

Advanced Diploma in
Business Management

STRATEGIC HUMAN RESOURCE MANAGEMENT FOR BUSINESS ORGANISATION

The Association of Business Executives

Advanced Diploma in Business Management

STRATEGIC HUMAN RESOURCE MANAGEMENT FOR BUSINESS ORGANISATION

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Introduction to the Study Manual

Welcome to this study manual for Strategic Human Resource Management for Business Organisation.

The manual has been specially written to assist you in your studies for the ABE Advanced Diploma in Business Management and is designed to meet the learning outcomes specified for this module in the syllabus. As such, it provides the basis for your study of each subject area, guiding you through the various topics which you will need to understand. However, at this level, it is most important that you do not rely solely on the manual as the only source of information in studying the module. It is **essential** that you read more widely around each topic, and we set out below some guidance on additional resources which you should use to help in preparing for the examination.

The syllabus for the module is set out on the following pages and you should read this carefully so that you understand the scope of the module and what you will be required to know for the examination. Also included in the syllabus are details of the method of assessment – the examination – and the books recommended as additional reading.

The main study material then follows in the form of a number of study units as shown in the contents. Each of these units is concerned with one topic area and introduces you to the key concepts, themes and issues of that area. They are, though, designed to be a starting point at this level, and provide a framework for developing your knowledge and understanding through your own learning, rather than everything you need to know for the examination. You need to think critically about what you read and develop it by further reading and relating it to your own experience and understanding of applications in the real world.

Note that the examiners for all the modules at the Advanced Diploma level have stated clearly that it is not sufficient to learn the material in this manual and repeat it in the examination. You must demonstrate depth to your understanding by having read and thought more widely about the topics under discussion.

Additional resources

- ABE website – www.abeuk.com. You should ensure that you refer to the Members Area of the website from time to time for advice and guidance on studying and preparing for the examination. We shall be publishing articles which provide general guidance to all students and, where appropriate, also give specific information about particular modules, including updates to the recommended reading and to the study units themselves.
 - Additional reading – As noted above, it is most important you do not rely solely on this manual to gain the information needed for the examination on this module. You should, therefore, study some other books to help develop your understanding of the topics under consideration. The main books recommended to support this manual are included in the syllabus which follows, but you should also refer to the ABE website for further details of additional reading which may be published from time to time.
 - Newspapers – You should get into the habit of reading a good quality newspaper on a regular basis to ensure that you keep up to date with any developments which may be relevant to the subjects in this module.
 - Your college tutor – If you are studying through a college, you should use your tutors to help with any areas of the syllabus with which you are having difficulty. That is what they are there for! Do not be afraid to approach your tutor for this module to seek clarification on any issue, as they will want you to succeed as much as you want to.
 - Discussion with other students – If you can, you should consolidate and test your knowledge and understanding in discussion with others. This can add an important
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dimension to your studies at this level by explaining and justifying your understanding, or challenging the understanding of others.

- Your own personal experience – The ABE examinations are not just about learning lots of facts, concepts and ideas from the study manual and other books. They are also about how these are applied in the real world and you should always think how the topics under consideration relate to your own work and to the situation at your own workplace and others with which you are familiar. Using your own experience in this way should help to develop your understanding by appreciating the practical application and significance of what you read, and make your studies relevant to your personal development at work. It should also provide you with examples which can be used in your examination answers.

And finally ...

We hope you enjoy your studies and find them useful not just for preparing for the examination, but also in understanding the modern world of business and in your own personal and work development. We wish you every success in your studies and in the examination for this module.

The Association of Business Executives

September 2008

Unit Title: Strategic Human Resource Management for Business Organisation	Unit Code: SHRM
Level: 6	Learning Hours: 210
Learning Outcomes and Indicative Content: Candidates will be able to:	
1. Critically evaluate the strategic approach to human resource management and describe the benefits of designing and implementing a human resource strategy 1.1 Describe and explain a human resource strategy i.e. a set of principles and values governing expectations about the role of people as contributors to organisational effectiveness 1.2 Distinguish human resource strategy from ‘managing people’, and enforcement of legal/ethical compliance 1.3 Describe and explain the place of a human resource strategy in the organisation’s value chain 1.4 Describe and explain strategic human resource management as a driver, as a strategic partner and as an agent for both the leadership and implementation of organisational change 1.5 Explain power and authority related to the human resource strategy and the role of the human resource strategist as executive, advisor or consultant 1.6 Examine the arguments concerning the desirability of creating a dedicated human resource function 1.7 Assess the relevance of research and theoretical evidence concerning the positioning for human resource strategies (especially Ulrich) 2. Critically evaluate and explain the necessity for alignment between an organisation’s corporate strategy (and its higher-order purposes, reflected in its vision, mission, values and goals) and its human resource strategy 2.1 Explain the benefits of vertical integration (‘best fit’) between an organisation’s corporate and human resource strategies 2.2 Explain the significance of horizontal integration and ‘best practice’ 2.3 Critically examine review of ‘best fit’, ‘best practice’ and other strategic alignment mechanisms 2.4 Explain the linkages between an organisation’s higher-order strategic direction and its aspirational human resource strategies, e.g., the corporate vision translated into aspirational models for the performance and commitment of people as sources of ‘added value’	

- 3. Critically examine the advantages and disadvantages of the major alternative models for strategic human resource management**
 - 3.1 Describe and explain High Performance Working
 - 3.2 Describe and explain High Commitment Management
 - 3.3 Describe and explain High Involvement Management
- 4. Critically evaluate the processes required in order to assess the effectiveness of any given human resource strategy, especially in relation to the strategy's impact on overall corporate outcomes and results**
 - 4.1 Explain the nature of correlations and the problems associated with tracing causal relationships between events
 - 4.2 Describe and explain the factors involved in measuring the impact of a given human resource strategy
 - 4.3 Evaluate the available tools for measuring the effectiveness of a human resource strategy: the balanced scorecard, 'best practice', competitor benchmarking, etc
 - 4.4 Assess some of the key research findings about the connections between human resource strategy and organisational performance (e.g., Purcell, Huselid, Guest)
- 5. Design human resource strategies that may be related to the current and expected requirements of organisations confronting a range of contingencies**
 - 5.1 Describe the general principles of design applicable to a human resource strategy
 - 5.2 Evaluate the factors in the organisation's internal and external environment that will be relevant to the construction of a human resource strategy, e.g., technological, social, economic, competitor change, the organisation's culture and climate etc.
 - 5.3 Evaluate human resource strategies for various contingencies, e.g., continued growth, the business cycle, stability/stasis, (slow) decline, corporate transience
 - 5.4 Evaluate human resource strategies for special-case scenarios, e.g., mergers and acquisitions, strategic alliances and joint ventures
 - 5.5 Evaluate human resource strategies related to organisations in multinational or global environments
 - 5.6 Describe and explain implementation issues: the interpersonal and other skills needed by the human resource strategist in order to generate commitment among key stakeholders and business partners towards a given human resource strategy

-
- 6. Design, implement and assess a human resource strategy, evaluating appropriate ethical principles and values**
 - 6.1 Describe and explain moral, ethical and practical issues in relation to the management of people in an organisational setting
 - 6.2 Explain the rationale for ethical codes of conduct/behaviour and their enforcement
 - 6.3 Explain the differences between 'hard' and 'soft' human resource strategies
 - 6.4 Explain the effective management of ethical dilemmas in organisations, e.g., whistleblowing, a multinational workforce, equal opportunities and diversity
 - 7. Critically evaluate strategies for people resourcing which increase the available pool of 'talent' within the enterprise**
 - 7.1 Describe and explain strategies for recruitment
 - 7.2 Describe and explain the development of 'employer of choice' strategies
 - 7.3 Describe and explain strategies for selection and the search for 'talent'
 - 7.4 Describe and explain strategies for the deployment and redeployment of people, including strategies for redundancy and dismissal
 - 7.5 Describe and explain strategies for people retention
 - 7.6 Describe and explain strategies for coping with issues of poor performance, including absence
 - 8. Critically evaluate strategies for people training, learning and development which maximise the skills and contribution of people**
 - 8.1 Describe and explain strategies for induction, training/learning and development
 - 8.2 Describe and explain strategies for creating the learning organisation through self-managed learning, the promotion of 'intellectual capital' and knowledge management
 - 8.3 Describe and explain strategies for performance review (as a tool for individual and organisational development)
 - 8.4 Describe and explain strategies for management development
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9. Critically evaluate strategies for employee relations which optimise the likelihood of generating positive attitudes throughout the workforce

