of their own sex if they so wish.
- Complaints will be handled sensitively and with due respect for the rights of both the complainant and the accused.

Sexual harassment is regarded as gross misconduct and, if proved, makes the individual liable for instant dismissal. Less severe penalties may be reserved for minor cases, but there will always be a warning that repetition will result in dismissal.

## Substance abuse

A substance abuse policy could include assurances that:

- Employees identified as having substance abuse problems will be offered advice and help.
- Any reasonable absence from work necessary to receive treatment will be granted under the organization's sickness scheme, provided there is full cooperation from the employee.
- An opportunity will be given to discuss the matter once it has become evident or suspected that work performance is being affected by substance-related problems.
- Employees have the right to be accompanied by a friend or employee representative in any such discussion.
- Agencies will be recommended to which the employee can go for help if necessary.
- Employment rights will be safeguarded during any reasonable period of treatment.

## Whistle-blowing

Whistle-blowing takes place when someone reports a suspected wrongdoing at work. Dismissal of an employee for whistle-blowing is deemed in law as automatic unfair dismissal if a ‘protected disclosure’, for example referring to a criminal offence by the employer, is made and the employee ‘reasonably believes’ that the disclosure is in the ‘public interest’. Obviously employers want to avoid that situation and employees need guidance on what they can and can’t do and how they should act. Hence the need for a whistle-blowing policy that will:

- Explain that the organization believes that it is important to deal with any wrongdoing, especially those malpractices specifically referred to in the Public Interest Disclosure Act 1998, including criminal offences, risks to health and safety, failure to comply with a legal obligation, a miscarriage of justice and environmental damage. Specific examples of unacceptable behaviour could be given.
- Indicate that if anyone becomes aware of an issue that needs to be dealt with they should raise the matter inside the organization, either with their line manager or, if the allegation is about their line manager, with a more senior manager.
- State that employees will not be penalized for informing management about a malpractice.

## Work-life balance

Work-life balance policies define how the organization intends to allow employees greater flexibility in their working patterns so that they can balance what they do at work with the responsibilities and interests they have outside work. The policy will indicate how flexible work practices can be developed and implemented. It will emphasize that the numbers of hours worked must not be treated as a criterion for assessing performance. It will set out guidelines on the specific arrangements that can be made, such as flexible hours, compressed working week, term-time working contracts, working at

home, special leave for parents and carers, career breaks and various kinds of child care.

A flexibility policy will need to take account of the Work and Families Act 2006, as described in Chapter 53.

## Developing HR policies

HR or people policies need to address the key HR issues that have been identified in the organization. They must also take account of external factors such as legislation. The maximum amount of consultation should take place with managers, employees and their representatives and the policies should be communicated widely with guidelines on their application. The following steps should be taken when formulating HR policies:

- Gain understanding of the corporate culture and its shared values.
- Analyse existing policies – written and unwritten. HR policies will exist in any organization, even if they are implicit rather than expressed formally.
- Analyse external factors. HR policies are subject to the requirements of UK employment legislation, European Commission employment regulations, and the official Codes of Practice issued by bodies in the UK, such as ACAS (the Advisory, Conciliation and Arbitration Service), the Commission for Equality and Human Rights, and the Health and Safety Executive. The Codes of Practice issued by relevant professional institutions, such as the CIPD, should also be consulted.
- Assess any areas where new policies are needed or existing policies are inadequate.
- Check with managers, preferably starting at the top, on their views about HR policies and where they think they could be improved.
- Seek the views of employees about the HR policies, especially the extent to which they are inherently fair and equitable and are implemented fairly and consistently. Consider doing this through an attitude survey.



- Seek the views of union representatives.
- Analyse the information obtained in the first seven steps and prepare draft policies.
- Consult, discuss and agree policies with management and union representatives.
- Communicate the policies with guidance notes on their implementation as required (although they should be as self-explanatory as possible). Supplement this communication with training.

## Implementing HR policies

The aim will be to implement policies fairly and consistently. Line managers have an important role in doing this, as it is they who will be largely responsible for policy implementation. Members of the HR function can give guidance, but it is line managers who are on the spot and have to make decisions about people. The role of HR is to communicate and interpret the policies, convince line managers that they are necessary, and provide training and support that will equip managers to implement them.

### Key learning points

#### The reasons for having HR policies

HR policies provide guidelines on how key aspects of people management should be handled. The aim is to ensure that any HR issues are dealt with consistently in accordance with the values of the organization and in line with certain defined principles.

#### Overall HR policy

The overall HR policy defines how the organization fulfils its social responsibilities for its employees and sets out its attitudes towards them. It is an expression of its values or beliefs about how people should be treated.

#### Specific HR policies

Specific HR policies cover age and employment, AIDS, bullying, discipline, e-mails and the internet, employee development, diversity management, employee

relations, employee voice, the employment relationship, equal opportunity, grievances, health and safety, new technology, promotion, redundancy, reward, sexual harassment, substance abuse and work-life balance.

#### Formulating HR policies

HR policies need to address the key HR issues that have been identified in the organization. They must also take account of external factors such as legislation. The maximum amount of consultation should take place with managers, employees and their representatives, and the policies should be communicated widely with guidelines on their application.

#### Implementing HR policies

The aim will be to implement policies fairly and consistently. Line managers have a key role in doing this.

# 53

## HR procedures

### Introduction

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HR procedures set out the ways in which certain actions concerning people should be carried out by the management or individual managers. In effect, they constitute a formalized approach to dealing with specific matters of policy and practice.

They should be distinguished from HR policies, as described in Chapter 52, which serve as guidelines on people management practices but do not necessarily lay down precisely the steps that should be taken in particular situations. Procedures are more exacting. They state what must be done as well as spelling out how to do it.

It is desirable to have the key HR procedures written down in order to ensure that related HR policies are applied consistently and in accordance with both legal requirements and ethical considerations. The existence of a written and well-publicized procedure ensures that everyone knows precisely what steps need to be taken when dealing with certain significant and possibly recurring employment issues.

The introduction or development of HR procedures should be carried out in consultation with employees and their representatives. It is essential to brief everyone on how the procedures operate and they should be published either in an employee handbook or as a separate document. Line managers may need special training on how they should apply the procedures, and the HR department should provide guidance wherever necessary. HR will normally have the responsibility of ensuring that procedures are followed consistently.

Procedures are required to deal with capability and disciplinary issues, grievances and redundancy, as discussed below.

### Capability procedure

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Some organizations deal with matters of capability under a disciplinary procedure, but there is much to be said for dealing with poor performance issues separately, leaving the disciplinary procedure to be invoked for misconduct cases. An example of a capability procedure is given below.

#### *Policy*

The company aims are to ensure that performance expectations and standards are defined, performance is monitored and employees are given appropriate feedback, training and support to meet these standards.

#### *Procedure*

If a manager/team leader believes that an employee's performance is not up to standard, an informal discussion will be held with the employee to try to establish the reason and to agree the actions required to improve performance by the employee and/or the manager/team leader. If, however:

- it is agreed that the established standards are not reasonably attainable, they will be reviewed;
- it is established that the performance problems are related to the employee's personal life, the necessary counselling/support will be provided;
- it is decided that the poor performance emanates from a change in the organization's standards, those standards will be explained

to the employee and help will be offered to obtain conformity with the standards;

- it is apparent that the poor performance constitutes misconduct, the disciplinary procedure will be invoked.

Should the employee show no (or insufficient) improvement over a defined period (weeks/months), a formal interview will be arranged with the employee (together with a representative if so desired). The aims of this interview will be to:

- explain clearly the shortfall between the employee's performance and the required standard;
- identify the cause(s) of the unsatisfactory performance and to determine what – if any – remedial treatment (training, retraining, support, etc) can be given;
- obtain the employee's commitment to reaching that standard;
- set a reasonable period for the employee to reach the standard and agree on a monitoring system during that period;
- tell the employee what will happen if that standard is not met.

The outcome of this interview will be recorded in writing and a copy will be given to the employee.

At the end of the review period a further formal interview will be held, at which time:

- if the required improvement has been made, the employee will be told of this and encouraged to maintain the improvement;
- if some improvement has been made but the standard has not yet been met, the review period will be extended;
- if there has been no discernible improvement and performance is still well below an acceptable standard this will be indicated to the employee and consideration will be given to whether there are alternative vacancies that the employee would be competent to fill; if there are, the employee will be given the option of accepting such a vacancy or being considered for dismissal;
- if such vacancies are available, the employee will be given full details of them

in writing before being required to make a decision;

- in the absence of suitable alternative work, the employee will be informed and invited to give his or her views on this before the final decision is taken.

Employees may appeal against their dismissal. The appeal must be made within three working days.

## Disciplinary procedure

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A disciplinary procedure sets out the stages through which any disciplinary action should proceed. An example is given below.

### *Policy*

It is the policy of the company that if disciplinary action has to be taken against employees it should:

- be undertaken only in cases where good reason and clear evidence exists;
- be appropriate to the nature of the offence that has been committed;
- be demonstrably fair and consistent with previous action in similar circumstances;
- take place only when employees are aware of the standards that are expected of them or the rules with which they are required to conform;
- allow employees the right to be represented by a representative or colleague during any formal proceedings;
- allow employees the right to know exactly what charges are being made against them and to respond to those charges;
- allow employees the right of appeal against any disciplinary action.

### *Disciplinary rules*

The company is responsible for ensuring that up-to-date disciplinary rules are published and available to all employees. These will set out the circumstances in which an employee could be dismissed for gross misconduct.

## Procedure

The procedure is carried out in the following stages:

- 1 *Informal warning.* A verbal or informal warning is given to the employee in the first instance or instances of minor offences. The warning is administered by the employee's immediate manager or team leader.
- 2 *Formal warning.* A written formal warning is given to the employee in the first instance of more serious offences or after repeated instances of minor offences. The warning is administered by the employee's immediate manager or team leader. It states the exact nature of the offence and indicates any future disciplinary action that will be taken against the employee if the offence is repeated within a specified time limit. A copy of the written warning is placed in the employee's personal record file but is destroyed 12 months after the date on which it was given, if the intervening service has been satisfactory. The employee is required to read and sign the formal warning and has the right to appeal to higher management if he or she thinks the warning is unjustified. The HR manager should be asked to advise on the text of the written warning.
- 3 *Further disciplinary action.* If, despite previous warnings, an employee still fails to reach the required standards in a reasonable period of time, it may become necessary to consider further disciplinary action. The action taken may be up to three days' suspension without pay, or dismissal. In either case the departmental manager should discuss the matter with the HR manager before taking action. Staff below the rank of departmental manager may only recommend disciplinary action to higher management, except when their manager is not present (for example, on night shift), when they may suspend the employee for up to one day pending an inquiry on the following day. Disciplinary action should not be confirmed until the appeal procedure has been carried out.

## Summary dismissal

An employee may be summarily dismissed (ie given instant dismissal without notice) only in the event of gross misconduct, as defined in company rules. Only departmental managers and above can recommend summary dismissal, and the action should not be finalized until the case has been discussed with the HR manager and the appeal procedure has been carried out. To enable this review to take place, employees should be suspended pending further investigation, which must take place within 24 hours.

## Appeals

In all circumstances, an employee may appeal against suspension, dismissal with notice, or summary dismissal. The appeal is conducted by a member of management who is more senior than the manager who initially administered the disciplinary action. The HR manager should also be present at the hearing. If he or she wishes, the employee may be represented at the appeal by a fellow employee of his or her own choice. Appeal against summary dismissal or suspension should be heard immediately. Appeals against dismissal with notice should be held within two days. No disciplinary action that is subject to appeal is confirmed until the outcome of the appeal.

If an appeal against dismissal (but not suspension) is rejected at this level, the employee has the right to appeal to the chief executive. The head of HR and, if required, the employee's representative should be present at this appeal.

## Grievance procedure

A grievance procedure spells out the policy on handling grievances and the approach to dealing with them. An example of a grievance procedure is given below.

## Policy

It is the policy of the company that employees should:

- be given a fair hearing by their immediate supervisor or manager concerning any grievances they may wish to raise;

- have the right to appeal to a more senior manager against a decision made by their immediate supervisor or manager;
- have the right to be accompanied by a fellow employee of their own choice when raising a grievance or appealing against a decision.

The aim of the procedure is to settle the grievance as nearly as possible to its point of origin.

## Procedure

The main stages through which a grievance may be raised are as follows:

- The employee raises the matter with his or her immediate manager or team leader and may be accompanied by a fellow employee of his or her own choice.
- If the employee is not satisfied with the decision, the employee requests a meeting with a member of management who is more senior than the manager or team leader who initially heard the grievance. This meeting takes place within five working days of the request and is attended by the manager, an HR manager or business partner, the employee appealing against the decision, and, if desired, his or her representative. The HR manager records the results of the meeting in writing and issues copies to all concerned.
- If the employee is still not satisfied with the decision, he or she may appeal to the appropriate director. The meeting to hear this appeal is held within five working days of the request and is attended by the director, the head of HR, the employee making the appeal and, if desired, his or her representative. The manager responsible for HR records the result of this meeting in writing and issues copies to all concerned. No further appeal can be made beyond this stage.

## Redundancy procedure

A redundancy procedure aims to meet statutory, ethical and practical considerations when dealing with this painful process.

## Definition

Redundancy is defined as the situation in which management decides that an employee or employees are surplus to requirements in a particular occupation and cannot be offered suitable alternative work.

Employees may be surplus to requirements because changes in the economic circumstances of the company mean that fewer employees are required, or because changes in methods of working mean that a job no longer exists in its previous form. An employee who is given notice because he or she is unsuitable or inefficient is not regarded as redundant and would be dealt with in accordance with the usual disciplinary or capability procedure.

## Objectives

The objectives of the procedure are to ensure that:

- employees who may be affected by the discontinuance of their work are given fair and equitable treatment;
- the minimum disruption is caused to employees and the company;
- as far as possible, changes are effected with the understanding and agreement of the unions and employees concerned.

## Principles

The principles governing the procedure are as follows:

- The trade unions concerned will be informed as soon as the possibility of redundancy is foreseen.
- Every attempt will be made to:
  - absorb redundancy by the natural wastage of employees;
  - find suitable alternative employment within the company for employees who might be affected, and provide training if this is necessary;
  - give individuals reasonable warning of pending redundancy in addition to the statutory period of notice.
- If alternative employment in the company is not available and more than one individual is affected, the factors to be taken into

consideration in deciding who should be made redundant will be:

- length of service with the company;
- value to the company;
- other things being equal, length of service should be the determining factor.
- The company will make every endeavour to help employees find alternative work if that is necessary.

The procedure for dealing with employees who are surplus to requirements is set out below.

### **Review of employee requirements**

Management will continuously keep under review possible future developments that might affect the number of employees required, and will prepare overall plans for dealing with possible redundancies.

### **Measures to avoid redundancies**

If the likelihood of redundancy is foreseen, the company will inform the union(s), explaining the reasons, and in consultation with the union(s) will give consideration to taking appropriate measures to prevent redundancy.

Departmental managers will be warned by the management of future developments that might affect them so that detailed plans can be made for running down the numbers of employees by allowing natural wastage to take place without replacements, retraining, or transfers.

Departmental managers will be expected to keep under review the work situation in their departments so that contingency plans can be prepared and the HR manager is informed of any likely surpluses.

### **Consultation on redundancies**

If all measures to avoid redundancy fail, the company will consult the union(s) at the earliest opportunity in order to reach agreement.

### **Selection of redundant employees**

In the event of impending redundancy, the individuals who might be surplus to requirements should be selected by the departmental manager with the

advice of the HR manager on the principles that should be adopted.

The HR manager should explore the possibilities of transferring affected employees to alternative work. The HR manager should inform management of proposed action (either redundancy or transfer) to obtain approval.

The union(s) will be informed of the numbers affected, but not of individual names.

The departmental manager and the HR manager will jointly interview the employees affected either to offer a transfer or, if a suitable alternative is not available, to inform them that they will be redundant. At this interview, full information should be available to give to the employee on the following, as appropriate:

- the reasons for being surplus;
- the alternative jobs that are available;
- the date when the employee will become surplus (that is, the period of notice);
- the entitlement to redundancy pay;
- the employee's right to appeal to an appropriate director;
- the help the company will provide.

An appropriate director will hear any appeals with the HR manager.

The HR manager will ensure that all the required administrative arrangements are made.

If the union(s) have any points to raise about the selection of employees or the actions taken by the company, these should be discussed in the first place with the HR manager. If the results of these discussions are unsatisfactory, a meeting will be arranged with an appropriate director.

### **Alternative work within the company**

If an employee is offered and accepts suitable alternative work within the company, it will take effect without a break from the previous employment and will be confirmed in writing. Employees will receive appropriate training and will be entitled to a four-week trial period to see if the work is suitable. This trial period may be extended by mutual agreement to provide additional training. During this period, employees are free to terminate their employment

and, if they do, would be treated as if they had been made redundant on the day their old job ended. They would then receive any redundancy pay to which they are entitled.

## **Alternative employment**

Employees for whom no suitable work is available in the company will be given reasonable opportunities to look for alternative employment.

### Key learning points

- HR procedures set out the ways in which certain actions concerning people should be carried out by the management or individual managers. In effect, they constitute a formalized approach to dealing with specific matters of policy and practice.
- They should be distinguished from HR policies, which serve as guidelines on people management practices but do not necessarily lay down precisely the steps that should be taken in particular situations. Procedures are more exacting: they state what must be done as well as spelling out how to do it.
- It is desirable to have the key HR procedures written down to ensure that HR policies are applied consistently and in accordance with both legal requirements and ethical considerations.
- The existence of a written and well-publicized procedure ensures that everyone knows precisely what steps need to be taken when dealing with certain significant and possibly recurring employment issues.
- The introduction or development of HR procedures should be carried out in consultation with employees and, where appropriate, their representatives.
- It is essential to brief everyone on how the procedures operate, and they should be published either in an employee handbook or as a separate document.
- Line managers may need special training on how they should apply the procedures and the HR department should provide guidance wherever necessary. HR will normally have the responsibility of ensuring that procedures are followed consistently.
- Procedures are required to deal with capability and disciplinary issues, grievances and redundancy.



# 54

## HR information systems

### Introduction

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An HR information system (HRIS) is a computer-based information system for managing the administration of HR processes and procedures. 'e-HRM' is an alternative term for the use of computer technology within the HR function. Parry and Tyson (2011: 335) defined an HRIS as: 'A way of implementing HR strategies, policies and practices in organizations through a conscious and directed support of and/or with the full use of web technology-based channels.' They listed five goals for e-HRM: efficiency, service delivery, strategic orientation, manager empowerment and standardization (ibid: 335). The chapter covers:

- the reasons for using an HRIS;
- the functions of an HRIS;
- the features of an HRIS;
- introducing an HRIS.

### Reasons for introducing an HRIS

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A CIPD (2007) survey established that the top 10 reasons for introducing an HRIS were:

- to improve the quality of information available;
- to reduce administrative burden on the HR department;
- to improve speed at which information is available;
- to improve flexibility of information to support business planning;
- to improve services to employees;
- to produce HR metrics;
- to aid human capital reporting;
- to improve productivity;
- to reduce operational costs;
- to manage people's working time more effectively.

### The functions of an HRIS

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The functions that an HRIS can perform (its 'functionality') are set out below. They cover almost every aspect of HRM:

- absence recording and management;
- data management;
- employee records;
- employee surveys;
- employee turnover analysis;
- e-learning;
- equal opportunity modelling;
- expenses;
- HR analytics;
- HR planning and forecasting;
- job evaluation;
- knowledge management;
- intranet;
- manage diversity;

- manager and employee self-service;
- metrics and human capital reporting;
- online recruitment;
- online performance management systems and 360-degree feedback;
- payroll administration;
- pay reviews;
- pensions and benefits administration;
- social enterprise networks.

The 2007 CIPD survey found that the 10 most popular uses to which respondents put their HRIS in descending order were:

- absence management;
- training and development;
- rewards;
- managing diversity;
- recruitment and selection;
- other (usually payroll);
- appraisal/performance management;
- HR planning;
- knowledge management;
- expenses.

## Features of an HRIS

The features of particular interest in an HRIS system are the use of traditional software packages, cloud computing, enterprise resource planning systems (ERPs), the intranet, internal social networks, integration and provisions for self-service.

### **Traditional software packages**

The traditional and still most typical approach is to buy software modules from an external supplier to run in-house applications such as personal records, absence management or payroll. ‘Application suites’ can be purchased which cover a linked set of modules. There is a choice between buying a ‘vanilla system’ (ie an ‘off-the-shelf’ system without any upgrades) or customizing the supplier’s system to meet specified business requirements. Extensive customization can make future upgrades problematic

and expensive, so it is important to limit it to what is absolutely necessary.

The choice of a supplier should be made as follows:

- research HR software market through trade exhibitions and publications;
- review HR processes and existing systems;
- produce a specification of system requirements;
- send an invitation to tender to several suppliers;
- invite suppliers to demonstrate their products;
- obtain references from existing customers, including site visits;
- analyse and score the product against the specification.

However, organizations are increasingly moving into cloud computing.

### **Cloud computing**

Cloud computing involves providing on-demand shared computing resources and information. Data is stored and processed in separate data centres. Services such as servers, storage and applications are delivered to an organization’s computers and devices through the internet. It can replace local arrangements using bought-in software packages.

Cloud computing can be provided by an SaaS (software-as-a-service) system – an on-demand software delivery model in which users are charged for accessing and managing HR IT provision via a network. The system stores and processes data in a standardized form which can then be configured for use in the organization.

The advantages of cloud computing are high computing power – the ability to store and process masses of data – accessibility and, potentially, lower costs. A further benefit provided by using cloud is that it is highly adaptive and changes can be made very quickly, although it may be costly to do so.

### **Integration**

In a traditional in-house arrangement, enterprise resource planning (ERP) systems can be used to

integrate all data processing processes of an organization into a unified system with the same database. HR systems are not frequently integrated to this extent although they often link payroll administration with other HR functions. Integration of the HR system with IT systems in the wider organization so that they can ‘talk to one another’ will enable the more effective management of HR data. However, many HR functions retain stand-alone systems, because they believe integration would compromise their own system, potential lack of confidentiality, and the cost and perceived risks involved.

### **Intranet**

An intranet system is one where computer terminals are linked so that they can share information within an organization or within part of an organization. The scope of the information that can be shared across terminals can be limited to preserve confidentiality and this security can be enhanced by using passwords. HR intranet systems can be used for purposes such as updating personal details, applications for internal jobs online, requests for training, access to e-learning, administration of queries and communications.

### **Internal social networks**

Internal social networks (enterprise social networks such as those provided by Yammer, Chatter and Jive) function in the same way as social networks such as Facebook. They allow people to post opinions, join in discussions and respond to questions and are used as employee voice channels and to support social learning.

### **Self-service**

A human resource self-service system (HRSS) allows managers and employees access to information and the facility to interact with the system to input information or make choices of their own. This can operate through an HR portal (a site that functions as a point of access to information on the intranet), which may be specially designed to produce a brand image of the HR function. This is sometimes referred to as a ‘business-to-employees’ (B2E) portal.

For managers, self-service means that they can access information immediately. This might be HR metrics in such areas as absenteeism, personal details, performance management data, learning and development progress, and pay (as a basis for pay reviews). They can also input data on their staff. This facilitates the devolution of responsibility to line managers and reduces the administrative burden on HR.

Employees can also access information, input data about themselves, request training and apply for jobs online.

### **Data management**

Data management involves acquiring, validating, storing, protecting, and processing the required data concerning people to ensure the accessibility, reliability, and timeliness of the data for its users. It is therefore an important element in evidence-based HRM and HR analytics. Large installations will appoint a data manager or administrator to control all the activities required (a role profile for a data administrator is given in Chapter 63).

#### **Key learning points**

Reasons for using an HRIS

The top five reasons are (CIPD, 2007):

- to improve quality of information available;
- to reduce administrative burden on the HR department;
- to improve speed at which information is available;
- to improve flexibility of information to support business planning;
- to improve services to employees.

### Functions of an HRIS

Top five uses of an HRIS (CIPD, 2007):

- absence management;
  - training and development;
  - rewards;
  - managing diversity;
  - recruitment and selection.
- the use of traditional software packages;
  - the use of cloud computing;
  - integration with other IT systems in the organization;
  - use of the intranet;
  - use of internal social networks;
  - provisions for self-service.

### Features of an HRIS

The features of particular interest in an HRIS system are:

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# 55

## Employment law

### Introduction

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The employment relationship is subject to a great deal of regulation in all industrialized countries and is increasingly a feature of HRM practice in developing economies too. While the details and extent of regulatory protection vary from country to country as well as the enforcement mechanisms, the aims of employment legislation are remarkably similar (Ashiagbor, 2005; Slattery and Broadbent, 2013). It is also the case that in all countries the trend in recent years has been towards greater levels of employment regulation, not least due to the actions of supra-national bodies such as the International Labour Organization (ILO) and the European Union (EU), which have persistently promoted higher standards of employment practice underpinned by law.

For employers in the UK the adjustment required by the introduction of extensive employment law has often been problematic as the UK's labour market was historically one of the least regulated in the world. There thus remains a strong tendency for employers and their representatives to resist the introduction of new regulation and to campaign for a reduction in the existing 'regulatory burden' on the grounds that it both deters organizations from taking new staff on, while also making the UK economy as a whole less globally competitive than it would otherwise be. Despite these misgivings, it is clear that employment law is here to stay and that it makes good business sense to comply with its requirements. Most employers have to face employment tribunal claims from time to time and most HR professionals have to deal with their consequences on a fairly regular basis.

This chapter covers:

- the purpose of employment law;
- how these objectives are achieved;

- how employment law is enforced;
- HRM and employment law;
- The General Data Protection Regulation (GDPR).

### The purpose of employment law

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There has never been any grand strategy behind the construction of modern employment law. Instead it has been built up steadily over 50 years, step by step, new laws being introduced in response to political pressure of one kind or another, and only rarely being repealed. Sometimes the impetus for new regulation has come from European institutions, such as the transfer of undertakings regulations which protect employees' terms and conditions when their organizations are acquired by others, outsourced or merged. On other occasions governments have used employment law to increase their popularity and try to ensure re-election. A good example was the introduction by the UK Government of substantially improved maternity and paternity rights in April 2015 just ahead of the general election. New employment law can be introduced in response to events (eg stricter laws on industrial action following major strikes) or campaigns by trade unions and other groups (eg the National Minimum Wage and disability discrimination laws).

Despite this apparent lack of coherence in its development, it is nonetheless possible to identify a number of key aims that governments hope to achieve by regulating the labour market. In 2013 the UK government issued a progress report on its programme of employment regulation in which three distinct objectives were set out (DBIS 2013a).

Here ministers stated that they sought to create a labour market that was:

- flexible – encouraging job creation and making it easy for people to stay in work and find work;
- effective – enabling employers to manage staff productivity; and
- fair – employers competing on a level playing field and workers benefiting from core employment protections.

The idea of a level playing field has been particularly important in the context of European Union employment regulation. The aim here is to help ensure that defined minimum standards are observed across all member states so that no one country is able to undercut its labour costs in order to steal an unfair competitive march on the others. It is very likely that the UK will continue to adhere to these high standards for the foreseeable future.

In practice most employment law exists to protect employees from unjust exploitation or unfair treatment by their employers. It is necessary because for the vast majority of workers, the employment relationship is very unequal in terms of the power that each side is able to exercise over the other. Employers are vastly more powerful, making it relatively easy for them to abuse that power by treating their employees poorly, by dismissing them or discriminating against them for no good reason, underpaying and overworking them, or causing them to risk their health, safety and welfare while at work. In the early and middle years of the 20th century, trade unions tended to offer employees a much greater level of protection than they are now able to, and so to a considerable extent the state has had to step in to provide protection of the kind that strong unions with high levels of membership were once able to provide.

There are, however, two major further reasons behind employment regulation in today's economic context. First, governments have sought to use employment law to promote good practice in the employment relationship. Ministers are always mindful of the presence of skill shortages and of the presence in our labour market of large numbers of people (typically 20 per cent) who are economically inactive despite being of working age. One aim is to encourage people off welfare and into work; another is to encourage people who could work but

who choose not to (eg early retirees) to put their skills at the disposal of the economy. Governments have also wanted to make their countries an attractive destination to highly skilled migrants from overseas who might otherwise choose to settle elsewhere. Ensuring that employers operate fairly and promoting partnership approaches both serve to help meet these objectives. Secondly, governments are keen to promote flexibility and competition in the labour market. They want to ensure that employees are free to leave their employment and join another organization easily and that they are not prevented from working because of domestic commitments. They also want to ensure that when people persistently perform their jobs poorly or when their jobs are genuinely redundant employers are able to terminate their contracts swiftly and cheaply. Above all, ministers want to avoid a situation in which employers are deterred from creating new jobs due to fear of employment legislation. There is thus always a need to balance legitimate protection of employees' rights with the need of employers to hire and fire with relative ease.

Employment law also incorporates the regulation of trade unions. And here too the aim is to achieve a balance between the need to protect the right of all workers to form and join trade unions and the need to ensure that trade unions do not become so powerful as to threaten the economic interests of the majority of people. Finding this balance has always been difficult and controversial, and the position varies considerably from country to country. In the UK, for example, our law makes it very difficult for an employer to dismiss someone for a trade union reason or to prevent a union from organizing a strike which its members have voted for in sufficient numbers. On the other hand, the way that unions are governed and the extent to which they can gain power over an employer are limited very effectively by the law.

### **Equal pay law**

The Equal Pay Act (1970) ended the previous common practice of employers paying men and women different amounts of money for doing jobs that were either the same or very similar. It became unlawful to operate separate male and female pay scales or to pay men and women differently for doing jobs that should have been paid at the same

grade when a job evaluation system was in operation. Later, in 1983 after the UK joined the European Union, it became possible for employees to pursue claims in the Employment Tribunal when they believed that their work, despite being different in nature from that of a comparator of the opposite sex, was nonetheless of 'equal value'. The relevant law is now all found in the Equality Act 2010. It applies equally to men and to women, but in practice the large majority of cases are brought by women using men as their comparators.

Aside from these three headings under which a claim can be brought (ie like work, work that has been rated as equivalent, and work of equal value), the Equality Act sets out the major defences that are available to employers. The most widely deployed is known as the 'material factor defence' which involves satisfying the tribunal that the difference in the level of payment between the claimant and her comparator is genuinely explained by factors that have nothing to do with gender. The most common examples are situations in which a man works longer hours or takes on a less desirable shift pattern than the woman and those in which there are marked differences in relative levels of skill, performance or experience. It is also common for employers to pay more to people who have achieved certain formal qualifications and also to pay London-based employees more than those living elsewhere in the UK. These are both accepted as 'material factors' provided that they genuinely explain the difference in pay. The same is true of situations in which a group of employees enjoys a higher level of 'protected pay' following a merger or acquisition that brings together two groups of people who were previously employed by different employers.

Partly, if not largely as a result of this law, the hourly 'gender pay gap' between male and female workers in the UK has declined from 37 per cent in the early 1970s to around 9 per cent today, depending on how it is measured. The reasons for its persistence despite the presence of equal pay law are widely debated, a number of distinct and plausible explanations having been put forward (see Rubery and Grimshaw, 2014). One possibility simply arises from the requirement that the law places on women to challenge their employers either by threatening or actually taking legal action. This is a difficult path for any employee to take and one which, quite understandably, most are reluctant to embark on.

Moreover, in many workplaces quite strict confidentiality rules have the effect of deterring people from telling their colleagues about the true level of their earnings. As a result, even if someone was willing to challenge unequal payments between men and women, their ability to do effectively has been seriously curtailed.

Important reforms aimed at reducing this barrier and putting pressure on employers to act proactively in respect of equalizing pay have been established since 2017. These require all organizations employing more than 250 people to publish specific statistics about their own gender pay gaps on their website. This serves to alert senior managers, employees and potentially clients about the issue. Negative publicity is generated when pay gaps are particularly high or when they grow rather than retract in a given year. Large pay gaps are mainly explained by the presence of so many men in the highest paying job groups, and the pay gap reporting system highlights this very clearly. Over time it will hopefully lead to the appointment of more women to senior roles.

## **Dismissal law**

Former employees who have completed more than two years' service are entitled to seek compensation or reinstatement when they have been unfairly dismissed. This means that they have either been sacked for an unfair reason (eg pregnancy, refusal to work in unsafe conditions) or for a lawful reason (eg misconduct, incapability, redundancy) but in an unreasonable manner. In practice the large majority of cases concern the manner in which someone has been dismissed, and here the law is very helpful from an employer's point of view. The test which is used to judge 'reasonableness' is known as 'the band of reasonable responses test'. When applying this a tribunal is required to refrain from judging the matter with reference to what the judge would have done in similar circumstances, or even from making a general judgement as to what most people would consider 'reasonable'. Instead the requirement is to ask the question: could the employer's actions in dismissing the employee be said to have been reasonable?

This means that dismissals which 90 per cent of people would consider to have been unreasonable can nonetheless be found to have been reasonable



in law, simply because a case for their reasonableness can be put. In practice this means that many dismissals fall into the ‘harsh but fair’ category.

That said, in order to be lawful it is essential that any dismissal is managed in accordance with a fair procedure. In a case of poor work performance this means that an employee must be invited to a formal meeting, given a formal warning in writing, allowed an opportunity to appeal, given a reasonable opportunity to improve and, only then, dismissed following a further formal meeting with a right to appeal. Formal warnings are also required in cases of long-term ill health (where disability discrimination law can also be highly relevant) and relatively minor acts of misconduct. Only when an employee is guilty of gross misconduct such as stealing, fighting, serious insubordination or some other breach of trust and confidence is an employer entitled to dismiss summarily without notice. Here too, though, a fair procedure must always be followed, the employee being given every opportunity to defend themselves and to appeal the dismissal. A further requirement is that employees facing hearings at which they may be dismissed must always be allowed to be accompanied by a work colleague and represented by a trade union official.

Aside from unfair dismissal, UK law provides that employees cannot be wrongfully dismissed or constructively dismissed. Wrongful dismissals occur when the manner of a dismissal breaches the contract of employment. It occurs most commonly when an employee’s contract stipulates a notice period which is not then observed when notice is given. So if someone with the right to eight weeks’ notice is dismissed with one week’s notice, they would be able to bring a claim for compensation.

Constructive dismissals are actually resignations. The law in this area was introduced alongside unfair dismissal law in 1971 in order to prevent employers from circumventing the new rights by treating their employees so badly that they resigned without needing to be dismissed. The test that is now used is contractual. This means that an employee resigns in response to (and soon after) their employer breaching their contract. In such circumstances the tribunals treat the incident as if it were a dismissal and order that appropriate compensation is paid. Importantly, relevant breaches of contract can involve either express or implied terms. Express terms are those that the parties agree at the time they first form their relationship. So, for example, if

an employer was to cut someone’s contractual pay and the employee was to resign in protest, that would generally constitute a constructive dismissal. Implied terms are many and varied, but are deemed to be present in every contract. The most significant is the ‘duty to maintain a relationship of mutual trust and confidence’. If that is broken by an employer, as happens for example in cases of serious bullying at work, the employee is entitled to resign and claim constructive dismissal.

## Health and safety law

UK health and safety law can be divided into two very distinct parts. On the one hand, we have the criminal law which is enforced by health and safety inspectors employed by local authorities and, at national level, by the Health and Safety Executive (HSE). On the other hand, we have personal injury law under which a worker who suffers an injury at work or falls ill as a result of their work can sue their employer for damages.

Health and safety inspectors carry out routine inspections of employers’ premises without warning, following which they can issue *improvement notices* requiring that changes are made to operations or *prohibition notices* which prevent the employer from using a piece of equipment or operating a system until recommended changes have been made. In either case a failure to make the required changes can result in a criminal prosecution. Such prosecutions are also brought when an employer’s negligence or recklessness leads either to a death or a serious injury. In the most serious cases, charges of corporate manslaughter can be brought against an organization.

Most personal injury claims also involve demonstrating that an employer or a fellow employee has acted negligently. Importantly, the doctrine of vicarious liability applies here, meaning that employers are deemed to be legally responsible for the actions of their employees while at work. So if an accident is caused as result of a fellow employee’s negligence, the injured person brings the case against the employer rather than the colleague whose fault the accident was. There are a number of defences that employers can deploy when faced with personal injury claims. The most common involves satisfying the court that the accident ‘was not reasonably foreseeable’. In practice this requires an

employer to have carried out formal risk assessments and to have recorded these. Managers then need to show that the injury was sustained in spite of the fact that the risks were low, that full training had been provided and that safe systems of work were always observed.

In recent years many claims of this kind have related to mental breakdowns brought about through stressful work situations. These are not at all easy for workers to win because unless they have suffered two breakdowns, the second after returning to work, it is difficult to show that an excessive workload was the main trigger for the illness.

## Hours and wages

A variety of laws regulate working time and the amount of money that workers should be paid. The most important statute covering hours of work is the Working Time Regulations 1998. This is European law which has always been controversial in the UK where we have a tradition of working long hours and claiming overtime payments in return. The key right here is not to be required to work in excess of 48 hours a week. However, in practice, many employees continue to do so. This is partly because actually the law only limits working time to 48 hours averaged over 17 weeks. So employers can lawfully require their staff to work many more hours in particularly busy weeks, provided that on average over any 17-week period the 48-hour rule is observed. In the UK there is also an opt-out system in place, under which employees can remove themselves from the right not to work more than 48 hours a week. This is common because employers can lawfully require new starters to sign opt-out agreements as a condition of being offered a job. There is also a right to opt back into the regulations without suffering any detriment, but this is not widely known. The Working Time Regulations also provide that minimum rest breaks are provided during a day's work and between shifts. Moreover, they give all workers the right to take 28 days paid holiday a year (pro rata for part-timers) comprising eight bank holidays and 20 further days statutory annual leave.

The National Minimum Wage regulations also date from 1998. These require that all workers are paid a minimum amount for every hour that they work, rates being set by the government each year

after consulting with the Low Pay Commission. The main adult rate is now called the National Living Wage. In April 2019 this was £8.21, and it is expected to reach £9 an hour in 2020. In addition there is a lower hourly rate for workers between the ages of 21 and 25 (£7.70 in 2019), another for people aged 18–20 (£6.15), a youth rate for 16- and 17-year-olds (£4.35) and an apprentice rate (£3.90). Failure to pay the NMW is not only a civil offence which can result in any back pay that is owed being paid to a claimant, but also a criminal offence which can result in large fines being paid as well.