- 9.1 Explain alternative approaches to employee relations, with a focus on the benefits to be gained from 'partnership'
- 9.2 Describe and explain the mechanisms to promote employee involvement and engagement, and the willingness to undertake 'discretionary' (Organisational Citizenship) behaviour, including consultation/participation strategies and partnership agreements
- 9.3 Examine strategies for communicating with the workforce, including grievance management

10. Critically evaluate strategies for people reward which bring added-value benefits to the organisation in excess of their costs

- 10.1 Examine the purposes behind reward and recognition strategies
- 10.2 Assess the methods through which the purposes of reward/recognition strategies may be accomplished
- 10.3 Explain the effectiveness of both financial and non-financial rewards and benefits
- 10.4 Evaluate Performance Management (measuring performance for added value), including performance appraisal as a tool for measuring contribution and recognising achievement

Assessment criteria:

- Assessment method: written examination
- Length of examination: three hours
- Candidates should answer four questions from a choice of eight, each question carrying equal marks

Recommended Reading

ABE, *ABE Study Manual – Strategic Human Resource Management for Business Organisation*, ABE

Lucas R, Lupton B and Mathieson H, *Human Resource Management in an International Context* (2007), CIPD
ISBN: 1843981092

Marchington M, Wilkinson A, *Human Resource Management at Work* (2005), CIPD
ISBN: 1843980622

Study Unit 1

Introduction to Strategic Human Resource Management

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HOW TO USE THE STUDY MANUAL

Each study unit begins by detailing the relevant syllabus *aim* and *learning outcomes or objectives* that provide the rationale for the content of the unit. For this unit, see the section below. You should commence your study by reading these. After you have completed reading each unit you should check your understanding of its content by returning to the objectives and asking yourself the following question: *"Have I achieved each of these objectives?"*

Ideally, you should not proceed to the next unit until you have achieved the learning objectives for the previous unit. If you are working with a tutor, he/she should be able to assist you in confirming that you have achieved all the required objectives.

Objectives

The aim of this unit is to critically evaluate the strategic approach to human resource management and describe the benefits of designing and implementing a human resource strategy

When you have completed this study unit you will be able to:

- Describe and explain a human resource strategy – i.e. a set of principles and values governing expectations about the role of people as contributors to organisational effectiveness
- Distinguish human resource strategy from 'managing people', and enforcement of legal/ethical compliance
- Describe and explain the place of a human resource strategy in the organisation's value chain
- Describe and explain strategic human resource management as a driver, as a strategic partner and as an agent for both the leadership and implementation of organisational change
- Explain power and authority related to the human resource strategy and the role of the human resource strategist as executive, advisor or consultant
- Examine the arguments concerning the desirability of creating a dedicated human resource function
- Assess the relevance of research and theoretical evidence concerning the positioning for human resource strategies (especially Ulrich).

A. INTRODUCTION

Why is human resource management important?

Ever since the earliest theories of management, the role of people within the organisation has been accepted and it is commonly recognised that someone in every organisation will need to be responsible for the various matters which arise in connection with the employment of people – commonly recognised as the 'HR function'. This traditional view of managing the employment of people tends to be associated largely with tasks, techniques and procedures and as a result is reactive in approach.

Approaches to people management have changed. Social, cultural and political attitudes towards employment have been shaped by factors such as globalisation of the labour market; fluctuations in labour availability; the place of women into the workplace; economic fluctuations, from boom to recession and vice versa, the application of 'scientific' management methods and control systems in places such as call centres and the people versus technology divide.

Elton Mayo's Hawthorne experiments stressed the importance of human attitudes, values and relationships for the efficient and effective functioning of workers, adding motivation to the list of the traditional HR tasks such as hiring and firing. In the 1960s and early 70s government intervention in the labour market came in the form of legislative controls over the relationship between employer and employee and began a pattern, which continues today, of increasing legal complexity involved in employing people. As a result, the role of the HR manager has become more complex.

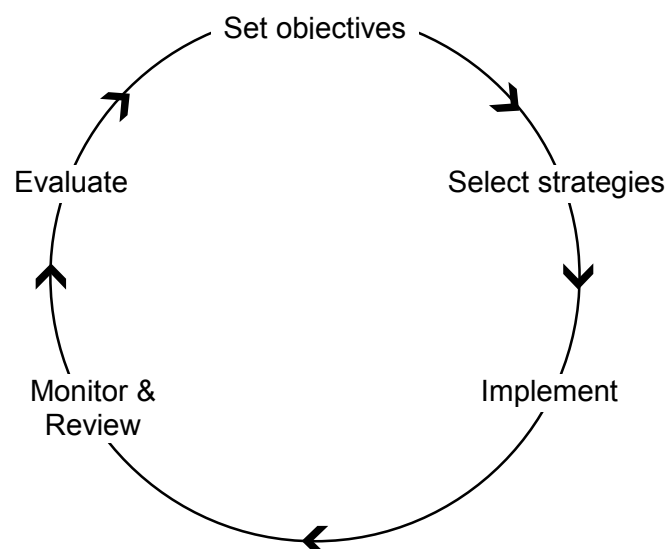
In more recent times, the need for organisations to compete not just locally but nationally and internationally, has led most organisations to recognise the importance of the *effective* use of the human resource. *Human resource management*, as opposed to personnel management, acknowledges the contribution that people management makes to organisational effectiveness and requires the HR function to be more integrated with the broader objectives of the organisation, adopting a proactive rather than reactive approach.

B. WHAT IS STRATEGY?

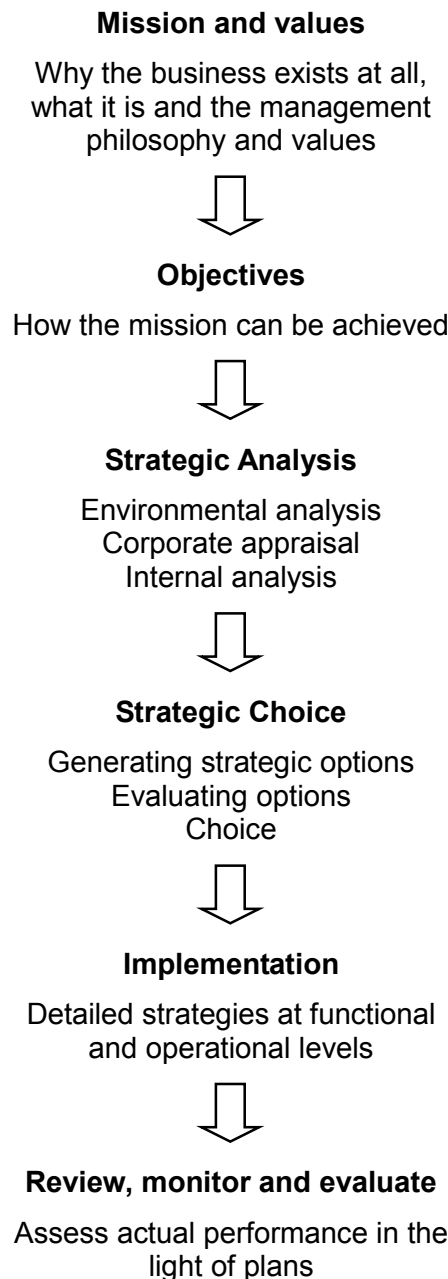
A dictionary will tell you that the term 'strategy' refers to an action plan or course of action. In other words, how a particular objective might be achieved. In a management context, the word 'strategy' has become interchangeable with 'long term planning' and is used to describe an activity that senior managers perform to achieve the organisation's goals. Johnson and Scholes, for example, in *Exploring Corporate Strategy*, define the strategic plan as:

'...the direction and scope of an organisation over the long term: ideally which matches its resources to its changing environment and, in particular, its markets, customers and clients so as to meet stakeholder expectations.'

Strategic management is a term that is used to describe the process of making decisions and taking actions to achieve the organisation's goals. The process of strategic management is a continuous process involving the adjustment of the organisation's resources, the environment in which it operates and the aims of the organisation. In its simplest form, it can be shown thus:



Another way of showing this, which highlights the elements within the five basic stages of strategic management, is thus:



Strategies must be developed at different levels within the organisation to give effect to the overall strategic plan. A useful analysis of the breakdown of a strategic plan into functional activities is found in *Strategic Marketing Management* by Wilson, Gilligan and Pearson:

- *Corporate strategy*, which deals with the allocation of resources among the various businesses or divisions of an organisation
- *Business strategy*, which exists at the level of the individual business or division, dealing primarily with the question of competitive position
- *Functional level strategy* that is limited to the actions of specific functions within specific businesses.

The classical definition of strategy comes from Chandler in *Strategy and Structure* (1962):

- Derived from the broad intentions of senior decision-makers in the organisation
- Encompass the organisation as a whole

- Coordinate resources in a way that is designed to achieve sustained competitive advantage
- Identify future actions based on an analysis of the organisation's internal and external environments
- Determine organisation's activities over the medium to long term.

Are strategies deliberate and planned?

This is a key question. It is important to remember that strategies tend to emerge rather more often than they are deliberately formulated. Most decisions, including those at the most senior levels in organisations, are not based upon objective, evidence-based assessments of the whole situation. They are somewhat more subjective and are made to fit the perception of the circumstances at the time they are made. The rational model of strategy that would appeal the FW Taylor (the father of scientific management) would be thought through in advance, top down and structured. The reality is that strategy formulation in the real world is somewhat less planned, bottom up as much as top down and more emergent than structured. Hence strategy appears through the mist as the organisation progresses rather than being a sought after destination.

In *What is Strategy and Does it Matter?* Whittington (1993) differentiates the two outcomes of the organisation (profit maximisation vs. pluralistic) from the two ways of putting together a strategy (deliberate and emergent).

		Strategy process: Deliberate			
Outcome: Profit maximisation		CLASSICAL		SYSTEMIC	
		EVOLUTIONARY		PROCESSUAL	
		Strategy process: Emergent			
				Outcome: Pluralistic	

Four approaches to strategy formulation are thereby seen:

- The classical approach aims at profit-maximisation through deliberate planning and action.
- The evolutionary approach also aims at profit-maximisation but regards long term planning as less valuable in a turbulent environment than simple survival and quick adaptability.
- The processual approach exists where members of the organisation are either not interested or not capable of formulating and implementing a long-term plan, so that strategy can be seen only in retrospect and is the sum of local objectives.
- The systemic approach emphasises the importance of the social systems that exist outside the organisation. Laws deliberately determined by society at large are an example of this approach.

C. WHAT IS STRATEGIC HRM?

Many writers regard a strategic approach to managing people as an essential foundation for developing progressive people related practices. Strategic human resource management is about what the organisation intends to do in the longer term to develop integrated personnel and development practices that will enable the business to achieve its goals.

The strategic approach addresses issues and needs relating to changes in structure and culture; organisational effectiveness and performance; matching human resources to future requirements, the development of distinctive capabilities and intellectual capital and the management of change. The rationale for a strategic approach rests on the advantage of having an agreed and understood basis for developing approaches to managing people in the longer term to obtain business success. The theory is influenced by the theory of resource-based strategy, which we will look at in more detail in Study Unit 2 but in general terms, it supports the view that organisations will aim to improve resource capability i.e. achieving a strategic fit between resources and opportunities and obtaining added value from the effective deployment of resources.

What are the outcomes of an HR strategy?

Bratton and Gold identify the tools and tactics of human resource management, as a strategic function, as five functional areas forming the core of human resource management activities:

- ***Staffing:*** Obtaining people with appropriate skills, abilities, knowledge and experience to fill jobs in the work organisation. This role encompasses human resource planning, job analysis, recruitment and selection.
- ***Rewards:*** The design and administration of reward systems. This role includes job evaluation, performance appraisal and benefits.
- ***Employee development:*** Analysing training requirements to ensure that employees possess the knowledge and skills to perform satisfactorily in their jobs or to advance in the organisation. Performance appraisal can identify employee key skills and 'competencies'.
- ***Employee maintenance:*** The administration and monitoring of workplace safety, health and welfare policies to retain a competent workforce and comply with statutory standards and regulations.
- ***Employee relations:*** Under this heading may be a range of employee involvement/participation schemes in union or non-union workplaces. In a union environment, it also includes negotiations between management and union representatives over decisions affecting the employment contract.

Torrington and Hall define human resource strategy as *a central philosophy of the way that people in the organisation are managed and the translation of this into HR policies and practices*. To be effective, policies and practices need to be integrated so that they make a coherent whole that is integrated with the business or organisational strategy.

Human resource strategy is generally behaviour based. The traditional based model involves an analysis of the types of employee behaviour required to fulfil business objectives and then an identification of HR policies and practices that would bring about and reinforce this behaviour.

Some models aim to target not only behaviour but through behaviour change, to effect a change in the culture of the organisation. There is much debate as to whether this is achievable.

We will consider some of the more common models of human resource strategy below.

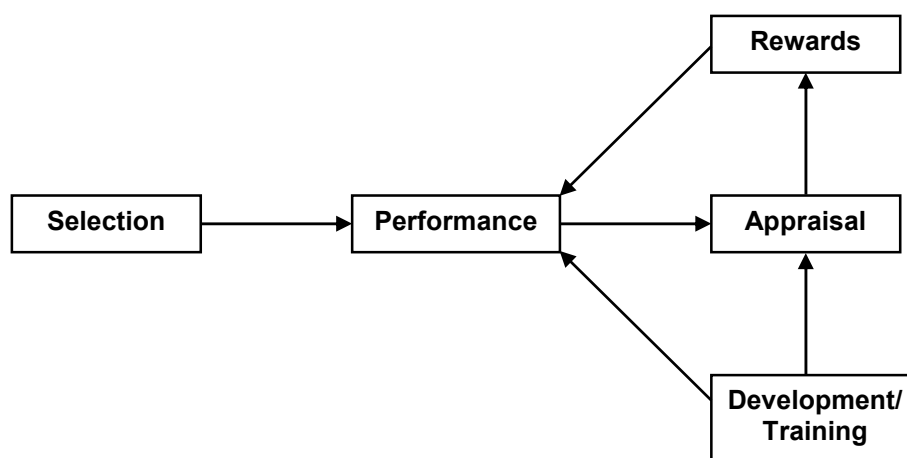
What different models are there of HR strategy?

(a) The Fombrun, Tichy and Devanna Model

Fombrun, Tichy and Devanna developed one of the earliest models of human resource management in their book *Strategic Human Resource Management* in 1984. The model demonstrates one approach to human resource management: the development of human resource strategy to fit the overall organisational strategies.

The model, shown below, is referred to as the *human resource cycle* and consists of four key elements, aimed at increasing organisational performance:

- Selection
- Appraisal
- Development
- Rewards.



This model is useful because it demonstrates, in a simple way, the way each of the four elements work together to achieve the organisation's goals. Torrington and Hall illustrate this with an example. If the organisation required a team-based approach, the implications for human resource strategy would be:

- *Selection*: Successful experience of teamwork and sociable, co-operative personality, rather than an independent thinker who likes working alone.
- *Appraisal*: Criteria based upon contribution to the team rather than individual effort
- *Reward*: Based upon team performance and contribution rather than individual effort.

The model has been criticised as too simplistic in the way in which it focuses on four elements and ignores employee performance and thereby issues such as motivation and employee relations. It also assumes the rational model of strategic planning, which suggests a step-by-step approach to strategy formulation, rather than any other model, such as the emergent model described by Mintzberg.