Another significant area of employment law concerns the situations in which an employer can and cannot make deductions from a worker's pay packet. These are fairly limited, in most cases requiring prior consent on the part of an employee (eg trade union dues), authorization via statute (eg tax) or a court order (eg in order to pay a fine). Importantly this means that as a rule, employers cannot deduct wages as part of a disciplinary process. If suspended from work for any reason an employee must continue to be paid while a matter is investigated. Moreover, if a worker is found to have committed an act of misconduct, the employer cannot lawfully fine them by way of a punishment.

## Family-friendly employment law

In recent years it is in the area of family-friendly employment rights that the biggest changes in regulations have been made. Every two or three years since the mid-1990s new rights have been introduced, while existing rights have been extended. This step-by-step approach has disguised the radical improvement in employment rights which has occurred over time. The major family-friendly rights that applied in 2019 were as follows for most employees:

- up to one year of shared parental, maternity or adoptive leave;
- nine months of shared parental, maternity or adoptive pay;
- the right to paid time off to attend ante-natal appointments;
- two weeks of statutory paternity leave;
- the right to time off to deal with family emergencies;

- eighteen weeks of unpaid parental leave during the first five years of a child's life;
- the right to request a change of contract in order to work more flexibly.

Since 2014, all employees with six months' service have been able formally to request flexible working. Employers can only lawfully turn down a request when one of eight straightforward business reasons apply, and must in any event handle requests reasonably. In 2015, new regulations were introduced allowing parents to opt for 'shared parental leave' in place of established maternity leave. Under such an arrangement the allocation of paid and unpaid leave previously available only to mothers can now be shared by both parents. Importantly, this can be taken concurrently, allowing both a new mother and father to take six months' leave together when their new baby is born. Further extensions of family-friendly employment rights are being discussed for the future, including a right for grandparents to share some of the 'parental leave' currently allocated to fathers and mothers.

## How is employment law enforced?

It is in the area of enforcement and remedies that employment law varies most from country to country (Slattery and Broadbent 2013). In many countries, including Australia, Germany, India and Japan, specialized employment tribunals are charged with deciding cases that are brought by aggrieved employees or ex-employees who believe that an employer has treated them in an unlawful manner. Sometimes these institutions take an arbitration approach, seeking to promote a settlement to the dispute between the parties. In other jurisdictions tribunals are more clearly part of a court system, simply deciding cases in favour of one party or the other after hearing evidence. Elsewhere, notably in the United States, cases are heard by standard civil courts with no specialist brief in the field of employment. A rather different type of system operates in countries where the criminal law plays a much greater role in employment matters. Here local labour officials or inspectors have a central place in the administration of the law. In some jurisdictions, such as the Netherlands, employers are obliged to

seek their approval before dismissing staff. Elsewhere, officials bring criminal prosecutions when they have evidence that an employer has acted unlawfully. In France, for example, even when an employer settles a discrimination claim with an employee, it can still find itself having to defend its actions in the criminal courts.

In the UK the inspectorate model is used in the enforcement of health and safety law, in matters concerning the illegal employment of overseas migrants and, to an extent, in the enforcement of the National Living Wage. But in most areas of employment law criminal sanctions play no role. The onus is overwhelmingly on aggrieved employees and, more commonly, former employees to bring their cases before the civil courts. When a complaint relates to the alleged breach of an employment statute such as unfair dismissal or unlawful discrimination, claimants bring their cases before their local Employment Tribunal. Here the case will either be heard by an Employment Judge sitting alone, or sometimes by a panel of three in which the judge is assisted by two lay members who have industrial experience. In most cases the burden of proof lies with the claimant (ie the person bringing the case), but on some questions of law it can reverse so that the respondent (ie the employer) must satisfy the tribunal that it did not act unlawfully as is alleged. Employment tribunals then decide cases 'on the balance of probabilities', having weighed the evidence that is presented to them by each party or its representatives.

Employment tribunals operate in a relatively informal way. Anyone can carry out the duty of representing a party, the role being in no way restricted to professional lawyers. Sometimes claimants represent themselves or are represented by a family member or a friend. Trade union officials increasingly carry out this kind of work too. Respondents are more likely to employ lawyers to represent them, but sometimes represent themselves too. As a result, the Employment Tribunal provides a relatively swift and low-cost forum in which a case can be decided. Appeals on questions of law can be taken to the Employment Appeals Tribunal and, subsequently, on to the Court of Appeal, Supreme Court and, if appropriate, the European Court of Justice. But appealing a case is usually more costly. Since 2013, UK claimants whose income is above a set threshold have been obliged to pay fees to the Employment Tribunal when lodging their claims. Despite the fact

that these fees are refunded when claimants win their cases, the impact of their introduction has been to reduce the number of claims being brought very significantly.

Employment tribunals do not hear cases that relate to breaches of contract or alleged committing of torts such as negligence. So people wanting to pursue wrongful dismissal cases or personal injury claims must instead take their case to the County Court or High Court. In practice this requires them to hire lawyers and to be represented by a barrister. Costs are awarded against losing parties too, making this a riskier and potentially expensive route to take.

In practice, awards against losing respondents are rarely very high. Ahead of a case, solicitors representing claimants often set out a schedule of losses which is a good deal inflated and does not realistically represent the actual sum that would be won following a successful hearing in court. This is done in a bid to frighten unwary employers into settling the case for a higher sum than they need to in order to avoid the hassle of defending the case in court. The truth, according to the annual statistics published by the Employment Tribunal Service, is that the sums awarded are typically much lower than claimants might in theory hope to gain (see Table 55.1).

**TABLE 55.1** Median awards made in different types of employment tribunal case 2017–18

Type of case	Average median award
Unfair dismissal	£15,007
Race discrimination	£24,322
Sex discrimination	£13,212
Disability discrimination	£30,698
Religious discrimination	£5,074
Sexual orientation discrimination	£12,550
Age discrimination	£6,796

Source ETS Annual Report 2018

## HRM and employment law

It is important for HR managers to have a good, basic understanding of the principles of employment law because this enables them to take an informed view of the balance of risk associated with taking different courses of action. If the outcome of a decision is likely to be a tribunal claim, a substantial payout and negative press coverage, it makes sense to avoid taking it. Often, though, it is far from clear whether a course of action does in fact pose any significant legal risk. Sometimes there is a theoretical risk, as is the case when jobs are filled without any advertising or when casual staff are paid holiday pay in a ‘rolled up’ form, but this is very small.

The extent to which employment law influences the way that people are managed in organizations thus varies considerably. Larger corporations with high-profile reputations to defend have a tendency to settle claims ahead of any tribunal hearing. The estimated costs associated with defending a claim typically dwarf the size of the award that the claimant can hope to win. So rather than tie up days of management time defending a case, claimants are simply paid off on condition that they sign a settlement agreement which precludes them from publicizing the case (CBI, 2012: 29). The advantage of such a policy is that it effectively enables managers to run their organizations without taking too much notice of the expectations of employment law. The disadvantage, of course, is that it encourages people whose claims are not strong in law to bring cases in any event in the hope of securing a payout. The strategy can also fail to protect an employer from negative publicity, as in the juicier cases journalists tend to get hold of the story in any event.

A rather different approach is typically taken in the public and third sectors where considerable efforts are made to comply with employment legislation. Here HR departments often gain a reputation for being over cautious in the way that they handle employee grievances, so great is their wish to avoid having to defend a case in the Employment Tribunal. This means that, in practice, the vast majority of tribunal hearings involve smaller private-sector enterprises that do not have the resources available to either pay people off as a matter of routine, or to ensure that they are complying with the requirements of the law. Managers in smaller enterprises

also tend to prefer an informal management style which can make legal challenges more likely (DBIS, 2013b).

Published evidence suggests that in practice employment law has a major impact on the way that HR managers approach their work. As long ago as 2002, when the volume of employment legislation was a good deal less than it is now, the Chartered Institute of Personnel and Development established that two-thirds of HR specialists were spending in excess of 20 per cent of their time ‘dealing with employment law issues’, while a quarter reported that over 40 per cent of their working days were being spent in this way (CIPD, 2002). A further CIPD survey of HR professionals carried out five years later reported that 40 per cent of respondents rated ‘securing compliance with employment regulations’ as one of their top five objectives, while 90 per cent saw employment regulation as likely to become more important for their organizations in the future (CIPD, 2007). These findings are unsurprising when it is considered that around half a million people are dismissed for one reason or another in the UK each year (DBIS, 2013b: 23).

Surveys of employer opinion regularly report that managers find the volume of employment regulation that they have to comply with to be burdensome, but it is not generally the principles that causes them to complain. The aims of the law are generally supported by employers. What they dislike is its complexity and the time that they are obliged to devote to keeping up with changes (CIPD, 2005). As a result, particularly in the case of smaller firms, managers have a strong tendency to worry that they may be found not to be complying with all the expectations of the law. It is the fear of the

tribunal that causes them to consider employment law to be a burden as much as their personal experience (DBIS, 2013b).

In fact the chances that any job applicant, employee or former employee will win a claim against an employer are slim. Employers end up winning four out of five of the claims that are heard in the UK employment tribunals, while over 30 per cent of those that are lodged are withdrawn without a settlement before the case ever comes to court. Avoiding tribunal claims which have any serious prospect of being won is thus not at all difficult. It is really just a question of adhering to the major principles of the law, such as paying staff the National Living Wage and avoiding unlawful discrimination, while also taking care to handle dismissals in a procedurally fair manner. Moreover, in 90 per cent of situations that arise in the workplace, there is no need for managers to pay for legal advice. Free guidance is available on numerous websites, including the government’s own employment webpages ([www.gov.uk/browse/employing-people](http://www.gov.uk/browse/employing-people)) and those provided by the Advisory, Conciliation and Arbitration Service (ACAS) ([www.acas.org.uk/index.aspx?articleid=1339](http://www.acas.org.uk/index.aspx?articleid=1339)). ACAS also provide a free, confidential telephone helpline staffed by advisors who give excellent advice about all employment law issues.

### Pause for thought

How does employment law promote flexibility?

## CASE STUDIES

### Jenkins v Legoland Windsor Park Ltd (2003)

Mr Jenkins was employed at the Legoland theme park in Windsor Great Park as an ‘attractions team leader’. Due to a motorbike accident he had suffered at the age of 16, Mr Jenkins’ left arm was very seriously injured. This required him to use a sling at all times. In March 2001 the company held a ceremony at which long service awards were given

to all employees who had completed over three years’ service. Mr Jenkins was one of the 58 employees who received awards at this ceremony. Each award took the form of a human model made out of Lego. Most of the employees received models which related directly in some way to their work. Cafe staff, for example, were given



models of people eating pizzas or drinking coffee, parking attendants got models of people holding traffic cones, and managers got models holding clipboards. Mr Jenkins, however, was presented with a model of a man with his right arm in a sling. The day after the ceremony Mr Jenkins was absent and never returned to work. He was diagnosed by a consultant psychologist as 'suffering from a depressive episode triggered by an insensitive experience at his place of work'. He then brought a disability discrimination claim to the employment tribunal. He argued that he had suffered

a detriment as he had been singled out at a presentation ceremony and identified by a wrongly characterized disability. Mr Jenkins won his case in the Employment Appeals Tribunal (EAT) having lost in the tribunal. It was found that he had been subjected to a detriment for a reason related to his disability, and the employer had not been able to objectively justify its actions. He won damages of over £30,000 to compensate him for financial losses and injury to feelings.

### West Bromwich Building Society Ltd v Townsend (1983)

A building society branch in Wolverhampton was subjected to a routine health and safety inspection by a local authority environmental health officer called Mr Townsend. Following his inspection, Mr Townsend took the decision to use the branch as a test case and to issue an improvement notice requiring the building society to install 'anti-bandit screens' to protect staff from the possibility of a violent robbery. The notice stated that it was Mr Townsend's opinion that the employer was contravening the Health and Safety at Work Act (HSWA) 1974 by not providing such screens:

The reasons for my said opinion are that staff engaged in the handling of money and in general office duties in the premises are not protected as far as is reasonably practicable from the risk of attack or personal injury from persons frequenting the area of the premises normally open to the general public and I hereby require you to remedy the said contraventions or, as the case may be, the matter occasioning them by September 22nd 1982, in the manner stated in the schedule which forms part of this notice.

The employer appealed against the improvement notice in the employment tribunal. In doing so it made the following points:

- 1 The building society had considered how it could best protect its employees and included such considerations in risk assessments that were regularly kept under review.
- 2 The cost of installing protective screens in all its 86 branches would be over £500,000, yet the amount of cash kept on any one of its premises at any one time was only £3,500 maximum.
- 3 The improvement notice merely stated that it was Mr Townsend's opinion that the building society was in contravention of the HSWA 1974. No particulars were given about which clause in the Act was being contravened and no justification given to back up the general opinion.
- 4 The improvement notice was not really concerned with bringing about necessary improvements in health and safety at the particular branch concerned. Its real aim was to create a precedent that would apply to all building society branches across the whole country.

The appeal was successful. The tribunal considered that the costs associated with complying with the order would be disproportionate given the level of risk from a health and safety point of view.

### Proctor v British Gypsum Ltd (1992)

Mr Proctor was employed as a foreman by the British Gypsum company. He was summarily dismissed from this job after one of his subordinates claimed to have been assaulted by him. In his defence, Mr Proctor presented evidence to show firstly that he had been provoked, and secondly that in the past employees had not been

dismissed for rather more serious incidents of fighting and assault. He therefore claimed that the employer had acted unreasonably in summarily dismissing him – on grounds of inconsistency. Moreover, his previous record of conduct had been impeccable. The employer claimed that the other incidents had occurred some time

previously and that their policy on such matters had toughened in the years since. They also claimed that Mr Proctor's position as a foreman made his case materially different. Mr Proctor lost his case. The EAT took the opportunity to set out the circumstances in which consistency/inconsistency is significant. They said that time was significant as no employer could be expected to act consistently with cases that were some years old –

management had the right to tighten up in the way that they had. The main purpose of the inconsistency rule was to stop victimization – employees really being picked on and dismissed for other reasons (eg not getting on with their boss).

Each case had to be looked at on its merits and the employers had acted reasonably in expecting higher standards from this man, given his position.

### Pause for thought

Why has the volume of employment law grown so much recently?

## The General Data Protection Regulation (GDPR)

The General Data Protection Regulation (GDPR), which came into force in May 2018, is a regulation in EU law on data protection and privacy for individual employees. The rights of individuals (known as data subjects) under the Regulation are as follows.

### To give consent

Employers are required to obtain the consent of employees or job candidates to process their personal data. The consent must be 'freely given, specific, informed and unambiguous'. There must be a lawful purpose for processing such as:

- the legitimate interest of the employer, eg processing attendance records for the purposes of providing statutory sick pay;
- the need to perform a contract;
- compliance with a legal obligation.

### To be informed

Under the right to access provision, individuals have the right to be informed about the collection and use of their personal data. This is a key transparency requirement under the GDPR. Individuals must be provided with information in the shape of a privacy notice at the time the personal data is collected from them. The information must be concise, transparent, intelligible, easily accessible, and it must use clear and plain language. The privacy notice should detail exactly what information is collected, why it is being collected and how long it will be stored for. It should set out the employee's rights under the GDPR to:

- have access to their records;
- have the data erased (the right to be forgotten);
- rectification (correcting errors);
- object to the processing of data.

There are a few circumstances when privacy information need not be provided, such as if an individual already has the information or if it would involve a disproportionate effort to provide it to them.

### Privacy by design

This calls for the inclusion of data protection from the onset of the designing of systems, rather than as an addition.



## Key learning points

### The purpose of employment law

The major purpose of employment law is to deter employers from treating their employees unfairly or from exploiting them unjustly. However, governments also use employment regulation to help make work more attractive to people and to promote flexibility in the labour market.

### How are these objectives achieved?

In most jurisdictions employment laws give employees a strong measure of protection from unfair discrimination and unfair dismissal. Regulation also helps ensure that high levels of health and safety practice are observed and that workers are paid reasonably and are not overworked. Family-friendly employment law helps people to achieve an effective work-life balance.

### Enforcing employment law.

Enforcement is mainly something employees do for themselves by bringing claims to the Employment

Tribunal. However, in the field of health and safety, the government employs inspectors to carry out the main enforcement duties.

### Employment law and HRM

Published evidence demonstrates that employment law can have a major impact on the way that employers carry out HRM activities. It consumes a great deal of HR professionals' time and is high on their agendas. A variety of good sources of free advice about the expectations of employment law is available to managers.

### The GDPR

This is a regulation in EU law on data protection and privacy for individual employees. Employers have to gain the assent of employees to the use of their personal data and employees have the right to be informed about its use.

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# PART XIV

## People management skills

### PART XIV CONTENTS

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## Introduction

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It can be argued that fully fledged HR professionals have to be able to deploy a range of skills supported by knowledge that is wider than that required by any other professional working in organizations. Even if this claim cannot be substantiated, it is incontrovertible that a very wide variety of skills have to be used by HR specialists on a day-to-day basis.

As business partners they need strategic and business skills. As professionals constantly faced with the need to gain insight into the organizational and business issues they have to address, they need problem-solving, analytical and critical skills. HR professionals need to know about research methodology to understand the contribution of HR research and, increasingly, to initiate research and take part in research projects. They must be able to analyse and present information on what is happening in their organizations by using statistical skills.

Another major group of skills that HR professionals need to have are those concerned with

HRM practices, especially selection interviewing, job and competency analysis, learning and development techniques and negotiating. Then there are the skills they need because they have a complex role to play within their organizations. They are involved in leading change and exercising leadership in their own functions and, indirectly, in their dealings with line managers – providing guidance and advice. They have to exert influence, not just by using the authority of their position but by the effective exercise of skills in persuading managers to agree to innovations or adopt different courses of action in people management. They will be constantly involved in handling people problems and, from time to time, in managing conflict. Politics is a feature of life in organizations and HR people must know how to cope with political situations. Finally, they are often involved in implementing new systems and to do this they need project management skills.

The purpose of this part is to provide guidance on the application of all the skills mentioned, together with any supporting knowledge required.

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# Strategic people management skills

## Introduction

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HR management professionals have a strategic role when they take part in conjunction with their line manager colleagues in the development and implementation of innovative people strategies that are aligned with business strategies and thus help to achieve them. This chapter examines what this means and describes the knowledge and skills required.

## The strategic role of the HR professional

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HR strategic activities support the achievement of the organization's goals and values by aligning HR strategies with business strategies. Senior people management professionals are involved in the development and implementation of forward-looking HR strategies that are integrated with one another. Importantly, they work with their line management colleagues in the continuous formulation and execution of the business strategy.

People management professionals, especially at the highest level, make a strategic contribution that ensures that the organization has the quality of skilled and engaged people it needs. Sparrow *et al* (2010: 88) observed that: 'HR must be fully responsive to the strategy and business model of the business. HR is not a rule to itself. It is not "HR for HR", but HR (as broadly defined across the competing stakeholders whom HR has to satisfy) for the business.' The strategic nature of HR has been

expressed in the strategic business partner model, as described below.

## The strategic business partner model

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HR practitioners share responsibility with their line management colleagues for the success of the enterprise. HR practitioners can be described as business partners who have the capacity to identify business opportunities, to see the broad picture and to understand how their role can help to achieve the company's business objectives. They integrate their activities closely with top management and ensure that they serve a long-term strategic purpose. They anticipate needs, act flexibly and are proactive.

## The strategic skills required

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HR professionals who act strategically will think about what the organization wants to be and become and what they can do to ensure this happens. They will have insight into the real needs of the business and its people and will take a broad view of where the business is going. They will be capable of seeing 'the big picture', looking beyond the confines of the immediate problems they and the business face to what lies ahead, how these problems can be solved, and what they can do to support the efforts of other people. This means that they need business, problem-solving and analytical skills, as described in the next three chapters of this book.

### Key learning points

The strategic role of the HR professional  
HR professionals are involved in the development and implementation of forward-looking HR strategies that are integrated with one another.

The strategic business partner model  
HR practitioners can be described as business partners who have the capacity to identify business

opportunities, to see the broad picture and to understand how their role can help to achieve the company's business objectives.

The strategic skills required

HR professionals who act strategically will think about what the organization wants to be and become and what they can do to ensure this happens.

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## Business skills

### Introduction

HR professionals need to see themselves – and be seen – as business people with particular expertise and interest in people, rather than HR people who happen to work for a business. To make an effective contribution, they must possess business and financial skills. They need to understand what their business model is – how their organization delivers value to its customers and how the business achieves competitive advantage and makes money. They need to understand and be able to use the language of the business and, because this will generally be expressed in monetary terms, they need to appreciate how the financial systems of the business work. This means that they have to understand the budgeting processes of the organization and be able to manage their own financial budgets. They also need to know about the concepts of the business model and business model innovation in order to understand how the business makes money now and intends to do so in the future so that they can do something about it.

Equipped with this knowledge, HR professionals can develop the skills needed to interpret the organization's business or corporate strategies, to contribute to the formulation of those strategies, to develop integrated HR strategies and to run their own function in a business-like way. This requirement was spelt out by Ulrich (1997: 7) when he wrote that: 'HR professionals must know the business, which includes a mastery of finance, strategy, marketing, and operations.' Research by the CIPD led to the following conclusion:

#### Source review

It is also evident that for some HR functions, they see HR as an applied business discipline first and a people discipline second. The ability to understand the business agenda in a deep way means that they are then able to help the business see how critical objectives can only truly be delivered if the people and cultural issues are fully factored in – insight into what it would take to truly deliver. In these places HR has a real share of voice and credibility... Where HR is grounded in the business and delivering the fundamentals well, then it is able to engage in higher value-adding 'OD' and talent-related activities that speak to the critical challenges faced in that organization.

CIPD (2010: 5)

### Business skills

Business skills are required to adopt a businesslike approach to management – one that focuses on allocating resources to business opportunities and making the best use of them to achieve the required results. HR managers who are businesslike understand and act upon:

- the business imperatives of the organization – its mission and its strategic goals;
- the organization's business model – the basis upon which its business is done (how its mission and strategic goals will be achieved);

- the organization's business drivers – the characteristics of the business that move it forward;
- the organization's core competencies – what the business is good at doing;
- how performance in the organization is measured in financial and non-financial terms (see Chapter 37);
- the factors that will ensure the effectiveness of its activities including specific issues concerning profitability, productivity, financial budgeting and control, costs and benefits, customer service and operational performance;
- the key performance indicators (KPIs) of the business (the results or outcomes identified as being crucial to the achievement of high performance) that can be used to measure progress towards attaining goals;
- the factors that will ensure that the firm's resources, especially its human resources, create sustained competitive advantage because they are valuable, imperfectly imitable and non-substitutable (the resource-based view).

## Financial skills

A businesslike approach means using financial skills to know how to analyse and interpret balance sheets, cash flow and trading statements and profit and loss accounts, and to understand and make use of the financial techniques of budgeting and budgetary control, cash budgeting and costing.

### Interpreting balance sheets

A balance sheet is a statement on the last day of the accounting period of the company's assets and liabilities and the share capital or the shareholders' investment in the company. Balance sheet analysis assesses the financial strengths and weaknesses of the company, primarily from the point of view of the shareholders and potential investors, but also as part of management's task to exercise proper stewardship over the funds invested in the company and the assets in its care. With the help of balance sheet ratios, the analysis focuses on the balance sheet equation, considers the make-up of the balance sheet in terms of assets and liabilities, and examines

the liquidity position (how much cash or easily realizable assets are available) and capital structure.

### The balance sheet equation

The balance sheet equation is: Capital + Liabilities = Assets. Capital plus liabilities shows where the money comes from, and assets indicate where the money is now.

### Make-up of the balance sheet

The balance sheet contains four major sections:

- *Assets or capital in use*, which is divided into long-term or fixed assets (eg land, buildings and plant) and current or short-term assets, which include bank balances and cash, debtors, stocks of goods and materials and work in progress.
- *Current liabilities*, which are the amounts that will have to be paid within 12 months of the balance sheet date.
- *Net current assets or working capital*, which are current assets less current liabilities. Careful control of working capital lies at the heart of efficient business performance.
- *Sources of capital*, which comprise share capital, reserves including retained profits, and long-term loans.

### Liquidity analysis

Liquidity analysis is concerned with the extent to which the organization has an acceptable quantity of cash and easily realizable assets to meet its needs. The analysis may be based on the ratio of current assets (cash, working capital, etc) to current liabilities (the working capital ratio). Too low a ratio may mean that the liquid resources are insufficient to cover short-term payments. Too high a ratio might indicate that there is too much cash or working capital and that they are therefore being badly managed. The working capital ratio is susceptible to 'window dressing', which is the manipulation of the working capital position by accelerating or delaying transactions near the year end.

Liquidity analysis also uses the 'quick ratio' of current assets minus stocks to current liabilities. This concentrates on the more realizable of the current assets and therefore provides a stricter test of liquidity than the working capital ratio. It is therefore called 'the acid test'.



## Capital structure analysis

Capital structure analysis examines the overall means by which a company finances its operations, which is partly by the funds of their ordinary shareholders (equity) and partly by loans from banks and other lenders (debt). The ratio of long-term debt to ordinary shareholders' funds indicates 'gearing'. A company is said to be highly geared when it has a high level of loan capital as distinct from equity capital.

## Classification of profits

Profit is basically the amount by which revenues exceed costs. It is classified in trading statements and profit and loss accounts in the following four ways:

- 1 *Gross profit* – the difference between sales revenue and the cost of goods sold. This is also referred to as gross margin, especially in the retail industry.
- 2 *Operating or trading profit* – the gross profit less sales, marketing and distribution costs, administrative costs and research and development expenditure.
- 3 *Profit before taxation* – operating profit plus invested income minus interest payable.
- 4 *Net profit* – profit minus taxation.

## Trading statements

Trading statements or accounts show the cost of goods manufactured, the cost of sales, sales revenue and the gross profit, which is transferred to the profit and loss account.

## Profit and loss accounts

Profit and loss accounts provide the information required to assess a company's profitability – the return in the shape of profits that shareholders obtain for their investment in the company. This is the primary aim and best measure of efficiency in competitive business. Profit and loss accounts show:

- 1 the gross profit from the trading account;
- 2 selling and administration expenses;
- 3 the operating profit (1 minus 2);
- 4 investment income;

- 5 profit before interest and taxation (3 plus 4);
- 6 profit before taxation (5 minus loan interest);
- 7 taxation;
- 8 net profit (6 minus 7).

## Profitability analysis ratios

Profitability is expressed by the following ratios:

- *Return on equity* – profit after interest and preference dividends before tax in relation to ordinary share capital, reserves and retained profit. This focuses attention on the efficiency of the company in earning profits on behalf of its shareholders; some analysts regard it as the best profitability ratio.
- *Return on capital employed* – trading or operating profit to capital employed. This measures the efficiency with which capital is employed.
- *Earnings per share* – profit after interest, taxation and preference dividends in relation to the number of issued ordinary shares. This is an alternative to return on equity as a measure of the generation of 'shareholder value' (the value of the investment made by shareholders in the company in terms of the return they get on that investment). Its drawback is that it depends on the number of shares issued, although it is often referred to within companies as the means by which their obligations to shareholders should be assessed.
- *Price-earnings (P/E) ratio* – market price of ordinary shares in relation to earnings per share. This ratio is often used by investment analysts.
- *Economic value added (EVA)* – post-tax operating profit minus the cost of capital invested in the business. This measures how effectively the company uses its funds.

## Financial budgeting

Budgets translate policy into financial terms. They are statements of the planned allocation and use of the company's resources. They are needed to: (1) show the financial implications of plans; (2) define the resources required to achieve the plans; and (3)

provide the means of measuring, monitoring and controlling results against the plans. Heads of HR functions need to know how budgets should be prepared and controlled.

The procedure for preparing financial budgets consists of the following steps:

- 1 *Budget guidelines* are prepared that have been derived from the corporate plan and forecasts. They will include the activity levels for which budgets have to be created and the ratios to be achieved. The assumptions to be used in budgeting are also given. These could include rates of inflation and increases in costs and prices.
- 2 *Initial budgets* for a budget or cost centre are prepared by departmental managers with the help of budget accountants.
- 3 *Departmental budgets* are collated and analysed to produce the master budget, which is reviewed by top management, who may require changes at departmental level to bring it into line with corporate financial objectives and plans.
- 4 *The master budget* is finally approved by top management and issued to each departmental (budget centre) manager for planning and control purposes.

## Budgetary control

Budgetary control ensures that financial budgets are met and that any variances are identified and dealt with. Control starts with the budget for the cost centre, which sets out the budgeted expenditure under cost headings against activity levels. A system of measurement or recording is used to allocate expenditures to cost headings and record activity levels achieved. The actual expenditures and activity levels are compared and positive and negative variances noted. Cost centre managers then act to deal with the variances and report their results to higher management. Heads of HR functions need to understand how they should monitor and control expenditure.

## Cash management

Cash management involves forecasting and controlling cash flows (inflows or outflows of cash to or from the company). It is an important and

systematic process of ensuring that problems of liquidity are minimized and that funds are managed effectively. The aim is to ensure that the company is not over-trading, ie that the cost of its operations does not significantly exceed the amount of cash available to finance them. The old adage is that whatever else is done, ensure that ‘cash in exceeds cash out’.

Cash flow statements report the amounts of cash generated and cash used for a period. They are used to provide information on liquidity (the availability of cash), solvency and financial adaptability.

## Cash budgeting

An operating cash budget deals with budgeted receipts (forecast cash inflows) and budgeted payments (forecast cash outflows). It includes all the revenue expenditure incurred in financing current operations, ie the costs of running the business in order to generate sales.

## Costing

Costing techniques provide information for decision making and control. They are used to establish the total cost of a product for stock valuation, pricing and estimating purposes and to enable the company to establish that the proposed selling price will enable a profit to be made.

Costing involves measuring the direct costs of material and labour plus the indirect costs (overheads) originating in the factory (factory overheads) and elsewhere in the company (sales, distribution, marketing, research and development and administration). Overheads are charged to cost units – this process is called ‘overhead recovery’. It provides information on total costs. There are four main methods of doing this:

- *Absorption costing* – this involves allocating all fixed and variable costs to cost units and is the most widely used method, although it can be arbitrary.
- *Activity-based costing* – costs are assigned to activities on the basis of an individual product’s demand for each activity.
- *Marginal costing* – this segregates fixed costs and apportions the variable or marginal costs to products.

- *Standard costing* – is the preparation of predetermined or standard costs, which are compared with actual costs to identify variances. It is used to measure performance.

## Business models

HR professionals also need to know about the concept of business models and how this influences their activities. A business model provides a picture of an organization, explaining how it achieves competitive advantage and makes money. As defined by Magretta (2002: 87), business models ‘are at heart stories – stories that explain how enterprises work... They answer the fundamental questions every manager needs to ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?’ She explained that a business model ‘focuses attention on how all the elements in a system fit into a working whole’ (ibid: 90).

### Elements of a business model

Johnson *et al* (2008: 52) stated that: ‘A business model, from our point of view, consists of four interlocking elements that, taken together, create and deliver value.’ These are:

- *The customer value proposition*: how the business will create value for its customers; this is the most important element.
- *The profit formula*: the blueprint that defines how the company creates value for itself while providing value to the customer. It consists of the revenue model, cost structure, margin model (the contribution needed from each transaction to achieve desired profits) and resource velocity (how fast the business needs to turn over inventory and assets and how well resources should be utilized).
- *Key resources*: the assets such as people, technology, products, facilities, equipment, channels, and brand required to deliver the value proposition to the targeted customer.
- *Key processes*: recurrent tasks such as training, development, manufacturing, budgeting, planning and sales that allow firms to deliver value in a way they can

successfully repeat and increase in scale. Key processes also include a company’s rules, metrics and norms.

### Business model innovation

Business model innovation is the process of developing new business models or changing existing ones in order to deliver better value to customers, achieve competitive advantage and increase profitability. Johnson defined the concept in more detail as follows:

#### Words of wisdom

Business model innovation (BMI) refers to the creation or reinvention of a business.

Though innovation is more often seen in the form of a new product or service offering, a business model innovation results in an entirely different type of company that competes not only on the value proposition of its offerings, but aligns its profit formula, resources, and processes to enhance that value proposition, capture new market segments, and alienate competitors.

Johnson (2010: 20)

Johnson also observed that: ‘Business model innovation thrives in cultures of inquiry, environments in which new value propositions and ideas for new business models are met with interest and encouragement’ (ibid: 177).

### Business model analysis and design

Business model analysis is a necessary part of business model innovation. It is concerned with two key issues: (1) how the organization creates value, and (2) how the organization establishes unique resources, assets or positions that will achieve competitive advantage. It may involve an analysis of how value is generated at each stage of the value

chain (a value chain identifies the sequence of activities in a firm that are strategically relevant and underlie its key capabilities).

## The role of HR in business model innovation

On the basis of extensive research into how HR departments dealt with business model innovation, their role was spelt out by Paul Sparrow and his colleagues as follows:

### Source review

A central task for HR directors is to identify how they as leaders, and how their function's own delivery model, structure, and the people processes it manages, add value during periods of business model change. In order for organizations to make their models work, they have to understand the potentially deep implications they have for people management. People management experts have to make sure that those engineering the new business models are working on assumptions that can reasonably be executed.

Sparrow *et al* (2010: 14–15)

To play their part in business model innovation, heads of HR need to:

- Understand the implications of the existing and potential business model in terms of the organization structure and the new or enhanced capabilities the people involved will require.
- Contribute to the redesign of the organization to meet the requirements of the business model change programme.
- Plan organization development activities that systematically improve organizational capability in terms of process – how things get done.
- Mastermind change management programmes that provide for the acceptance and smooth implementation of change.
- Conduct workforce planning exercises that identify more specifically the numbers of people required with specified skills and knowledge.
- Formulate and implement talent management strategies that provide for the development, deployment, recruitment and retention of talented people – those individuals who can make a difference to organizational performance through their immediate contribution and in the longer term.
- Develop performance management and contingent reward systems – what Sparrow *et al* (2010: 16) call ‘performance-driven processes’.
- Plan and manage learning programmes to ensure that people have the skills required to implement the new or changed business model.
- Establish knowledge management procedures for storing and sharing the wisdom, understanding and expertise accumulated in the organization about its processes, techniques and operations.

In addition, as Schuler and Jackson (2007: 31) pointed out: ‘Because an innovation strategy requires risk taking and tolerance of inevitable failures, HRM in firms pursuing this strategy should be used to give employees a sense of security and encourage a long-term commitment.’

### Key learning points

The need for business and financial skills

To make an effective contribution, HR professionals must have business and financial skills. They need to

understand what the business model is – how the organization delivers value to its customers and, in commercial organizations, how the business achieves competitive advantage and makes money.

## Business skills

Business skills are required to adopt a businesslike approach to management – one that focuses on allocating resources to business opportunities and making the best use of them to achieve the required results.

## Financial skills

A businesslike approach means using financial skills to analyse and interpret balance sheets, cash flow and trading statements and profit and loss accounts, and to understand and make use of the financial techniques of budgeting and budgetary control, cash budgeting and costing.

## Interpreting balance sheets

A balance sheet is a statement on the last day of the accounting period of the company's assets and liabilities and the share capital or reserves or shareholders' investment in the company. Balance sheet analysis assesses the financial strengths and weaknesses of the company primarily from the point of view of the shareholders and potential investors, but also as part of management's task to exercise proper stewardship over the funds invested in the company and the assets in its care.

## Classification of profits

It is necessary to understand the different ways in which profits can be classified as recorded in trading statements and profit and loss accounts. There are four headings: gross profit, operating or trading profit, profit before tax, and net profit.

## Trading statements

Trading statements or accounts show the cost of goods manufactured, the cost of sales, sales revenue and the gross profit, which is transferred to the profit and loss account.

## Profit and loss accounts

Profit and loss accounts provide the information required to assess a company's profitability – the

primary aim and best measure of efficiency in competitive business. Profitability is a measure of the return in the shape of profits that shareholders obtain for their investment in the company. It is expressed in the following ratios: return on equity, return on capital employed, earnings per share, price-earnings (P/E) ratio and economic value added (EVA).

## Financial budgeting

Budgets translate policy into financial terms. They are statements of the planned allocation and use of the company's resources.

## Budgetary control

Budgetary control ensures that financial budgets are met and that any variances are identified and dealt with.

## Cash management

Cash management involves forecasting and controlling cash flows (inflows or outflows of cash). An operating cash budget deals with budgeted receipts (forecast cash inflows) and budgeted payment (forecast cash outflows).

## Costing

Costing techniques provide information for decision making and control. They are used to establish the total cost of a product for stock valuation, pricing and estimating purposes, and to enable the company to establish that the proposed selling price will enable a profit to be made.

Overheads are charged to cost units to provide information on total costs – this is called 'overhead recovery'. There are four methods of doing this: absorption costing, activity-based costing, marginal costing and standard costing.

## Business model

A business model provides a picture of an organization that explains how it achieves competitive advantage and makes money. Business model innovation is the process of developing new business models or changing existing ones to deliver better value to customers, achieve competitive advantage and increase profitability.

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# Problem-solving and decision-making skills

## Introduction

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Problem solving is a constant feature of life in organizations and elsewhere. It is something that HR professionals do all the time. A logical approach is desirable but this is not easy – the situations where problems have to be solved are often messy, with conflicting evidence, lack of data and political and emotional issues affecting those involved. But even if it is not possible to apply neat, logical and sequential methods, the principles of getting and analysing what information is available, considering alternatives and making the best choice based on the evidence, an analysis of the context and an assessment of the possible consequences, remain the same. Decision making as considered at the end of this chapter is an outcome of problem solving. Analytical and critical skills are required for both problem solving and decision making and they are dealt with in Chapter 59.

## Problem solving

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Problem solving is the process of analysing and understanding a problem, diagnosing its cause and deciding on a solution that solves the problem and prevents it being repeated. You will often have to react to problems as they arise, but as far as possible a proactive approach is desirable, involving anticipating potential problems and dealing with them in advance by taking preventative action using the normal approaches to problem solving set out below. Proactive problem solving may require creative thinking; the approach to problem solving is affected by decision theory.

## *A contingent approach to problem solving*

The ways in which problem-solving skills are exercised will be contingent on the circumstances. Karen Legge (1978: 99) advocated the following steps:

- An objective-setting exercise based on a diagnosis of what specific objectives are appropriate to the organizational context involved.
- An analytical classification of the alternatives that are the subject of the exercise.
- An analysis of the context in which such an alternative is to apply.
- The selection of one of the alternatives on the basis that it ‘fits’ the context in which it is to operate in such a way as to facilitate the achievement of the specified objectives.
- A recognition of the need to evaluate systematically not only the basis for selecting a specific alternative in the first place, but its degree of success following implementation.

## *Problems and opportunities*

It is often said that ‘there are no problems, only opportunities’. This is not universally true, of course, but it does emphasize the point that a problem should lead to positive thinking about what is to be done now, rather than to recriminations. If a mistake has been made, the reasons for it should be analysed to ensure that it does not happen again.



## Improving your skills

How can you improve your ability to solve problems? There are a few basic approaches you should use as discussed below.

### Improve your analytical ability

A complicated situation can often be resolved by separating the whole into its component parts. Such an analysis should relate to facts, although, as Peter Drucker (1955) pointed out, when trying to understand the root causes of a problem you may have to start with an opinion. Even if you ask people to search for the facts first, they will probably look for those facts that fit the conclusion they have already reached.

Opinions are a perfectly good starting point as long as they are brought out into the open at once and then tested against reality. Analyse each hypothesis and pick out the parts that need to be studied and tested (analytical skills are covered in Chapter 59). Mary Parker Follett's (1924) 'law of the situation' – the logic of facts and events – should rule in the end.

### Be creative

A strictly logical answer to the problem may not be the best one. Creative thinking is often necessary to develop an entirely new approach.

### Keep it simple

One of the basic principles of problem solving is known as Occam's razor. It states that 'entities are not to be multiplied without necessity'. That is, always believe the simplest of several explanations.

### Focus on implementation

A problem has not been solved until the decision has been implemented. Think carefully not only about how a thing is to be done (by whom, with what resources and by when) but also about what will happen when it is put into effect – its impact on the organization, the people concerned and the extent to which they will cooperate. Unforeseen consequences can upset the most carefully prepared plans.

### Involve people

You will get less cooperation if you impose a solution. The best method is to arrange things so that

everyone arrives jointly at a solution, freely agreed to be the one best suited to the situation (the law of the situation again).

Further consideration of the processes of evaluating evidence and options and to the consulting skills used in problem solving is given in the next chapter.

## Twelve problem-solving steps

The 12 steps of problem solving are:

- 1 *Define the situation* – establish what has gone wrong or is about to go wrong.
- 2 *Specify objectives* – define what is to be achieved now or in the future to deal with an actual or potential problem or a change in circumstances.
- 3 *Develop hypotheses* – develop hypotheses about what has caused the problem.
- 4 *Get the facts* – find out what has actually happened and contrast this with an assessment of what ought to have happened. This is easier said than done. Insidious political factors may have contributed to the problem and could be difficult to identify and deal with. The facts may not be clear cut. They could be obscured by a mass of conflicting material. There may be lots of opinions but few verifiable facts. Remember that people will see what has happened in terms of their own position and feelings (their framework of reference). Try to understand the political climate and the attitudes and motivation of those concerned. Bear in mind that, as Pfeffer (1996: 36) commented, 'smart organizations occasionally do dumb things'. Obtain information about internal or external constraints that affect the situation.
- 5 *Analyse the facts* – determine what is relevant and what is irrelevant. Diagnose the likely cause or causes of the problem. Do not be tempted to focus on symptoms rather than root causes. Test any assumptions. Distinguish between opinions and facts. Dig into what lies behind the problem.
- 6 *Identify possible courses of action* – spell out what each involves.

- 7 *Evaluate alternative courses of action* – assess the extent to which they are likely to achieve the objectives, the cost of implementation, any practical difficulties that might emerge and the possible reactions of stakeholders. Consider possible consequences. Critical evaluation techniques, as described in Chapter 59, can be used for this purpose.
- 8 *Weigh and decide* – determine which alternative is likely to result in the most practical and acceptable solution to the problem. This is often a balanced judgement. Decision making is considered in more detail below.
- 9 *Decide on the objective* – set out goals for implementation of the decision.
- 10 *Adopt a ‘means-end’ approach where appropriate* – in complicated situations with long-term implications it may be useful to identify the steps required and select an action at each step that will move the process closer to the goal.
- 11 *Plan implementation* – prepare a timetable and identify and assemble the resources required.
- 12 *Implement* – monitor progress and evaluate success. Remember that a problem has not been solved until the decision has been implemented. Always work out the solution to a problem with implementation in mind.

- intelligence: finding occasions for making a decision;
- design: inventing, developing and analysing possible courses of action;
- choice: selecting a particular course of action from those available; and
- review: assessing past choices.

However, Simon (1979) put forward his concept of bounded rationality, admitting that the rational manager does not always have complete information and that optimal choices are not always required. What is done in organizations with the evidence depends largely on the context in which it is done. Cultural, social and political factors influence perceptions and judgements, and the extent to which people behave rationally is limited by their capacity to understand the complexities of the situation they are in and by their emotional reactions to it.

### Characteristics of the decision-making process

The doyen of management thinkers, Peter Drucker (1955: 310), noted that ‘a good deal of decision making tends to centre on problem solving, that is, on giving answers. And that is the wrong focus. Indeed the most common source of mistakes in management decisions is the emphasis on finding the right answer rather than the right question.’ The following is his later description of the decision-making process:

## Decision making

Decision making is essentially about making choices, often in conditions of uncertainty. This involves analysing a situation or problem, identifying possible courses of action, weighing them up, defining the preferred action, implementing it and evaluating its effectiveness. Decision-making theory provides a background to the process of decision making and the skills required.

### Decision-making theory

Decision-making theory is concerned with the rational model that assumes that a rational manager follows a logical sequence of steps such as those given by Simon (1977):

#### Words of wisdom

A decision is a judgement. It is a choice between alternatives. It is rarely a choice between right and wrong. It is at best a choice between almost right and probably wrong – but much more often a choice between two courses of action, neither of which is probably more nearly right than the other.

Drucker (1967: 120)

He also argued that the best decisions emerge from conflicting viewpoints and that you should not expect or even welcome a bland consensus view. He observed that: ‘The first rule in decision making is that one does not make a decision unless there is disagreement’ (ibid 124). You can benefit from a clash of opinion to prevent falling into the trap of starting with the conclusion and then looking for the facts that support it.

## Ten approaches to decision making

- 1 *Define the problem* – as Drucker (1955: 312) emphasized: ‘The first job in decision making is to find the real problem and to define it.’
- 2 *Avoid procrastination* – it is easy to put an e-mail demanding a decision into the ‘too difficult’ section of your actual or mental in-tray. Avoid the temptation to fill your time with trivial tasks so that the evil moment when you have to address the issue is postponed. Make a start. Once you have got going you can deal with the unpleasant task of making a decision in stages. A challenge often becomes easier once we have started dealing with it. Having spent five minutes on it we don’t want to feel it was time wasted, so we carry on and complete the job.
- 3 *Expect the unexpected* – you are then in the frame of mind needed to respond decisively to a new situation.
- 4 *Think before you act* – this could be a recipe for delay, but decisive people use their analytical ability to come to swift conclusions about the nature of the situation and what should be done about it.
- 5 *Be careful about assumptions* – we have a tendency to leap to conclusions and seize on assumptions that support our case and ignore the facts that might contradict it.
- 6 *Learn from the past* – build on your experience in decision making; what approaches work best. But don’t rely too much on precedents. Situations change. The right decision last time could well be the wrong one now.
- 7 *Be systematic* – adopt a rigorous problem-solving approach as described earlier in this chapter.
- 8 *Talk it through* – before you make a significant decision talk it through with someone who is likely to disagree so that any challenge they make can be taken into account (but you have to canvass opinion swiftly).
- 9 *Leave time to think it over* – swift decision making is highly desirable but you must avoid knee-jerk reactions. Pause, if only for a few minutes, to allow yourself time to think through the decision you propose to make. And confirm that it is logical and fully justified.
- 10 *Consider the potential consequences* – This is called ‘consequence management’. Every decision has a consequence, and you should consider very carefully what that might be and how you will manage it. When making a decision it is a good idea to start from where you mean to end – define the end result and then work out the steps needed to achieve it.

## Key learning points

### Problem solving

Problem solving is a constant feature of life in organizations and elsewhere. It is the process of analysing and understanding a problem, diagnosing its cause and deciding on a solution that solves the problem and prevents it being repeated.

To improve problem-solving skills it is necessary to: improve your analytical ability, be creative, keep it simple and focus on implementation.

The 12 steps of problem solving are:

- 1 Define the situation.
- 2 Specify objectives.

- 3 Develop hypotheses.
- 4 Get the facts.
- 5 Analyse the facts.
- 6 Identify possible courses of action.
- 7 Evaluate alternative courses of action.
- 8 Weigh and decide.
- 9 Decide on the objective.
- 10 Plan implementation.
- 11 Implement
- 12 Review and evaluate.

### Decision making

Decision making is essentially about making choices, often in conditions of uncertainty. This involves analysing a situation or problem, identifying possible courses of action, weighing them up, defining the preferred action, implementing it and evaluating its effectiveness.

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# Analytical and critical skills

## Introduction

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The effectiveness of HR initiatives and the processes of problem solving and decision making in which HR practitioners are constantly involved depend largely on thorough analysis, logical reasoning and critical thinking as described in this chapter. These processes are the basis for evidence-based management as covered in Chapter 11.

Analytical and critical skills are needed to provide for clear and logical thinking – a necessary skill for HR professionals who are constantly faced with problems to be solved and decisions to be made. The following are words of wisdom from the philosopher L Susan Stebbing (1939), largely forgotten now but influential in her day. She certainly influenced the writer in his student days at the London School of Economics and that influence has continued ever since.

## Analytical skills

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Analysis is the process of breaking down a condition or state of affairs into its constituent parts and establishing the relationships between them. In the Aristotelian sense, analysis involves discerning the particular features of a situation. Note should be taken of attribution theory which deals with how individuals explain the causes of behaviour and events. The validity of such explanations depends on:

- the degree of distinctiveness – the event and its effect are highly observable;
- consistency – the event and its effect present themselves as being the same across time; and
- consensus – there is agreement among individuals' views of the relationship between the event and its effect.

Analytical skills are used to gain a better understanding of a complex situation or problem. They involve the ability to visualize, articulate and solve complex problems and concepts and make decisions based on available information. Analytical skills include the capacity to evaluate that information to assess its significance, and the ability to apply logical and critical thinking to the situation. They provide the basis for a diagnosis of the cause or causes of a problem and therefore for its solution. Importantly, they are a means of gaining insight into issues that affect the success of the business and which influence business and HR strategy.

## Logical reasoning

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If you say people are logical, you mean that they draw reasonable inferences – their conclusions can be proved by reference to the facts used to support them – and they avoid ill-founded and tendentious arguments, generalizations and irrelevancies. Logical reasoning is the basis of critical thinking and evaluation. It takes place when there is a clear relationship (a line of reasoning) between the premise (the original proposition) and the conclusion, which is supported by valid and reliable evidence and does not rely on fallacious or misleading argument. Logical reasoning is what Stebbing (1959) called 'Thinking to some purpose'. Clear thinking is required to establish the validity of a proposition, concept or idea.

It is necessary to question assumptions, especially when a belief is expressed as a fact. You need to ask yourself – and others – 'What's the evidence for that?' You have to spot fallacious and misleading arguments. A fallacy is an unsound form of argument leading to an error in reasoning or a misleading impression. The most common form of fallacies that need to be discerned in other people's arguments or avoided in one's own are summarized below:

- *Affirming the consequent* – leaping to the conclusion that a hypothesis is true because a single cause of the consequence has been observed.
- *Begging the question* – taking for granted what has yet to be proved.
- *Chop logic* – ‘Contrarywise,’ said Tweedledee, ‘if it was so, it might be, and if it were so, it would be; but as it isn’t, it ain’t. That’s logic.’ Chop logic may not always be as bad as that, but it is about drawing false conclusions and using dubious methods of argument. For example: selecting instances favourable to a contention while ignoring those that are counter to it, twisting an argument used by an opponent to mean something quite different from what was intended, diverting opponents by throwing on them the burden of proof for something they have not maintained, ignoring the point in dispute, changing the question to one that is less awkward to answer, and reiterating what has been denied and ignoring what has been asserted. Politicians know all about chop logic.
- *Confusing correlation with causation* – assuming that because A is associated with B it has caused B. It may or may not.
- *False antithesis* – the error of thinking two things are in opposition to one another when really they are not.
- *False choice* – a situation in which only two alternatives are considered, when in fact there are additional options.
- *Potted thinking* – using slogans and catchphrases to extend an assertion in an unwarrantable fashion.
- *Reaching false conclusions* – forming the view that because some are, then all are. An assertion about several cases is twisted into an assertion about all cases. The conclusion does not follow the premise. This is what logicians call the ‘undistributed middle’.
- *Selective reasoning* – selecting instances favourable to a contention while ignoring those that conflict with it.
- *Sweeping statements* – over-simplifying the facts.
- *Special pleading* – focusing too much on one’s own case and failing to see that there may be other points of view.

## Critical thinking

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Critical thinking is the process of analysing and evaluating the quality of ideas, theories and concepts to establish the degree to which they are valid and supported by the evidence and the extent to which they are biased. It involves reflecting on and interpreting data, drawing warranted conclusions and recognizing ill-defined assumptions.

‘Critical’ in this context does not mean disapproval or being negative. There are many positive uses of critical thinking, for example testing a hypothesis, proving a proposition or evaluating a concept, theory or argument. Critical thinking can occur whenever people weigh up evidence and make a judgement, solve a problem or reach a decision. The aim is to come to well-reasoned conclusions and solutions and to test them against relevant criteria and standards. Critical thinking calls for the ability to:

- recognize problems and establish ways of dealing with them;
- gather and marshal pertinent (relevant) information;
- identify unstated assumptions and values;
- interpret data, to appraise evidence and to evaluate arguments;
- recognize the existence (or non-existence) of logical relationships between propositions;
- draw warranted conclusions and make valid generalizations;
- test assertions, conclusions and generalizations;
- reconstruct ideas or beliefs by examining and analysing relevant evidence.

## Critical evaluation

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Critical evaluation is the process of making informed judgements about the validity, relevance and usefulness of ideas and arguments. Critical evaluation means not taking anything for granted and, where necessary, challenging propositions. It uses critical thinking by analysing and evaluating the quality of theories and concepts to establish the degree to which they are valid and supported by the evidence (evidence-based) and the extent to which they are biased. The arguments for and against are weighed and the strength of the evidence on both



sides is assessed. On the basis of this assessment, a conclusion is reached on which proposition or argument is to be preferred. Critical evaluation is required when testing propositions and evaluating the outcomes of research.

## Testing propositions

Propositions based on research investigations and evidence can be tested by using the following checklist:

- Was the scope of the investigation sufficiently comprehensive?
- Are the instances representative or are they selected simply to support a point of view?
- Are there contradictory instances that have not been looked for?
- Does the proposition conflict with other propositions for which there are equally good grounds?
- If there are any conflicting beliefs or contradictory items of evidence, have they been put to the test against the original proposition?
- Could the evidence lead to other equally valid conclusions?
- Are there any other factors that have not been taken into account that may have influenced the evidence and, therefore, the conclusion?

## Critically evaluating research

Putting the outcomes of research, for example material published in academic journals, to the test requires critical evaluation and the following checklist can be used:

- 1 Is the research methodology sufficiently rigorous and appropriate?
- 2 Are the results and conclusions consistent with the methodology used and its outcomes?
- 3 Is the perspective adopted by the researchers stated clearly?
- 4 Have hypotheses been stated clearly and tested thoroughly?
- 5 Do there appear to be any misleading errors of omission or bias?
- 6 Are any of the arguments tendentious?

- 7 Are inferences, findings and conclusions derived from reliable and convincing evidence?
- 8 Has a balanced approach been adopted?
- 9 Have any underlying assumptions been identified and justified?
- 10 Have the component parts been covered in terms of their interrelationships and their relationship with the whole?
- 11 Have these component parts been disaggregated for close examination?
- 12 Have they been reconstructed into a coherent whole based on underlying principles?

It is worth repeating that critical evaluation does not necessarily mean negative criticism; it means reaching a judgement based on analysis and evidence, and the judgement can be positive as well as negative.

## Developing and justifying arguments

An argument as an aspect of critical thinking consists of a presentation of reasons that support a contention. It consists of:

- a proposition or statement that expresses a point of view or belief;
- the reasoning that makes a case for the proposition or point of view;
- a discussion, the aim of which is to get the reader or listener to agree with the case that has been made;
- a conclusion that sums up the argument and its significance.

## Developing an argument

An argument is based (predicated) on a premise (the proposition) that sets out the underpinning assumption. There may be more than one proposition or assumption. It could be phrased something like this: 'The argument is that A is the case. It is predicated on the assumption that B and C apply.' In a sense this suggests what conclusion the argument is intended to reach but it also indicates that this conclusion depends on the validity of the assumptions, which will have to be proved (there are such things as false premises).



## Justifying an argument

The argument continues by supplying reasons to accept the proposition or point of view. These reasons have to be supported by evidence, which should be based on valid research, rigorous observation, or relevant and verifiable experience, not on hearsay. It involves logical reasoning, which avoids the fallacies referred to earlier and requires critical thinking, which means coming to well-reasoned conclusions and solutions and testing them against relevant criteria and standards. It also demands critical evaluation, which means reflecting on and interpreting data, drawing warranted conclusions and identifying faulty reasoning, assumptions and biases. Assumptions have to be tested rigorously and research evidence has to be evaluated. The checklists set out above can be used for this purpose.

## A final word

In these Brexit times (this is being written in May 2019) it is interesting to recall what L Susan Stebbing wrote 80 years ago:

### Words of wisdom

I am convinced of the urgent need for a democratic people to think clearly without the distortions due to unconscious bias and unrecognized ignorance.

Stebbing (1939: 6)

### Key learning points

Basis of the processes of problem solving and decision making

The processes of problem solving and decision making depend largely on effective analysis, critical thinking and evaluation.

Evidence-based management

Evidence-based management is a method of informing decision making by making use of appropriate information derived from the analysis of HR policy and practices and surveys of employee opinion within the organization, systematic benchmarking, and the messages delivered by relevant research.

Analytical skills

Analysis is the process of gaining a better understanding of a complex situation or problem by breaking it down into its constituent parts and establishing the relationships between them.

Logical reasoning

Logical reasoning involves clear thinking to establish the validity of a proposition, concept or idea.

Critical thinking

Critical thinking clarifies goals, examines assumptions, discerns hidden values, evaluates evidence, accomplishes actions and assesses conclusions.

Critical evaluation

Critical evaluation involves making informed judgements about the value of ideas and arguments.

Developing and justifying original arguments

An argument as an aspect of critical thinking consists of a presentation of reasons that support a contention.

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## Research skills

### Introduction

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HRM specialists and those studying for HR professional qualifications may be involved in conducting or taking part in research projects. Postgraduate students frequently do so. Qualified HR specialists should keep up to date as part of their continuous professional development by studying publications that present research findings, such as those produced by the CIPD or the IES, or by reading articles in academic journals. Students must extend their understanding of HRM through reading about research findings.

The purpose of this chapter is to describe the skills and techniques used in research and explain what is involved in planning and conducting research projects. This will be done against the background of a brief review of the nature and philosophy of research.

### The nature of research

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The conduct of science has been described as follows:

Researchers collect and analyse data, develop hypotheses, replicate and extend earlier work, communicate their results with others, [and] review and critique the results of their peers. (Committee on Science, Engineering and Public Policy, 1995)

Research is concerned with establishing what is and from this predicting what will be. It does not decide what ought to be; that is for people interpreting the lessons from research in their own context. Research is about the conception and testing of ideas and hypotheses. This is a creative and imaginative process, although new information is normally obtained

within the framework of existing theory and knowledge. Logic and rational argument are methods of testing ideas after they have been created.

What emerges from research is a theory – a well-established explanatory principle that has been tested and can be used to make predictions of future developments. Kurt Lewin (1945: 129) wrote that ‘Nothing is as practical as a good theory’. A ‘good’ theory is produced by clear, logical and linear development of argument with a close relationship between information, hypothesis and conclusion. Quality of information is a criterion for good research, as is the use of critical evaluation techniques.

The production of narratives that depict events (case studies) or the collection of data through surveys are elements in research programmes, but they can stand alone as useful pieces of information that illustrate practice. Research can be based on a philosophy of positivism or phenomenology.

### **Positivism**

Positivism is the belief that researchers should focus on facts (observable reality), look for causality and fundamental laws, reduce phenomena to their simplest elements (reductionism), formulate hypotheses and then test them. Researchers are objective analysts. The emphasis in positivism is on quantifiable observations that lend themselves to statistical analysis. It tends to be deductive.

### **Phenomenology**

Phenomenology focuses more on the meaning of phenomena than on the facts associated with them. Researchers adopting this philosophy try to understand what is happening. Their approach is holistic, covering the complete picture, rather than reductionist. Researchers collect and analyse evidence,

but their purpose is to use this data to develop ideas that explain the meaning of things. They believe that reality is socially constructed rather than objectively determined. Using a phenomenological approach means that the research unfolds as it proceeds – early evidence is used to indicate how to move on to the next stage of evidence collection and analysis, and so on. It tends to be inductive.

## Planning and conducting research programmes

Against this background, the steps required to plan and conduct a research programme are:

- 1 *Define research area.* This should be one that interests the researcher and has a clear link to an accepted theory or an important issue worth exploring. The research should generate fresh insights into the topic. It is necessary to undertake background reading at this stage by means of a preliminary review of the literature (particularly academic journals but also books, especially those based on research) to identify what has already been achieved in this area and any gaps (academic articles often include proposals on further research). The context within which the research is to be carried out needs to be explained and justified.
- 2 *Formulate initial research question.* This provides a rationale for the research. It is in effect a statement that answers the questions: ‘What is this research project intended to address and what is its potential contribution to increasing knowledge?’ At this stage it is based on the outcome of the initial work carried out in step 1, but it will be refined and reformulated at a later stage when more information about the research has been made available.
- 3 *Review literature.* A literature review will focus mainly on academic journals. The aim is to establish what is already known about the topic, identify existing theoretical frameworks and find out what other relevant research has been carried out.
- 4 *Develop theoretical framework.* It is necessary to conduct the research within a clear theoretical framework. This will set out the models, concepts and theories that can be drawn on and developed to provide an answer to the research question. If an appropriate framework does not exist, a grounded theory approach may be required in which the researcher uses empirical evidence directly to establish the concepts and relationships that will be contained in the theory adopted as the research framework. It is important to be clear about the assumptions, conditions and limitations that impinge on the investigation.
- 5 *Finalize the research question.* The initial research question needs to be finalized in the light of the outcome of the earlier steps. The final research question will identify the issues to be explored and the problems to be investigated. It will include a statement of intent, which will set out what the research is to achieve. This statement leads to the formulation of the hypotheses or propositions that will be tested by survey or experiment during the research programme.
- 6 *Formulate hypotheses or propositions.* A hypothesis provisionally states a relationship between two concepts in such a way that the consequences of the statement being true can be tested. Hypotheses (there may be more than one) indicate the form the research project will take in the shape of obtaining and analysing the evidence required to test them. Hypotheses may be attached to the statement of the research question. A proposition is a proposal put forward as an explanation of an event, a possible situation or a form of behaviour that will be tested by the research.
- 7 *Design the research.* This means considering initially what research philosophy will be adopted. Is it to be positivist, phenomenological, or both? It is then necessary to establish the methodology. A decision will need to be made as to the extent to which the research will be quantitative, qualitative or, again, a combination of the two and on the methods to be used as described below.

- 8 *Draw up research programme.* This will cover how the research will be conducted, the timetable and the resources (funding, people, software, etc) required. Careful project planning is essential.
- 9 *Prepare and submit proposal.* This will justify the research by setting out the research question, the proposed methodology, and how the research is intended to increase knowledge and understanding. It will also describe the programme and the resources required.
- 10 *Conduct the research project.* This includes obtaining and analysing the evidence from the various sources needed to answer the research question and prove or disprove hypotheses. The significance of the findings in relation to the research question and the hypotheses will be discussed and reference will be made to relevant information provided in the literature. This involves an extended literature review, data collection, the use of logical, analytical and critical thinking processes and the use of statistical analysis where relevant.
- 11 *Develop conclusions.* These draw together all the evidence. They provide the answer to the research question and explain why hypotheses have been accepted or rejected. The significance of the findings will also be assessed in terms of how they contribute to the development of existing knowledge and understanding. Any limitations to the study should also be mentioned.
- 12 *Make recommendations.* These set out any guidelines emerging from the research. They may also indicate any follow-up actions required if the research has been conducted within an organization.

## Research methodology

Research methodology involves the collection and analysis of evidence and testing hypotheses or propositions. The sources of evidence and how they will be accessed will be identified. This will include the analysis of primary and secondary source documents, further literature reviews, interviews, surveys

and field work. The methodology can include the use of triangulation, integrative synthesis and quantitative or qualitative research.

### Triangulation

Triangulation takes place when information is obtained from more than two sources, for example, surveys, case studies and literature reviews. Greater confidence can be attached to a result if different methods lead to the same answer. If a researcher uses only one source this may be misleading or random. If two sources are used the results may clash. If three sources are used, the hope is that two of the three will produce similar answers, or if three clashing answers are produced, the researcher knows that the question needs to be reframed, methods reconsidered, or both.

### Integrative synthesis

Integrative synthesis involves the collection and comparison of evidence involving two or more data collection methods. It investigates patterns across published research studies, compensating for single-study weaknesses in research design to improve the internal and external validity of the various research findings. It relies on the judgement of researchers, but around a structured framework and set of questions.

### Cross-lagged models

Cross-lagged models are longitudinal statistical panel studies in which two or more variables are measured for a large number of subjects at each of several waves or points in time. The variables divide naturally into two sets and the primary purpose of the analysis is to estimate and test the cross-effects between these two sets.

### Quantitative research

Quantitative research is empirical – based on the collection of factual data, which is measured and quantified. It answers research questions from the viewpoint of the researcher. It may involve a considerable amount of statistical analysis, using methods for collecting the data through questionnaires, surveys, observation and experiment. The collection of data is distinct from its analysis.

## Qualitative research

Qualitative research aims to generate insights into situations and behaviour so that the meaning of what is happening can be understood. It emphasizes the interpretation of behaviour from the viewpoint of the participants. It is based on evidence that may not be easily reduced to numbers. It makes use of interviews, case studies and observation but it may also draw on the information obtained from surveys. It may produce narratives or 'stories' describing situations, events or processes.

## Methods of collecting data

The main methods of collecting data are interviews, questionnaires, surveys, case studies, observation, diaries and experimental designs.

### Interviews

Interviews are an important research method. They obtain factual data and insights into attitudes and feelings and can take three forms:

- 1 *Structured*, which means that they obtain answers to a pre-prepared set of questions. This ensures that every topic is covered and minimizes variations between respondents. But they may be too rigid and inhibit spontaneous and revealing reactions.
- 2 *Unstructured*, which means that no questions have been prepared in advance and the person being interviewed is left free to talk about the subject without interruption or intervention. Such 'non-directive' interviews are intended to provide greater insight into the interviewee's perspective, avoid fitting respondents into pre-determined categories and enable interviewers to explore issues as they arise. But they can be inconsequential and lead to poor data that is difficult to analyse.
- 3 *Semi-structured*, which means that the areas of interest have been pre-determined and the key questions to be asked or information to be obtained have been identified. The interviewer may have a checklist but does not follow this rigidly. This approach enables the interviewer to phrase questions and vary

their order to suit the special characteristics of each interviewee. It may avoid the problems of the completely structured or unstructured interview but it does require a considerable degree of skill on the part of the interviewer.

Interviews are basically qualitative but they can become more quantitative by the use of content analysis. This records the number of times references are made in an interview to the key issues or areas of interest it was intended to cover.

The advantages of interviews are that they obtain information directly from people involved in the area being researched and can provide insights into attitudes and perspectives that questionnaires and surveys will not reveal, thus promoting in-depth understanding. They enable the interviewer to probe answers and check that questions had been understood. But the disadvantages are that:

- the construction of the interview questions may result in leading questions or bland answers;
- interviewers may influence the interviewees' reactions by imposing their own reference frame;
- respondents may tell interviewers what they want to hear;
- they are time-consuming – to set up, to conduct and to analyse;
- they require considerable interviewing skills, including the abilities to recognize what is important and relevant, to probe when necessary, to listen and to control the interview so that it covers the ground it was intended to cover.

### Questionnaires

Questionnaires collect data systematically by obtaining answers on the key issues and opinions that need to be explored in a research project. They are frequently used as a means of gathering information on matters of fact or opinion. They use a variety of methods, namely: closed questions that require a yes or no answer, ranking in order of importance or value, or Likert scales. The latter, named after Rensis Likert, the American sociologist who invented them, ask respondents to indicate the extent to which they agree or disagree with a statement.

For example, in response to a statement such as, 'I like my job' the choice may be 1 strongly agree, 2 agree, 3 disagree, 4 strongly disagree. Alternatively, an extended scale may be used and respondents asked to ring round the number that reflects their view about the statement (the higher the number the greater the agreement), for example: My contribution is fully recognized 1 2 3 4 5 6 7. Extended scales facilitate the quantitative analysis of responses to questionnaires.

To construct and use a questionnaire effectively it is necessary to:

- 1 Identify the key issues and potential questions.
- 2 Ensure questions are clear.
- 3 Avoid asking two questions in one item.
- 4 Avoid leading questions that supply their own answers.
- 5 Decide on the structure of the questionnaire including its length (not too many items) and the type of scale to be used.
- 6 Code questions for ease of analysis.
- 7 Start with simple factual questions, moving on later to items of opinion or values.
- 8 Add variety and the opportunity to check consistency by interspersing positive statements such as, 'I like working for my boss' with occasional associated negative ones such as, 'I do not get adequate support from my boss'.
- 9 Pilot test the questionnaire.
- 10 Code results and analyse. Where rating scales have been used the analysis can be quantified for comparison purposes. Content analysis can be used to analyse narrative answers to open-ended questions.

Questionnaires can effectively gather factual evidence but are not so useful for researchers who are investigating how or why things are happening. It is also impossible to assess the degree of subjectivity that has crept in when expressing opinions. For example, HR managers may give an opinion of the extent to which a performance-related pay scheme has in fact improved performance but the evidence to support that opinion will be lacking. This is where interviews can be more informative.

## Surveys

Surveys obtain information from a defined population of people. Typically, they are based on questionnaires but they can provide more powerful data than other methods by using a combination of questionnaires and interviews and, possibly, focus groups (groups of people gathered together to answer and discuss specific questions). When developing and administering surveys the issues are:

- The definition of the purpose of the survey and the outcomes hoped for – these must be as precise as possible.
- The population to be covered – this may involve a census of the whole population. Alternatively, if the population is large, sampling will be necessary (see below).
- The choice of methods – relying entirely on questionnaires may limit the validity of the findings. It is better, if time and the availability of finance permit, to complement them with interviews and, possibly, focus groups. Consideration has to be given to the extent to which triangulation (comparing the information obtained from more than two sources) is appropriate.
- The questions to which answers are required, whichever method is used.
- The design of questionnaires and the ways in which interview or focus groups, if used, should be structured.
- How the outcome of the survey will be analysed and presented, including the use of case studies.

## Sampling

In using surveys, and possibly other methods, it may not be feasible to cover the whole population (the sampling frame) and sampling will therefore be necessary. Sampling means that a proportion of the total population is selected for study and the aim is to see that this proportion represents the characteristics of the whole population. The sample must not be biased and that is why in large-scale surveys use is made of random sampling, ie the individuals covered by a survey are not selected in accordance with any criteria except that they exist in the population and can be reached by the survey. It is the equivalent



of drawing numbers out of a hat. However, if the sample frame is considered to be already arranged randomly, as in the electoral roll, then structured sampling, that is sampling at regular intervals, can be employed.

Sampling can produce varying degrees of error depending on the size of the sample. Statistical techniques can be used to establish sample errors and confidence limits. For example, they might establish that a sampling error is 3 per cent and the confidence limit is 95 per cent. This could be reasonably satisfactory, depending on the nature of the research (medical research aims to achieve 100 per cent confidence).

## Case studies

A research case study is a description of a situation or a history of an event or sequence of events in a real-life setting that illustrates a particular area of interest, for example, how a performance management system has been developed and works. In learning and development, case studies are analysed by those involved to learn something by diagnosing the causes of a problem and working out how to solve it.

Case studies are used extensively in HRM research as a means of collecting empirical evidence in a real-life context. Information is obtained about a situation, an event or a set of events that establishes what has happened, how it happened and why. Case studies provide information that contributes to the creation of a theory as part of a grounded theory approach or the validation of an established theory. In addition, they can take the form of stories or narratives that illuminate a decision or a set of decisions, why they were taken, how they were implemented and with what result. They can illustrate a total situation and describe the processes involved and how individuals and groups behave in a social setting.

Case study protocol sets out the objectives of the research, how the case study will support the achievement of those objectives, including the evidence required, and how the work of producing the case study will be conducted. The methodology covers:

- sources of evidence – interviews, observation, documents and records;
- the need to use multiple sources of evidence (triangulation) so far as possible;
- the questions to which answers need to be obtained;

- how the case study should be set up, including informing those involved of what is taking place and enlisting their support;
- the schedule of interviews and other evidence collection activities;
- how the case study database recording the evidence will be set up and maintained;
- how the case study will be presented – including the chain of evidence so that the reader can follow the argument and trace the development of events, the headings and report guidelines (these may be finalized during the course of the exercise) and whether or not the name of the organization will be revealed on publication (named cases studies are more convincing than anonymous ones);
- how approval will be sought for the publication of the case study, especially if it reveals the name of the organization.

Case studies are useful ways of collecting information on the reality of organizational life and processes. But there is a danger of them being no more than a story or an anecdote that does not contribute to greater knowledge or understanding. Much skill and persistence are required from the researcher in gaining support, ensuring that relevant and revealing information is obtained, and presenting the case study as a convincing narrative from which valid and interesting conclusions can be derived. All this must be done without taking a biased view, which can be difficult.

## Observation

Observation of individuals or groups at work is a method of getting a direct and realistic impression of what is happening. It can be done by a detached or an involved observer, or by participant observation.

Detached observers who simply study what is going on without getting involved with the people concerned may only get a superficial impression of what is happening and may be resented by the people under observation as ‘eavesdropping’. Involved observers work closely with employees and can move around, observe and participate as appropriate. This means that they can get closer to events and are more likely to be accepted, especially if the objectives and methods have been agreed in advance.



Participant observation in the fullest sense means that the researcher becomes an employee and experiences the work and the social processes that take place at first hand. This can provide powerful insights but is time-consuming and requires considerable skill and persistence.

The issues with any form of observation are getting close enough to events to understand their significance and then analysing the mass of information that might be produced in order to come up with findings that contribute to answering the research question.

## Diaries

Getting people to complete diaries of what they do is a method of building a realistic picture of how people, especially managers, spend their time.

## Experimental designs

Experimental designs involve setting up an experimental group and a control group and then placing subjects at random in one or other group. The conditions under which the experimental group functions are then manipulated and the outcomes compared with the control group, whose conditions remain unchanged. The classic case of an experimental design was the Hawthorne study, the results of which had a major impact on thinking about how groups function and on the human relations movement. But this was exceptional. It is much easier to use experiments in a laboratory setting which has been done many times with students. But there is always the feeling that such experiments do not reflect real-life conditions.

## Processes involved in research

This section describes the logical, analytical and critical thinking processes that are used in research: deduction, induction, hypothesis testing, grounded theory, paradigms and critical evaluation.

### Deduction

Research involves deduction, which is the process of using logical reasoning to reach a conclusion that

necessarily follows from general or universal premises. If the premises are correct, so is the deduction. The conclusion is therefore contained within the evidence. It is not a creative or imaginative argument that produces new ideas.

### Induction

Research can also be based on induction, which is the process of reaching generalized conclusions from the observation of particular instances. In contrast to deduction, inductive conclusions may be tentative but they contain new ideas. In research, both deductive and inductive reasoning can be used in hypothesis testing.

### Hypothesis testing

Formulating a hypothesis is an important element in a research project in that it provides a basis for the development of theory and the collection and analysis of data. A hypothesis is a supposition – a tentative explanation of something. It is a provisional statement that is taken to be true for the purpose of argument or a study and usually relates to an existing wider body of knowledge. A hypothesis has to be tested and should be distinguished from a theory which is an explanation of something that *has* been tested. A working hypothesis is a general hypothesis that has been operationalized so that it can be tested.

Hypothesis formulation and testing uses the strengths of both deductive and inductive processes; the former entirely conclusive but unimaginative, the latter tentative but creative. Induction produces ideas and deduction tests them.

To test a hypothesis, data has to be obtained that will demonstrate that its predicted consequences are true or false. Simply leaping to the conclusion that a hypothesis is true because a single cause of the consequence has been observed falls into the trap of what logicians call the ‘fallacy of affirming the consequent’. There may be alternative and more valid causes. The preferred method of testing is that of denying the consequent. This is ‘falsification’ as advocated by Popper (1959). His view was that however much data may be assembled to support a hypothesis, it is not possible to reach a conclusive proof of the truth of that hypothesis. Popper therefore proposed that it was insufficient simply to

**TABLE 60.1** Analysis of basic data collection methods

Data collection technique	Methodology	Advantages	Disadvantages	Relevance in different situations
<i>Interviews</i>	Interviews are an important research method. They obtain factual data and insights into attitudes and feelings. Direct quotations from individuals can be used to give life and reality to the research.	Interviews obtain information directly from people involved in the area being researched and can provide insights into attitudes and perspectives that questionnaires will not reveal, thus promoting in-depth understanding. They enable the interviewer to probe answers and check that questions had been understood.	<ul style="list-style-type: none"> <li>● The construction of the interview questions may result in leading questions or bland answers.</li> <li>● Interviewers may influence the interviewees' reactions by imposing their own reference frame.</li> <li>● Respondents may tell interviewers what they want to hear.</li> <li>● They are time-consuming – to set up, to conduct and to analyse.</li> <li>● They require considerable interviewing skills, including the abilities to recognize what is important and relevant, to probe when necessary, to listen and to control the interview so that it covers the ground it was intended to cover.</li> <li>● They are essentially qualitative but can become more quantitative by the use of content analysis techniques.</li> </ul>	Can be used to obtain a range of views about a topic as long as when this is required a balanced sample of people are interviewed.
<i>Questionnaires</i>	Questionnaires collect data systematically by obtaining answers, which provide factual information or indicate opinions.	A relatively simple way of assembling data.	<ul style="list-style-type: none"> <li>● Do not reveal how or why things are happening.</li> <li>● It is impossible to assess the degree of subjectivity that has crept in when expressing opinions.</li> </ul>	Useful for collecting basic factual data.
<i>Surveys</i>	Surveys obtain information from a defined population of people. They are usually based on questionnaires but these are best reinforced by interviews and focus groups, a process known as triangulation.	Can provide more powerful data than other methods by using a combination of questionnaires and interviews and, possibly, focus groups.	<ul style="list-style-type: none"> <li>● If not coupled with interviews, surveys may give only a superficial picture.</li> <li>● It is impossible to assess the degree of subjectivity that has crept in when expressing opinions.</li> </ul>	They can be used to provide evidence covering facts and/or opinions. In the latter case triangulation is desirable.