Note:

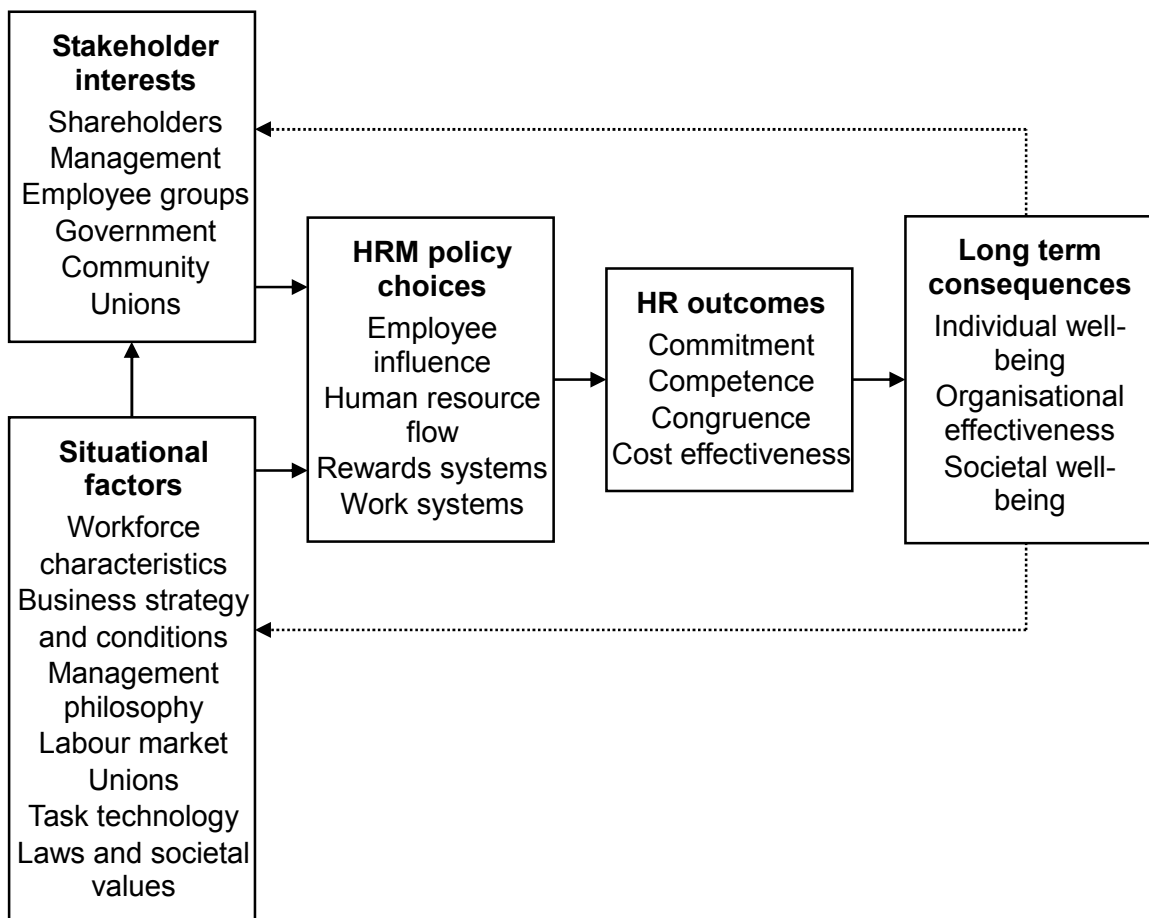
The processes of strategic planning should be familiar to you from your studies for Corporate Strategy. If you cannot recall the rational model of strategic management or Mintzberg's model of emergent strategies, review them now.

(b) The Harvard Model

The Harvard model was produced by Beer, Spector, Lawrence, Mills and Walton in 1984 and consists of six components:

- Stakeholders interests
- Situational factors
- Human resource management policy choices
- Human resource outcomes
- Long term consequences
- A feedback loop through which the outputs flow directly into the organisation and to the stakeholders.

The model shown below is adapted from Torrington and Hall:



- *Stakeholder interests*: The influence that different stakeholder interests have, which impact on employee behaviour and performance.
- *Situational factors* are environmental factors that influence management's choice of human resource strategy.
- *Human resource management policy choices*: Management's decisions and actions take into account both constraints and choices.
- *Human resource outcomes*: Specific employee behaviours that are considered desirable: commitment and high individual performance, leading to cost-effective products or services. There is a basic assumption here that human beings

possess talents that are rarely used at work and that they show a desire to experience growth through work. David Guest concludes that this indicates that the model takes the view that organisations should be designed on the basis of the assumptions inherent in McGregor's Theory Y.

- *Long-term consequences:* Three perspectives taken into account: the individual, the organisation and society. At the individual level, the model promotes individual well-being through psychological rewards for efforts at work. At the organisational level, the organisation benefits from increased effectiveness that should ensure long-term survival, while at the societal level, societal objectives of utilising people at work are achieved.
- The feedback loop reflects how HRM policy choices are affected by stakeholder interests and environmental factors and how both these are influenced by HR outcomes.

The model has gained some popularity in the UK but also some criticism in that it identifies desirable HR outcomes that may not have universal appeal, as they generally assume an American view of success.

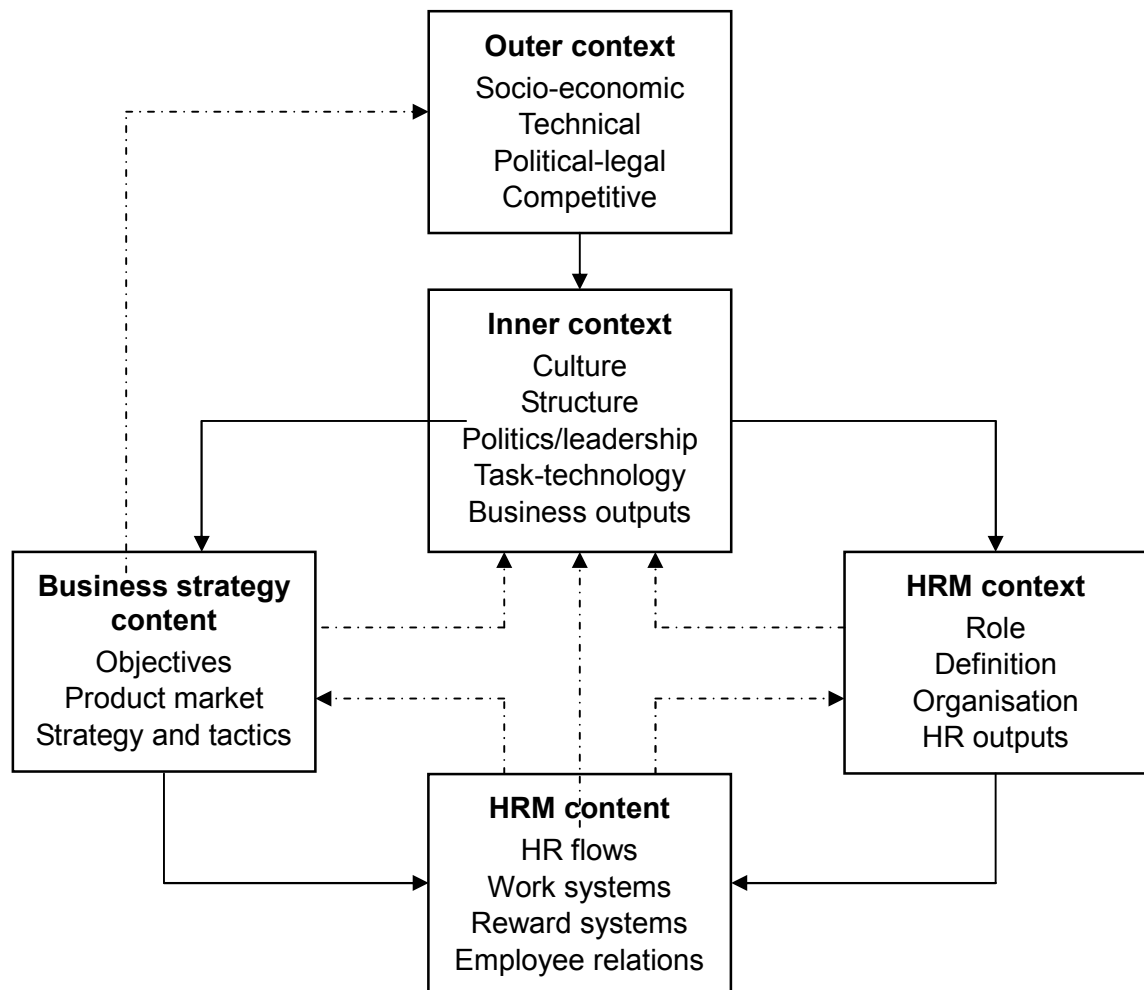
(c) **The Warwick Model**

This model was developed by the Centre for Strategy and Change at Warwick University in the early 1990s. Developed from the Harvard model, it emphasises an analytical approach to human resource management. It also recognises the impact of the role of the HR function on the human resource strategy content.