(Continued)

**TABLE 60.1** (Continued)

Data collection technique	Methodology	Advantages	Disadvantages	Relevance in different situations
<i>Case studies</i>	A research case study is a description of a situation or a history of an event or sequence of events in a real-life setting, which illustrates a particular area of interest.	Case studies are useful ways of collecting information on the reality of organizational life and processes.	There is a danger of them being no more than a story or an anecdote that does not contribute to greater knowledge or understanding. Much skill and persistence are required from the researcher in gaining support, ensuring that relevant and revealing information is obtained and presenting the case study as a convincing narrative from which valid and interesting conclusions can be derived. All this must be done without taking a biased view, which can be difficult.	When it is useful to obtain an illustration of what is actually happening from which conclusions can be drawn on what sort of action can take place. They can reinforce other methods as part of a triangulation process.

assemble confirmatory evidence; what must also be obtained is evidence that refutes the hypothesis. Only one instance of refutation is needed to falsify a theory, whereas however many confirmations of the theory exist it will still not be proved conclusively.

## Grounded theory

Grounded theory is an inductive method of developing the general features of a theory by grounding the account in empirical observations or evidence. The researcher uses empirical evidence directly to establish the concepts and relationships that will be contained in the theory. Evidence is collected from both primary sources (ie obtained directly by the researcher from the originator of the evidence) and secondary sources (ie information that is already available in the literature or on the internet). Use is made of triangulation.

## Paradigm

The term ‘paradigm’ has become popularized as meaning a way of looking at things. It is often used loosely, but properly it means the philosophical and

theoretical framework of a scientific school or discipline within which theories, laws and generalizations and the experiments performed in support of them are formulated. In other words, it is a common perspective that underpins the work of theorists so that they use the same approach to conducting research.

## Critical evaluation

Critical evaluation involves making informed judgements about the value of ideas and arguments. It uses critical thinking, which is the process of analysing and evaluating the quality of ideas, theories and concepts to establish the degree to which they are valid and supported by the evidence (evidence-based) and the extent to which they are biased. It means reflecting on and interpreting data, drawing warranted conclusions and identifying faulty reasoning, assumptions and biases. A creative leap may be required to reach a judgement.

A summary of the most used techniques for collecting data, their advantages and disadvantages and their relevance in different situations is set out in Table 60.1. These techniques are often combined.

### Key learning points

#### The nature of research

Research is concerned with establishing what is and from this predicting what will be. It is about the conception and testing of ideas.

#### Research philosophy

Research design can be based on a philosophy of positivism or phenomenology. *Positivism* is the belief that researchers should focus on facts (observable reality), and look for causality and fundamental laws. *Phenomenology* is concerned more with the meaning of phenomena than the facts associated with them.

#### Planning and conducting research programmes

- 1 Define research area.
- 2 Formulate initial research question.

- 3 Review literature.
- 4 Assess existing theoretical frameworks.
- 5 Formalize the research question.
- 6 Formulate hypotheses.
- 7 Establish the methodology.
- 8 Draw up research programme.
- 9 Prepare and submit proposal.
- 10 Collect and analyse evidence.
- 11 Develop conclusions.

#### Approaches to research

- Research can be quantitative or qualitative.
- It can use inductive or deductive methods.
- It involves the testing of hypotheses and may adopt a grounded theory approach, ie an inductive method of developing the general features of a

theory by grounding the account in empirical observations or evidence.

- Use may be made of paradigms – common perspectives that underpin the work of theorists so that they use the same approach to conducting research.
- Informed judgements about the value of ideas and arguments are made through critical evaluation.
- It makes use of critical thinking, which is the process of analysing and evaluating the quality of ideas, theories and concepts to establish the degree to which they are valid and supported by the evidence.

### Methods of collecting data

- Interviews obtain factual data and insights into attitudes and feelings and can be structured, unstructured or semi-structured.
- Questionnaires collect data systematically by obtaining answers on the key issues and opinions that need to be explored in a research project.
- Surveys obtain information from a defined population of people.
- Case studies collect empirical evidence in a real-life context.

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# 61

## Statistical skills

### Introduction

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HR professionals need skills in using statistics in order to analyse and present quantitative information (HR analytics) that can be used to guide decisions and monitor outcomes. They are an essential element in human capital management and are also important in such fields as performance management (the analysis of appraisal results and levels of performance) and reward management (the analysis of market rates, pay reviews, the distribution of pay, and equal pay). Statistics play a major part in the analysis of surveys and research evidence.

Statistics describe and summarize data relating to a 'population', ie a homogeneous set of items with variable individual values. This involves measuring frequencies, central tendencies and dispersion. Statistics can also measure the relationships between variables (correlation and regression), establish the relation between cause and effect (causality), assess the degree of confidence that can be attached to conclusions (tests of significance) and test hypotheses (the chi-squared test and null-hypothesis testing). Statistics can be expressed in tabular form or graphically using data visualization techniques. A wide variety of software is available to conduct the more sophisticated analyses. HR professionals do not need advanced statistical skills unless they are conducting or taking part in detailed research projects. This chapter describes the statistics or statistical concepts that they are most likely to use or should be familiar with, namely, those concerned with frequency, measures of central tendency, dispersion, correlation, regression, causality, tests of significance and testing hypotheses.

### Frequency

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Frequency is the number of times individual items in a population or set occur. It is represented in frequency distributions. Commonly used graphs (data visualizations) are illustrated in Figure 61.1.

### Measures of central tendency

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Measures of central tendency identify the middle or centre of a set of data. There are three types:

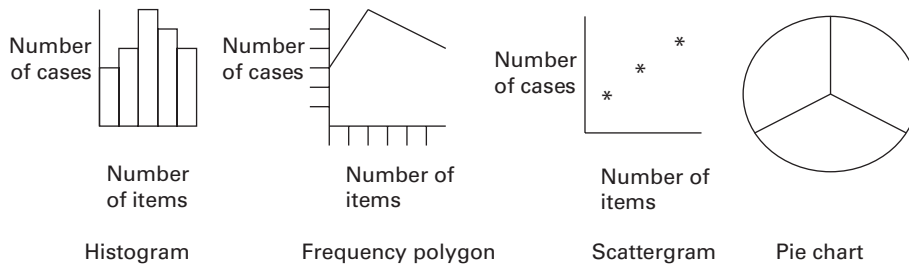
- Arithmetic average or mean – the total of items or scores in a set divided by the number of individual items in the set. It may give a distorted picture because of large items at either end of the scale.
- Median – the middle item in a range of items (often used in pay surveys when the arithmetic mean is likely to be distorted).
- Mode – the most commonly occurring item in a set of data.

### Measures of dispersion

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It is often useful to measure the extent to which the items in a set are dispersed or spread over a range of data. This can be done in five ways:

- 1 By identifying the upper quartile or lower quartile of a range of data. The strict definition of an upper quartile is that it is the value which 25 per cent of the values in the

**FIGURE 61.1** Examples of charts

distribution exceed, and the lower quartile is the value below which 25 per cent of the values in a distribution occur. More loosely, especially when looking at pay distributions, the upper and lower quartiles are treated as ranges rather than points in a scale and represent the top and the bottom 25 per cent of the distribution respectively.

- 2 By presenting the total range of values from top to bottom; this may be misleading if there are exceptional items at either end.
- 3 By calculating the inter-quartile range, which is the range between the value of the upper quartile and that of the lower quartile. This can present more revealing information of the distribution than the total range.
- 4 By calculating the standard deviation, which is used to indicate the extent to which the items or values in a distribution are grouped together or dispersed in a normal distribution, ie one that is reasonably symmetrical around its average. As a rule of thumb, two-thirds of the distribution will be less than one standard deviation from the mean, 95 per cent of the distribution will be less than two standard deviations from the mean, and less than 1 per cent of the distribution will be more than three standard deviations from the mean.
- 5 By calculating variance, which is the square of a standard deviation.

## Correlation

Correlation represents the relationship between two variables. A 'dependent variable' (sometimes called the 'outcome variable') is one that may be

affected by changes in an 'independent variable' (sometimes called the 'predictor variable'). If they are highly correlated they are strongly connected to one another, and vice versa. In statistics, correlation is measured by the coefficient of correlation, which varies between -1 and +1 to indicate totally negative and totally positive correlations respectively. A correlation of zero means that there is no relationship between the variables. Establishing the extent to which variables are correlated is an important feature of HRM research in, for example, assessing the degree to which a performance management system improves organizational performance. But correlations do not indicate causal relationships. Multiple correlation looks at the relationship between more than two variables.

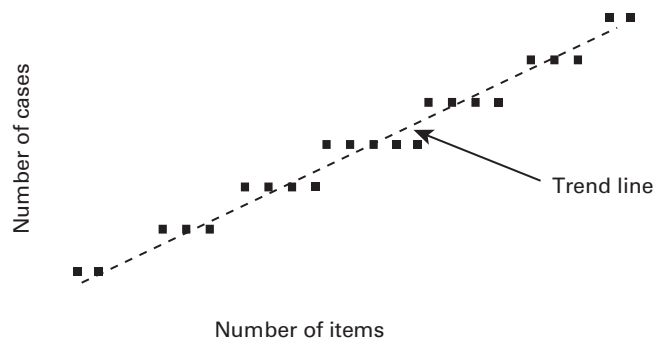
## Regression

Regression is another way of looking at the relationship between independent and dependent variables. It expresses how changes in levels of one item relate to changes in levels of another. The levels may be expressed in the form of correlations. A regression line (a trend line or line of best fit) can be traced on a scattergram expressing values of one variable on one axis and values of the other variable on another axis, as shown in Figure 61.2.

A trend line like this can be drawn by hand as a line of best fit, but it can be calculated mathematically with greater accuracy. The distances of points from the trend line (the residuals) can be calculated as a check on the reliability of the line.

Where there are two or more independent variables that might affect the dependent variable, multiple regression analysis is used. If there are two or more dependent variables as well as two or more independent variables, multivariate analysis is used.



**FIGURE 61.2** A scattergram with regression (trend) line

Confusingly, the term multivariate analysis is sometimes used instead of multiple regression analysis, for example by the CIPD (2018). However, Edwards and Edwards (2016) only use the term multiple regression analysis.

Multiple regression analysis involves complex calculations and is best conducted with the aid of software such as SPSS as recommended by Edwards and Edwards.

## Causality

Causality is the representation of cause and effect, ie the link between independent and dependent variables. To establish causality is to explain how one thing leads to another. Causality is a major issue in research, especially in the HRM field. It may be relatively easy to establish correlations in the shape of a demonstration that X is associated with Y; it is much more difficult and sometimes impossible to prove that X causes Y. There are a number of reasons for this, of which the two set out below are the most important.

First, complications arise because of the phenomenon of multiple causation. There may be a number of factors contributing to a result. Researchers pursuing the holy grail of trying to establish what HRM contributes to an organization's performance are usually confronted with a number of reasons why an organization has done well in addition to adopting 'best practice' HRM,

whatever that is. Statistical techniques can be used to 'control' some variables, ie eliminate them from the analysis, but it is difficult if not impossible to ensure that HRM practices have been completely isolated and that their direct impact on the organization's performance has been measured. Multivariate analysis is used where there is more than one dependent variable and where the dependent variables cannot be combined.

Second, there is the phenomenon of reverse causation, when a cause may be pre-dated by an effect – A might have caused B but alternatively, B might have come first and be responsible for A. For example, it is possible to demonstrate that organizations with effective performance management schemes do better than those without. But it might equally be the case that it is high-performing organizations that introduce effective performance management. It can be hard to be certain.

## Tests of significance

Significance as a statistical concept refers to the degree to which an event could have occurred by chance. At the heart of statistical science lies a simple idea, which is that the chance or probability of various patterns of events can be predicted. When a particular pattern is observed it is possible to work out what the chances of its occurrence may be, given our existing state of knowledge or by making certain assumptions. If something has been observed

that is unlikely to have occurred by chance, this occurrence can be accepted as significant. The problem is that any attempt to reach general conclusions may have to rely on fragmentary data. It is usually necessary to rely on samples of the population being studied and all sampling is subject to experimental error – the result can only be expressed in terms of probability and confidence limits will have to be placed on it. These can be calculated in terms of the standard error that might be expected from a sample. A standard error is the estimated standard deviation of a sample mean from a true mean. This implies that on approximately 95 per cent of occasions the estimate of the mean provided by the sample will be within two standard errors of the true mean.

## Testing hypotheses

The *chi-squared test* uses a statistical formula to assess the degree of agreement between the data actually obtained and that expected under a particular hypothesis.

A *null hypothesis* is a method of testing a hypothesis frequently used by researchers in which it is assumed that there is no relationship between two or more variables. It asks the question: ‘Could the hypothetical relationship have been caused by chance?’ If the answer is ‘no’, then the hypothesis is worth pursuing. However, it does not prove that the hypothesis is correct; it only indicates that something is worth further investigation. It can be associated with the chi-squared test.

### Key learning points

#### Use of statistics

Statistics are used to describe and summarize data relating to a ‘population’, ie a homogeneous set of items with variable individual values. This involves measuring frequencies, central tendencies and dispersion.

They are also used to measure the relationships between variables (correlation and regression), to establish the relation between cause and effect (causality), to assess the degree of confidence that can be attached to conclusions (tests of significance) and to test hypotheses (the chi-squared test and null-hypothesis testing).

Statistics are used extensively in HRM to analyse and present quantitative information that can be used to guide decisions and monitor outcomes.

#### Measures of central tendency

Measures of central tendency identify the middle or centre of a set of data. There are three types: arithmetic average or mean, median, and mode.

#### Measures of dispersion

It is useful to measure the extent to which the items in a set are dispersed or spread over a range of data.

#### Correlation

Correlation represents the relationship between two variables. If they are highly correlated they are strongly connected to one another, and vice versa.

#### Regression

Regression is another way of looking at the relationship between variables. It expresses how changes in levels of one item relate to changes in levels of another.

#### Causality

Determining the link between independent and dependent variables (cause and effect) – is a major issue in research, especially in the HRM field. It may be relatively easy to establish correlations in the shape of a demonstration that X is associated with Y; it is much more difficult and sometimes impossible to prove that X causes Y.

#### Tests of significance

Significance as a statistical concept refers to the degree to which an event could have occurred by chance.

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# 62

## Selection interviewing skills

### Introduction

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The purpose of a selection interview is to establish the extent to which candidates have the types and levels of skill, knowledge and abilities required to carry out a job. In this chapter the process of preparing for an interview is examined initially and the skills required to conduct an interview are then reviewed. Next, what is generally regarded as the best method of selection interviewing – the structured interview – and the approaches that can be adopted to structuring it are examined. The chapter ends with suggestions on how a conclusion following an interview should be reached.

### Preparing for the interview

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The steps required to prepare for an interview are:

- 1 Read the job description and then the person specification setting out the knowledge, skills and abilities (KSAs), qualifications and experience required to carry out the work description.
- 2 Ensure that candidates have information about the job in advance (you don't want to waste time going through this during an interview).
- 3 Read the candidates' CVs and, if available, their application forms or letters and refer to any other information about them obtained from social media.
- 4 Decide on the type of interview you will use. The best approach is a structured interview as described later.
- 5 Decide on the questions to be asked in a structured interview. These can be behavioural event, situation-based or strength-based, or a combination of these as also described below.
- 6 Decide how candidates will be assessed – in a structured interview this can mean rating the answers and producing an overall score.
- 7 Plan the interview, which will consist of three parts: (a) the opening where the candidate is welcomed and put at ease; (b) the middle in which a pre-planned sequence of questions is put to the candidate; and (c) the end in which the candidate can ask questions and is informed about the next steps, eg that if a provisional offer is accepted, references will be taken up with the candidate's existing employer.

### Selection interviewing skills

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An interview is a conversation with a purpose. It is a conversation because candidates should be given the opportunity to talk freely about their careers and experience. But the conversation has to be planned, directed and controlled to achieve your aims in the time available. Overall, an effective approach to interviewing can be summed up as the three Cs:

- *Content* – the information you want and the questions you ask to get it.
- *Contact* – your ability to make and maintain good contact with candidates; to establish the sort of rapport that will encourage them to talk freely, thus revealing their strengths and their weaknesses.

- **Control** – your ability to control the interview so that you get the information you want.

This involves using the following interviewing skills: establishing rapport, questioning, listening, maintaining continuity, keeping control and note taking.

## **Establishing rapport**

Establishing rapport means establishing a good relationship with candidates – getting on their wavelength, putting them at ease, encouraging them to respond and generally being friendly. This is not just a question of being ‘nice’ to them. If you achieve rapport you are more likely to get them to talk freely about both their strengths and weaknesses.

Good rapport is created by the way in which you greet candidates, how you start the interview and how you put your questions and respond to replies. Questions should not be posed aggressively or imply that you are criticizing some aspect of the candidate’s career. Some people like the idea of ‘stress’ interviews but they are counterproductive. Candidates clam up and gain a negative impression of you and the organization.

When responding to answers you should be appreciative, not critical: ‘Thank you, that was very helpful; now can we go on to?’ not, ‘Well, it seems to me that things did not go according to plan.’

Body language can also be important. If you maintain natural eye contact, avoid slumping in your seat, nod and make encouraging comments when appropriate, you will establish better rapport and get more out of the interview.

## **Questioning**

Questioning is the key skill interviewers need to possess. Their purpose is to draw candidates out and elicit the information the interviewer has decided must be obtained to reach a conclusion. To this end it is desirable to ask open-ended questions – questions that cannot be answered by ‘yes’ or ‘no’ and which promote a full response.

In a structured interview – the most effective type of interview – questions are determined in advance. These can cover the capability of candidates as revealed by their experience. Behavioural event, situation-based or strength-based questions or a

combination of these can also be used as described later in this chapter. Biased questions referring to gender, race, sexual orientation, disability or age should be avoided.

## **Listening**

If an interview is a conversation with a purpose, listening skills are important. You need not only to hear but also to understand what candidates are saying. When interviewing you must concentrate on what candidates are telling you. Summarizing at regular intervals forces you to listen because you have to pay attention to what they have been saying in order to get the gist of their replies. If you play back to candidates your understanding of what they have told you for them to confirm or amend, it will ensure that you have fully comprehended the messages they are delivering.

## **Maintaining continuity**

So far as possible link your questions to a candidate’s last reply so that the interview progresses logically and a cumulative set of data is built up. You can put bridging questions to candidates such as: ‘Thank you, that was an interesting summary of what you have been doing in this aspect of your work. Now, could you tell me something about your other key responsibilities?’

## **Keeping control**

You want candidates to talk, but not too much. When preparing for the interview you should have drawn up an agenda and you must try to stick to it. Don’t cut candidates short too brutally but say something like: ‘Thank you, I’ve got a good picture of that, now what about...?’

Focus on specifics as much as you can. If candidates ramble on a bit, ask a pointed question (a ‘probe’ question) that asks for an example illustrating the particular aspect of their work that you are considering.

## **Note taking**

You won’t remember everything that candidates tell you. It is useful to take notes of the key points they make, discreetly, but not surreptitiously. However,

don't put candidates off by frowning or tut-tutting when you are making a negative note. It may be helpful to ask candidates if they would mind if you take notes. They can't really object, but will appreciate the fact that they have been asked.

## Structured interviews

Structured interviews are based on a set of predetermined questions. They are sometimes called competency-based interviews because they focus on the competencies (knowledge, skills and abilities) required to do the job. All candidates are asked the same questions and the answers may be scored through a rating system. Research quoted in Chapter 28 has shown that such interviews are the most effective predictors of performance.

### Words of wisdom

Each interview question should have a point. It ought to be able to assess some work-relevant ability or behaviour. As such, it should be easy for interviewers to specify beforehand what a good answer might look like. Actual responses should be scored against these criteria. These scores should then be averaged to establish some numerical assessment of interview performance. If you are concerned that the scored questions seem to omit an intuitive holistic assessment of the candidate, then you can consider adding a final holistic assessment, and this can be averaged in with the scores for the specific interview questions.

Moore (2017: 16)

The questions in structured interviews should be planned in advance. The most useful types as described below are capability questions, behavioural event questions, situation-based questions and strength-based questions. Select a number of key questions (no more than 10 or so) as the basis for assessment but it may be helpful to identify additional supplementary questions that can be used if required.

### Capability questions

Capability questions establish what candidates are capable of doing, what they know and the skills they possess. Their purpose is to obtain evidence from candidates that shows the extent to which they meet the specification in each of its key areas. Because time is always limited it is best to concentrate on the most important aspects of the work, and it is always best to prepare the questions in advance. Here are some examples:

- Tell me about the most important things you are doing in your present job?
- What do you think has been your greatest achievement in your career to date?
- What experience have you had in...?
- You've informed me that you have had experience in... Could you tell me more about what you did?
- What sort of targets have you been expected to achieve?
- How successful have you been in achieving those targets or standards? Please give examples.
- In what ways do you think your experience fits you to do this job?
- What have been the most challenging aspects of your job?
- Could you give an example of any project you have undertaken?
- What was your role in this project?
- What was the contribution you made to its success?

- What knowledge and skills were you able to apply to the project?
- Were you responsible for monitoring progress?
- Did you prepare the final recommendations in full or in part?
- Could you describe in more detail the equipment you used?
- How would you improve the quality of teamwork in a group?
- What do you think is the best way to motivate people?
- What is your approach to reviewing the performance of members of your team?
- What part have you played in coaching members of your team?

### **Behavioural event questions**

Behavioural event questions ask candidates to describe how they behaved in a situation or an experience they had in their present or a previous job. Questions present a situation, inquire about what action the candidate has taken to deal with something similar and ask what the result was. For example:

- Could you tell me about a recent achievement of which you are particularly proud?
- Could you give me an example of when you had to deal with a difficult situation with a colleague?
- Could you give an instance of when you persuaded others to take an unusual course of action?
- Could you describe an occasion when you completed a project or task in the face of great difficulties?
- Could you describe any contribution you have made as a member of a team in achieving a highly successful result?
- Could you give an instance of when you took the lead in a difficult situation in getting something worthwhile done?
- Could you give an example of when you successfully introduced an innovation at work?

- Could you describe a situation in which you had to convince others to do something they weren't particularly keen on?
- Could you tell me about a difficult situation with a member of your staff which you have handled particularly well?

### **Situation-based questions**

Situation-based questions are hypothetical questions that describe a situation to candidates who are asked how they would deal with it. Questions can test how candidates would approach a typical problem or issue they might meet in the job for which they are being considered and are critical to successful job performance. The assumption upon which such questions are based is that the ways in which people describe how they would behave in dealing with or reacting to events is a good predictor of future behaviour. Situational questions typically take the form: 'What would you do if...?' Examples of situational questions are:

- What would you do if you were asked to perform a task you've never done before?
- What would you do if you were told by your boss to do something which you thought was unethical?
- What would you do if you made a mistake that no one else noticed?
- What would you do if an angry and dissatisfied customer or colleague confronted you? How would you resolve their concern?
- What would you do if someone rudely disagreed with you during a meeting?
- What approach would you adopt to persuading someone to take a course of action which they are not very keen to do?
- What do you do at a meeting when you are asked a question that you are unable to answer?
- What do you think the qualities of a good leader are?
- What would you do if a member of your team refused to carry out what you considered to be a reasonable request?
- How would you deal with a subordinate whose performance is good but is persistently late coming to work?



- What would you do about your team if its members were not working well together?
- How would you motivate someone who wasn't pulling their weight?

Situation-based questions can be illuminating. But what candidates say they would do and what they actually do could be quite different. Hypothetical questions can produce hypothetical answers. The best data upon which judgements about candidates can be made is what they have actually done or achieved. You need to find out if they have successfully dealt with the sorts of issues and problems they may be faced with if they join your organization. This is the function of capability and behavioural event questions.

### **Strength-based interview questions**

Strength-based questions focus on what people are good at. They are particularly suitable when interviewing graduates, school leavers or students who have had little relevant work experience.

- What are you good at doing?
- What comes easily to you?
- What do you learn quickly?
- What did you find easiest to learn at school or university?
- What subjects did you most enjoy studying?
- What things give you energy?
- Describe a successful day you have had.
- When did you achieve something you were really proud of?

## **Coming to a conclusion**

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It is essential not to be beguiled by a pleasant, articulate and confident interviewee who is all surface and no substance. Beware of the 'halo' effect, which occurs when one or two good points are seized upon, leading to the neglect of negative indicators. The opposite 'horns' effect of focusing on the negatives should also be avoided.

Individual candidates can be assessed on the basis of the answers they have given to the structured questions. The answers could be scored on a scale of, say, 1 to 10. These assessments can inform an overall assessment of knowledge and skills and abilities. Any clearly unsuitable candidate could be rejected at this stage.

Next, compare the assessment of each of the remaining potentially successful candidates against one another to reach a conclusion on the preferred candidate. You can then make a conclusion on those preferred by reference to their assessments under each heading.

In the end, the decision between qualified candidates could well be judgemental. There may be one suitable candidate but there could be two or three (although sometimes there may be none at all). Where there is a choice, a balanced view has to be reached by reference to interview notes and ratings. Don't, however, settle for second best in desperation. It is better to try again.

A record of the reasons for the choice and why candidates have been rejected should be kept for at least six months in case the decision is challenged as being discriminatory. An example of an interview rating form is given in Figure 62.1.

**FIGURE 62.1** Example of an interview rating form

Area	Assessment				Comments
	Very acceptable	Acceptable	Marginally acceptable	Unacceptable	
Experience					
Knowledge and skills					
Competencies					
Education and qualifications					
Training					
Overall suitability					

## Dos and don'ts of selection interviewing

**TABLE 62.1** Dos and don'ts of selection interviewing

Do	Don't
<ul style="list-style-type: none"> <li>• Plan the interview.</li> <li>• Give yourself sufficient time.</li> <li>• Use a structured interview approach.</li> <li>• Create the right atmosphere.</li> <li>• Establish an easy and informal relationship – start with an undemanding question.</li> <li>• Encourage the candidate to talk.</li> <li>• Cover the ground as planned, ensuring that you complete a prepared agenda and maintain continuity.</li> <li>• Analyse the candidate's career to reveal strengths, weaknesses and patterns of interest.</li> <li>• Make use of open questions which invite people to talk.</li> <li>• Ensure that questions are clear and unambiguous.</li> <li>• Get examples and instances of the successful application of knowledge, skills and the effective use of capabilities.</li> <li>• Make judgements on the basis of the factual information you have obtained about candidates' experience and attributes in relation to the person specification.</li> <li>• Keep control over the content and timing of the interview.</li> </ul>	<ul style="list-style-type: none"> <li>• Start the interview unprepared.</li> <li>• Plunge too quickly into demanding questions.</li> <li>• Ask multiple or leading questions.</li> <li>• Pay too much attention to isolated strengths or weaknesses.</li> <li>• Allow candidates to gloss over important facts.</li> <li>• Talk too much or allow candidates to ramble on.</li> <li>• Allow your prejudices to get the better of your capacity to make objective judgements.</li> <li>• Fall into the halo effect trap, ie drawing conclusions about a person on the basis of one or two good points, leading to the neglect of negative indicators. Or into the horns trap – focusing too much on one or two weak points.</li> <li>• Ask questions or make remarks that could be construed as in any way discriminatory.</li> <li>• Attempt too many interviews in a row.</li> </ul>

## Key learning points

### Purpose of an interview

The purpose of a selection interview is to establish the extent to which a candidate will be able to do the job. This means finding out how well a candidate's levels of skill, knowledge, abilities and competency fit a person specification for the job that sets out these requirements.

### Preparing for the interview

The steps required to prepare for an interview are:

- 1 Read the job description and person specification.
- 2 Ensure that candidates have information about the job in advance.
- 3 Read the candidates' CVs and any other information about them.
- 4 Decide on the type of interview you will use. The best approach is a structured interview.
- 5 Decide on the questions to be asked in a structured interview.
- 6 Decide how candidates will be assessed.
- 7 Plan the interview.

### Nature of an interview

An interview is a conversation with a purpose. It is a conversation because candidates should be given the opportunity to talk freely about themselves and their careers. But the conversation has to be planned, directed and controlled to achieve your aims in the time available.

### Interviewing skills

- Questioning is the key skill interviewers need to possess. Their purpose is to draw candidates out and elicit the information the interviewer has decided must be obtained to reach a conclusion.
- If an interview is a conversation with a purpose, listening skills are important. You need not only to hear but also to understand what candidates are saying. When interviewing you must concentrate on what candidates are telling you.
- So far as possible link your questions to a candidate's last reply so that the interview progresses logically and a cumulative set of data is built up.
- You want candidates to talk, but not too much.
- It is useful to take notes of the key points they make, discreetly, but not surreptitiously.

### Structuring the interview

A structured interview is one based on a defined framework within which there is a set of predetermined questions. All candidates are asked the same questions and the answers may be scored through a rating system. The types of questions asked in a structured interview are:

- capability;
- behavioural event;
- situation-based;
- strength-based.

### Coming to a conclusion

Candidates can be assessed on the basis of the answers they have given to the structured questions.

- Establishing rapport – creating a good relationship with candidates – getting on their wavelength, putting them at ease, encouraging them to respond and generally being friendly.

## Reference

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Moore, D A (2017) How to improve the accuracy and reduce the cost of personnel selection, *California Management Review*, 60 (1), pp 8–17

# 63

# Job, role, competency and skills analysis

## Introduction

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The analysis of jobs, roles, and skills and competency modelling are some of the key techniques in human resource management. They provide the information required to produce job descriptions, role profiles, and person and learning specifications. They are of fundamental importance in organization and job design, recruitment and selection, performance management, learning and development, management development, career management, job evaluation and the design of grade and pay structures. These constitute most of the key HRM activities.

This chapter starts with definitions of the terms used in job and role analysis and then deals with the skills required to analyse jobs, roles and skills in order to produce job descriptions and role profiles, and to model competencies to produce competency frameworks.

## Definitions

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### *Jobs and roles*

The terms 'job' and 'role' are often used interchangeably, but they are different. A *job* is an organizational unit consisting of a group of defined tasks or activities to be carried out or duties to be performed. A *role* is the part people play in their work – the emphasis is on the expected patterns of behaviour to achieve agreed outcomes. Roles are about people. Jobs are about tasks and duties.

### *Job description*

A job description defines what job holders are required to do in terms of activities, duties or tasks. It is prescriptive and inflexible, giving people the opportunity to say: 'It's not in my job description', meaning that they only need to do the tasks listed there. A job description is more concerned with tasks than outcomes, and with the duties to be performed than the competencies required to perform them (technical competencies covering knowledge and skills, and behavioural competencies).

### *Job analysis*

Job analysis is the process of collecting, analysing and setting out information about jobs in order to provide the basis for a job description and data for recruitment, training, job evaluation and performance management. Job analysis concentrates on what job holders do and achieve. It identifies the tasks job holders undertake and the outcomes and outputs they are expected to produce. Outcomes are the results of performance expressed as something that has been attained, such as a task or a project. Outputs are the results of performance expressed in quantified terms such as sales volume, income generated or units of production.

### *Role profile*

A role profile defines key result areas, accountabilities and competencies for an individual role. It concentrates on outcomes rather than duties and

therefore provides better guidance than a job description on expectations. It does not constrain people by prescribing their tasks. Outcomes may be expressed as ‘key result areas’ – elements of the role for which clear outputs and standards can be defined, each of which makes a significant contribution to achieving its overall purpose. Alternatively, they may be termed ‘accountabilities’ – areas of the role for which role holders are responsible in the form of being held to account for what they do and what they achieve.

A role profile does not prescribe in detail what has to be done to achieve the required outcomes. It therefore allows for greater flexibility than a job description and is more easily updated to reflect changing demands.

Role profiles are person-oriented. A role can be described in behavioural terms – given certain expectations, this is how the person needs to behave to meet them. Because it identifies knowledge, skill and competency requirements it also provides a better basis for recruitment and selection, performance management and learning and development purposes.

### **Accountability profile**

An accountability profile is a type of role profile that focuses on what role holders will be held to account for in terms of what they do and what they achieve. It may be set out as a list of main accountabilities.

### **Generic role**

A generic role is a role in which essentially similar activities are carried out by a number of people, for example a team leader or a call centre agent. In effect, it covers an occupation rather than a single role. It is described in a generic role profile.

### **Learning specification**

A learning specification defines the knowledge and skills needed to achieve an acceptable level of performance. It is used as the basis for devising learning and development programmes. Learning specifications may be drawn up on the basis of competency and skills analysis.

### **Person specification**

A person specification, also known as a job or role specification, defines the knowledge, skills and abilities (KSAs) required to carry out a role and the education, training, qualifications and experience needed to acquire the necessary KSAs. It may also refer specifically to the competencies required for effective job performance

### **Role analysis**

Role analysis finds out what people are expected to achieve when carrying out their work and the competencies and skills required to meet those expectations. Role analysis uses similar techniques to job analysis, although the objective of the analysis will be different.

### **Skills analysis**

Skills analysis determines the skills required to achieve an acceptable level of performance.

### **Competency modelling**

Competency modelling is concerned with behavioural analysis to establish the behavioural dimensions that affect job performance, and functional analysis to determine technical or work-based competencies. Behavioural or personal competencies are the personal characteristics individuals bring to their work roles. Technical or work-based competencies refer to expectations of workplace performance and the standards and outputs that people carrying out specified roles are expected to attain. They are also described as competences.

## **Job analysis**

Job analysis produces the following information about a job:

- *Overall purpose* – why the job exists and, in essence, what the job holder is expected to contribute.
- *Organization* – to whom the job holder reports and who reports to the job holder.

- *Content* – the nature and scope of the job in terms of the tasks and operations to be performed and duties to be carried out.

If the outcome of the job analysis is to be used for job evaluation purposes, the job will also be analysed in terms of the factors or criteria used in the job evaluation scheme.

## Job analysis methodology

The essence of job analysis is the application of systematic methods to the collection of information about job content. It is essentially about data collection and the basic steps are:

- 1 Obtain documents such as existing organization, procedure or training manuals that give information about the job.
- 2 Obtain from managers fundamental information concerning the job.
- 3 Obtain from job holders similar information about their jobs.

There are a number of job analysis techniques used for data collection as described below.

## Interviews

The full flavour of a job is best obtained by interviewing job holders and checking findings with their managers or team leaders. The aim of the interview should be to obtain the relevant facts about the job, namely the job title, organizational details (reporting relationships as described in an organization chart) and a list of the tasks or duties performed by the job holder. The interview should also establish outcomes and outputs.

For recruitment, training or job evaluation purposes these basic details can be supplemented by questions designed to elicit from the job holders more information about the level of their responsibilities and the demands made upon them by the job. These can cover the amount of supervision received, the degree of discretion allowed in making decisions, the typical problems to be solved, the amount of guidance available when solving the problems, the relative difficulty of the tasks to be performed and the qualifications and skills required to carry out the work. The following are the steps required to conduct a job analysis interview:

- 1 Work to a logical sequence of questions that help interviewees to order their thoughts about the job.
- 2 Probe as necessary to establish what people really do in terms of outputs and outcomes – answers to questions are often vague and information may be given by means of untypical instances.
- 3 Ensure that job holders are not allowed to get away with vague or inflated descriptions of their work – if, for example, the interview is part of a job evaluation exercise, they would not be human if they did not present the job in the best possible light.
- 4 Sort out the wheat from the chaff; answers to questions may produce a lot of irrelevant data that must be sifted before preparing the job description.
- 5 Obtain a clear statement from job holders about their authority to make decisions and the amount of guidance they receive from their manager or team leader. This is not easy: if asked what decisions they are authorized to make, most people look blank because they think about their job in terms of duties and tasks rather than abstract decisions.
- 6 Avoid asking leading questions that make the expected answer obvious.
- 7 Allow the job holder ample opportunity to talk by creating an atmosphere of trust.

It is helpful to use a checklist when conducting the interview. Elaborate checklists are not necessary; they only confuse people. The basic questions to be answered are as follows:

- What is the title of your job?
- To whom are you responsible?
- Who is responsible to you? An organization chart is helpful.
- What is the main purpose of your job in overall terms, ie what are you expected to do?
- What are the key activities you have to carry out in your role? Try to group them under no more than 10 headings.
- What are the results you are expected to achieve in each of those key activities?



- What are you expected to know to be able to carry out your job?
- What skills should you have to carry out your job?

The answers to these questions may need to be sorted out – they can often result in a mass of jumbled information that has to be analysed so that the various activities can be distinguished and refined to seven or eight key areas.

The advantages of the interviewing method are that it is flexible, can provide in-depth information and is easy to organize and prepare. It is therefore the most common approach. But interviewing can be time-consuming, which is why in large job analysis exercises, questionnaires may be used to provide advance information about the job. This speeds up the interviewing process or even replaces the interview altogether, although this means that much of the ‘flavour’ of the job – ie what it is really like – may be lost.

## Questionnaires

Questionnaires about their roles can be completed by role holders and approved by the role holder’s manager or team leader. They are helpful when a large number of roles have to be covered. They can also save interviewing time by recording purely factual information and by enabling the analyst to structure questions in advance to cover areas that need to be explored in greater depth. The simpler the questionnaire the better: it need only cover the eight questions listed above.

The advantage of questionnaires is that they can produce information quickly and cheaply for a large number of jobs. But a substantial sample is needed and the construction of a questionnaire is a skilled job, which should only be carried out on the basis of some preliminary fieldwork. It is highly advisable to pilot test questionnaires before launching into a full-scale exercise. The accuracy of the results also depends on the willingness and ability of job holders to complete questionnaires. Many people find it difficult to express themselves in writing about their work.

## Observation

Observation means studying role holders at work, noting what they do, how they do it, and how much time it takes. This method is most appropriate for

routine administrative or manual roles but it is seldom used because of the time it takes.

## Job descriptions

Job descriptions should be based on the job analysis and should be as brief and factual as possible. The headings under which the job description should be written and notes for guidance on completing each section are set out below.

### *Job title*

The existing or proposed job title should indicate as clearly as possible the function in which the job is carried out and the level of the job within that function. The use of terms such as ‘manager’, ‘assistant manager’ or ‘senior’ to describe job levels should be reasonably consistent between functions with regard to grading of the jobs.

### *Reporting to*

The job title of the manager or team leader to whom the job holder is directly responsible should be given under this heading. No attempt should be made to indicate here any functional relationships the job holder might have to other people.

### *Reporting to job holder*

The job titles of all the posts directly reporting to the job holder should be given under this heading. Again, no attempt should be made here to indicate any functional relationships that might exist between the job holder and other employees.

### *Overall purpose*

This section should describe as concisely as possible the overall purpose of the job. The aim should be to convey in one sentence a broad picture of the job that will clearly distinguish it from other jobs and establish the role of job holders and the contribution they should make towards achieving the objectives of the company and their own function or unit. No attempt should be made to describe the activities carried out under this heading, but the

overall summary should lead naturally to the analysis of activities in the next section. When preparing the job description, it is often best to defer writing down the definition of overall responsibilities until the activities have been analysed and described.

### **Main activities, tasks or duties**

The following method of describing activities, tasks or duties should be adopted:

- 1 Group the various activities identified by the job analysis together so that no more than seven or eight areas remain. If the number is extended much beyond that, the job description will become over-complex and it will be difficult to be specific about tasks or duties.
- 2 Define each activity in one sentence, starting with a verb in the active voice, to provide a positive indication of what has to be done and eliminate unnecessary wording. Examples are: plan, prepare, produce, implement, process, provide, schedule, complete, dispatch, maintain, liaise with, and collaborate with.
- 3 Describe what is done as succinctly as possible, for example: test new systems, post cash to the nominal and sales ledgers, dispatch packed output to the warehouse, schedule production, ensure that management accounts are produced, prepare marketing plans.
- 4 State briefly the purpose of the activity in terms of outcomes, outputs or standards to be achieved. For example: test new systems to ensure they meet agreed systems specifications; post cash to the nominal and sales ledgers in order to provide up-to-date and accurate financial information; dispatch to the warehouse planned output so that all items are removed by carriers on the same day they are packed; schedule production to meet laid-down output and delivery targets; ensure that management accounts are produced that provide the required level of information to management and individual

managers on financial performance against budget and on any variances; prepare marketing plans that support the achievement of the marketing strategies of the enterprise, are realistic, and provide clear guidance on the actions to be taken by the development, production, marketing and sales departments; plan and implement sales campaigns to meet sales targets.

An example of a job description is given in Figure 63.1.

## **Role analysis and role profiles**

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Role analysis uses the same techniques as job analysis but the focus is on identifying inputs – KSAs (knowledge, skill and abilities) and competency requirements – and outcomes – key result areas or accountabilities – rather than simply listing the tasks to be carried out. A role profile is initially set out under the same headings as a job description, ie role title, responsible to, responsible to role holder and the purpose of the role, but it then focuses on the following aspects of the role.

### **Key result areas**

A key result area is an element of a role for which clear outputs and outcomes can be defined, each of which makes a significant contribution to achieving the overall purpose of the role. It may be described as an ‘accountability’ – an aspect of the role for which the role holder is responsible (held to account for).

The number of key result areas is unlikely to be more than seven or eight, certainly not more than 10. The basic structure of a key result area definition should resemble that of a job description task definition, ie it should be expressed in one sentence starting with an active verb. However, the content of the definition should focus more on the specific purpose of the activity in terms of outputs or standards to be achieved than on describing in detail the duties involved.

**FIGURE 63.1** Example of a job description

### **Knowledge, skills and abilities required**

Knowledge, skills and abilities should be expressed in terms of ‘need to know’ – the required knowledge of techniques, processes, procedures, systems and the business generally (its products or services and its competitors and customers), and ‘need to be able to do’ – the skills required in each area of activity. These are the technical competencies required by the job.

### **Behavioural competencies**

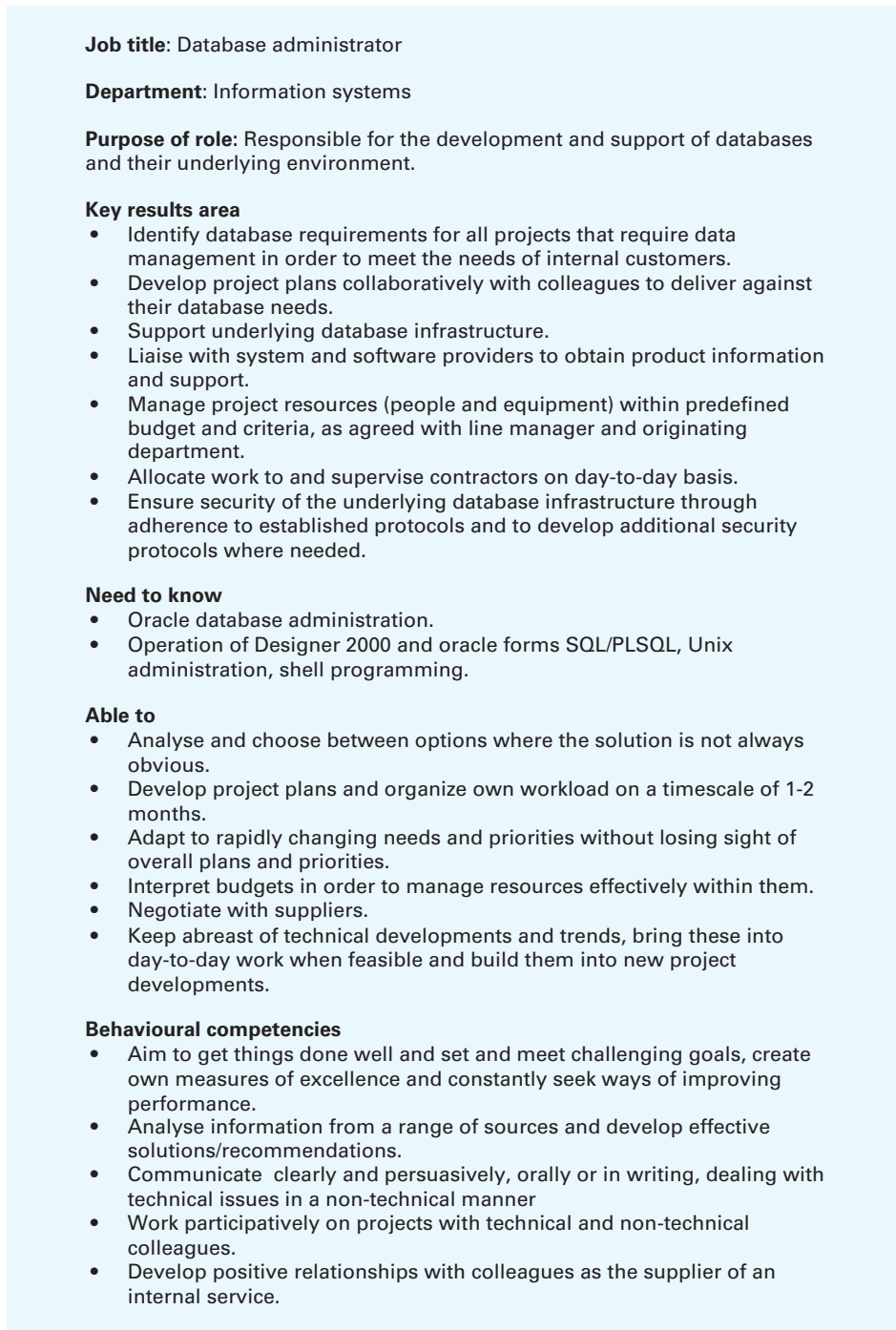
Behavioural competencies describe how the role holder is expected to behave when carrying out the role. They may be linked to the organization’s competency framework and cover such areas as team-working, communication, people management and development, and customer relations. An example of a role profile is given in Figure 63.2.

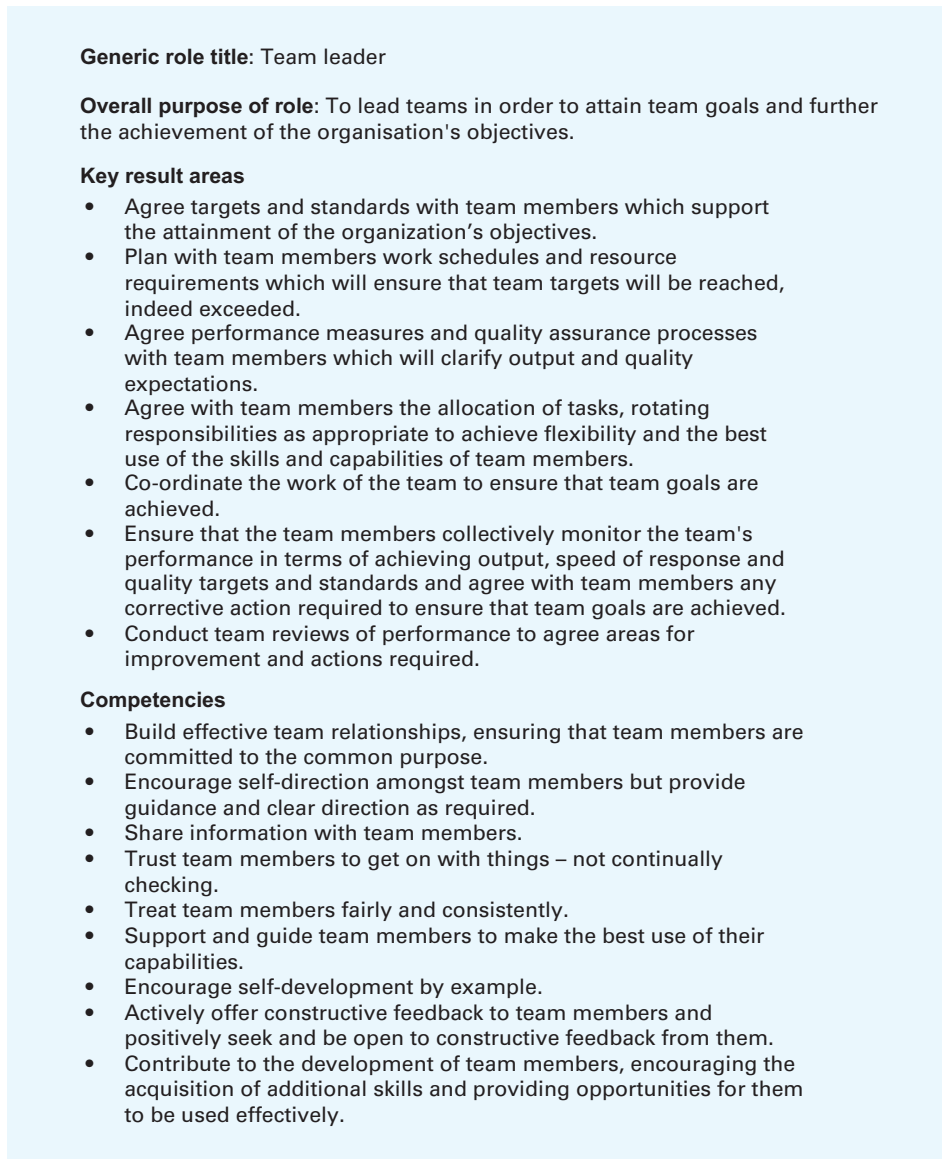
### **Generic role profiles**

Generic role profiles cover occupations rather than individual roles. They tend to be more generalized and may be somewhat simpler than individual role profiles, for example by restricting the profile to lists of key result areas and competency dimensions. An example of a generic role profile is given in Figure 63.3.

### **Skills analysis**

Skills analysis determines the skills required to achieve an acceptable standard of performance. It is mainly used for technical, craft, manual and office jobs to provide the basis for devising learning and training programmes. Skills analysis starts from a broad job analysis but goes into details of not only what job holders have to do but also the particular abilities and skills they need to do it. Skills analysis techniques are described below.

**FIGURE 63.2** Example of a role profile

**FIGURE 63.3** Example of a generic role profile

### **Job breakdown**

The job breakdown technique analyses a job into separate operations, processes, or tasks that can be used as the elements of an instruction sequence. A job breakdown analysis is recorded in a standard format of three columns:

- 1 *The stage column*, in which the different steps in the job are described – most semiskilled jobs can easily be broken down into their constituent parts.
- 2 *The instruction column*, in which a note is made against each step of how the task

should be done. This, in effect, describes what has to be learnt by the trainee.

- 3 *The key points column*, in which any special points such as quality standards or safety instructions are noted against each step so that they can be emphasized to a trainee learning the job.

## Manual skills analysis

Manual skills analysis is a technique developed from work study. It isolates for instructional purposes the skills and knowledge employed by experienced workers in performing tasks that require manual dexterity. It is used to analyse short-cycle, repetitive operations such as assembly tasks and other similar factory work.

The hand, finger and other body movements of experienced operatives are observed and recorded in detail as they carry out their work. The analysis concentrates on the tricky parts of the job which, while presenting no difficulty to the experienced operative, have to be analysed in depth before they can be taught to trainees. Not only are the hand movements recorded, but particulars are also noted of the cues (visual and other senses) that the operative absorbs when performing the tasks. Explanatory comments are added when necessary.

## Task analysis

Task analysis is a systematic analysis of the behaviour required to carry out a task with a view to identifying areas of difficulty and the appropriate training techniques and learning aids necessary for successful instruction. It can be used for all types of jobs but is specifically relevant to administrative tasks.

The analytical approach used in task analysis is similar to those adopted in the job breakdown and manual skills analysis techniques. The results of the analysis are usually recorded in a standard format of four columns, as follows:

- 1 *Task* – a brief description of each element.
- 2 *Level of importance* – the relative significance of each task to the successful performance of the role.
- 3 *Degree of difficulty* – the level of skill or knowledge required to perform each task.

- 4 *Training method* – the instructional techniques, practice and experience required.

## Faults analysis

Faults analysis is the process of analysing the typical faults that occur when performing a task, especially the more costly faults. It is carried out when the incidence of faults is high. A study is made of the job and, by questioning workers and team leaders, the most commonly occurring faults are identified. A faults specification is then produced, which provides trainees with information on what faults can occur, how they can be recognized, what causes them, what effect they have, who is responsible for them, what action the trainees should take when a particular fault occurs, and how a fault can be prevented from recurring.

## Job learning analysis

Job learning analysis, as described by Pearn and Kandola (1993), concentrates on the inputs and process rather than the content of the job. It analyses nine learning skills that contribute to satisfactory performance. A learning skill is one used to increase other skills or knowledge and represents broad categories of job behaviour which need to be learnt. The learning skills are the following:

- physical skills requiring practice and repetition to get right;
- complex procedures or sequences of activity that are memorized or followed with the aid of written material such as manuals;
- non-verbal information such as sight, sound, smell, taste and touch, used to check, assess or discriminate, and which usually takes practice to get right;
- memorizing facts or information;
- ordering, prioritizing and planning, which refer to the degree to which a role holder has any responsibility for and flexibility in determining the way a particular activity is performed;
- looking ahead and anticipating;
- diagnosing, analysing and problem solving, with or without help;

- interpreting or using written manuals and other sources of information such as diagrams or charts;
- adapting to new ideas and systems.

In conducting a job learning analysis interview, the interviewer obtains information on the main aims and principal activities of the job and then, using question cards for each of the nine learning skills, analyses each activity in more depth, recording responses and obtaining as many examples as possible under each heading.

## Competency modelling

As defined by Shippmann *et al* (2000: 727): ‘Competency modelling approaches typically provide descriptions of the individual-level competencies that are core, or common, for an occupational group, entire level of jobs (eg executive, management, supervisory, hourly), or for the organization as a whole. The focus is on broad applicability and leveraging what is in common or universal. Even when the modelling effort targets a narrowly defined job group (eg sales managers), the resulting descriptions are typically at a fairly high level and general in nature.’ Competency modelling is the basis for defining behavioural and technical competencies (see Chapter 16).

### Behavioural competency modelling

Behavioural competency modelling is the method used to identify, analyse and describe behavioural competencies. These define the behaviours that organizations expect their employees to practise in their work in order to reach an acceptable level of performance. They have an important part to play in providing information that contributes to a number of HRM activities, for example, recruitment, learning and development, and performance management. Table 63.1 shows guidance on the criteria for a fully rigorous competency definition produced by Shippmann *et al* (2000).

These are exacting criteria. The emphasis is on the systematic collection and analysis of data. There are five approaches to behavioural competency analysis; in ascending order of complexity these are:

- 1 expert opinion;
- 2 structured interview;

- 3 workshops;
- 4 critical-incident technique;
- 5 repertory grid analysis.

### Expert opinion

The basic, crudest and least satisfactory method is for an ‘expert’ member of the HR department, possibly in discussion with other ‘experts’ from the same department to draw up a list from their own understanding of ‘what counts’, coupled with an analysis of other published lists. This is unsatisfactory because the likelihood of the competencies being appropriate, realistic and measurable in the absence of detailed analysis is fairly remote. The list tends to be bland and, because line managers and job holders have not been involved, unacceptable.

### Structured interview

This method begins with a list of competencies drawn up by ‘experts’ and proceeds by subjecting a number of role holders to a structured interview. The interviewer starts by identifying the key result areas of the role and goes on to analyse the behavioural characteristics that distinguish performers at different levels of competence. The basic question is: ‘What are the positive or negative indicators of behaviour conducive or non-conducive to achieving high levels of performance?’ These may be analysed under headings such as those set out below. Under each heading instances will be sought that illustrate effective or less effective behaviour:

- personal drive (achievement motivation);
- impact on results;
- analytical power;
- strategic thinking;
- creative thinking (ability to innovate);
- decisiveness;
- commercial judgement;
- team management and leadership;
- interpersonal relationships;
- ability to communicate;
- ability to adapt and cope with change and pressure;
- ability to plan and control projects.

One of the problems with this approach is that it relies too much on the ability of the expert to draw



**TABLE 63.1** Criteria for a fully rigorous competency definition

Variable	Conditions required to meet high rigorous criteria
Method of investigation	A logically selected mix of multiple methods is used to obtain information, eg interviews, focus groups, questionnaires.
Type of descriptor content collected	Variable combinations of multiple types of information are collected, eg work activities, KSAs (knowledge, skills and abilities statements) and performance standards.
Procedures for developing descriptors	Information collected from content experts using a structured protocol and a representative sample.
Detail of descriptor content	Use of a number of labels representing discrete categories of content which operationally define each category and leave no room for misinterpretation.
Link to business goals and strategies	Steps taken to ensure that results are aligned with the broader goals and longer-term strategies of the organization.
Content review	Formal review takes place to ensure that: <ul style="list-style-type: none"> <li>• item-level descriptions are clear;</li> <li>• content categories do not overlap, content categories are internally consistent;</li> <li>• items represent measurable content appropriate for the intended application.</li> </ul>
Ranking descriptor content	The set of descriptors are prioritized and ranked.
Assessment of reliability	Content category labels are matched with item-level descriptors and rated according to their relative importance for successful job performance.
Item retention criteria	Multiple, clear, logical criteria are consistently applied to items to determine whether content is retained or deleted.
Documentation	Clear definitions are made of the procedures to be employed in applying the competency framework.

Source Shippmann *et al* (2000)

out information from interviewees. It is also undesirable to use a deductive approach that pre-empts the analysis with a prepared list of competency headings. It is better to do this by means of an inductive approach, which starts from specific types of behaviour and then groups them under competency headings. This can be done in a workshop by analysing positive and negative indicators to gain an understanding of the competence dimensions of an occupation or job, as described below.

## Workshops

Workshops bring a group of people together who have ‘expert’ knowledge or experience of the role – managers and role holders as appropriate – with a facilitator, usually but not necessarily a member of the HR department or an outside consultant.

The members of the workshop begin by getting agreement to the overall purpose of the role and its key result areas. They then develop examples of effective and less effective behaviour for each area,

which are recorded on flipcharts. For example, one of the key result areas for a divisional HR director might be workforce planning, defined as:

Prepares forecasts of human resource requirements and plans for the acquisition, retention and effective utilization of employees, which ensure that the company's needs for people are met.

The positive indicators for this competency area could include:

- seeks involvement in business strategy formulation;
- contributes to business planning by taking a strategic view of longer-term human resource issues that are likely to affect business strategy;
- networks with senior management colleagues to understand and respond to the human resource planning issues they raise;
- suggests practical ways to improve the use of human resources, for example, the introduction of annual hours.

Negative indicators could include:

- takes a narrow view of HR planning – does not seem to be interested in or understand the wider business context;
- lacks the determination to overcome problems and deliver forecasts;
- fails to anticipate skills shortages; for example, unable to meet the multi-skilling requirements implicit in the new computer-integrated manufacturing system;
- does not seem to talk the same language as line management colleagues – fails to understand their requirements;
- slow in responding to requests for help.

When the positive and negative indicators have been agreed, the next step is to distil the competency dimensions that can be inferred from the lists. In this example they could be:

- strategic capability;
- business understanding;
- achievement motivation;
- interpersonal skills;
- communication skills;
- consultancy skills.

These dimensions might also be reflected in the analysis of other areas of competency so that, progressively, a picture of the competencies is built up, which is linked to actual behaviour in the workplace.

The facilitator's job is to prompt, help the group to analyse its findings and assist generally in the production of a set of competence dimensions that can be illustrated by behaviour-based examples. The facilitator may have some ideas about the sort of headings that may emerge from this process but should not try to influence the group to come to a conclusion it has not worked out for itself, albeit with some assistance from the facilitator.

Workshops can use the critical-incident or repertory grid techniques, as described below.

### Critical-incident technique

The critical-incident technique is a means of eliciting data about effective or less effective behaviour related to examples of actual events – critical incidents. The technique is used with groups of job holders and/or their managers or other 'experts' (sometimes, less effectively, with individuals) as follows:

- 1 Explain what the technique is and what it is used for, ie 'to assess what constitutes good or poor performance by analysing events that have been observed to have a noticeably successful or unsuccessful outcome, thus providing more factual and "real" information than by simply listing tasks and guessing performance requirements'.
- 2 Agree and list the key results in the role to be analysed. To save time, the analyst can establish these prior to the meeting but it is necessary to ensure that they are agreed provisionally by the group, which can be told that the list may well be amended in the light of the forthcoming analysis.
- 3 Take each area of the role in turn and ask the group for examples of critical incidents. If, for instance, one of the job responsibilities is dealing with customers, the following request could be made: 'I want you to tell me about a particular occasion at work which involved you – or that you observed – in dealing with a customer. Think about what the circumstances were, eg who took part, what the customer asked for, what you or the

other member of staff did and what the outcome was.’

- 4 Collect information about the critical incident under the following headings:
  - what the circumstances were;
  - what the individual did;
  - the outcome of what the individual did.
- 5 Record this information on a flipchart.
- 6 Continue this process for each key result area.
- 7 Refer to the flipchart and analyse each incident by obtaining ratings of the recorded behaviour on a scale such as 1 for least effective to 5 for most effective.
- 8 Discuss these ratings to get initial definitions of effective and ineffective performance for each of the key result areas.
- 9 Refine these definitions as necessary after the meeting – it can be difficult to get a group to produce finished definitions.
- 10 Produce the final analysis, which can list the competencies required and include performance indicators or standards of performance for each key result area.

This is a thorough, indeed exhaustive approach, but it is time-consuming and requires skill to manage.

## Repertory grid

Like the critical-incident technique, the repertory grid can be used to identify the dimensions that distinguish good from poor standards of performance. The technique is based on Kelly’s (1955) personal construct theory. Personal constructs are the ways in which we view the world. They are personal because they are highly individual and they influence the way we behave or view other people’s behaviour. The aspects of the role to which these ‘constructs’ or judgements apply are called ‘elements’.

To elicit judgements, a group of people are asked to concentrate on certain elements, which are the tasks carried out by role holders, and develop constructs about these elements. This enables them to define the qualities that indicate the essential requirements for successful performance.

The procedure followed by the analyst is known as the ‘triadic method of elicitation’ (a sort of three-card trick) and involves the following steps:

- 1 Identify the tasks or elements of the role to be subjected to repertory grid analysis. This is done by one of the other forms of job analysis, eg interviewing.
- 2 List the tasks on cards.
- 3 Draw three cards at random from the pack and ask the members of the group to nominate which of these tasks is the odd one out from the point of view of the qualities and characteristics needed to perform it.
- 4 Probe to obtain more specific definitions of these qualities or characteristics in the form of expected behaviour. If, for example, a characteristic has been described as the ‘ability to plan and organize’, ask questions such as: ‘What sort of behaviour or actions indicate that someone is planning effectively?’ or, ‘How can we tell if someone is not organizing his or her work particularly well?’
- 5 Draw three more cards from the pack and repeat steps 3 and 4.
- 6 Repeat this process until all the cards have been analysed and there are no more constructs to be identified.
- 7 List the constructs and ask the group members to rate each task on every quality, using a six- or seven-point scale.
- 8 Collect and analyse the scores to assess their relative importance.

Like the critical-incident technique, repertory grid analysis helps people to articulate their views by reference to specific examples. An additional advantage is that the repertory grid makes it easier for them to identify the behavioural characteristics or competencies required in a job by limiting the area of comparison through the triadic technique. Although a full statistical analysis of the outcome of a repertory grid exercise is helpful, the most important results that can be obtained are the descriptions of what constitute good or poor performance in each element of the job.

Like the critical-incident technique, the repertory grid requires a skilled analyst who can probe and draw out the descriptions of job characteristics. It is quite detailed and time-consuming, but even if the full process is not followed, much of the methodology is of use in a less elaborate approach to competence modelling.

## Choice of approach

Workshops are probably the best approach. They get people involved and do not rely on ‘expert’ opinion. Critical-incident or repertory grid techniques are more sophisticated and can be associated with workshops but they are time-consuming and considerable expertise is required to run them.

## Technical competency modelling

Technical competencies or competences can be modelled through the process of functional analysis, which is used to produce definitions of the competences contained in NVQ (National Vocational Qualification) frameworks. Functional analysis focuses on the *outcomes* of work performance. Note that the analysis is not simply concerned with

*outputs* in the form of quantifiable results but deals with the broader results that have to be achieved by role holders. An outcome could be a satisfied customer, a more highly motivated subordinate or a better-functioning team.

Functional analysis deals with processes such as developing staff, providing feedback and monitoring performance as well as tasks. It starts with an analysis of the roles fulfilled by an individual in order to arrive at a description of the separate components or ‘units’ of performance that make up that role. The resulting units consist of performance criteria, described in terms of outcomes, and a description of the knowledge and skill requirements that underpin successful performance. The techniques used in functional analysis are similar to those used in job analysis, described earlier in this chapter.

### Key learning points

#### Job analysis methodology and techniques

The essence of job analysis is the application of systematic methods to the collection of information about job content. It is essentially about data collection and the basic steps are:

- obtain documents such as existing organization, procedure or training manuals that give information about the job;
- obtain from managers fundamental information concerning the job;
- obtain from job holders similar information about their jobs.

#### Job descriptions

Job descriptions should be based on the job analysis and should be as brief and factual as possible. The headings should be: job title, reporting to, reporting to job holder, main purpose of job, main activities, tasks or duties.

#### Role analysis methodology

Role analysis uses the same techniques as job analysis but the focus is on identifying inputs

(knowledge, skill and competency requirements) and required outcomes (key result areas) rather than simply listing the tasks to be carried out.

#### Behavioural competency modelling

Behavioural competency modelling is used for identifying, analysing and describing behavioural competencies that define the behaviours that organizations expect their staff to practise in their work in order to reach an acceptable level of performance. The emphasis is on the systematic collection and analysis of data. There are five approaches to behavioural competency analysis. In ascending order of complexity these are: expert opinion, structured interview, workshops, critical-incident technique, and repertory grid analysis.

#### Analysing technical competencies

Functional analysis starts with an analysis of the roles fulfilled by an individual in order to arrive at a description of the separate components or ‘units’ of performance that make up that role. The resulting units consist of performance criteria, described in terms of outcomes, and a description of the knowledge and skill requirements that underpin successful performance.

## Skills analysis

Skills analysis determines the skills required to achieve an acceptable standard of performance. It is mainly used for technical, craft, manual and office jobs to provide the basis for devising learning and training

programmes. Skills analysis starts from a broad job analysis but goes into detail of what job holders have to do and the particular abilities and skills they need to do it. Skills analysis techniques include job breakdown, manual skills analysis, faults analysis and job learning analysis.

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# 64

## Learning and development skills

### Introduction

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HR professionals need to know about coaching, mentoring, facilitation and job instruction skills as described in this chapter to fulfil their important responsibilities for enhancing the knowledge and skills of employees and for providing guidance to line managers on conducting their learning and development activities.

### Coaching

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Coaching is a personal (usually one-to-one) approach that enables people to develop their skills and knowledge and improve their performance. As Whitmore (2002: 8) suggested: 'Coaching is unlocking a person's potential to maximize their own performance. It is helping them to learn rather than teaching them.' Clutterbuck (2004: 23) noted that: 'Coaching is primarily focused on performance within the current job and emphasizes the development of skills.'

Coaching is often provided by specialists from inside or outside the organization who concentrate on specific areas of skills or behaviour, for example leadership. But it is also something that HR professionals have to be prepared to do as part of their normal learning and development duties, and this means deploying the skills described below.

### **The approach to coaching**

To succeed in coaching you need to understand that your role is to help people to learn and ensure that

they are motivated to learn. They should be aware of the advantages to them as well as the organization of developing their present level of knowledge or skill or modifying their behaviour. Individuals should be given guidance on what they should be learning and feedback on how they are doing and, because learning is an active not a passive process, they should be actively involved with their coach.

Coaching is sometimes informal but it has to be planned. It is not simply checking from time to time on what people are doing and then advising them on how to do it better. Nor is it occasionally telling people where they have gone wrong and throwing in a lecture for good measure. As far as possible, coaching should take place within the framework of a general plan of the areas and direction in which individuals will benefit from further development. Coaching plans should be incorporated into the personal development plans set out in a performance agreement.

Coaching should provide motivation, structure and effective feedback. As a coach, you should believe that people can succeed and that they can contribute to their own success.

### **Coaching styles**

Clutterbuck and Megginson (2005: 52) identified four coaching styles:

- 1 *Assessor* – this is akin to instruction and involves telling people the way to do something.
- 2 *Demonstrator* – this is less directive than the assessor style. It involves showing learners how to do something and then getting them

to do it with guidance and comments from the coach as required.

- 3 *Tutor* – this involves encouraging learners to find out how to do things for themselves. It is still relatively directive as it is the coach who suggests what learners should look for.
- 4 *Stimulator* – this helps learners to teach themselves by guiding their thinking through the use of insight-provoking questions.

## Criteria for effectiveness

The following criteria for evaluating the performance of a coach were listed by Gray (2010: 379):

- establishes rapport;
- creates trust and respect;
- demonstrates effective communication skills;
- promotes self-awareness and self-knowledge;
- uses active listening and questioning techniques;
- assists goal development and setting;
- motivates;
- encourages alternative perspectives;
- assists in making sense of a situation;
- identifies significant patterns of thinking and behaving;
- provides an appropriate mix of challenge and support;
- facilitates depth of understanding;
- shows compassion;
- acts ethically;
- inspires curiosity;
- acts as a role model;
- values diversity and difference;
- promotes action and reflection.

## Mentoring

Mentors offer guidance, pragmatic advice and continuing support to help those allocated to them to learn and develop. It is a method of helping people to learn as distinct from coaching, which can be a relatively directive means of increasing people's competence. Mentors may be line managers. They

are often appointed and trained by learning and development specialists who therefore need to be aware of the skills required. L&D professionals may act as mentors themselves, although experienced managers are best if they have the skills and enthusiasm required.

Mentors provide people with:

- advice in drawing up self-development programmes or learning contracts;
- general help with learning programmes;
- guidance on how to acquire the necessary knowledge and skills to do a new job;
- advice on dealing with any administrative, technical or people problems individuals meet, especially in the early stages of their careers;
- information on 'the way things are done around here' – the corporate culture in terms of expected behaviour;
- coaching in specific skills;
- help in tackling projects – not by doing it for them but by pointing them in the right direction, helping people to help themselves;
- a parental figure with whom individuals can discuss their aspirations and concerns and who will lend a sympathetic ear to their problems.

Mentors need to adopt a non-directive but supportive approach to helping the person or persons they are dealing with.

## Facilitating

The facilitation of learning is the process of helping people to learn mainly for themselves rather than force-feeding them. The aim of the facilitator is to guide thinking rather than simply imparting new knowledge. The facilitator of a learning group has unobtrusively to stimulate group members to talk, move the discussion along predetermined lines (there must be a plan and an ultimate objective), and provide interim summaries and a final summary.

Help in reaching conclusions is provided by asking questions that encourage people to think for themselves. These can be challenging and probing questions but the facilitator does not provide the



answers – that is the role of the people involved. Neither do facilitators allow their own opinions to intrude – they are there to help people to learn, not to enforce their own ideas.

## Job instruction

When people learn specific tasks, especially those involving basic administrative or manual skills, the learning will be more effective if job instruction techniques are used. HR professionals may possibly be involved in providing direct instruction but their most typical role is that of promoting effective instruction techniques for use by line managers and others involved in workplace learning or running formal training programmes. They should therefore be aware of the sequence of instruction, as described below.

### Preparation

Preparation for each instruction period means that the trainer must have a plan for presenting the subject matter and using appropriate teaching methods, visual aids and demonstration aids. It also means preparing trainees for the instruction that is to follow. They should want to learn. They must perceive that the learning will be relevant and useful to them personally. They should be encouraged to take pride in their job and to appreciate the satisfaction that comes from skilled performance.

### Presentation

Presentation should consist of a combination of telling and showing – explanation and demonstration. Explanation should be as simple and direct as possible: the trainer explains briefly the ground to be covered and what to look for. He or she makes the maximum use of charts, diagrams and other visual aids. The aim should be to teach first things first and then proceed from the known to the unknown, the simple to the complex, the concrete to the abstract, the general to the particular, the observation to reasoning, and the whole to the parts and back to the whole again.

### Demonstration

Demonstration is an essential stage in instruction, especially when the skill to be learnt is mainly a ‘doing’ skill. Demonstration can take place in three stages:

- 1 The complete operation is shown at normal speed to show the trainee how the task should be carried out eventually.
- 2 The operation is demonstrated slowly and in correct sequence, element by element, to indicate clearly what is done and the order in which each task is carried out.
- 3 The operation is demonstrated again slowly, at least two or three times, to stress the how, when and why of successive movements.

The learner then practises by imitating the instructor and constantly repeating the operation under guidance. The aim is to reach the target level of performance for each element of the total task, but the instructor must constantly strive to develop coordinated and integrated performance – that is, the smooth combination of the separate elements of the task into a whole job pattern.

### Follow-up

Follow-up continues during the training period for all the time required by the learner to reach a level of performance equal to that of the normal experienced worker in terms of quality, speed and attention to safety. During the follow-up stage, the learner will continue to need help with particularly difficult tasks or to overcome temporary setbacks that result in a deterioration of performance. The instructor may have to repeat the presentation for the elements and supervise practice more closely until the trainee regains confidence or masters the task.

### Instructional design

The following are the nine conditions for effective instructional design set out by Gagne (1977):

- 1 gain attention of learners;
- 2 inform learners of learning objectives;

- 3 stimulate recall of prior learning;
- 4 present the content and break it down into components so as to avoid information overload;
- 5 provide learning guidance;
- 6 elicit performance;
- 7 provide feedback to learners;
- 8 assess the performance of learners;
- 9 enhance knowledge retention and transfer to real life in the workplace.

## Key learning points

### The requirement

HR professionals need skills in coaching and mentoring to fulfil their important responsibilities for enhancing the knowledge and skills of employees and for providing guidance to line managers on conducting their learning and development activities.

### Coaching

Coaching is a personal (usually one-to-one) approach that enables people to develop their skills and knowledge and improve their performance.

### The approach to coaching

To succeed in coaching you need to understand that your role is to help people to learn and to see that they are motivated to learn.

Coaching is sometimes informal but it has to be planned. It is not simply checking from time to time on what people are doing and then advising them on how to do it better, or occasionally telling people where they have gone wrong and throwing in a lecture.

Coaching should provide motivation, structure and effective feedback. As a coach, you should believe that people can succeed and that they can contribute to their own success.

### Mentoring

Mentors offer guidance, pragmatic advice and continuing support to help those allocated to them to learn and develop. It is a method of helping people to learn as distinct from coaching, which can be a relatively directive means of increasing people's competence. Mentors provide people with:

- advice in drawing up self-development programmes or learning contracts;

- general help with learning programmes;
- guidance on how to acquire the necessary knowledge and skills to do a new job;
- advice on dealing with any administrative, technical or people problems individuals meet, especially in the early stages of their careers;
- information on 'the way things are done around here' – the corporate culture in terms of expected behaviour;
- coaching in specific skills;
- help in tackling projects – not by doing it for them but by pointing them in the right direction, helping people to help themselves;
- a parental figure with whom individuals can discuss their aspirations and concerns and who will lend a sympathetic ear to their problems.

### Facilitating

The facilitation of learning is the process of helping people to learn mainly for themselves rather than force-feeding them.

### Job instruction

When people learn specific tasks, especially those involving basic administrative or manual skills, the learning will be more effective if job instruction techniques are used. The sequence of instruction is:

- Preparation for each instruction period means that the trainer must have a plan for presenting the subject matter and using appropriate teaching methods, visual aids and demonstration aids. It also means preparing trainees for the instruction that is to follow.

- Presentation should consist of a combination of telling and showing – explanation and demonstration.
- Demonstration is an essential stage in instruction, especially when the skill to be learnt is mainly a 'doing' skill.
- Follow-up continues during the training period for all the time required by the learner to reach a level of performance equal to that of the normal experienced worker in terms of quality, speed and attention to safety.

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# 65

## Negotiating skills

### Introduction

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HR practitioners who are involved in industrial relations may conduct or take part in negotiations with trade union representatives or officials. Negotiating is a process that requires considerable skill.

Negotiation involves bargaining, which is reaching the most advantageous position in discussion with another party through a process of offer and counter-offer. It is a process in which two parties – management and the trade union – get together with the aim of getting the best deal possible for their business or their members.

Negotiations usually involve a conflict of interest. In pay negotiations unions want the highest settlement they can get; management wants the lowest. In negotiations about other terms and conditions, unions will want the best result for their members while management will want to avoid agreeing to anything other than what they think is reasonable from their viewpoint. It can be a zero-sum game – what one side gains, the other loses. No one likes to lose, so there is scope for conflict, which has to be managed if an amicable agreement is to be achieved. And negotiators do, or should, try to end up on friendly terms, whatever differences of opinion have occurred on the way. After all, they may well meet again.