The researchers who developed the model, Hendry and Pettigrew, focused their research on mapping the context; identifying an inner (organisational) context and an external (environmental) context. It takes into account the importance of organisational learning in the formation of strategy and thereby incorporates Mintzberg's model of emergent strategy formation rather than a purely top down rational planned approach.

The five elements of the Warwick model are:

- Outer context (the external environment)
- Inner context (internal factors)
- Business strategy content
- Human resource management context
- Human resource management content.



Source: Hendry and Pettigrew, 1990

(d) Guest's model

David Guest also adapted the Harvard model. His model is based upon four outcomes that he has developed into four policy goals:

- **Strategic integration:** Ensuring that:
 - (i) Human resource management is fully integrated into strategic planning
 - (ii) Policies are coherent
 - (iii) Line managers use human resource practices as part of their every day work
- **Commitment:** Ensuring that employees:
 - (i) Feel bound to the organisation and
 - (ii) Are committed to high performance via their behaviour
- **Flexibility:** Ensuring:
 - (i) An adaptable organisation structure
 - (ii) Functional flexibility based on multi-skilling
- **Quality:** Ensuring high quality goods and services through high quality, flexible employees.

Guest contends that if an integrated set of human resource management practices is applied in a coherent fashion, with a view to achieving the goals of high commitment, high quality, and task flexibility, then superior individual performance will result. It also assumes that this will result in superior organisational performance.

The Guest model has six components:

- An HRM strategy
- A set of HRM policies
- A set of HRM outcomes
- Behavioural outcomes
- Performance outcomes
- Financial outcomes.

HRM strategy	HRM practices	HRM outcomes	Behaviour outcomes	Performance outcomes	Financial outcomes
Differentiation (innovation)	Selection	Commitment	Effort/ motivation	High: Productivity	Profits
Focus (Quality)	Training	Quality	Co-operation	Quality	ROI
Cost (Cost-reduction)	Appraisal	Flexibility	Involvement	Low: Absence	
	Rewards		Organisational citizenship	Labour turnover	
	Job design			Conflict	
	Involvement			Customer Complaints	
	Status and security			Labour turnover	

Source: Guest, 1997

Guest's model acknowledges the close links between human resource strategy and general business strategies: differentiation, focus and cost. Like the Harvard model, high quality and flexible employees are seen as highly desirable outcomes. High quality here is used in the sense of having a capable, qualified and skilful workforce to produce high quality products and services, whilst flexible refers to employees who are receptive to new ideas and innovation and capable of change.

Guest also differentiates between the ideas of human resource practices and human resource policies, arguing that "it is not the presence of selection or training but a distinctive approach to selection and training that matters".

D. HOW IS STRATEGIC HRM DIFFERENT FROM OTHER ASPECTS OF HRM?

It can be helpful to separate an organisation's activities into three levels:

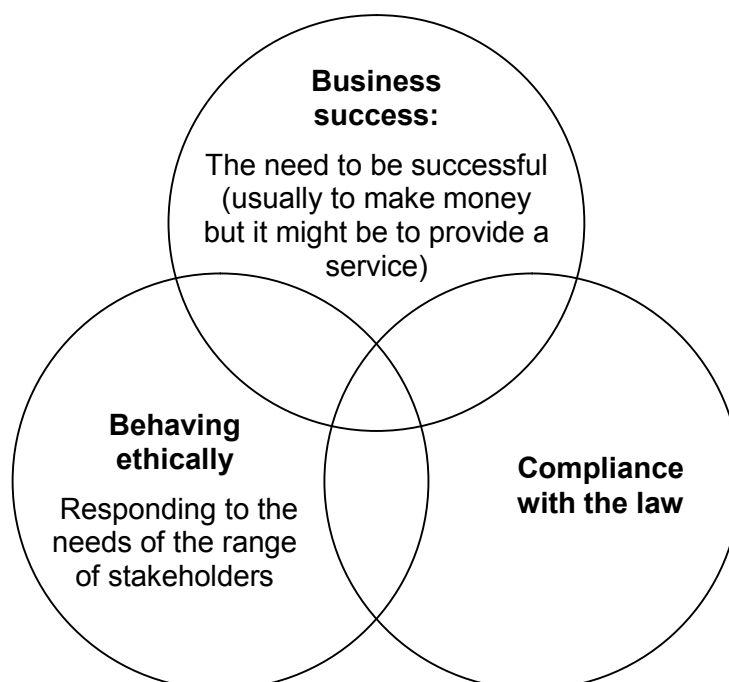


Operational activity goes on at the shop floor: making things, selling things, dealing with customers etc. The managerial layer controls (manages) the operations and has an eye to the short, medium and long-term operational issues. Policy making is generally managerial. At the strategic level, senior managers are concerned with the long-term direction of the organisation, as we have already considered. This model is helpful in differentiating strategic HR activities from managerial and operational ones. Indeed, many of the major developments in HR management in the western world during the 1990s and into the early 21st-century have been based upon this differentiation:

- Streamlining and automating HR operations (such as creating employee portals and HR call centres and devolving employee relations and line managers with support from HR advice where they need it)
- Refocusing HR management on to cost control, compliance plus developing and supporting line managers
- Enhancing the long-term value of people to the business and taking a place on the board, for the first time for many HR professionals.

So what determines an organisation's HRM strategy?

There are three drivers for an organisation:



Some activities are driven only by the business motive, such as profit maximisation, others just by the law, such as not paying below statutory minimum wage rates. Some activities are ethical, such as adopting the stakeholder perspective when making decisions. Some activities are common to all three, such as avoiding racial discrimination. The following illustrates these three using examples of health and safety issues:

<i>The business case</i>	Absence from work due to injury or illness is costly. Likewise, a poor internal or external reputation for safety or welfare results in poor recruitment, retention and motivation.
<i>The legal case</i>	Litigation can be costly and even result in imprisonment.
<i>The ethical case</i>	Taking a stakeholder view of the organisation, it has a social duty to take care of its most valuable resource.

Is legal compliance strategic?

Governments control HR practices in several ways. They:

- Legislate (create laws)
- Publish codes of practice (not legally enforceable but this is what the government and therefore, courts will consider to be good practice that employers should follow)
- Provide advice and other resources to promote support good practice (such as the UK's Advisory, Conciliation and Arbitration Service – ACAS)
- Direct public money to be spent on improving the skills of the workforce or HR practice
- Hold themselves up as examples of good practice in the management and development of people
- Inspect HR practices (especially in respect of health and safety) and enforce where appropriate
- Maintain a courts system as a final way of deciding whether or not an employer has behaved appropriately.

In many parts of the world increasing amounts of HR professionals' time is being taken up with legal compliance. Is this work operational, managerial or strategic? Dealing with cases is operational. Writing policies to prevent problems and learning lessons from cases are both managerial.

Returning to the Chandler (1962) definition of strategy:

Chandler model of strategy	Is compliance strategic?
Derived from the broad intentions of senior decision-makers in the organisation.	No. The broad intentions emanate from states bodies outside the organisation.
Encompass the organisation as a whole.	It depends upon the approach taken by the organisation. A piecemeal minimum and localised response to legislation will not be strategic (e.g. controls of certain chemicals); a consistent organisation wide response to larger initiatives (such as working time legislation) would be strategic HRM.
Determine organisation's activities over the medium to long term.	
Coordinate resources in a way that is designed to achieve sustained competitive advantage.	No. Competitive advantage is the business driver and compliance is rarely designed for this purpose.
Identify future actions based on an analysis of the organisation's internal and external environments.	Yes. The long term direction of HRM usually needs to take account of the direction the government is promoting and enforcing.

So compliance activity is not inherently strategic, although a wide and long-range response to government action might be. This is why senior HR practitioners in organisations are less concerned with the details of legislation and more interested in the long-term direction of government and social thinking.

So is responding to ethical issues strategic?

The same applies. If by ethical behaviour you mean reaching an agreement to pay an enhanced pension to a member of staff who has been injured at work, no. That is an operational issue. A policy of increasing the employer's pension contribution in line with inflation is managerial HR activity. However, a strategy to change an organisation's culture to promote social, environmental and human rights would need to be strategic because of the wide ranging and long term nature of the issues involved.