A ‘mutual gains’ approach is desirable but not always achievable. This involves recognizing that while the interests of the two parties will probably differ in some if not many respects, it may be possible to find common ground. A problem-solving approach is best. Both sides exchange information to advance interests that they think will benefit both of them. This results in the generation of options and a choice of those that are considered to provide mutual gains (Cullinane *et al*, 2014: 819).

### The process of negotiation

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Negotiating takes place when two parties meet to reach an agreement concerning a proposition, such as a pay claim, one party has put to the other. Negotiation can be convergent when both parties are equally keen to reach a win-win agreement (in commercial terms, a willing buyer/willing seller arrangement). It can be divergent when one or both of the parties aim to win as much as they can from the other while giving away as little as possible. Negotiations in an industrial relations setting differ from commercial negotiations in the respects shown in Table 65.1.

In negotiations on pay or other terms and conditions of service, management represents the employer’s interests and employee representatives represent the interests of employees. Both sides are of equal status. Negotiations take place in an atmosphere of uncertainty. Neither side knows how strong the other side’s bargaining position is or what it really wants and will be prepared to accept.

### Stages of negotiation

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Negotiations are conducted in four stages: initial steps, opening, bargaining and closing.

### Initial steps

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In a pay negotiation, unions making the claim will define for themselves three things: (a) the target they would like to achieve, (b) the minimum they will accept, and (c) the opening claim they believe will be most likely to achieve the target. Employers define three related things: (1) the target settlement

**TABLE 65.1** Commercial and industrial relations negotiations compared

Industrial relations negotiations	Commercial negotiations
<ul style="list-style-type: none"> <li>• Assume an ongoing relationship – negotiators cannot walk away.</li> <li>• The agreement is not legally binding.</li> <li>• Conducted on a face-to-face basis.</li> <li>• Carried out by representatives responsible to constituents.</li> <li>• Make frequent use of adjournments.</li> <li>• May be conducted in an atmosphere of distrust, even hostility.</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiators can walk away.</li> <li>• The contract is legally binding.</li> <li>• May be conducted at a distance.</li> <li>• Carried out directly with the parties being responsible to a line manager.</li> <li>• Usually conducted on a continuing basis.</li> <li>• Usually conducted on a ‘willing buyer/willing seller’ basis.</li> </ul>

they would like to achieve, (2) the maximum they would be prepared to concede, and (3) the opening offer that will provide them with sufficient room to manoeuvre in reaching their target. The difference between a union’s claim and an employer’s offer is the negotiating range. If the maximum the employer will offer exceeds the minimum the union will accept the difference will be the settlement range, in which case a settlement will be easily reached. If, however, the maximum the employer will offer is less than the minimum the union will accept, negotiations will be more difficult and a settlement will only be reached if the expectations of either side are adjusted during the bargaining stage. The extent to which this will happen depends on the relative power of the two parties. The strength of the arguments put forward by either party will also be a factor, but the major consideration is usually power.

Similarly, in a negotiation on another employment issue such as working arrangements, the union sets out a request (or demand) but usually has a fall-back position, while the employer decides on an initial response but again has a fall-back position.

Preparation for negotiation by either party involves:

- deciding on the strategy and tactics to be used;
- listing the arguments to be used in supporting their case;
- listing the arguments or counter-arguments the other party is likely to use;
- obtaining supporting data;
- selecting the negotiating team, briefing them on the strategy and tactics and rehearsing them in their roles.

## Opening

Tactics in the opening phase of a negotiation are as follows:

- open realistically and move moderately;
- challenge the other side’s position as it stands; do not destroy their ability to move;
- observe behaviour, ask questions and listen attentively in order to assess the other side’s strengths and weaknesses, their tactics and the extent to which they may be bluffing;
- make no concessions at this stage;
- be non-committal about proposals and explanations – do not talk too much.

## Bargaining

After the opening moves, the main bargaining phase takes place in which the gap is narrowed between the initial positions. The attempt is made to persuade each other that their case is strong enough to force the other side to close at a less advantageous point than they had planned. Bargaining is often as much about concealing as revealing – keeping arguments in reserve to deploy when they will make the greatest impact.

The following tactics are used:

- Always make conditional proposals: ‘If you will do this, then I will consider doing that’ – the words to remember are: ‘if... then...’.
- Never make one-sided concessions: always trade off against a concession from the other

party: 'If I concede x, then I expect you to concede y'.

- Negotiate on the whole package: negotiations should not allow the other side to pick off item by item (salami negotiation).
- Keep the issues open to extract the maximum benefit from potential trade-offs.

There are certain bargaining conventions that experienced negotiators follow because they appreciate that by so doing they create the atmosphere of trust and understanding that is essential to the sort of stable bargaining relationship which benefits both sides. Some of the more generally accepted conventions are as follows:

- Whatever happens during the bargaining, both parties are hoping to reach a settlement.
- Negotiators should show that they respect the views of the other side and take them seriously even if they disagree with them.
- While it is preferable to conduct negotiations in a civilized and friendly manner, attacks, hard words, threats and controlled losses of temper may be used by negotiators to underline determination to get their way and to shake their opponent's confidence and self-possession. But these should be treated by both sides as legitimate tactics and should not be allowed to shake the basic belief in each other's integrity or desire to settle without taking drastic action.
- Off-the-record discussions ('corridor negotiations') can be mutually beneficial as a means of probing attitudes and intentions and smoothing the way to a settlement, but they should not be referred to specifically in formal bargaining sessions unless both sides agree in advance.
- Each side should be prepared to move from its original position.
- It is normal, although not inevitable, for the negotiation to proceed by alternate offers and counter-offers from each side, leading steadily towards a settlement.
- Third parties should not be brought in until both sides agree that no further progress can be made without them.

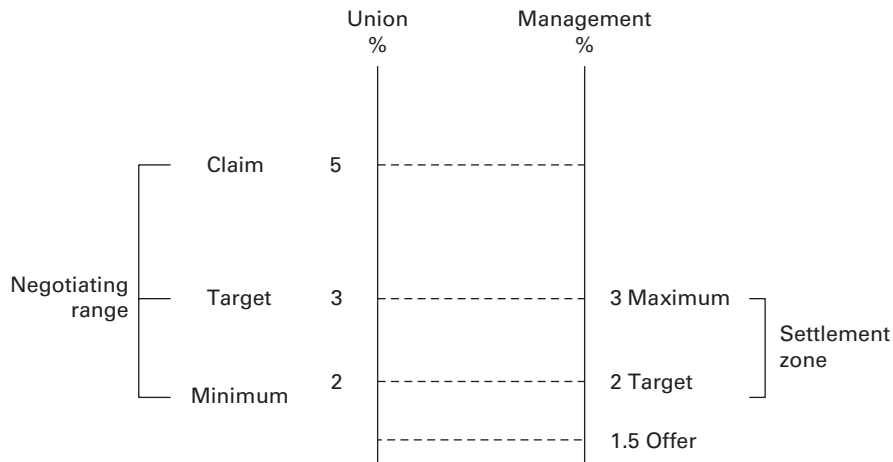
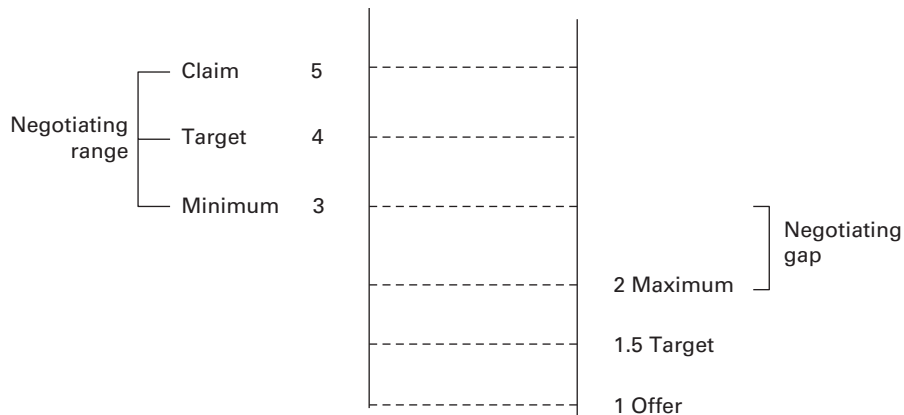
- Concessions, once made, cannot be withdrawn.
- If negotiators want to avoid committing themselves to 'a final offer' with the risk of devaluing the term if they are forced to make concessions, they should state as positively as they can that this is as far as they can go. But bargaining conventions allow further moves from this position on a quid pro quo basis.
- Firm offers must not be withdrawn.
- The final agreement should mean exactly what it says. There should be no trickery and the agreed terms should be implemented without amendment.
- So far as possible, the final settlement should be framed and communicated in such a way as to reduce the extent to which the other party loses face or credibility.

When bargaining, the parties have to identify the basis for a possible agreement; that is, the common ground. In a typical pay negotiation the trade union making the claim will come to the table with a pre-determined target settlement, minimum acceptable offer and opening claim. Similarly, the employer, will have their own target, maximum offer and opening offer. The difference between the union's claim and the employer's offer is the negotiating range. If the employer's maximum exceeds the union's minimum this will indicate the settlement zone as illustrated in Figure 65.1. In this example the chance of settlement without too much trouble is fairly high. It is when the employer's maximum is less than the union's minimum, as shown in Figure 65.2, that the trouble starts.

## Closing

There are various closing techniques:

- Make a concession from the package, preferably a minor one, which is traded off against an agreement to settle. The concession can be offered more positively than in the bargaining stage: 'If you will agree to settle at x then I will concede y'.
- Do a deal, split the difference or bring in something new, such as extending the

**FIGURE 65.1** Negotiating range with a settlement zone**FIGURE 65.2** Negotiating range without a settlement zone

settlement timescale, agreeing to back payments, phasing increases, or making a joint declaration of intent to do something in the future.

- Summarize what has happened so far, emphasize the concessions that have been made and the extent of movement from the original position, and indicate that the limit has been reached.
- Apply pressure through a threat of the dire consequences that will follow if a 'final' claim is not agreed or a 'final offer' is not accepted.

Employers should not make a final offer unless they mean it. If it is not really their final offer and the union calls their bluff, they may have to make further concessions and their credibility will be undermined. Each party will attempt to force the other side into revealing the extent to which they have reached their final position. But negotiators should not allow themselves to be pressurized. They have to use their judgement on when to say, 'this is as far as we can go'. That judgement will be based on their understanding that the stage when a settlement is possible has been reached.



## Negotiating and bargaining skills

The skills required to be effective in negotiations and bargaining are:

- *Analytical ability* – the capacity to assess the factors that affect the negotiating stance and tactics of both parties.
- *Empathy* – the ability to put oneself in the other party's shoes.
- *Interactive skills* – the ability to relate well with other people.
- *Communicating skills* – the ability to convey information and arguments clearly, positively and logically.
- *Keeping cards close to the chest* – not giving away what you really want or are prepared to concede until you are ready to do so (in the marketplace it is always easier for sellers to drive a hard bargain with buyers who have revealed somehow that they covet the article).
- *Flexible realism* – the capacity to make realistic moves during the bargaining process to reduce the claim or increase the offer, which will demonstrate that the bargainer is seeking a reasonable settlement and is prepared to respond appropriately to movements from the other side.

### Key learning points

#### The process of negotiation

Negotiation is the process of coming to terms and, in so doing, getting the best deal possible. Negotiation involves bargaining, which is reaching the most advantageous position in discussion with another party through a process of offer and counter-offer.

Negotiating takes place when two parties meet to reach an agreement on a proposition, such as a pay claim, one party has put to the other. Negotiation can be convergent when both parties are equally keen to reach a win-win agreement (in commercial terms, a willing buyer/willing seller arrangement). It can be divergent when one or both of the parties aim to win as much as they can from the other while giving away as little as possible.

#### Stages of negotiation

Negotiations are conducted in four stages: initial steps, opening, bargaining and closing.

#### Negotiating and bargaining skills

- *Analytical ability* – the capacity to assess the factors that affect the negotiating stance and tactics of both parties.
- *Empathy* – the ability to put oneself in the other party's shoes.
- *Interactive skills* – the ability to relate well with other people.
- *Communicating skills* – the ability to convey information and arguments clearly, positively and logically.
- *Keeping cards close to the chest* – not giving away what you really want or are prepared to concede until you are ready to do so.
- *Flexible realism* – the capacity to make realistic moves during the bargaining process to reduce the claim or increase the offer, which will demonstrate that the bargainer is seeking a reasonable settlement and is prepared to respond appropriately to movements from the other side.

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# 66

# Change management

## Introduction

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Change management is the process of leading and facilitating change – initiating and achieving the smooth implementation of new developments and initiatives by planning and introducing them systematically and allowing for the possibility of their being resisted or at least misunderstood. Change management processes can play a key part in an organization development programme, especially where this involves culture change as discussed in Chapter 23.

In this chapter the first section deals with the psychology of change management and the following sections cover in turn the levers for change, the process of change, models of change, resistance to change, implementing change, the role of change agents and the role of HR in leading and facilitating change. The chapter concludes with a list of guidelines for managing change.

## The psychology of change management

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To persuade and enable a person to start, conduct and complete a behaviour change it is necessary to ensure that:

- the individual can see the purpose of the change and agrees with it;
- the rewards and recognition system supports the new behaviour;
- the individual has the skills for the new behaviour;
- the people who are role models are seen to model the new behaviour.

## Levers for change

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Change management makes use of levers for change in order, as described by Unilever (2019), to make it understood, make it easy, make it rewarding and make it a habit. Levers for change are any methods or approaches that can be used to achieve a desired result. They include such activities as consulting people on the need for change and what should be done about it, involving them in planning and implementing the change, communicating the details of the change, spelling out how it will work, why it is necessary and how people will be affected by it, the use of ‘nudge theory’ approaches (see later in this chapter), the use of designated change agents, and ensuring that the people, mechanisms and infrastructure needed to make change possible are available. The choice of a lever for change should be based on an assessment of which approach or approaches are likely to be most effective in the circumstances. These circumstances will include the nature of the change, how radical or complex it is, the impact it will have on employees, and the context in which the change will take place.

## The change process

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Conceptually, the change process starts with an awareness of the need for change. An analysis of the situation and the factors that have created it leads to a diagnosis of their distinctive characteristics and an indication of what change is required and an analysis of its impact on the organization and its employees, its benefits and its costs. It is necessary at this stage to assess the capability for change – whether or not the organization is ready for change and the extent to which employees are likely to welcome or at least accept it.

A business case can then be made for the preferred change which will spell out the way(s) in which it will generate added value and stimulate improved performance (see also Chapter 73). Possible methods of managing the change in the shape of levers for change are next identified and evaluated. It is then necessary to decide how to get from here to there. Managing change during this transition state is a critical phase in the change process. It is here that the problems of introducing change emerge and have to be managed. These problems can include resistance to change, instability, high levels of stress, misdirected energy, conflict, and loss of momentum. Hence the need to do everything possible to anticipate reactions and likely impediments to the introduction of change.

The final stage, in which the new structure, system or process is installed, can also be demanding, indeed painful. As described by Pettigrew and Whipp (1991: 27), the implementation of change is an 'iterative, cumulative and reformulation-in-use process'.

The next issue is how to 'hold the gains', ie how to ensure that the change is embedded and maintained. This means continuously monitoring the effects and impact of the change and taking corrective action where necessary to ensure that it continues to work well. The change process has been described in the various change models set out below.

## Change models

Change models explain the mechanisms for change and the factors that affect its success. The best-known change models are those developed by Lewin (1951) and Beckhard (1969), but other important contributions to an understanding of the mechanisms for change have been made by Thurley (1979) and Beer *et al* (1990).

### Lewin

The basic mechanisms for managing change as set out by Lewin (1951) are:

- *Unfreezing* – altering the present stable equilibrium that supports existing behaviours and attitudes. This process must take account of the inherent threats change presents to people and the need to motivate those

affected to attain the natural state of equilibrium by accepting change.

- *Changing* – developing new responses based on new information.
- *Refreezing* – stabilizing, supporting and reinforcing the new changed conditions.

Lewin also suggested the following methodology for analysing change, which he called 'field force analysis':

- Analyse the restraining or driving forces that will affect the transition to the future state – these restraining forces will include the reactions of those who see change as unnecessary or as constituting a threat.
- Assess which of the driving or restraining forces are critical.
- Take steps both to increase the critical driving forces and to decrease the critical restraining forces.

### Beckhard

Beckhard (1969) proposed that a change programme should incorporate the following processes:

- Set goals and define the future state or organizational conditions desired after the change.
- Diagnose the present condition in relation to these goals.
- Define the transition state activities and commitments required to meet the future state.
- Develop strategies and action plans for managing this transition in the light of an analysis of the factors likely to affect the introduction of change.

### Thurley

Thurley (1979) described the following five approaches to managing change:

- *Directive* – the imposition of change in crisis situations or when other methods have failed. This is done by the exercise of managerial power without consultation.

- *Bargained* – this approach recognizes that power is shared between the employer and the employed and change requires negotiation, compromise and agreement before being implemented.
- *‘Hearts and minds’* – an all-embracing thrust to change the attitudes, values and beliefs of the whole workforce. This ‘normative’ approach (ie one that starts from a definition of what management thinks is right or ‘normal’) seeks ‘commitment’ and ‘shared vision’ but does not necessarily include involvement or participation.
- *Analytical* – a theoretical approach to the change process using models of change such as those described above. It proceeds sequentially from the analysis and diagnosis of the situation, through the setting of objectives, the design of the change process, the evaluation of the results and, finally, the determination of the objectives for the next stage in the change process. This is the rational and logical approach much favoured by consultants – external and internal. But change seldom proceeds as smoothly as this model would suggest. Emotions, power politics and external pressures mean that the rational approach, although it might be the right way to start, is difficult to sustain.
- *Action-based* – this recognizes that the way managers behave in practice bears little resemblance to the analytical, theoretical model. The distinction between managerial thought and managerial action blurs in practice to the point of invisibility. What managers think is what they do. Real life therefore often results in a ‘ready, aim, fire’ approach to change management. This typical approach to change starts with a broad belief that some sort of problem exists, although it may not be well defined. The identification of possible solutions, often on a trial or error basis, leads to a clarification of the nature of the problem and a shared understanding of a possible optimal solution, or at least a framework within which solutions can be discovered.

## Beer, Eisenstat and Spector

Beer *et al* (1990) suggested in a seminal *Harvard Business Review* article, ‘Why change programs don’t produce change’, that most such programmes are guided by a theory of change that is fundamentally flawed. This theory states that changes in attitudes lead to changes in behaviour: ‘According to this model, change is like a conversion experience. Once people get religion, changes in their behaviour will surely follow’ (ibid: 159). They thought that this theory gets the change process exactly backwards and made the following comment on it:

### Words of wisdom

Individual behaviour is powerfully shaped by the organizational roles people play. The most effective way to change behaviour, therefore, is to put people into a new organizational context which imposes new roles, responsibilities and relationships on them. This creates a situation that in a sense ‘forces’ new attitudes and behaviour on people.

Beer *et al* (1990: 159)

They prescribe six steps to effective change that concentrate on what they call ‘task alignment’ – re-organizing employees’ roles, responsibilities and relationships to solve specific business problems in small units where goals and tasks can be clearly defined. The aim of following the overlapping steps is to build a self-reinforcing cycle of commitment, co-ordination and competence:

- 1 Mobilize commitment to change through the joint analysis of problems.
- 2 Develop a shared vision of how to organize and manage to achieve goals such as competitiveness.

- 3 Foster consensus for the new vision, competence to enact it, and cohesion to move it along.
- 4 Spread revitalization to all departments without pushing it from the top – don't force the issue; let each department find its own way to the new organization.
- 5 Institutionalize revitalization through formal policies, systems and structures.
- 6 Monitor and adjust strategies in response to problems in the revitalization process.

## Resistance to change

People resist change because it is seen as a threat to familiar patterns of behaviour as well as to status and financial rewards. Joan Woodward made this point clearly:

### Words of wisdom

When we talk about resistance to change we tend to imply that management is always rational in changing its direction, and that employees are stupid, emotional or irrational in not responding in the way they should. But if an individual is going to be worse off, explicitly or implicitly, when the proposed changes have been made, any resistance is entirely rational in terms of his own best interest. The interests of the organization and the individual do not always coincide.

Woodward (1968: 80)

Hamlin and Davies (2001: 58) commented that 'Any change creates stress and anxiety; this is because as human beings we deal individually with uncertainty in different ways.' However, some people will welcome change as an opportunity. These

people need to be identified and, where feasible, they can help in the introduction of change as change agents.

## Reasons for resisting change

Specifically, the reasons for resisting change are:

- *The shock of the new* – people are suspicious of anything they perceive will upset their established routines, methods of working or conditions of employment. They do not want to lose the security of what is familiar to them. They may not believe statements by management that the change is for their benefit as well as that of the organization, sometimes with good reason. They may feel that management has ulterior motives and, sometimes, the louder the protestations of management, the less they will be believed.
- *Economic fears* – loss of money, threats to job security.
- *Inconvenience* – the change will make life more difficult.
- *Uncertainty* – change can be worrying because of uncertainty about its likely impact.
- *Symbolic fears* – a small change that may affect some treasured symbol, such as a separate office or a reserved parking space, may symbolize big ones, especially when employees are uncertain about how extensive the programme of change will be.
- *Threat to interpersonal relationships* – anything that disrupts the customary social relationships and standards of the group will be resisted.
- *Threat to status or skill* – the change is perceived as reducing the status of individuals or as de-skilling them.
- *Competence fears* – concern about the ability to cope with new demands or to acquire new skills.

## Overcoming resistance to change

Resistance to change can be difficult to overcome, even when the change is not detrimental to those concerned. But the attempt must be made. The starting

point is an analysis of the potential impact of change by considering how it will affect people in their jobs. The reasons for resisting change set out above can be used as a checklist to establish where there might be problems with groups or with individuals.

The analysis should indicate which aspects of the proposed change may be supported generally or by specified individuals and which aspects may be resisted. So far as possible, the potentially hostile or negative reactions of people and the reasons for them should be identified. It is necessary to try to understand the likely feelings and fears of those affected so that worries can be relieved and, as far as possible, ambiguities can be resolved. In making this analysis, the individual introducing the change – the change agent – should recognize that new ideas are likely to be suspect and should make ample provision for the discussion of reactions to proposals to ensure complete understanding of them.

Involvement in the change process gives people the chance to raise and resolve their concerns and make suggestions about the form of the change and how it should be introduced. The aim is to get ‘ownership’ – a feeling amongst people that the change is something that they are happy to live with because they have been involved in its planning and introduction – it has become *their* change.

A communication strategy to explain the proposed change should be prepared and implemented so that unnecessary fears are allayed. All the available channels should be used, but face-to-face communications direct from managers to individuals or through a team briefing system are best.

## Implementing change

The problems of implementing strategic change were summed up by Lawler and Mohrman as follows:

### Words of wisdom

Most strategies, like most mergers, fail not because of poor thinking, but because of poor implementation. Implementation failures usually involve the failure to

acknowledge and build the needed skills and organizational capabilities, to gain support of the workforce, and to support the organizational changes and learning required to behave in new ways. In short, execution failures are often the result of poor human capital management. This opens the door for HR to add important value if it can deliver change strategies, plans and thinking that aid in the development and execution of business strategy.

Lawler and Mohrman (2003: 24)

Implementing change can indeed be difficult. Research by Carnall (1991) in 93 organizations identified the following explanations for failures to implement change effectively:

- implementation took more time than originally allowed;
- major problems that had not been identified beforehand emerged during implementation;
- coordination of implementation activities was not effective enough;
- competing activities and other crises distracted management from implementing the change decision;
- the capabilities of the employees involved were not sufficient;
- training and instruction to lower-level employees was inadequate;
- uncontrollable factors in the external environment had an adverse effect on implementation.

The following suggestions on how to minimize such problems were put forward by Nadler and Tushman (1980):

- *Motivate* in order to achieve changes in behaviour by individuals.



- *Manage the transition* by making organizational arrangements designed to ensure that control is maintained during and after the transition and by developing and communicating a clear image of the future.
- *Shape the political dynamics of change* so that power centres develop that support the change rather than block it.
- *Build in stability* of structures and processes to serve as anchors for people to hold on to – organizations and individuals can only stand so much uncertainty and turbulence, hence the emphasis by Quinn (1980) on the need for an incremental approach.

As reported by Surowiecki (2013: 44), Professor Michael Roberto of Bryant University suggested that: ‘Anytime you’re trying to change the ways you do things, small wins are important. Small wins help you build support both internally and externally, and they make it easier for people to buy in.’ Nudge theory as described later in this chapter provides support for this approach.

## The role of change agents

The change process will take place more smoothly with the help of credible internal or external change agents – people who help to manage change by providing advice and support on its introduction and management. A change agent was defined by Caldwell (2003: 139–40) as ‘an internal or external individual or team responsible for initiating, sponsoring, managing and implementing a specific change initiative or complete change programme.’ As described by Balugon and Hope-Hailey (2004), the role of the change agent is to lead change. Alfes *et al* (2010) noted that change agents establish what is required, involve people in planning and managing change, advise on how change should be implemented and communicate to people the implications of change.

Keep (2001: 89) listed the following change agent competencies:

- Project management – planning and resource allocation.
- Contracting with clients – defining the task, establishing relationships.
- Team building – defining roles, maintaining good working relationships.

- Analysis and diagnosis – data collection, problem solving, systems thinking.
- Data utilization – qualitative or quantitative data, paper-based review, survey techniques.
- Interpersonal skills – dealing with people, leadership.
- Communication skills – speaking, written presentations/reports, listening.
- Political awareness – sensitivity, influencing.
- Intervention implementation – participation, involvement.
- Monitoring and evaluation – criteria setting and reviewing, measuring effectiveness.
- Technical skills – financial interpretation, psychometrics.
- Process skills – facilitation.
- Insight – reflection, awareness of key issues, critical thinking, intuition.

It is often assumed that only people from outside the organization can take on the change agent role because they are independent and do not ‘carry any baggage’. They can be useful, but people from within the firm who are respected and credible can do the job well. This is often the role of HR specialists, but the use of line managers adds extra value.

## The role of HR in leading and facilitating change

Leading and facilitating change is probably the most demanding of all HR activities. If HR is concerned – as it should be – in playing a major strategic role in the achievement of continuous improvement and in the HR processes that support that improvement, then it will need to be involved in leading and facilitating change. Caldwell (2001) stated that the change agent roles that can be carried out by HR professionals are those of change champions, change adapters, change consultants and change synergists.

### **HR’s role in leading change**

Leading change involves initiating and managing culture change (the process of changing the organization’s culture in the shape of its values, norms and

beliefs) and the introduction of new structures, systems, working practices and people management processes. The aim is to increase organizational capability (the potential ability of the organization to perform well) and organizational effectiveness (how well the organization actually performs).

Ulrich (1997: 7) observed that HR professionals should be ‘as explicit about culture change as they are today about the requirements for a successful training program or hiring strategy’. He later emphasized that, ‘HR should become an agent of continuous transformation, shaping processes and a culture that together improve an organization’s capacity for change’ Ulrich (1998: 125).

Change leadership means:

- identifying where change is required;
- specifying what changes should take place;
- assessing the benefits of the change and what it will cost;
- establishing the consequences of the change;
- assessing the capability for change – availability of people resources to manage the change, including change agents, availability of the financial and other resources required, readiness for change amongst the various stakeholders who will be affected by it;
- assessing any problems the change may create, eg resistance to the change, and any risks involved;
- persuading management and anyone else affected by the change that it is necessary, spelling out the benefits and indicating what will be done to deal with potential problems;
- identifying and selecting the levers for change;
- planning how the change should be implemented, including assessing the choice of levers for change, nominating and briefing change agents (people responsible for achieving change), minimizing potential resistance through communication and involvement, and managing risks;
- facilitating the introduction and management of the change;
- ensuring that the change is embedded successfully – ‘holding the gains’.

## HR’s role in facilitating change

Facilitating change is about making it happen. As Hamlin and Davies (2001: 13) observed, one of the major challenges facing HR ‘is how to help people through the transitions of change, and how to survive in working conditions that are in a constant state of flux.’ Brown and Eisenhardt (1997: 21) noted that managers who were successful in the art of continuous change ‘carefully managed the transition between the past and the future. Much like the pit stop in a car race or the baton pass in track, this transition appeared critical.’

The role of HR in facilitating change was described by Vere and Butler (2007: 34) as follows:

- The issue needs to be on the strategic business agenda and managers must see how action will improve business results: that is, there needs to be a sound business case for the initiative. HR managers need to be able to demonstrate the return on the planned investment.
- The change needs to have the active backing of those at the top of the organization, so it is for the HR director to gain the commitment of the top team and engage them in a practical way in taking the work forward.
- HR needs to engage managers in the design of change from the outset (or, if this is a business-driven change, HR needs to be involved at the outset).
- The programme needs to be framed in the language of the business to have real meaning and achieve ‘buy-in’ for all parties; if there is too much HR jargon, this will be a turn off.
- Project management skills as described in Chapter 74 are crucial to ensure the programme is well planned and resourced and risks are assessed and managed.
- The importance of communication to explain, engage and commit people to the programme is paramount.
- In this respect the crucial role that HR can play is to ensure that employees are fully engaged in the design and implementation of the change.
- HR needs to draw on others’ experience and learning.

To do all this, Ulrich (1997: 8) pointed out that ‘HR professionals need a model of change and the ability to apply the model to a specific situation.’ The models described later in this chapter need to be understood and applied as appropriate. The other qualities required are insight – to understand the need for change, courage – to pursue change, and determination – to achieve change.

Leading and facilitating change is hard work. As Alfes *et al* (2010: 111) observed on the basis of their research: ‘The role [of HR] is generally constrained and reactive.’ They also noted that: ‘HR professionals may find their roles circumscribed by expectations of their role, the nature of the change process, capability and capacity’ (ibid: 125).

Ulrich (1997) emphasized that one of the key roles of HR professionals is to act as change agents, but it is a difficult role to play. Perhaps, as Thornhill *et al* (2000) noted, the main contribution HR can make is to generate and support change where a core feature is the development and alignment of HRM practices such as culture management, performance management, learning and development, reward management and employment relations.

To lead change it is necessary to understand how the process works. It is important to bear in mind that while those leading change need to be constant about ends, they have to be flexible about means. This requires them to come to an understanding of the various models of change that have been developed and of the factors that create resistance to change and how to minimize such resistance. In the light of an understanding of these models and the phenomenon of resistance to change they will be better equipped to make use of the levers for change available and the guidelines for change set out at the end of this chapter.

## Change management programmes

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Change management programmes come in all sorts of shapes and sizes depending on the nature and scale of the change. But they can be organization-wide as in a major organization development programme and an integrated strategic change approach as conceived by Worley *et al* (1996) may be appropriate. They can also make use of nudge theory.

The steps required are:

- 1 Strategic analysis, a review of the organization’s strategic orientation (its strategic intentions within its competitive environment) and a diagnosis of the organization’s readiness for change.
- 2 Develop strategic capability – the ability to implement the strategic plan quickly and effectively.
- 3 Integrate individuals and groups throughout the organization into the processes of analysis, planning and implementation to maintain the firm’s strategic focus, direct attention and resources to the organization’s key competencies, improve coordination and integration within the organization and create higher levels of shared ownership and commitment.
- 4 Create the strategy, gain commitment and support for it and plan its implementation.
- 5 Implement the strategic change plan, drawing on knowledge of motivation, group dynamics and change processes, dealing with issues such as alignment, adaptability, teamwork and organizational and individual learning.
- 6 Decide on the levers for change to be adopted, taking account of which are most likely to be appropriate in the circumstances.
- 7 Allocate resources, provide feedback and solve problems as they arise.

## Nudge theory

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Nudge theory provides guidance on a potentially useful approach to persuading people to welcome or at least accept change. It is based on the proposition that it is easier for people to take a series of small steps than one large one. ‘Nudging’ means that they are not forced to accept huge changes or make big decisions all at once. They can more easily absorb what is happening. It is about steering people in particular directions but also allowing them to go their own way. This is what Thaler and Sunstein who originated the concept have to say about it.

### Words of wisdom

A nudge, as we will use the term, is any aspect of the choice architecture that alters people's behaviour in a predictable way without forbidding any options or changing their economic perspective. To count as a mere nudge, the intervention must be cheap and easy to avoid. Nudges are not mandatory. Putting fruit out at eye level (hoping that people will choose fruit over unhealthy alternatives) counts as a nudge. Banning junk food does not.

Thaler and Sunstein (2009: 6)

Nudge theory recognizes that the majority of our decisions are made instinctively and unconsciously – people don't always think and decide logically and consciously, weighing up all the costs and benefits. In order to achieve a positive change of behaviour, 'nudging' taps into this way of thinking. It uses positive reinforcement and indirect suggestions as ways of convincing people to accept something – it does not attempt to force compliance.

## Evidencing the value of change

It is necessary to evaluate the impact of the change programme to assess its effectiveness and identify any further things that need to be done. A business case should have been made for the change and this should have indicated what added value was expected and from where. Evidence is needed on what has actually happened as a result of the change programme and the extent to which its objectives and therefore the expected added value have been achieved. The reasons for any shortcomings should be established so that corrective action can be taken where necessary.

## Guidelines for change management

- The achievement of sustainable change requires strong commitment and visionary leadership from the top.
- Those concerned with managing change at all levels should have the temperament and leadership skills appropriate to the circumstances of the organization and its change strategies.
- People can see the purpose of the change and agree with it.
- People have the skills required for the new behaviour.
- Key people act as role models for the new behaviour.
- Understanding is necessary of the culture of the organization and the levers for change that are most likely to be effective in that culture.
- Change is more likely to be successful if there is a 'burning platform' to justify it, ie a powerful and convincing reason for change.
- Every effort must be made to explain the reasons for the change and any benefits it provides for people.
- People support what they help to create. Commitment to change is improved if those affected by change are allowed to participate as fully as possible in planning and implementing it. The aim should be to get them to 'own' the change as something they want and will be glad to live with.
- The 'big bang' approach to change is not always the best one. Nudge theory states that a series of small actions make a greater impact on how people behave than one large one. 'Nudging' means that people can more easily absorb what is happening. They are not forced to accept huge changes or make big decisions all at once.
- Change may involve new skills and may be resisted because people are nervous about acquiring and using them. It is essential

therefore to include training in new skills as part of the change programme.

- It is important to build a working environment that is conducive to change. Learning and development programmes can help to do this.
- It is easier to change behaviour by changing processes, structure and systems than to change attitudes or the organizational culture.
- The reward system should encourage innovation and recognize success in achieving change.
- Change will always involve failure as well as success. The failures must be expected and learnt from.
- Hard evidence and data on the need for change are the most powerful tools for its achievement, but establishing the need for change is easier than deciding how to satisfy it.
- There are always people in organizations who can act as champions of change. They will welcome the challenges and opportunities that change can provide. They are the ones to be chosen as change agents. They can act as role models for the change.
- Influencing skills (see Chapter 67) are required to manage change.
- Resistance to change is inevitable if the individuals concerned feel that they are going to be worse off – implicitly or explicitly. The inept management of change will produce that reaction.
- In an age of global competition, technological innovation, turbulence, discontinuity, even chaos, change is inevitable and necessary. The organization must do all it can to explain why change is essential and how it will affect everyone. Moreover, every effort must be made to protect the interests of those affected by change.

## Key learning points

### Levers for change

Change management makes use of levers for change in order, as described by Unilever, to make it understood, make it easy, make it rewarding and make it a habit. Levers for change are any methods or approaches that can be used to achieve a desired result.

### The psychology of change management

To persuade and enable a person to start, conduct and complete a behaviour change it is necessary to ensure that:

- the individual can see the purpose of the change and agrees with it;
- the rewards and recognition system supports the new behaviour;
- the individual has the skills for the new behaviour;
- the people who are role models are seen to model the new behaviour.

### The role of HR in leading and facilitating change

Leading and facilitating change are two of the key roles of HR professionals. In practice, they are probably the most demanding of all HR roles.

### Leading change

Leading change involves initiating and managing culture change (the process of changing the organization's culture in the shape of its values, norms and beliefs) and the introduction of new structures, systems, working practices and people management processes.

### Facilitating change

Change management is largely about facilitation.

## The change process

The change process starts with an awareness of the need for change. An analysis of this situation and the factors that have created it leads to a diagnosis of their distinctive characteristics and an indication of the direction in which action needs to be taken. Possible courses of action can then be identified and evaluated and a choice made of the preferred action.

## Change models

The main change models are those produced by Lewin, Beckhard, Thurley and Beer *et al.*

## Reasons for resistance to change

The shock of the new, economic fears, inconvenience, uncertainty, symbolic fears, threat to interpersonal relationships, threat to status or skills, competence fears.

## Overcoming resistance to change

- Analyse the potential impact of change by considering how it will affect people in their jobs.
- Identify the potentially hostile or negative reactions of people.

- Make ample provision for the discussion of reactions to proposals to ensure complete understanding of them.
- Get 'ownership' – a feeling amongst people that the change is something they are happy to live with because they have been involved in its planning and introduction.
- Prepare and implement a communication strategy to explain the proposed change.

## Implementing change

Implementation failures usually involve the failure to acknowledge and build the needed skills and organizational capabilities, to gain support of the workforce, and to support the organizational changes and learning required to behave in new ways.

## Change management programmes

Change management programmes come in all sorts of shapes and sizes depending on the nature and scale of the change. But they can be organization-wide as in a major organization development programme and an integrated strategic change approach as conceived by Worley *et al* (1996) may be appropriate.

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# 67

## Influencing skills

### Introduction

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HR professionals are in the business of influencing people. They have to persuade senior management, line managers and employees generally to accept their advice or proposals. Influencing involves case presentation and submitting business cases. HR professionals can often be concerned with more subtle forms of influencing people by acting as facilitators and leading discussions in focus groups or meetings.

### Persuading people

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HR specialists spend a lot of time persuading other people to accept their ideas and suggestions. Persuasion is akin to selling; you may feel that good ideas should sell themselves, but life is not like that. People resist change and anything new is usually treated with suspicion. Here are 10 rules for effective persuasion:

- 1 *Define your objective and get the facts.* If you are persuading someone to agree to a proposal, first decide what you want to achieve and why. Assemble all the facts you need to support your case. Eliminate emotional arguments so that you and others can judge the proposition on the facts alone.
- 2 *Define the problem.* If there is a problem to resolve and you are trying to persuade someone to accept your views on what should be done about it, first decide whether the problem is a misunderstanding (a failure to understand each other accurately) or a true disagreement (a failure to agree even when both parties understand one another). It is not necessarily possible to resolve a true

disagreement by understanding each other better. People generally believe that an argument is a battle to understand who is correct. More often, it is a battle to decide who is more stubborn.

- 3 *Find out what the other party wants.* The key to all persuasion is to see your proposition from the other person's point of view. Find out how they look at things. Establish what they need and want.
- 4 *Accentuate the benefits.* Present your case in a way that highlights the benefits to the other party or at least reduces any objections or fears.
- 5 *Predict the other person's response.* Everything we say should be focused on that likely response. Anticipate objections by asking yourself how the other party might react negatively to your proposition and thinking up ways of responding to them.
- 6 *Create the other person's next move.* It is not a question of deciding what we want to do but what we want the other person to do.
- 7 *Convince people by reference to their own perceptions.* People decide on what to do on the basis of their own perceptions, not yours.
- 8 *Prepare a simple and attractive proposition.* Make it as straightforward as possible. Present the case 'sunny side up', emphasizing its benefits. Break the problem into manageable pieces and deal with them one step at a time.
- 9 *Make the other person a party to your ideas.* Get them to contribute. Find some common ground so that you can start with agreement. Don't try to defeat them in an argument – you will only antagonize them.

- 10** *Clinch and take action.* Choose the right moment to clinch the proposal – don't prolong the discussion and risk losing it. But follow up promptly.

can be difficult to make a case for experiments or pilot schemes unless the decision maker can see what the benefits and the ultimate bill will be.

## Case presentation

Persuasion frequently means making a case for what you think should be done. You have to convince people to believe in your views and accept your recommendations. To do this, you must have a clear idea of what you want, and you have to show that you believe in it yourself. Above all, the effectiveness of your presentation will depend upon the care with which you have prepared it.

Thorough preparation is vital. You must think through not only what should be done and why, but also how people will react. Only then can you decide how to make your case: stressing the benefits without underestimating the costs, and anticipating objections. The four steps you should take are:

- 1** Show that your proposal is based on a thorough analysis of the facts and that the alternatives were properly evaluated before the conclusion was reached. If you have made assumptions, you must demonstrate that these are reasonable on the basis of relevant experience and justifiable projections, which allow for the unexpected. Bear in mind that a proposal is only as strong as its weakest assumption.
- 2** Spell out the benefits – to the company and/or the individuals to whom the case is being made. Wherever possible, express benefits in financial terms. Abstract benefits, such as customer satisfaction or workers' morale, are difficult to sell. But don't produce 'funny numbers' – financial justification that will not stand up to examination.
- 3** Reveal costs. Don't try to disguise them in any way. And be realistic. Your proposition will be destroyed if anyone can show that you have underestimated the costs.
- 4** Remember, senior management decision makers want to know in precise terms what they will get for their money. Most are likely to be cautious, being unwilling and often unable to take much risk. For this reason, it

## Making a business case

You may be asked specifically to produce a business case. This will set out the reasons why a proposed course of action will benefit the business, how it will provide that benefit and how much it will cost. A business case is a particular form of persuasion and all the points made above apply to its preparation and presentation. But there are some special features about business cases, as described below.

A business case is typically made either in added-value terms (ie the income generated by the proposal will significantly exceed the cost of implementing it), or on the basis of the return on investment or ROI (ie the cost of the investment, say in training, is justified by the financial returns in such areas as increased productivity). Clearly, a business case is more convincing when it is accompanied by realistic projections of added value or ROI. When people make out a case for capital expenditure they analyse the cash flows associated with the investment and calculate the benefits – in financial terms as far as possible – that are likely to arise from them. The objective is to demonstrate that in return for paying out a given amount of cash today, a larger amount will be received over a period of time.

It can be more difficult to make out a business case for an HRM innovation in financial terms. The costs can and should be calculated but the benefits may have to be expressed in qualitative terms. A business case will be enhanced if:

- Data is available on the impact the proposal is likely to make on key areas of the organization's operations, eg customer service levels, quality, shareholder value, productivity, income generation, innovation, skills development, talent management.
- It can be shown that the proposal will increase the business's competitive edge, for example enlarging the skill base or multi-skilling to ensure that it can achieve competitive advantage through innovation and/or reducing time to market.

- There is proof that the innovation has already worked well within the organization (perhaps as a pilot scheme) or represents ‘good practice’ that is likely to be transferable to the organization.
- It can be implemented without too much trouble, for example not taking up a lot of managers’ time, or not meeting with strong opposition from line managers, employees or trade unions (it is as well to check the likely reaction before launching a proposal).
- It will add to the reputation of the company by showing that it is a ‘world class’ organization, ie what it does is as good as, if not better than, the world leaders in the sector in which the business operates (a promise that publicity will be achieved through articles in professional journals, press releases and conference presentations will help).
- It will enhance the ‘employer brand’ of the company by making it a ‘best place to work’.
- The proposal is brief, to the point and well argued – it should take no more than five minutes to present orally and should be summarized in writing on the proverbial one side of one sheet of paper (supplementary details can be included in appendices).

Making the business case is obviously easier where management is preconditioned to agree to the proposition. For example, it is not hard to convince top managers that performance-related pay is a good thing – they may well be receiving bonus payments themselves and believe, rightly or wrongly, that because it motivates them it will motivate everyone else. Talent management is another process where top management needs little persuasion that things need to be done to enhance and preserve the talent flow, although they will have to be convinced that, in practice, innovations will achieve that aim. Performance management may be slightly more difficult because it is hard to demonstrate that it can produce measurable improvements in performance, but senior managers are predisposed towards an approach that at least promises to improve the level of performance.

The toughest area for justification in added-value terms can be expenditure on learning and development (L&D) programmes. This is where an ROI approach is desirable. The business case for learning and development should demonstrate how

learning, training and development programmes will meet business needs. The following points could be made to support an L&D initiative:

- Improve individual, team and corporate performance in terms of output, quality, speed and overall productivity.
- Attract high-quality employees by offering them learning and development opportunities, increasing their levels of competence and enhancing their skills, thus enabling them to obtain more job satisfaction, gain higher rewards and progress within the organization.
- Provide additional non-financial rewards (growth and career opportunities) as part of a total reward policy in order to enhance engagement.
- Improve operational flexibility by extending the range of skills possessed by employees (multi-skilling).
- Increase the commitment of employees by encouraging them to identify with the mission and objectives of the organization.
- Help to manage change by increasing understanding of the reasons for change and providing people with the knowledge and skills they need to adjust to new situations.
- Provide line managers with the skills required to manage and develop their people.
- Help to develop a positive culture in the organization, one, for example, that is oriented towards performance improvement.
- Provide higher levels of service to customers.
- Minimize learning costs (reduce the length of learning curves).

## Facilitating

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Facilitating is the process of helping a group reach conclusions in the shape of ideas and solutions. Facilitators do not ‘chair’ a meeting in the sense of controlling the discussion and pressurizing the group to agree to a course of action. The group is there to make up its own mind and the facilitator helps it to do so. The facilitator is exerting influence, but indirectly. Facilitation is also used in learning and development as described in Chapter 64.

Facilitators ensure that everyone has their say and that they are listened to. They step in quickly to defuse unproductive arguments. They see that the group defines and understands its objectives and any methodology they might use. They summarize from time to time the progress made in achieving the objectives, without bringing their own views to bear. Facilitators are there to ensure that the group makes progress and does not get stuck in fruitless or disruptive argument. They encourage the group rather than drive it forward.

## Coordinating discussions

Coordinating discussions is a matter of getting active participation and then ensuring that the discussion informs people of the issues related to the subject and leads to a conclusion that satisfies the participants. HR practitioners lead discussions when they are taking part in L&D activities. Importantly, discussion is also a means of persuading people to do or accept something by getting them to participate in analysing the issues and reaching a joint and acceptable conclusion.

The following techniques can be used to get active participation and to coordinate the process:

- Ask for contributions by direct questions.
- Use open-ended questions that will stimulate thought.
- Check understanding; make sure that everyone is following the argument.
- Encourage participation by providing support rather than criticism.
- Prevent domination by individual members of the group by bringing in other people and asking cross-reference questions.
- Avoid dominating the group yourself. The leader's job is to guide the discussion, maintain control and summarize from time to time. If necessary, 'reflect' opinions expressed by individuals back to the group to make sure they find the answer for themselves. The leader is there to help the group reach a conclusion, not to do it for them.
- Maintain control – ensure that the discussion is progressing along the right lines towards a firm conclusion.

### Key learning points

#### Influencing people

HR professionals are often involved in influencing others' thinking and decision making. They must know about persuading people and case presentation.

#### Persuading people

HR specialists spend a lot of time persuading other people to accept their ideas and suggestions. Persuasion is akin to selling; you may feel that good ideas should sell themselves, but life is not like that. People resist change and anything new is usually treated with suspicion.

#### Case presentation

Persuasion frequently means making a case for what you think should be done. You have to convince people to believe in your views and accept your recommendations. To do this, you must have a clear

idea of what you want, and you have to show that you believe in it yourself.

#### Making a business case

A business case sets out the reasons why a proposed course of action will benefit the business, how it will provide that benefit and how much it will cost.

#### Facilitating

Facilitating is the process of helping a group reach conclusions in the shape of ideas and solutions.

#### Coordinating discussions

Coordinating discussions is a matter of getting active participation and then ensuring that the discussion informs people of the issues related to the subject and leads to a conclusion that satisfies the participants.

How should discussions be conducted?

# 68

## Leadership skills

### Introduction

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HR professionals need to know about leadership for four reasons: (1) they have to exercise leadership in persuading others to do things; (2) they are concerned with the development of leaders in the organization; (3) at a more senior level they have to lead teams; and (4) they are involved in leading change. The purpose of this chapter is to meet this need by analysing the process of leadership and the skills involved.

### The meaning of leadership

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To lead people is to influence, guide and inspire. Leadership can be described as the ability to persuade others willingly to behave differently. It is the process of getting people to do their best to achieve a desired result. It involves developing and communicating a vision for the future, motivating people and securing their engagement. As Stogdill (1950: 3) explained, leadership is an ‘influencing process aimed at goal achievement’.

### Leadership theories

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Leadership is a complicated notion and a number of theories have been produced to explain it. These theories, as summarized below, have developed over the years and explore a number of different facets of leadership and leadership behaviour. In many ways they complement one another and together they help to gain a comprehensive understanding of what the process of leadership is about.

Trait theory, which explains leadership by reference to the qualities leaders have, is the basic and to many people the most familiar theory. But it has its

limitations, and pragmatic research was carried out to identify what types of behaviour characterized leadership rather than focusing on the personalities of leaders. The key leadership behaviour studies conducted by the Universities of Michigan and Ohio State led to the identification of two dimensions of leadership behaviour, respectively: employee as distinct from job-centred behaviour, and the processes of consideration and initiating structure.

The next step in the development of leadership theory was the recognition by researchers that what leaders did and how they did it was dependent or contingent on the situation they were in (Fiedler, 1967). Different traits became important; different behaviours or styles of leadership had to be used to achieve effectiveness in different situations. These studies resulted in the theories of contingent and situational leadership.

Next, traits theory was in effect revived by Goleman (2001) in the notion of emotional intelligence as a necessary attribute of leaders. Most recently Ulrich put his oar in alongside his colleague Smallwood (2007) with the notion of the leadership brand as a comprehensive approach to leadership by organizations.

### **The problem with leadership theories**

Despite all the research and theorizing, the concept of leadership is still problematic. As Meindl *et al* (1985: 78) commented: ‘It has become apparent that, after years of trying, we have been unable to generate an understanding of leadership that is both intellectually compelling and emotionally satisfying. The concept of leadership remains elusive and enigmatic.’

These problems may arise because, as a notion, leadership is difficult to pin down. There are many different types of situations in which leaders

operate, many different types of leaders and many different leadership styles. Producing one theory that covers all these variables is difficult if not impossible. All that can be done is to draw on the various theories that exist to explain different facets of leadership without necessarily relying on any one of them for a comprehensive explanation of what is involved.

Perhaps leadership is best defined by considering what leaders do and how they do it (the different styles they adopt), examining what sort of leaders carry out these activities and practise these styles, and looking at any empirical evidence available on what makes them good leaders. These are all covered in the next four sections of this chapter.

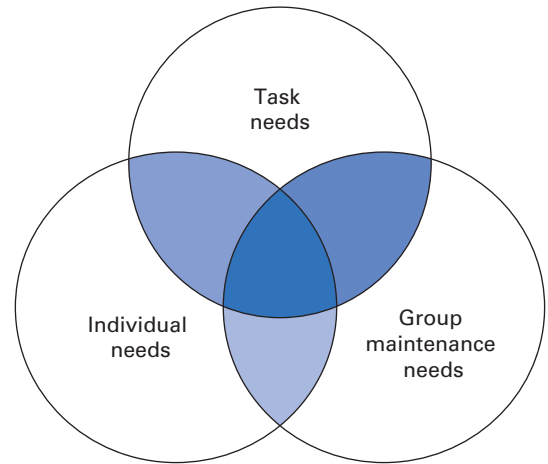
## What leaders do

The most convincing analysis of what leaders do was produced some time ago by Adair (1973). He explained that the three essential roles of leaders are to:

- *Define the task* – they make it quite clear what the group is expected to do.
- *Achieve the task* – that is why the group exists. Leaders ensure that the group's purpose is fulfilled. If it is not, the result is frustration, disharmony, criticism and, eventually perhaps, disintegration of the group.
- *Maintain effective relationships* – between themselves and the members of the group, and between the people within the group. These relationships are effective if they contribute to achieving the task. They can be divided into those concerned with the team and its morale and sense of common purpose, and those concerned with individuals and how they are motivated.

He suggested that demands on leaders are best expressed as three areas of need which they must satisfy. These are: (1) task needs: to get the job done; (2) individual needs: to harmonize the needs of the individual with the needs of the task and the group; and (3) group maintenance needs: to build and maintain team spirit. As can be seen in Figure 68.1, he modelled these demands as three interlocking circles.

**FIGURE 68.1** John Adair's model of leadership



This model indicates that the task, individual and group needs are interdependent. Satisfying task needs will also satisfy group and individual needs. Task needs, however, cannot be met unless attention is paid to individual and group needs, and looking after individual needs will also contribute to satisfying group needs, and vice versa. There is a risk of becoming so task-oriented that leaders ignore individual and group or team needs. It is just as dangerous to be too people-oriented, focusing on meeting individual or group needs at the expense of the task. The best leaders are those who keep these three needs satisfied and in balance, according to the demands of the situation.

## Leadership styles

Leadership style is the approach managers use in exercising leadership when they are relating to their team members. It is sometimes called 'management style'. There are many styles of leadership and no one style is necessarily better than the other in any situation. To greater or lesser degrees, leaders can be autocratic or democratic, controlling or enabling, task-oriented or people-centred. Goleman (2000) identified the following six styles and indicated when they might be used:

- 1 *Coercive* – demands compliance (use in a crisis or with problem people).



- 2 *Authoritative* – mobilizes people (use when new vision and direction is needed).
- 3 *Affiliative* – creates harmony (use to heal wounds and to motivate people under stress).
- 4 *Democratic* – forges consensus (use to build agreement and get contributions).
- 5 *Pacesetter* – sets high standards (use to get fast results from a motivated team).
- 6 *Coaching* – develops people (to improve performance and develop strengths).

In line with contingency and situational theories it should not be assumed that any one style is right in any circumstances. There is no such thing as an ideal leadership style. The factors affecting the degree to which a style is appropriate will be the type of organization, the nature of the task, the characteristics of the individuals in the leader's team (the followers) and of the group as a whole and, importantly, the personality of the leader.

Effective leaders are capable of flexing their style to meet the demands of the situation. Normally democratic leaders may have to shift into more of a directive mode when faced with a crisis, but they make clear what they are doing and why. Poor leaders change their style arbitrarily so that their team members are confused and do not know what to expect next.

Good leaders may also flex their style when dealing with individual team members according to their characteristics. Some people need more positive directions than others. Others respond best if they are involved in decision making with their boss. But there is a limit to the degree of flexibility that should be used. It is unwise to differentiate too much between the ways in which individuals are treated or to be inconsistent in one's approach.

## Types of leaders

To understand the process of leadership (and, incidentally, provide a basis for leadership development programmes) it is useful not only to analyse the styles that leaders can adopt but also to classify the different types of leaders that apply those styles. As described below, leaders can be charismatic, visionary, transformational, transactional or 'authentic'. However, typical leaders may exhibit any or even all of these characteristics either consistently or in response to the situation in which they find themselves.

Leadership may be exercised by a few selected authoritative individuals and many studies focus on top managers as 'charismatic' or 'visionary' leaders. But it may and indeed should take the form of distributed leadership, which is spread through the organization amongst people working together by processes of influence and interdependencies. As Huczynski and Buchanan (2007: 720) commented: 'Leadership is a widely distributed phenomenon. Leadership functions are best carried out by those who have the interest, knowledge, skills and motivation to perform them effectively.' The possibility that people who become managers may not have these qualities to a desirable extent creates a need for systematic leadership development programmes.

### Charismatic leaders

Charismatic leaders rely on their personality, their inspirational qualities and their 'aura' to get people to follow them. Burns (1978), who coined the term, suggested that charismatic leaders were set apart from ordinary people and treated as being endowed with exceptional powers or qualities that inspire followers.

Conger and Kanungo (1998) described charismatic leadership as a process of formulating an inspiring vision of the future and then demonstrating the importance of the articulated vision. This may involve unconventional behaviour that conveys important goals that are part of the vision and demonstrates means to achieve these goals. Charismatic leaders also take risks and motivate followers by setting a personal example. In this sense, charismatic leaders operate as visionary and transformational leaders, as described below.

But Carey (1992: 232) charged that 'when the gifts of charisma, inspiration, consideration and intellectual strength are abused for the self-interest of the leader, the effect on followers ceases to be liberating and moral and becomes instead oppressive and ideological.' And Bennis (2010: 4) commented that 'the ability to inspire trust, not charisma, is what enables leaders to recruit others to a cause.'

### Visionary leaders

Visionary leaders are inspired by a clear vision of an exciting future and inspire their followers by successfully conveying that vision to them. Bennis and



Nanus (1985) defined a vision as ‘a target that beckons’. Their notion of visionary leadership was explained as follows:

### Words of wisdom

To choose a direction, a leader must first have developed a mental image of a possible and desirable future state of the organization. This image, which we call a vision, may be as vague as a dream or as precise as a goal or mission statement. The critical point is that a vision articulates a view of a realistic, credible and attractive future for the organization, a condition that is different in some important ways from one that now exists.

Bennis and Nanus (1985: 89)

Kouzes and Posner (2003: 112) claimed that: ‘One of *the* most important practices of leadership is giving life and work a sense of meaning and purpose by offering an exciting vision.’

## Transformational leaders

Transformational leaders are able, by force of their personality, to make significant changes in the behaviour of their followers in order to achieve the leader’s vision or goals. As described by Burns (1978), what he called ‘transforming leadership’ involves motivating people to strive for higher goals. He believed that good leadership implies a moral responsibility to respond to the values and needs of people in a way that is conducive to the highest form of human relations. As he put it: ‘The ultimate test of moral leadership is its capacity to transcend the claims of the multiplicity of everyday needs, wants and expectations’ (ibid: 46).

Another researcher, Bass (1985), extended the work of Burns by explaining the psychological mechanisms that underlie transforming leadership. He pointed out that the extent to which leaders are transformational is measured by their influence on

their followers in terms of the degree to which they feel trust, admiration, loyalty and respect for the leader and are willing to work harder than originally expected. According to Bass, this occurs because the leader transforms and motivates through an inspiring mission and vision and gives them an identity. Tichy and Devanna (1986) concluded that the transformational leader has three main roles: recognizing the need for revitalization, creating a new vision and institutionalizing change.

Yukl (1999) advised that transformational leaders should:

- develop a challenging and attractive vision together with employees;
- tie the vision to a strategy for its achievement;
- develop the vision, specify and translate it to actions;
- express confidence, decisiveness and optimism about the vision and its implementation;
- realize the vision through small planned steps and small successes on the path to its full implementation.

## Transactional leaders

Transactional leaders trade money, jobs and security for compliance. As Burns (1978: 19) noted: ‘Such leadership occurs when a person takes the initiative in making contact with others for the purpose of an exchange of valued things.’ Tavanti (2008: 169) stated that: ‘Transactional leaders exhibit specific leadership skills usually associated with the ability to obtain results, to control through structures and processes, to solve problems, to plan and organize, and work within the structures and boundaries of the organization.’ Put like this, a transactional leader conforms to the stereotype of the manager rather than the leader. Bass (1985) argued that leaders can display both transformational and transactional characteristics. Tavanti (2008) also observed that transactional leadership behaviour is used to one degree or another by most leaders, but that: ‘Particular instances of transactional leadership are motivated simply by people’s wants and preferences. This form of leadership uncritically responds to our preferences, that is, even when they are grounded in base motivations or an undeveloped moral sense’ (ibid: 171).

## Authentic leaders

The concept of the authentic leader was originally defined by George as follows:

### Words of wisdom

Authentic leaders genuinely desire to serve others through their leadership. They are more interested in empowering the people they lead to make a difference than they are in power, money or prestige for themselves. They lead with purpose, meaning and values. They build enduring relationships with them. Others follow them because they know where they stand. They are consistent and self-disciplined.

George (2003: 12)

Authenticity was described by Harter (2002: 382) as ‘owning one’s personal experiences, be they thoughts, emotions, needs, preferences, or beliefs, processes captured by the injunction to know oneself and behaving in accordance with the true self.’ Authentic leadership is based on a positive moral perspective characterized by high ethical standards that guide decision making and behaviour (May *et al*, 2003). As Avolio *et al* (2004) explained, authentic leaders act in accordance with deep personal values and convictions to build credibility and win the respect and trust of followers. By encouraging diverse viewpoints and building networks of collaborative relationships with followers, they lead in a manner that followers perceive and describe as *authentic*.

George *et al* (2007: 129) set out the basis of authentic leadership as follows:

### Source review

We all have the capacity to inspire and empower others. But we must first be willing to devote ourselves to our personal growth and development

as leaders... No one can be authentic by trying to imitate someone else. You can learn from others’ experiences, but there is no way you can be successful when you are trying to be like them. People trust you when you are genuine and authentic, not a replica of someone else.

Authentic leadership is, in essence, ethical leadership. Walumbwa *et al* (2008) claimed that it can lead to enhanced trust, job satisfaction and performance.

## The reality of leadership

The reality of leadership is that many first-line managers and team leaders are appointed or promoted to their posts with some idea, possibly, of what their managerial or supervisory duties are, but with no appreciation of the leadership skills they need. They see their role as being to tell people what to do and then see that they do it. They may tend to adopt a transactional approach, focusing on getting the job done and neglecting everything else. They may not be charismatic, visionary or transformational leaders because even if they have the latent qualities required, their situation does not seem to require or encourage any of these approaches.

However, the better ones will rely on their know-how (authority goes to the person who knows), their quiet confidence and their cool, analytical approach to dealing with problems. Any newly appointed leader or individual who is progressing to a higher level of leadership will benefit from a leadership development programme (see Chapter 36), which will help them to understand and apply the skills they need.

## The qualities of a good leader

Research into the qualities associated with effective leadership in organizations has focused on three distinct sets of requirements:

- cognitive requirements – the ability to make sound decisions and exercise judgement;
- social requirements – the capacity to inspire, persuade and engage others;

- self-motivational requirements – the desire to take on leadership responsibilities.

As mentioned earlier, the trait theory of leadership has its limitations but there is still some value in studying the qualities required by good leaders. It is generally accepted that one of the key skills a leader or manager needs is an ability to analyse and read situations and to establish order and clarity in situations of ambiguity. Gold *et al* (2010: 6) stated that: ‘Leadership demands a sense of purpose, and an ability to influence others, interpret situations, negotiate and express their views, often in the face of opposition.’

Research conducted by Tamkin *et al* (2010) involving 260 in-depth interviews conducted with 77 business leaders from six high-profile organizations, found that outstanding leaders:

- view things as a whole rather than compartmentalizing them;
- connect the parts through a guiding sense of purpose;
- are highly motivated to achieve excellence and are focused on organizational outcomes, vision and purpose;
- understand they cannot create performance themselves but are conduits for performance through their influence on others;
- watch themselves carefully and act consistently to achieve excellence through their interactions and their embodiment of the leadership role.

## Effective leadership

Effective leaders are confident and know where they want to go and what they want to do. They have the ability to take charge, convey their vision to their team, get their team members into action and ensure that they achieve their agreed goals. They know how to build well-functioning teams. They are trustworthy, good at influencing people and earn the respect of their team. They are aware of their own strengths and weaknesses and are skilled at understanding what will motivate their team members. They appreciate the advantages of consulting and involving people in decision making. They can switch flexibly from one leadership style to another to meet the demands of different situations and people. Brindle

(2016) reported research commissioned by Firstline, the social work training organization. The finding of the study, which obtained evidence from 169 key figures in the social work sector, was that outstanding leaders create a climate that energizes teams to improve the impact they make, giving them stability, clear direction and definition of role, plus the space and time to reflect on practice and develop their own leadership skills.

Effective leaders endeavour to answer the following questions about the individuals in the group and the team.

### Individuals

The questions leaders need to answer about their team members are:

- What are their strengths and weaknesses?
- What are their needs, attitudes, perspectives and preferences?
- What are likely to be the best ways of motivating them?
- What tasks are they best at doing?
- Is there scope to increase flexibility by developing new skills?
- How well do they perform in achieving targets and performance standards?
- To what extent can they manage their own performance and development?
- Are there any areas where there is a need to develop skill or competence?
- How can I provide them with the sort of support and guidance that will improve their performance?
- What can be done to improve the performance of any individuals in the group by coaching or mentoring?

### The team

The questions leaders need to answer about their team members are:

- How well is the team organized?
- Is the team clear about what is expected of it?
- Do the members of the team work well together?

- If there is any conflict between team members, how can I resolve it?
- How can the commitment and motivation of the team be achieved?
- Are team members flexible – capable of carrying out different tasks?
- To what extent can the team manage its own performance?
- Is there scope to empower the team so that it can take on greater responsibility for setting standards, monitoring performance and taking corrective action?
- Can the team be encouraged to work together to produce ideas for improving performance?
- What is the team good and not so good at doing?
- What can I do to improve the performance of the team through coaching and mentoring?

### Key learning points

#### Leadership defined

Leadership is the process of influencing the behaviour of others to achieve results.

#### Leadership theories

The main leadership theories are trait theory, leadership behaviour theory, contingent and situational theories, emotional intelligence theory and the leadership brand.

#### What leaders do

Adair (1973) explained that the three essential roles of leaders are to define the task, achieve the task, and maintain effective relationships. Leaders have to satisfy interdependent task, individual and group needs.

#### Types of leaders

Leaders can be charismatic, visionary, transformational, transactional or 'authentic'.

#### The qualities of a good leader

Leaders need the ability to analyse and read situations and to establish order and clarity in situations of ambiguity. Leadership demands a sense of purpose and an ability to influence others, interpret situations, negotiate and express their views, often in the face of opposition (Gold *et al*, 2010: 6).

The reality of leadership is that many first-line managers and supervisors are appointed or promoted to their posts with some idea, possibly, of what their managerial or supervisory duties are, but with no appreciation of the leadership skills they need to get the results they want with the help of their team.

#### Team building

Team building involves clarifying the team's purpose and goals, ensuring that its members work well together, strengthening the team's collective skills, enhancing commitment and confidence, removing externally imposed obstacles and creating opportunities for team members to develop their skills and competencies.

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# Handling people problems

## Introduction

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An important part of the transactional role of HR professionals is handling people problems directly or by providing advice and guidance to line managers. Problem-solving skills, described in Chapter 58, are required but it is also necessary to advise overall on how to handle disciplinary problems and how to deal with absenteeism, poor timekeeping, negative behaviour and under-performance. Dealing with people problems may involve handling challenging conversations and this is covered in Chapter 70.

## Disciplinary issues

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Employees can be dismissed because they are not capable of doing the work, or for misconduct. It is normal to go through a formal disciplinary procedure containing staged warnings, but instant dismissal can be justified for gross misconduct (eg serious theft), which should be defined in the company's disciplinary procedure or employee handbook. Anyone who has completed more than two years' service can claim unfair dismissal if their employer cannot show that one of these reasons applied, if the dismissal was not reasonable in the circumstances, if a constructive dismissal has taken place, or if there has been a breach of a customary or agreed redundancy procedure and there are no valid reasons for departing from that procedure.

Even if the employer can show to an employment tribunal that there was good reason to dismiss the employee, the tribunal will still have to decide whether or not the employer acted in a reasonable way at the time of dismissal. The principles defining

'reasonable' behaviour are in line with the principles of natural justice and are as follows:

- the employee should be informed of the nature of the complaint;
- the employee should be given the chance to explain;
- the employee should be given the opportunity to improve, except in cases of particularly gross incapability or misconduct;
- the employee should be warned of the consequences in the shape of dismissal if specified improvements do not take place;
- the employer's decision to dismiss should be based on sufficient evidence;
- the employer should take any mitigating circumstances into account;
- dismissal should only take place if the offence or misbehaviour deserves it rather than some lesser penalty.

The organization should have a statutory disciplinary procedure (see Chapter 53). Managers need to know what that procedure is and the part they are expected to play in implementing it. Whether or not there is a formal procedure, if it is believed that disciplinary action is necessary the following steps should be taken by the manager, as guided by HR, in planning and conducting a disciplinary interview.

If all the stages in the disciplinary procedure have been completed and the employee has to be dismissed, or where immediate dismissal can be justified on the grounds of gross misconduct, a manager may have to carry out the unpleasant duty of dismissing the employee. This should be as guided by HR and it is advisable that an HR specialist is



involved in the dismissal meeting. This is best conducted as follows:

- Get all the facts in advance, including statements from the people involved.
- Invite the employee to the meeting in writing, explaining why it is being held and that he or she has the right to have someone present at the meeting on his or her behalf.
- Ensure that the employee has reasonable notice (ideally at least two days).
- Plan how to conduct the meeting.
- Line up another member of management to attend the meeting to take notes (they can be important if there is an appeal), generally provide support and witness the proceedings.
- Start the interview by stating the complaint to the employee and referring to the evidence.
- Give the employee plenty of time to respond and state his or her case.
- Take a break as required to consider the points raised and to relieve any pressure in the meeting.
- Consider what action is appropriate, if any. Actions should be staged, starting with a recorded warning followed, if the problem continues, by a first written warning, then a final written warning and lastly, if the earlier stages have been exhausted, disciplinary action, which would be dismissal in serious cases.
- Deliver the decision, explaining why it has been taken and confirm it in writing.
- If possible, meet when everything is quiet, preferably on a Friday.
- Keep the meeting formal and organized.
- Write down what is going to be said in advance, giving the reason and getting your facts, dates and figures right.
- Be polite but firm – read out what has been written down and make it clear that it is not open for discussion.
- Ensure that the employee clears his or her desk and has no opportunity to take away confidential material or use his or her computer.

- See the employee off the premises – some companies use security guards as escorts; this might be rather heavy-handed, although it could be useful to have someone on call in case of difficulties.

## Absenteeism

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A frequent people problem managers and HR professionals have to face is absenteeism. It may be necessary to deal with recurrent short-term (one or two days) absence or longer-term sickness absence.

### *Recurrent short-term absence*

Dealing with people who are repeatedly absent for short periods can be difficult. This is because it may be hard to determine when occasional absence becomes a problem or whether it is justifiable, perhaps on medical grounds.

So what can be done about it? Many organizations provide guidelines to managers on the ‘trigger points’ for action (the amount of absence that needs to be investigated), perhaps based on analyses of the incidence of short-term absence and the level at which it is regarded as acceptable (there may be software to generate analyses and data that can be made available direct to managers through a self-service system). If guidelines do not exist, HR specialists should be available to provide advice.

It is necessary to decide when something needs to be done and then what to do about it. A day off every other month may not be too serious, although if it happens regularly on a Monday (after weekends in Prague, Barcelona, etc?) or a Friday (before such weekends?) you may feel like having a word with the individual, not as a warning but just to let him or her know that you are aware of what is going on. There may be a medical or other acceptable explanation. Return-to-work interviews can provide valuable information and an opportunity to discuss any problems. The individual is seen and given the chance to explain the absence.

In persistent cases of absenteeism an absence review meeting can be held. Although this would be more comprehensive than a return-to-work interview it should not at this stage be presented as part of a disciplinary process. The meeting should be positive and constructive. If absence results from a



health problem it can be established what is being done about it, and if necessary suggest that his or her doctor should be consulted. Or absences may be caused by problems facing a parent or a carer. In such cases it is right to be sympathetic but it would be reasonable to discuss with the individual what steps can be taken to reduce the problem or whether flexible working could be arranged. The aim is to get the employee to discuss as openly as possible any factors affecting his or her attendance and to agree any constructive steps.

If after holding an attendance review meeting and, it is to be hoped, agreeing the steps necessary to reduce absenteeism, short-term absence persists without a satisfactory explanation, then another meeting can be held that emphasizes the employee's responsibility for attending work. Depending on the circumstances (each case should be dealt with on its merits), at this meeting it can be indicated that absence levels should improve over a defined timescale (an improvement period). If this does not happen, the individual can expect more formal disciplinary action.

### **Dealing with long-term absence**

Dealing with long-term absence can also be difficult. The aim should be to facilitate the employee's return to work at the earliest reasonable point while recognizing that in extreme cases the person may not be able to come back. In that case he or she can fairly be dismissed for lack of capability as long as:

- the employee has been consulted at all stages;
- contact has been maintained with the employee – this is something you can usefully do as long as you do not appear to be pressing him or her to return to work before he or she is ready;
- appropriate medical advice has been sought from the employee's own doctor, but the employee's consent is needed and employees have the right to see the report – it may be desirable to obtain a second opinion;
- all reasonable options for alternative employment have been reviewed as well as any other means of facilitating a return to work.

The decision to dismiss should only be taken if these conditions are satisfied. It is a tricky one and it may be advisable to seek advice from an employment law expert.

## **Handling poor timekeeping**

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A poor timekeeping record may initially be dealt with by an informal warning. But if in spite of the warning lateness persists it may be necessary to invoke the disciplinary procedure. This would go through the successive stages of a recorded oral warning, a written warning and a final written warning which would indicate that timekeeping must improve by a certain date (the improvement period) otherwise disciplinary action would take place. If the final warning does not work, such action would be taken; in serious cases this would mean dismissal.

Note that this raises the difficult question of time limits which may be given when a final warning is given. If timekeeping does improve by that date, and the slate is wiped clean, it might be assumed that the disciplinary procedure starts again from scratch if timekeeping deteriorates again. But it is in the nature of things that some people cannot sustain efforts to get to work on time for long, and deterioration often occurs. In these circumstances, is it necessary to keep on going through the warning cycles time after time? The answer is no, and the best way to deal with this is to avoid stating a finite end date to a final warning period that implies a 'wipe the slate clean' approach. Instead, the warning should simply say that timekeeping performance will be reviewed on a stated date. If it has not improved, disciplinary action can be taken. If it has, no action will be taken, but the employee is warned that further deterioration will make him or her liable to disciplinary action, which may well speed up the normal procedure, perhaps by only using the final warning stage and by reducing the elapsed time between the warning and the review date. There will come a time, if poor timekeeping persists, when you can say 'enough is enough' and initiate disciplinary action.

## **Handling negative behaviour**

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Negative behaviour may take the form of lack of interest in the work, unwillingness to cooperate with team leaders or other members of the team, making unjustified complaints about the work or working conditions, grumbling at being asked to carry out a perfectly reasonable task, objecting

strongly to being asked to do something extra (or even refusing to do it) – ‘It’s not in my job description’ – or, in extreme cases, insolence. People exhibiting negative behaviour may be quietly resentful rather than openly disruptive. They mutter away in the background at meetings and lack enthusiasm.

Managers have to tolerate a certain amount of negative behaviour as long as the individual works reasonably well and does not upset other team members. They have simply to say to themselves, ‘It takes all sorts...’ and put up with it, although they might calmly say during a review meeting, ‘You’re doing a good job but...’. If, however, they take this line they have to be specific. They must cite actual instances. It is no good making generalized accusations that will either be openly refuted or internalized by the receiver, making him or her even more resentful.

If the negative behaviour means that the individual’s contribution is not acceptable and is disruptive, action has to be taken. Negative people can be quiet but they are usually angry about something; their negative behaviour is an easy way of expressing their anger. To deal with the problem it is necessary to find out what has made them angry.

### **Causes of negative behaviour**

There are many possible causes of negative behaviour, which could include one or more of the following:

- a real or imagined slight from their manager or a colleague;
- a feeling of being put upon;
- a belief that the contribution they make is neither appreciated nor rewarded properly in terms of pay or promotion;
- resentment at what was perceived to be unfair criticism;
- anger directed at the company or their manager because what was considered to be a reasonable request (such as for leave or a transfer) was turned down, or because of an unfair accusation.

### **Dealing with the problem**

It is because there can be such a variety of real or imagined causes of negative behaviour that dealing with it becomes one of the most difficult tasks line

managers and HR people have to undertake. If the action taken is crude or insensitive the negative behaviour will only be intensified. This might mean having to invoke the disciplinary procedure, which should be a last resort.

In one sense, it is easier to deal with an actual example of negative behaviour, as this can be handled on the spot. If the problem is one of general attitude rather than specific actions it is more difficult to cope with. Hard evidence may not be available. When individuals are accused of being, for example, generally unenthusiastic or uncooperative, they can simply go into denial and accuse you of being prejudiced. Their negative behaviour may be reinforced.

It is best to deal with this sort of problem informally, either when it arises or at any point during the year when it is felt that something has to be done about it. An annual formal performance review or appraisal meeting is not the right time, especially if it produces ratings that are linked to a pay increase. Raising the issue then will only put individuals on the defensive and a productive discussion will be impossible.

The discussion may be informal but it should have three clear objectives:

- 1 To review the situation with individuals, the aim being if possible to get them to recognize for themselves that they are behaving negatively. If this cannot be achieved, then the objective is to bring to the attention of individuals your belief that their behaviour is unacceptable in certain ways.
- 2 To establish the reasons for the individuals’ negative behaviour so far as this is feasible.
- 3 To agree any actions individuals could take to behave more positively, or what you or the organization could do to remove the causes of the behaviour.

### **Discussing the problem**

The starting point should be general questions about how individuals feel about their work. Do they have any problems in carrying it out? Are they happy with the support they get from you or their colleagues? Are they satisfied that they are pulling their weight to the best of their ability?

This generalized start provides the basis for the next two stages – identifying causes and any remedies.