So is corporate social responsibility strategic?

By definition CSR is 'corporate' and therefore, almost certainly calls for a strong strategic approach.

E. HOW DOES RESEARCH SHOW THAT STRATEGIC HRM ADDS VALUE TO AN ORGANISATION?

What evidence is there, that people management policies can actually influence corporate performance?

CIPD-Sponsored Research

A number of projects have attempted to identify a link between progressive human resource management policies and practices and organisational performance. The CIPD in particular, has sponsored much research into the subject and, in the early part of 2001 it published the results of its summary of the research carried out on its behalf, entitled: *The case for good people management*. It concluded that a positive relationship had been identified between employee attitudes, organisational culture, human resource management practices and company performance. It emphasised that, if managers wish to influence the performance of their companies, the most important area they should focus on is the management of people. It also concluded that employee commitment and a satisfied workforce are fundamental to improving performance.

- **J. B. Arthur**

Arthur conducted a number of investigations, chiefly into the US steel industry, in the first half of the 1990s. In particular, Arthur examined the effect of high-commitment strategies (where the focus is on shaping employee behaviours by creating psychological links between organisational and employee goals, moderate employee participation, general training and high wages) compared with low commitment strategies (or, as he called them, control strategies, where compliance is through rules and procedures, with little employee participation, little training and low wages). He concluded that mills employing high commitment strategies had significantly higher levels of productivity and quality. The average employee turnover rate in high commitment mills was less than half of that in firms with a low commitment strategy.

Arthur also examined the performance effects associated with a fit between business and human resource strategy and concluded that, where fit could be demonstrated, productivity was generally 25% higher than without fit. We will look at how 'fit' can be achieved later in the study material.

- **M. A. Huselid**

In 1995, Huselid conducted research into the impact of human resource management practices on company performance and found that, if firms increased their high performance work practices, the result was significant reductions in employee turnover and significant increases in productivity and profits.

In a further study in 1997, he focused on the strategic impact on shareholder value of high performance work systems and found that firms that adopted high performance work systems had significantly higher levels of performance than those which did not, although the research did not identify precisely how such a system creates that value.

Later in this study text we'll look at ways of evaluating the effectiveness of human resource strategies and some of the pitfalls of doing so. But at this point, think about your own organisation and the strategies employed. How might the strategies help or hinder organisational performance? What evidence do you have of your findings?

Case Study 1

In 2003 the UK Chartered Institute of Personnel and Development (CIPD) published a study into the HR practices, staff views and performance in 11 large UK organisations including Jaguar Cars, the Nationwide Building Society, Selfridges (a large and successful London store) and Tesco (the UK's largest supermarket chain).

The University of Bath in the UK had carried out the research. One of the key conclusions was that the most carefully thought through HR strategy was useless unless it was embraced by line managers who have the skills and understanding necessary to engage and motivate employees.

Research had already demonstrated the powerful statistical impact of people management practices on overall business performance. But in this study they wanted to understand more about why and how such practices influenced organisational performance – to unlock what has been termed the 'black box'.

The study, *Understanding the People and Performance Link: Unlocking the black box* confirmed the powerful relationships between HR practices, employee commitment and operating performance. It tracked organisational performance over a three-year period. Where effective HR practices were not in place, levels of employee commitment were found to be up to 90% lower.

Other key conclusions included:

- (a) An organisation needs a clear direction and purpose, beyond the bland mission statement or generic goal of financial returns, which engages, enthuses and unites people. At The Nationwide Building Society this is a commitment to mutuality. At Royal United Hospital (RUH) Bath it is saving lives. This 'big idea' appears essential in motivating and directing people behind the strategy of the organisation.
- (b) High performing organisations invariably employ some form of balanced performance scorecard or methodology. Be it the stakeholder value model employed at Selfridges, the six-sigma methodology at Jaguar or a quality framework at the Court Service, this demonstrates the importance of different stakeholder groups to the organisation's success, and links individual and corporate goals.
- (c) The research confirmed that there was no universal 'best HR practice'. It is all about having a broad and integrated 'bundle', tailored to the needs of the organisation. For example, the practices employed at technology company AIT would be unlikely to go down well on the production line at Jaguar. Yet every worker there could tell you Jaguar's latest position in the international quality league table.

Strong attention to team working, extensive employee communications and involvement, and positive perceptions of training and careers emerged as common ingredients in the performance-driving HR mix.

Leadership – not at the top of the organisation, but at the front line – appeared to be holding back many UK organisations. Middle managers and supervisors set the context in which the HR/business performance relationships happened, or did not happen.

For example at the UK supermarket retailer Tesco, where 88% of staff feel loyal and share the company's values, a typical section manager described their role as, "mobilising the team with a goal, motivating people". And building management capability is a core component of the UK government tax office's HR strategy.

Another example in the research is nursing staff at a hospital describing the change after a new ward manager worked with her HR colleagues on a range of new policies, such as flexible shift working and 360 degree appraisal. Comments included:

"I'm much more motivated now, there's training, the atmosphere's totally different";

"Communication is excellent now...our manager is very approachable"

"When I came here it was unsettled. Now we have a strong team...you want to do the job to the best of your ability".

The high level of staff turnover in the ward had since fallen to almost zero.

Organisations can make progress very quickly. They need to survey employee attitudes and commitment; assess, train, coach and support their first line managers and integrate HR policies with goals and values. Once these processes are underway there is a very high likelihood of transformation.

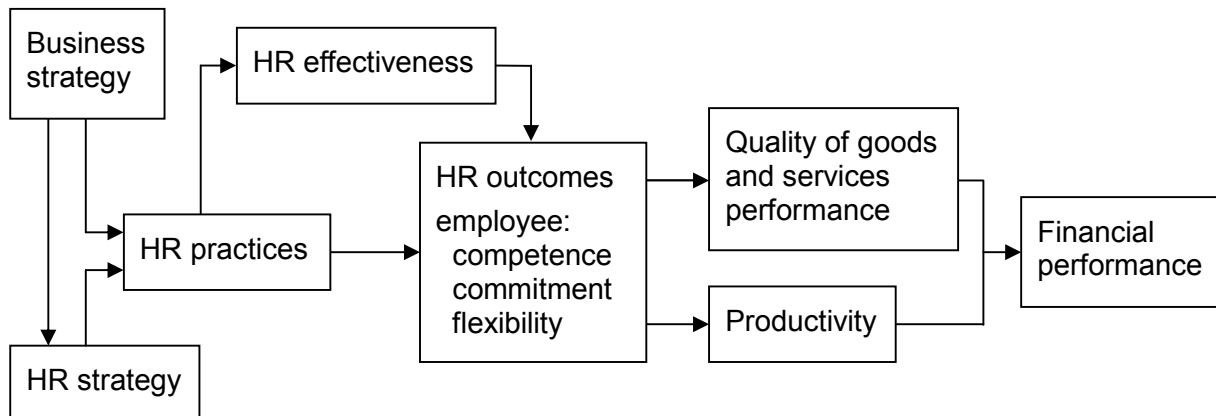
Linking Human Resource Strategy to Performance

Evidence suggests that to achieve superior organisational performance, there must be a distinct link between human resource strategies and the organisation's business strategies. We will look at this subject in more detail in the next unit and in Unit 3, but the CIPD research into people management and business performance identified three main approaches to the development of human resource strategies:

- *The best practice approach*, which is based on the belief that there is a set of superior human resource practice which, if adopted, will lead to better organisational performance
- *The best fit approach*, which is based on the belief that there can be no universal prescription for human resource management policies and practices. It is all contingent on the context and culture of the organisation
- *The configurational approach*, which focuses on the need to achieve horizontal or internal fit, i.e. human resource practices which are interrelated and internally consistent.

Finally, the Future of Work Survey carried out on behalf of the CIPD and analysed by, amongst others, David Guest, analysed the effectiveness of a number of 'progressive' human resource practices by surveying 835 private sector organisations. The survey found that the application of these practices is associated with higher levels of employee commitment and quality and greater flexibility. These in turn are associated with higher levels of productivity

and quality of goods and services and hence financial performance. Their model of the link between human resource management and performance is shown below.