It is best if individuals are encouraged to decide for themselves that there is a problem, but in many, if not the majority of cases, this is unlikely to happen. Individuals may not recognize that they are behaving negatively or will not be prepared to admit it.

It is then necessary to discuss the problem. They should be given time to say their piece. The response should spell out how justifiable grievances will be dealt with or why no action is necessary. In the latter case, an explanation should be given as to why the individual's behaviour gives the impression of being negative. This should be specific, bringing up actual instances. For example, a discussion could be based on the following questions: 'Do you recall yesterday's team meeting?', 'How did you think it went?', 'How helpful do you think you were in dealing with the problem?', 'Do you remember saying...?', 'How helpful do you think that remark was?', 'Would it surprise you to learn that I felt you had not been particularly helpful in the following ways...?'

Of course, even if this careful approach is adopted, individuals may still refuse to admit that there is anything wrong with their behaviour. If this impasse is reached, then there is no alternative but to spell out where it is believed they have gone wrong. But this should be done in a positive way: 'Then I think that it is only fair for me to point out to you that your contribution (to the meeting) would have been more helpful if you had...'

### Establishing causes

If the negative behaviour is because of a real or imagined grievance about what the manager, colleagues or the organization have done, then the individual has to be persuaded to spell this out as precisely as possible. At this point, the job of the manager or HR practitioner is to listen, not to judge. People can be just as angry about imaginary as real slights. You have to find out how they perceive the problem before you can deal with it.

It may emerge during the discussion that the problem has nothing to do with the manager or the company. It may be family troubles or worries about health or finance. If this is the case a sympathetic approach is appropriate, which may involve suggesting remedies in the form of counselling or practical advice from within or outside the organization. If the perceived problem is the manager, colleagues or

the organization, try to get chapter and verse on what it is so that remedial action can be taken.

### Taking remedial action

If the problem rests with the individual, the objective is, of course, to get them to recognize for themselves that corrective action is necessary and what they need to do about it – with help as necessary. In some situations you might suggest counselling or a source of advice might be recommended. But care needs to be taken; there should be no implication that there is something wrong with them. It is best to go no further than suggesting that individuals may find this helpful – they don't *need* it but they could *benefit* from it. Managers or HR specialists should not offer counselling themselves; this is better done by professional counsellors.

If there is anything specific that the parties involved in the situation can do, then the line to take is that the problem can be tackled together: 'This is what I will do', 'This is what the company will do', 'What do you think you should do?' If there is no response to the last question, this is the point where it is necessary to spell out the necessary action. This should be as specific as possible and expressed as suggestions, not commands. A joint problem-solving approach is always best.

### Ten approaches to handling negative behaviour

- 1 Define the type of negative behaviour which is being exhibited. Make notes of examples.
- 2 Discuss the behaviour with the individual as soon as possible, aiming to get agreement about what it is and the impact it makes.
- 3 If agreement is not obtained, give actual examples of behaviour and explain why you believe them to be negative.
- 4 Discuss and so far as possible agree reasons for the negative behaviour, including those attributed to the individual, yourself and the organization.
- 5 Discuss and agree possible remedies – actions on the part of the individual, yourself or the organization.

- 6 Monitor the actions taken and the results obtained.
- 7 If improvement is not achieved and the negative behaviour is significantly affecting the performance of the individual and the team, then invoke the disciplinary procedure.
- 8 Start with a verbal warning, indicating the ways in which behaviour must improve and give a time scale and offers of further support and help as required.
- 9 If there is no improvement, issue a formal warning, setting out as specifically as possible what must be achieved over a defined period of time, indicating the disciplinary action that could be taken.
- 10 If the negative behaviour persists and continues seriously to affect performance, take the disciplinary action.

## Dealing with under-performance

Poor performance can be the fault of the individual but it could arise because of poor leadership or problems in the system of work. In the case of an individual, the reason may be that he or she:

- could not do it – ability;
- did not know how to do it – skill;

- would not do it – attitude; or
- did not fully understand what was expected of him or her.

Inadequate leadership from managers can be cause of poor performance from individuals. It is the manager's responsibility to specify the results expected and the levels of skill and competence required. As likely as not, when people do not understand what they have to do it is their manager who is to blame.

Performance can also be affected by the system of work. If this is badly planned and organized or does not function well, individuals cannot be blamed for the poor performance that results. This is the fault of management and they must put it right.

If inadequate individual performance cannot be attributed to poor leadership or the system of work, there are seven steps that can be taken to deal with it:

- 1 Identify the areas of under-performance – be specific.
- 2 Establish the causes of poor performance.
- 3 Agree on the action required.
- 4 Ensure that the necessary support (coaching, training, extra resources etc) is provided to ensure the action is successful.
- 5 Monitor progress and provide feedback.
- 6 Provide additional guidance as required.
- 7 As a last resort, invoke the capability or disciplinary procedure (see Chapter 53), starting with an informal warning.

### Key learning points

#### The HR role in handling people problems

An important part of the transactional role of HR professionals is handling people problems by providing advice and guidance to line managers or directly.

#### Disciplinary issues

Employees can be dismissed because they are not capable of doing the work or for misconduct. It is normal to go through a formal disciplinary procedure containing staged warnings, but instant dismissal can be justified for gross misconduct (eg serious theft), which should be defined in the company's disciplinary procedure or employee handbook.

The organization should have a statutory disciplinary procedure. Managers need to know what that procedure is and the part they are expected to play in implementing it.

#### Absenteeism

A frequent people problem managers and HR professionals have to face is that of dealing with absenteeism. It may be necessary to deal with recurrent short-term (one or two days) absence or longer-term sickness absence.

Many organizations provide guidelines to managers on the 'trigger points' for action (the amount of absence which needs to be investigated), perhaps

based on analyses of the incidence of short-term absence and the level at which it is regarded as acceptable. If guidelines do not exist, HR specialists should be available to provide advice.

### Handling poor timekeeping

Faced with persistent lateness and when informal warnings to the individual concerned seem to have little effect, it may be necessary to invoke the disciplinary procedure. If timekeeping does not improve, this could go through the successive stages of a recorded oral warning, a written warning and a final written warning. If the final warning does not work, disciplinary action would have to be taken; in serious cases this would mean dismissal.

### Handling negative behaviour

Negative behaviour may take the form of lack of interest in the work, unwillingness to cooperate with team leaders or other members of the team, making unjustified complaints about the work or working conditions, grumbling at being asked to carry out a perfectly reasonable task, objecting strongly to being asked to do something extra (or even refusing to do it), or, in extreme cases, insolence.

It is because there can be such a variety of real or imagined causes of negative behaviour that dealing with it becomes one of the most difficult tasks line managers and HR people have to undertake. If the

action taken is crude or insensitive the negative behaviour will only be intensified. This might mean having to invoke the disciplinary procedure, which should be a last resort.

In one sense, it is easier to deal with an actual example of negative behaviour, as this can be handled on the spot. If the problem is one of general attitude rather than specific actions it is more difficult to cope with. It is best to deal with this sort of problem informally, either when it arises or at any point during the year when it is felt that something has to be done about it.

### Dealing with under-performance

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- 1 Identify the areas of under-performance – be specific.
- 2 Establish the causes of poor performance.
- 3 Agree on the action required.
- 4 Ensure that the necessary support (coaching, training, extra resources, etc) is provided to ensure the action is successful.
- 5 Monitor progress and provide feedback.
- 6 Provide additional guidance as required.
- 7 As a last resort, invoke the capability or disciplinary procedure (see Chapter 53), starting with an informal warning.

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## Handling challenging conversations

Many line managers and indeed HR specialists find it difficult to have conversations or hold meetings with individuals about performance or discipline issues. In advance these can look difficult and in practice they *can* be challenging if the manager wants to achieve desired changes or improvements in performance.

They can be even more challenging in prospect if it is feared that unpleasantness can occur in the shape of lack of cooperation or outright hostility, or in practice when this happens in spite of efforts to prevent it. The following is a 12-point guide to handling challenging conversations.

### Handling challenging conversations

- 1 Don't wait too long or until a formal meeting. Have a quiet word at the first sign that something is going wrong.
- 2 Get the facts in advance – what happened, when and why?
- 3 Plan the meeting on the basis of the facts and what is known about the individual. Define what is to be achieved.
- 4 Set the right tone from the start of the meeting – adopt a calm, measured, deliberate but friendly approach.
- 5 Begin the conversation by explaining the purpose of the meeting, indicating to the individual what the issue is and giving specific examples.
- 6 Focus on the issue and not the person.
- 7 Ask for an explanation. Ask unloaded questions to clarify the issues and explore them together.
- 8 Allow people to have their say and listen to them.
- 9 Keep an open mind and don't jump to conclusions.
- 10 Acknowledge the individual's position and any mitigating circumstances.
- 11 Ask the employee for proposals to resolve the situation, discuss the options and if possible agree on action by the individual, the manager or jointly.
- 12 If agreement cannot be reached, the way forward will have to be defined, with reasons and explanations of any actions proposed.



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## Managing conflict

### Introduction

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Conflict is inevitable in organizations because they function by means of adjustments and compromises among competitive elements in their structure and membership. Conflict also arises when there is change, because it may be seen as a threat to be challenged or resisted, or when there is frustration – this may produce an aggressive reaction: fight rather than flight.

Conflict is not to be deplored. It results from progress and change and it can and should be used constructively. Bland agreement on everything would be unnatural and enervating. There should be clashes of ideas about tasks and projects, and disagreements should not be suppressed. They should come out into the open because that is the only way to ensure that the issues are explored and conflicts are resolved.

There is such a thing as creative conflict – new or modified ideas, insights, approaches and solutions can be generated by a joint re-examination of different points of view, as long as this is based on an objective and rational exchange of information and opinions. But conflict becomes counterproductive when it is based on personality clashes, or when it is treated as an unseemly mess to be hurriedly cleared away, rather than as a problem to be worked through. Conflict resolution deals with ways of settling differences between groups, individuals and team members.

### Handling inter-group conflict

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There are three principal ways of resolving inter-group conflict: peaceful coexistence, compromise and problem solving.

### *Peaceful coexistence*

The aim here is to smooth out differences and emphasize the common ground. People are encouraged to learn to live together, there is a good deal of information, contact and exchange of views, and individuals move freely between groups (for example, between headquarters and the field, or between sales and marketing).

This is a pleasant ideal, but it may not be practicable in many situations. There is much evidence that conflict is not necessarily resolved by bringing people together. Improved communications and techniques such as briefing groups may appear to be good ideas but are useless if management has nothing to say that people want to hear. There is also the danger that the real issues, submerged for the moment in an atmosphere of superficial bonhomie, will surface again later.

### *Compromise*

The issue is resolved by negotiation or bargaining and neither party wins or loses. This concept of splitting the difference is essentially pessimistic. The hallmark of this approach is that there is no ‘right’ or ‘best’ answer. Agreements only accommodate differences. Real issues are not likely to be solved.

### *Problem solving*

An attempt is made to find a genuine solution to the problem rather than just accommodating different points of view. This is where the apparent paradox



of ‘creative conflict’ comes in. Conflict situations can be used to advantage to create better solutions.

If solutions are to be developed by problem solving, they have to be generated by those who share the responsibility for seeing that the solutions work. The sequence of actions is: first, those concerned work to define the problem and agree on the objectives to be attained in reaching a solution; second, the group develops alternative solutions and debates their merits; and third, agreement is reached on the preferred course of action and how it should be implemented.

## Handling interpersonal conflict

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Handling conflict between individuals can be even more difficult than resolving conflicts between groups. Whether the conflict is openly hostile or subtly covert, strong personal feelings may be involved. However, interpersonal conflict, like inter-group conflict, is an organizational reality that is not necessarily good or bad. It can be destructive, but it can also play a productive role. The approaches to dealing with it are withdrawal, smoothing over differences, reaching a compromise, counselling and constructive confrontation.

### *Withdrawal*

The reaction to interpersonal conflict may be the withdrawal of either party, leaving the other one to hold the field. This is the classic win/lose situation. The problem has been resolved by force, but this may not be the best solution if it represents one person’s point of view that has ignored counter-arguments, and has, in fact, steamrollered over them. The winner may be triumphant but the loser will be aggrieved and either demotivated or resolved to fight again another day. There will have been a lull in, but not an end to, the conflict.

### *Smoothing over differences*

Another approach is to smooth over differences and pretend that the conflict does not exist, although no attempt has been made to tackle the

root causes. Again, this is an unsatisfactory solution. The issue is likely to re-emerge and the battle will recommence.

### *Reaching a compromise*

Yet another approach is bargaining to reach a compromise. This means that both sides are prepared to lose as well as win some points and the aim is to reach a solution acceptable to both sides. Bargaining, however, involves all sorts of tactical and often counterproductive games, and the parties are often more anxious to seek acceptable compromises than to achieve sound solutions.

### *Counselling*

Personal counselling is an approach that does not address the conflict itself but focuses on how the two people are reacting. It gives people a chance to release pent-up tensions and may encourage them to think about new ways of resolving the conflict. But it does not address the essential nature of the conflict, which is the relationship between two people. That is why constructive confrontation offers the best hope of a long-term solution.

### *Constructive confrontation*

Constructive confrontation is a method of bringing the individuals in conflict together with a third party whose function is to help build an exploratory and cooperative climate. Constructive confrontation aims to get the contending parties to understand and explore the other’s perceptions and feelings. It is a process of developing mutual understanding to produce a win/win situation. The issues will be confronted but on the basis of a joint analysis, with the help of the third party, of facts relating to the situation and the actual behaviour of those involved. Feelings will be expressed but they will be analysed by reference to specific events and behaviours rather than inferences or speculations about motives. Third parties have a key role in this process, and it is not an easy one. They have to get agreement to the ground rules for discussions aimed at bringing

out the facts and minimizing hostile behaviour. They must monitor the ways in which negative feelings are expressed and encourage the parties to produce new definitions of the problem and its cause or causes and new motives to reach a common solution. Third parties must avoid the temptation to support or appear to support either of those in contention. They should adopt a counselling approach, as follows:

- listen actively;
- observe as well as listen;
- help people to understand and define the problem by asking pertinent, open-ended questions;
- recognize feelings and allow them to be expressed;
- help people to define problems for themselves;
- encourage people to explore alternative solutions;
- get people to develop their own implementation plans but provide advice and help if asked.

To conclude, conflict, as has been said, is in itself not to be deplored; it is an inevitable concomitant of progress and change. What is regrettable is the failure to use conflict constructively. Effective problem solving and constructive confrontation both resolve conflicts and open up channels of discussion and cooperative action.

Many years ago, one of the pioneering and most influential writers on management, Follett (1924), wrote something on managing conflict that is as valid today as it was then. She said that differences can be made to contribute to the common cause if they are resolved by integration rather than domination or compromise.

## Resolving conflict between team members

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To resolve conflict between team members the following actions can be taken:

- 1 Obtain an overview of the situation from your own observations.

- 2 Find out who is involved.
- 3 Talk to each of the parties to the conflict to obtain their side of the story.
- 4 Talk to other members of the group to get their views, being careful to be dispassionate and strictly neutral.
- 5 Evaluate what you hear from both parties and other people against your knowledge of what has been happening, any history of conflict and the dispositions and previous behaviour of the people involved.
- 6 Reach preliminary conclusions on the facts, the reasons for the dispute and the extent to which either of the parties or both of them are to blame (but keep these to yourself at this stage).
- 7 Bring the parties together to discuss the situation. The initial aim of this meeting would be to bring the problem out into the open, get the facts and defuse any emotions that may prejudice a solution to the problem. Both parties should be allowed to have their say but, as the facilitator of this meeting, you should do your best to ensure that they stick to the facts and explain their point of view dispassionately. You should not even remotely give the impression that you are taking sides.
- 8 Try to defuse the situation so that a solution can be reached that on the whole will be acceptable to all concerned. Ideally, this should be an integrated solution reached by agreement on the basis of collaboration along the lines of, 'Let's get together to find the best solution on the basis of the facts.' It may be necessary to reach a compromise or accommodation – something everyone can live with.
- 9 Only if all else fails or the parties are so recalcitrant in holding an untenable position that no integrated compromise or accommodating solution can be reached, should you resort to direct action – instructing one or both of the parties to bury their differences and get on with their work. If the worst comes to the worst this may involve disciplinary action, beginning with a formal warning.

## Key learning points

### The manifestation of conflict

Conflict is inevitable in organizations because they function by means of adjustments and compromises among competitive elements in their structure and membership. Conflict also arises when there is change, because it may be seen as a threat to be challenged or resisted, or when there is frustration – this may produce an aggressive reaction: fight rather than flight.

### Handling inter-group conflict

There are three principal ways of resolving inter-group conflict: peaceful coexistence, compromise and problem solving.

### Handling interpersonal conflict

The approaches to dealing with interpersonal conflict are withdrawal, smoothing over differences, reaching a compromise, counselling, and constructive confrontation.

### Resolving conflict between team members

- 1 Obtain an overview of the situation.
- 2 Find out who is involved.
- 3 Talk to each of the parties to the conflict to obtain their side of the story.
- 4 Talk to other members of the group.
- 5 Evaluate what you hear.
- 6 Reach preliminary conclusions on the facts and the reasons for the dispute.
- 7 Bring the parties together to discuss the situation.
- 8 Try to defuse the situation so that a solution can be reached that on the whole will be acceptable to all concerned.
- 9 Only resort to direct action if all else fails.

## Reference

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# 72

## Political skills

### Introduction

To be politic, according to the *Oxford English Dictionary*, you can be sagacious, prudent, judicious, expedient, scheming or crafty. So political behaviour in an organization could be desirable or undesirable.

Organizations consist of individuals who, while they are ostensibly there to achieve a common purpose, will, at the same time, be driven by their own needs to achieve their own goals. Effective management is the process of harmonizing individual endeavour and ambition to the common good. Some individuals will genuinely believe that using political means to achieve their aims will benefit the organization as well as themselves. Others will rationalize this belief. Yet others will unashamedly pursue their own ends. They may use all their powers of persuasion to legitimize these ends to their colleagues, but self-interest remains the primary drive. These are the corporate politicians the *Oxford English Dictionary* describes as ‘shrewd schemers, crafty plotters or intriguers’. Politicians within organizations can be like this. They manoeuvre behind people’s backs, blocking proposals they do not like. They advance their own reputation and career at the expense of other people’s. They can be envious and jealous and act accordingly. They are bad news.

But it can also be argued that a political approach to management is inevitable and even desirable in any organization where the clarity of goals is not absolute, where the decision-making process is not clear cut and where the authority to make decisions is not evenly or appropriately distributed. And there can be few organizations where one or more of these conditions do not apply.

It was suggested by Kakabadse (1983) that politics in an organization is a process of influencing individuals and groups of people to your point of view, where you cannot rely on authority. In this sense, a political

approach can be legitimate as long as the ends are justifiable from the viewpoint of the organization. Whether or not that is the case, political skills and political sensitivity, as described in this chapter, are required to thrive and sometimes even survive in organizations. This applies particularly to HR specialists who may lack the power base others possess and may feel they have to pursue the achievement of their ends and exert influence through political as well as more open means. But it is also essential for them to gain insight into the political situation in their organization in order to understand what is happening, why it is happening and what they need to do about it.

### Typical political approaches

Kakabadse (1983) identified seven approaches that organizational politicians adopt, some of which are more legitimate than others:

- 1 Identify the stakeholders, those who have commitment to act in a particular way.
- 2 Keep the stakeholders comfortable, concentrating on behaviour, values, attitudes, fears and drives that the individuals will accept, tolerate and manage (comfort zones).
- 3 Fit the image – work on the comfort zones and align their image to that of the people with power.
- 4 Use the network – identify the interest groups and people of influence.
- 5 Enter the network – identify the gatekeepers, adhere to the norms.
- 6 Make deals – agree to support other people where this is of mutual benefit.
- 7 Withhold and withdraw – withhold information as appropriate and withdraw judiciously when the going gets rough.

## Using political means to get things done

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People acting politically get things done by lobbying decision makers and doing deals. This may not always be desirable, but it does happen, and some people rationalize it on the basis that the end justifies the means (always a dubious stance). Other ploys include withholding information, which is not legitimate but which recognizes the fact that knowledge is power. Organizational politicians can go behind people's backs, hatch up plots in dark corners, 'sew things up' before meetings (lobbying) and exert undue influence on weaker brethren. You may not deign to practise these political black arts but it is useful to be aware of the possibility that others will so that you are prepared for that eventuality.

The reality of politics in organizational life means that HR specialists who are proposing new initiatives to managers need to identify the key decision makers before coming to a final conclusion and launching a fully fledged proposal at a meeting or in a memorandum. It makes good sense to test opinion and find out how other people may react, especially when it is possible that there will be some opposition or indifference. This testing process enables the anticipation of counter-arguments and the modification of proposals, either to meet legitimate objections or, when there is no alternative, to accommodate other people's requirements.

## Political sensitivity

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Organizational politicians exert hidden influence to get their way, and 'politicking' in some form takes place in most organizations. A degree of political sensitivity is desirable – knowing what is going on so that influence can be exerted properly. This is a skill that HR specialists need to have and it means that it is necessary to:

- know how 'things are done around here';
- know how key decisions are made and who makes them;
- understand the factors that are likely to affect decisions;
- know where the power base is in the organization (sometimes called the 'dominant coalition') – who makes the

running, who are the people who count when decisions are taken;

- be aware of what is going on behind the scenes;
- know who is a rising star and whose reputation is fading;
- identify any 'hidden agendas' – try to understand what people are really getting at beneath the surface by getting answers to the question: 'Where are they coming from?';
- find out what other people are thinking and seeking;
- network – identify the interest groups and keep in contact with them.

## Dangers of politics

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Much of this behaviour is legitimate, but there are dangers. Politicking can be carried out to excess, and it can then seriously harm the effectiveness of an organization. The signs of excessive indulgence in political behaviour include:

- back-biting;
- buck-passing;
- secret meetings and hidden decisions;
- feuds between people and departments;
- e-mail or paper wars between armed camps – arguing by e-mail or memoranda rather than meeting people face to face is a sign of distrust;
- a multiplicity of snide comments and criticisms;
- excessive and counterproductive lobbying;
- the formation of cabals – cliques that spend their time intriguing.

## Dealing with organizational politics

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One way to deal with this sort of behaviour is to find out who is going in for it and openly confront them with the damage they are doing. They will, of course, deny that they are behaving politically (they wouldn't be politicians if they didn't), but the fact that they have been identified might lead them to modify their approach. It could, of course, only serve to drive them further underground, in which

case their behaviour would have to be observed even more closely and action taken to restrain it.

A more positive approach to keeping politics operating at an acceptable level is for the organization to manage its operations as transparently as possible. The aim should be to ensure that issues are debated fully, that differences of opinion are dealt with frankly

and that disagreements are de-personalized, so far as this is possible. Political processes can then be seen as a way of helping to maintain the momentum of the organization as a complex decision-making and problem-solving entity. In their organization development role, HR professionals can exert influence in achieving these aims.

## Key learning points

### Organizational politics

Politics in an organization is a process of influencing individuals and groups of people to your point of view, where you cannot rely on authority (Kakabadse, 1983). In this sense, a political approach can be legitimate as long as the ends are justifiable from the viewpoint of the organization.

### Approaches adopted by organizational politicians

- 1 Identify the stakeholders.
- 2 Keep the stakeholders comfortable, concentrating on their comfort zones.
- 3 Work on the comfort zones and align their image to that of the people with power.
- 4 Use the network – identify the interest groups and people of influence.
- 5 Enter the network – identify the gatekeepers, adhere to the norms.
- 6 Make deals – agree to support other people where this is of mutual benefit.
- 7 Withhold information as appropriate and withdraw judiciously when the going gets rough.

### Using political means to get things done

People acting politically get things done by lobbying decision makers and doing deals. Other ploys include withholding information, which is not legitimate, in

recognition of the fact that knowledge is power.

Organizational politicians can go behind people's backs, hatch up plots in dark corners, 'sew things up' before meetings and exert undue influence on weaker brethren.

### Political sensitivity

To be politically sensitive it is necessary to:

- know how 'things are done around here';
- know how key decisions are made and who makes them;
- understand the factors that are likely to affect decisions;
- know where the power base is in the organization;
- be aware of what is going on behind the scenes;
- know who is a rising star and whose reputation is fading;
- identify any 'hidden agendas' – try to understand what people are really getting at beneath the surface;
- find out what other people are thinking and seeking;
- network – identify the interest groups and keep in contact with them.

### Dealing with organizational politicians

To keep politics operating at an acceptable level the organization should manage its operations as transparently as possible. The aim should be to ensure that issues are debated fully, that differences of opinion are dealt with frankly and that disagreements are de-personalized.

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# 73

## Dealing with business issues from an HR perspective

### Introduction

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Effective HR professionals not only have to understand the business they are working in but must also be able to identify the business issues that influence how the organization operates and how the people in the business are treated. In this chapter the processes involved in doing this are examined under the following headings:

- Identify business issues
- Establish people factors
- Critically analyse relevant HR policy and practice
- Conduct or participate in research
- Analyse quantitative and qualitative information
- Draw conclusions
- Prepare and make the business case

### Identify business issues

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A business issue will be anything occurring in the organization or affecting it that will influence its performance in terms of the achievement of its goals. To identify issues it is necessary to develop qualities of organizational insight defined by the CIPD as:

#### Source review

[Organizational insight is] the juxtaposition of a deep understanding of what will help make your organization successful – or stop it from being so – in the market within which it operates at this stage in its evolution, together with a deep appreciation of what goes on around here and what really make things happen here (given people, politics and culture). The former derives from understanding the key drivers of the business, the wider market and the context in which it sits. The latter comes from the ‘intelligence’ generated both systematically through data gathering and analysis, as well as from the discrete activities and interactions HR engages in across the organization.

CIPD (2010: 13)

At corporate level it is necessary to understand what the organization exists to do and how it does it. In a commercial business this means knowing how it makes money with particular reference to its development, marketing and operational activities. In a national or local government establishment or a not-for-profit organization it means understanding its key functions – service delivery,



administration, research and development. This means finding out:

- the business imperatives of the organization – its mission and its strategic goals;
- the organization's business model – the basis upon which its business is done (how its mission and strategic goals will be achieved);
- the organization's business drivers – the characteristics of the business that move it forward;
- the organization's core competencies – what the organization is good at doing;
- the factors that will affect performance and ensure the effectiveness of its activities, including specific issues concerning profitability, productivity, operational performance, quality, financial budgeting and control, costs and benefits and customer service;
- the key performance indicators (KPIs) of the business (the results or outcomes identified as being crucial to the achievement of high performance, eg financial, productivity and quality measures) that can be used to measure progress towards attaining goals;
- the factors that will ensure that the firm's resources, especially its human resources, create sustained competitive advantage because they are valuable, imperfectly imitable and non-substitutable (the resource-based view);
- the factors and issues that can affect the organization's performance, especially those concerned with people.

It is particularly important that the head of the HR function and the heads of the key departments such as talent management, learning and development and reward management should understand these characteristics of their organization. This will provide the basis for making the strategic contribution required from those at this level to the achievement of organizational effectiveness and competitive advantage. But any HR practitioner acting as a business partner or delivering a service such as recruitment and selection should also be knowledgeable in each of these areas. And those embedded in divisions or departments need to acquire knowledge of

the particular factors in these areas that will affect how the unit operates and performs.

Getting this information cannot be left to chance. To obtain it the first thing to do is to get hold of as much written or published information as you can: annual reports (see Chapter 57 for guidance on how to read a balance sheet), company websites, sales brochures, articles in the financial pages of newspapers, reports from management consultants. The next thing to do is to talk to people: senior managers (if you can get at them), line managers, team leaders and supervisors and, when the occasion presents itself, people in offices, sales, delivery and on the shop floor. It is necessary to make a deliberate effort to walk about, ask questions and, importantly, listen. Business partners should spend far more time doing this than sitting in their office. So should more senior HR professionals and L&D specialists. Even those who are likely to be office-based for much of the time (eg recruiters and reward specialists) should get out as much as they can. In the experience of the writer (25 years as an HR professional, 12 of them as HR director), understanding takes time and sometimes occurs by a process of osmosis. But it is worth it. HR people earn respect by the quality of their service delivery efforts but, importantly, also by demonstrating that they know what is going on and understand the issues that concern managers and staff generally and base their strategy proposals on them.

## Establish people factors

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An HR executive reported by the CIPD (2010: 13) commented that: 'We need deep employee insights – not just employee engagement surveys which just scratch the surface. As an HR function we need a deep and segmented understanding of employees' aspirations, motivations and needs in some ways akin to how a customer-facing company thinks about its customers.'

Inevitably, many of the identified business issues will involve people, especially issues concerned generally with performance and particularly with productivity, quality, sales and customer service. People factors can include levels of motivation and engagement, inadequate leadership, poor teamwork, lack of trust, management succession problems, skills (talent) shortages, employee turnover, absenteeism and long-term illness. Sometimes, however, people

factors are not so evident. For example, is a fall in productivity due to people not working hard enough or is it because the system of work is failing to deliver? (Although systems of work are designed and operated by people, so a people factor might still be present.) It may be necessary to drill down to find out what lies behind the people factor, for example, the causes of employee turnover.

## Critically analyse relevant HR policy and practice

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To address any issues the first step is to critically analyse any evidence, which illustrates good HR practice. There are a number of sources; one of them is the literature. *People Management* contains the most practical and relevant information. Academic journals, particularly *The Human Resource Management Journal*, *The International Journal of Human Resource Management* and *Employee Relations* should also be consulted. Although many of the articles in these publications are somewhat esoteric – academics writing for academics – some contributions based on rigorous research are relevant for practitioners.

Articles in academic journals are usually based on research but a considerable amount of practical research data is provided by the CIPD, which produces a large number of research reports and surveys every year that are full of relevant information and illustrated by illuminating case studies. The Institute for Employment Studies (IES) also does a lot of relevant research.

Other sources of information include conferences, networking, eg at CIPD branch meetings, and contacts with organizations that are known to be successfully using a relevant HR practice. Research methods are considered in the next section of this chapter.

An evidence-based management approach is necessary, as described in Chapter 11. Any information obtained should be subject to critical evaluation. As mentioned in Chapter 59, this is the process of making informed judgements about the validity, relevance and usefulness of ideas and arguments. Critical evaluation means not taking anything for granted and, where necessary, challenging propositions. It involves making informed judgements about the value of ideas and arguments. It uses

critical thinking by analysing and evaluating the quality of theories and concepts to establish the degree to which they are valid and supported by the evidence (evidence-based) and the extent to which they are biased. The arguments for and against are weighed and the strength of the evidence on both sides is assessed. On the basis of this assessment, a conclusion is reached on which proposition or argument is to be preferred. Critical evaluation is required when testing propositions and evaluating the outcomes of research.

## Conduct or participate in research

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As noted in Chapter 60, research is concerned with establishing what is and from this predicting what will be. It does not decide what ought to be; that is for people interpreting the lessons from research in their own context. Research is about the conception and testing of ideas and hypotheses. This is a creative and imaginative process, although new information is normally obtained within the framework of existing theory and knowledge. Logic and rational argument are methods of testing ideas after they have been created.

It may be useful for HR professionals to conduct formal research within their organization in order to assemble evidence upon which they can base proposals on how to deal with business or HR issues. They may also be involved in research projects outside the organization with fellow HR professionals or academics where these seem likely to produce results of interest to their organization. In either case they need to know what research methods are available and their relevance in different situations.

A full discussion of research methodology and a summary of data collection techniques are contained in Chapter 60.

## Analyse quantitative and qualitative information

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Quantitative business information will be available in the form of financial and operational reports. Quantitative HR data will be generated through HR analytics (see Chapter 11) and by research.

Qualitative HR information may be obtained by research but it will also emerge from day-to-day contacts between HR specialists and managers and employees.

### Quantitative information

Company annual financial reports (see Chapter 57) containing the balance sheet, profit and loss account and other financial data provide an overall source of information on how well the business is doing. Internal periodical reports will show performance against financial budgets and targets and there are likely to be other reports, depending on the nature of the business, on such matters as sales, output, service levels and quality. They can be analysed to reveal business performance (profitability and productivity) issues expressed in terms of trends and ratios. HR professionals can pursue this analysis in discussions with management to establish the extent and nature of any people problems and consider remedies.

Statistical techniques such as frequency analysis, measures of central tendency, correlation and regression analysis as described in Chapter 61 can be used when establishing the significance of the data.

### Qualitative information

The analysis of qualitative information is inevitably more subjective, but the technique of content analysis can be used to provide a form of measurement. This involves selecting a number of key phrases or words, counting the number of times they are mentioned in interviews or focus groups and then analysing these frequencies.

## Draw conclusions

Drawing conclusions from the analysis of the data involves:

- assessing the nature of the issue and its causes;
- considering the HR strategic and operational implications;
- examining and evaluating alternative courses of action;

- deciding on the preferred course of action;
- establishing the costs and benefits of the action.

## Prepare and make the business case

A business case should set out the costs and benefits of the proposal. It can be made either in added-value terms (ie the income generated by the proposal will exceed the cost of implementing it), or on the basis of the return on investment or ROI (ie the cost of the investment, say in training, is justified by the financial returns in such areas as increased productivity).

It can be more difficult to make out a business case for an HRM innovation in financial terms. The costs can and should be calculated but the benefits may have to be expressed qualitatively. A business case will be enhanced if:

- data is available on the impact the proposal is likely to make on key areas of the organization's operations, eg shareholder value, profitability, income generation, customer service levels, quality, productivity, innovation, skills development, talent management;
- it can be shown that the proposal will help to achieve competitive advantage through the strategic development for the organization of rare, hard-to-imitate and hard-to-substitute human resources (the resource-based view);
- the way(s) in which the proposed policy or practice will generate added value and stimulate improved performance are spelt out;
- there is proof that the innovation has already worked well within the organization (perhaps as a pilot scheme) or represents 'good practice' that is likely to be transferable to the organization;
- it can be implemented without too much trouble;
- the proposal is brief, to the point, laid out clearly and well argued.

## Key learning points

When investigating a business issue from an HR perspective it is necessary to:

- identify business issues that are of strategic importance to the organization;
- establish the extent and nature of any people factors that affect these issues;
- critically analyse and discuss relevant HR policy and practice by reference to the literature, published research and any other sources of information;
- conduct or participate in research within and outside the organization to find out what factors

cause and affect the issues and what remedies have proved to be successful;

- systematically analyse quantitative and qualitative information using HR analytics and statistical methods and present the results in clear and consistent formats;
- draw realistic and appropriate conclusions from analyses and research;
- make recommendations based on costed options and develop and present a persuasive business case for proposals.

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# Project management

## Introduction

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Project management is the planning, supervision and control of any activity or set of activities that leads to a defined outcome at a predetermined time and in accordance with specified performance or quality standards at a budgeted cost. It is concerned with *deliverables* – getting things done as required or promised. While delivering results on time is important, it is equally important to deliver them to meet the specification and within the projected cost.

Project management involves action planning – deciding *what* work is to be done, *why* the work needs to be done, *who* will do the work, *how much* it will cost, *when* it has to be completed (totally or stage by stage) and *where* it will be carried out.

HR professionals are often called upon to manage or take part in such projects as developing a new performance management system or job evaluation scheme, setting up a new learning centre or revising a pay structure. They therefore need project management skills.

The three main project management activities covered in this chapter are project planning, setting up the project and project control.

## Project planning

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### Initiation

Project planning starts with a definition of the objectives of the project. A business case has to be made. This means answering two basic questions:

- 1 Why is this project needed?
- 2 What benefits are expected from the project?

### Assessment

Projects involve investing resources – money and people. Investment appraisal techniques are used to ensure that the company's criteria on return on investment are satisfied. Cost-benefit analysis may be used to assess the degree to which the benefits justify the costs, time and number of people required by the project. This may mean identifying opportunity costs that establish whether a greater benefit would be obtained by investing the money or deploying the people on other projects or activities.

### Performance specification

This sets out what the project is expected to do – how it should perform – and describes the details of the project's configuration or method of operation.

### Project plan

The project plan sets out:

- the major activities in sequence – the stages of the project;
- a breakdown where appropriate of each major operation into a sequence of subsidiary tasks;
- an estimate of the time required to complete each major operation or stage;
- an assessment of the resources required – money, people, equipment and time;
- how many people will be allocated to the project with different skills at each stage, and who is to be responsible for controlling the project as a whole and at each of the major stages or operations.

## Setting up the project

Setting up the project involves:

- selecting and briefing the project management team;
- obtaining and allocating resources;
- finalizing the programme – defining each stage;
- defining and establishing control systems and reporting procedures (format and timing of progress reports);
- identifying key dates, stage by stage, for the project (milestones) and providing for milestone meetings to review progress and decide on any actions required.

## Controlling the project

The three most important things to control are:

- 1 *Time* – achievement of project plan as programmed.
- 2 *Quality* – achievement of project specifications.
- 3 *Cost* – containment of costs within budget.

Project control is based on progress reports showing what is being achieved against the plan. The planned completion date, actual achievement and forecast completion date for each stage or operation are provided. The likelihood of delays, overruns or bottlenecks is thus established so that corrective action can be taken in good time.

Progress meetings should be held at predetermined intervals. These can be treated as ‘milestone’ meetings when they are timed to coincide with the key stages of the project.

### Key learning points

#### Project management defined

Project management is the planning, supervision and control of any activity or set of activities that leads to a defined outcome at a predetermined time and in accordance with specified performance or quality standards at a budgeted cost.

#### Project planning steps

- 1 Initiation.
- 2 Assessment.
- 3 Performance specification.
- 4 Project plan.

#### Setting up the project

Setting up the project involves:

- selecting and briefing the project management team;

- obtaining and allocating resources;
- finalizing the programme;
- defining and establishing control systems and reporting procedures;
- identifying key dates, stage by stage.

#### Controlling the project

The three most important things to control are:

- 1 *Time* – achievement of project plan as programmed.
- 2 *Quality* – achievement of project specifications.
- 3 *Cost* – containment of costs within budget.

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# CIPD New Profession Map 2018

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	Creating effective teams	68
	Stakeholder management and analysis	3
	Facilitation, coaching and mentoring	64
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	Different theories about human behaviour (eg decision-making theory, nudge theory, self-determination theory)	58, 66, 24
	Impact of people practices on behaviour, culture, systems and structures	1
	Ethics	17
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	Employee engagement and motivation	26, 24
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	Make calculations (eg percentages, averages) and interpret financial information	61, 57
	External and internal factors that shape short- and long-term business performance	6
	What good people practice looks like	1
	How to test new people practices	3
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