Source: CIPD, *The case for good people management*, 2001

F. HOW DOES STRATEGIC HRM SUPPORT THE MANAGEMENT OF CHANGE?

What is the relationship between the psychological needs of employees and HR strategy?

HR strategy brings together, in a careful balance, the three needs of the organisation and its employees:

- Efficiency (scientific management)
- Socialisation (human relations)
- Psychology (neo-human relations)

That is where good job design now rests.

What are the features we should look for in a well-designed job?

- **Variety of tasks.** Requiring the use of several skills
- **Autonomy** of the team member in deciding the order or pace of work
- **Personal identity.** The task forms a whole job (or a large part of a whole job)
- **Responsibility.** Individuals accountable to each other
- **Feedback.** Constant information on how things are going
- **Social contact.** Opportunity for interaction with colleagues on work-related matters
- **Balanced workload.** Team members help each other to even-out peaks and troughs in their work
- **Minimal role ambiguity or conflict.** The team has the opportunity to deal swiftly with any problem of 'who does what'. With an emphasis on quality, teams are required to ensure quality standards are given higher emphasis than simply reaching output quotas.
- **Achievement.** With the finished product often in view and with their responsibilities for quality in mind, team members can be satisfied with a job well done

- **Development.** The general increase in the required level of skills and particularly interpersonal skills, provides opportunities for learning and development. These are transferable outside the immediate workplace and can contribute to a significant sense of personal growth.

G. WHO HOLDS THE RESPONSIBILITY FOR STRATEGIC HRM?

Much has been written about the various roles of HR professionals and how they have changed over time. As far as HR strategy formulation and implementation are concerned, there is little doubt that this has generally fallen to HR directors, charged with forging the links between the business strategy, organisational culture and the HR strategy. There is also little doubt that since the 1980s the presence of HR directors on the boards of both public and private institutions has increased. A prerequisite for board membership is the ability to use the business, financial and strategic language used by boards.

In larger or more complex organisations, HR directors have recognised the level of detail required in strategy work and in common with other functions, have created specialist posts for middle ranking HR professionals, to support them in their strategic responsibilities (rather as a politician might have support staff conducting research etc. or civil servants responsible for overseeing implementation of political decisions). In a few organisations these have developed into strategy units, with responsibility extending into HR policy and procedure but stopping short of transactional processes.

H. WHEN IS IT APPROPRIATE TO CREATE A DEDICATED HR FUNCTION?

How do organisations use HR professionals?

Managing people is a shared activity and many people play a part. The degree to which it is delegated to line managers will vary from country to country, from sector to sector and even from unit to unit within one organisation. It is always good to remember that the way you have experienced HR is not the way it is organised everywhere else.

It is helpful to separate:

<i>Clerk of Works HR</i>	<i>Contracts Manager HR</i>	<i>HR Architect</i>
<i>Transactional HR</i> Dealing with individual casework and predominantly administrative.	<i>Managerial HR</i> Where HR is heavily formalised and rule-bound and emphasis is on troubleshooting or staying on the right side of employment law (often strong in a public sector or unionised environment).	<i>Strategic HR</i> Creative and innovative HR, with emphasis on vertical integration and making best use of the available human resource – added value HR.

Based on: Tyson and Fell, 1986

It became increasingly common during the 1990s for transactional HR (the left hand box) to be devolved to line managers and even the individual employee if there was access to an intranet, containing an employee portal through which the employee could manage their

leave, change their hours of work, get a pay slip, apply for promotion, find out about conditions of service etc.

But line managers are busy and cannot be administrative experts. So a new model became increasingly popular in the early 21st century: the HR strategic business partner model, proposed by David Ulrich in the USA in 1997.

Shared services	Centres of excellence	Strategic partners
A single and sometimes large unit that handles all the routine transactional HR activities for the organisation. Typically: resourcing, payroll, absence monitoring, advice on the simpler employee relations issues.	A small teams of HR experts with specialist knowledge of key areas of HR Typically reward, learning and development, employee engagement, talent management, diversity and compliance.	A small number of HR professionals working closely with local business managers influencing strategy and steering its implementation. The task of strategic partners is to ensure the business makes best use of its people.
Low-cost but effective HR administration.	Delivers competitive business advantages through HR innovations	Highlights to general managers the HR issues and possibilities they may not see. It is also aims to inform and shape HR strategy, so that HR meets organisational needs.

HR professionals at middle and senior levels in organisations are increasingly seeking professionally qualified. That is probably one of the reasons why you are pursuing an ABE qualification.

What is HR business partnering?

HR business partnering involves the restructuring of HR into three specialist sub-functions:

- **Shared services.** A single and sometimes large unit that handles all the routine 'transactional' (i.e. administrative) services across the organisation – typically recruitment, payroll, absence monitoring, and advice on the simpler employee relations issues. Shared services' remit is to provide low-cost, effective HR administration.
- **Centres of excellence.** Small teams of HR experts with specialist knowledge of HR, such as reward, learning, engagement, occupational health and talent management.
- **Strategic partners.** Individual HR professionals working closely with local managers influencing strategy and steering its implementation. The task of strategic partners is to ensure the business makes best use of the available people; to point out the HR issues and possibilities that executives don't often see. It is also aims to inform and shape HR strategy, so that HR meets organisational needs.

Few organisations create clear boundaries between the sub-functions and there is usually a degree of overlap between functions. For example, a centre of excellence might handle complex employee relations issues, whilst strategic partners find themselves entangled in small, routine matters. Some organisations discover they need a fourth element, a consultancy role that facilitates and supports change initiatives.

This fits in with Ulrich's role description for these posts

- HR Leader: Leading change
- Functional Expert: Reengineering organisation processes: 'shared services'
- Strategic Partner/
Change Agent: Aligning HR and business strategy: 'organisational diagnosis'

Managing transformation and change: 'ensuring capacity for change'
- Employee Advocate/
Human Capital Developer: Listening and responding to employees: 'providing resources to employees'

Case Study 2

from Personnel Today magazine – 28 January 2008

BACKLASH AGAINST HUMAN RESOURCES BUSINESS PARTNER MODEL AS MANAGERS QUESTION RESULTS

A backlash against the much-feted human resources (HR) business partner model appears to have begun after research revealed that more than half of managers were unconvinced by the structure. Only 47% of the managers polled by research firm Roffey Park said that business partnering was in any way successful in their organisation. One in four said the model was ineffective, while the rest were undecided on the merits of the increasingly popular system.

The business partner model has been hailed as the way forward for the profession since HR academic Dave Ulrich first wrote about it in 1997. It was supposed to modernise the function, making it more valuable to chief executives, and is now the most common structure, according to the Chartered Institute of Personnel and Development (CIPD). Almost half of the 479 managers polled had business partners in their organisation.

However, those critical of the model said all too often it had only involved a change in title, and had not resulted in strategic thinking, with comments such as: "Too much reliance on the intranet", and "Greater conflict within HR" in the survey.

Gabriele Arend, HR director at beauty products manufacturer Elizabeth Arden, said she disagreed with any model splitting HR professionals into recruiting, training and employee relations experts. Her company is moving towards a more traditional structure, where HR staffs are trained to develop generalist knowledge. "This encourages a trust relationship between staff and their HR partner, but also allows department heads to discuss their issues with one HR partner rather than three," she said.

Case Study 3

Job advertisement

HR Business Partner – Various locations

At last, a chance to join an efficient organisation who have a modern HR strategy that works within this huge global organisation. Our client delivers an HR service focused on developing the skills of the managers, so they are truly capable of managing every aspect of the employee lifecycle – from an unhappy team member, through to under performance to career development and beyond.

The overall objective of the HR team is to skill managers in all the basic areas of HR offering guidance – but not hand holding as happens so often in less sophisticated organisations.

Study Unit 2

Vertical Integration and Human Resources Strategy

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Objectives

The aim of this unit is to critically evaluate and explain the necessity for alignment between an organisation's corporate strategy (and its higher-order purposes, reflected in its vision, mission, values and goals) and its human resource strategy.

When you have completed this study unit you will be able to:

- Explain the benefits of vertical integration ('best fit') between an organisation's corporate and human resource strategies
- Explain the significance of horizontal integration and 'best practice'
- Critically examine review of 'best fit', 'best practice' and other strategic alignment mechanisms
- Explain the linkages between an organisation's higher-order strategic direction and its aspirational human resource strategies, e.g., the corporate vision translated into aspirational models for the performance and commitment of people as sources of 'added value'

A. INTRODUCTION

What is vertical integration?

Vertical integration occurs when the human resource strategies are congruent with the culture of the organisation and fit with the business strategy. 'Fit' as a concept is relevant not just in the strategy formulation stage; it may also apply at the implementation stage.

Cultural fit

If strategies fit with the culture of the organisation, not only are they more readily acceptable, to both senior management and the workforce but implementation tends to go more smoothly too. If the intention is to change the culture, or adopt an initiative that does not fit the organisational culture, then there are likely to be difficulties in the implementation stage.

To ensure cultural fit, it is necessary to analyse the existing culture. Coke and Lafferty, writing in *Organisational Culture Inventory* in 1989, suggested that analysis on the following 12 points would provide information on how human resource strategies should be shaped:

- Humanistic-helpful: Organisations managed in a participative and person-centred way
- Affiliative: Organisations that place a high priority on constructive relationships
- Approval: Organisations in which conflicts are avoided and interpersonal relationships are pleasant, at least superficially
- Conventional: Conservative, traditional and bureaucratically controlled organisations
- Dependent: Hierarchically controlled and non-participative organisations
- Avoidance: Organisations that fail to reward success but punish mistakes
- Oppositional: Organisations in which confrontation prevails and negativism is rewarded
- Power: Organisations structured on the basis of the authority inherent in members' positions
- Competitive: A culture in which winning is valued and members are rewarded for out-performing one another
- Competence/perfectionist: Organisations in which perfectionism, persistence and hard work are valued

- Achievement: Organisations that do things well and value members who set and accomplish challenging but realistic goals
- Self-actualisation: Organisations that value creativity, quality over quantity and both task accomplishment and individual growth.

Analyse your own organisation or one that you are familiar with. Which of the twelve points identified by Cooke and Lafferty does the organisation fit into? What evidence is there to support your view?

How far should vertical integration go?

The extent to which organisational strategy and human resource strategy is integrated varies according to the type of organisation. Torrington and Hall identify a range of different relationships, as shown below:

Separation model



In this model, there is no relationship at all between organisational strategies and human resource strategies. This is the model commonly used to describe the approach to human resource management up to the mid 1980s and in many organisations (particularly smaller ones) it is still apparent today. In fact, it is arguable that a human resource strategy does not exist in such organisations.

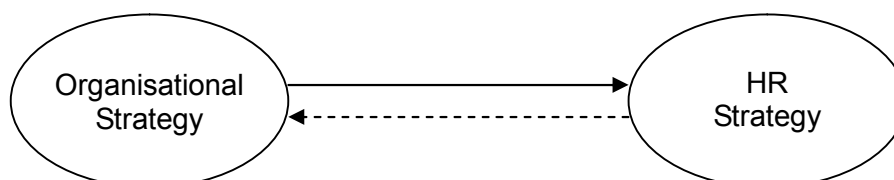
Fit model



This model recognises the importance of people in the achievement of organisational strategy. Employees are seen as key in the implementation of the declared organisational strategy and human resource strategy is designed to fit the requirements of the organisation's strategy. We will look at this model in more detail below.

We noted before that this model requires the organisation's strategies to be developed on a top down planned approach (the rational model).

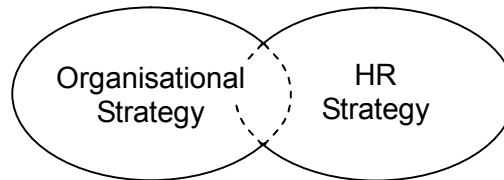
The dialogue model



This model takes the relationship between organisational strategy and human resource strategy one stage further by introducing the need for two-way communication and debate. Theoretically, the requirements of the organisational strategy may not be possible or desirable and some adjustment may be needed. In practice, however, the debate is more

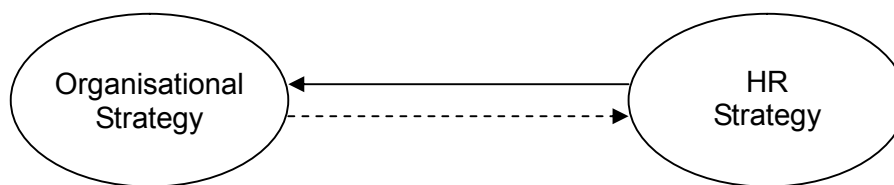
likely to be limited, particularly where the negotiating parties are not of equal status. This might occur, for example, at functional level where one department may have more perceived power than another to the extent that its requirements are accommodated at the expense of another. A negotiation appears to take place but there is not mutually agreed outcome.

The holistic approach



This model represents where people within the organisation are recognised as key to competitive advantage, rather than just the way of implementing organisational strategy, i.e. human resource strategy is not just the means of achieving business strategy (the ends) but an end in itself. Human resource strategy becomes critical. In practice, Storey found in 1989 that few organisations achieve this degree of integration although research by Kelly and Gennard in 1996 suggested that many are beginning to approach this model.

The human resource driven model



This final model places human resource strategy in the driving seat. The argument here is that if people are the key to competitive advantage, then we need to build on our people strengths. The potential of employees will affect the achievement of any planned strategy so it is argued that it would be sensible to take account of this in developing strategic direction.

Are there standard HRM responses to the different types of corporate strategy?

Yes.

Competitive Strategies and Human Resource Strategies

We noted in the previous study unit that business level strategies concentrate on competitive strategies. We have also noted the need to integrate human resource strategies with business level strategies. Using Porter's competitive strategies, we can identify the human resource practices that 'fit' with those competitive strategies:

Differentiation

You may recall that organisations adopting a strategy of differentiation aim to achieve competitive advantage by doing something that is different from their competitors. To be effective, such organisations need employees who are:

- Creative
- Able to focus on the long term implications of strategies
- Able to share information and work together
- Risk takers
- Able to tolerate unpredictability and ambiguity.

Human resource strategies, to support a strategy of differentiation, therefore, need to include strategies to promote:

- Creativity, for example, by designing an appraisal system that rewards an innovative approach
- Co-operation and working together, for example, by using a team based approach to job design, using appraisals to recognise long term and group based achievements
- Experimentation, perhaps by fostering a culture where mistakes are viewed as learning opportunities and encouraging open communication
- Broader jobs and career paths that reinforce the development of a wider range of skills.

Cost Leadership

Organisations adopting a low cost leadership strategy need people who are:

- Able to focus on the shorter term
- Risk averse
- Concerned for quantity of output, to some extent over quality (although there are cost implications for quality failures).

Human resource strategies to support a strategy of cost leadership might include:

- Narrowly designed jobs and strict job descriptions
- Short term, results-oriented performance appraisals
- Limited training
- Close monitoring of employee activities
- Short term, low cost employment practices such as short term contracts.

Porter is not the only writer to have attempted to define competitive strategies. We noted in the last study unit that Miles and Snow also addressed competitive strategies in terms of defining types of organisation as:

- Defenders
- Prospectors
- Analysers
- Reactors

Similarly, we can identify types of behaviours that such organisations will require from their employees:

- Defender organisations tend to follow a low cost leadership strategy where stability, high volume low cost production and strict controls are adopted. Human resource strategies to support this approach might include a policy to recruit/promote from within, a centralised approach to structure design and a reward system that is based upon internal consistency.
- Prospector organisations seek new opportunities so a differentiation strategy tends to be followed. Emphasis is on creativity, information sharing, multi-skilling etc. Human resource strategies such as those identified above, for a differentiation approach, would 'fit' for prospector organisations.
- Analyser organisations operate in at least two different product market areas so need a broader range of skills and attitudes from their employees. Human resource strategies here are likely to be more diverse or mixed.

- Reactor organisations are companies that lack a consistent strategy-structure-culture relationship and human resource strategies are similarly disassociated.

What effect has globalisation had on HR strategy?

The last quarter of the twentieth century saw an explosion in technology and in particular the use of Internet technology and the growth of the global economy. We will look at how the global economy impacts on aspects of human resource management when we look at situational analysis and human resource planning in Unit 5, but for the purpose of considering the achievement of strategic fit between human resource strategies and organisational strategies, there are clear implications for the multinational organisation.

The impact of national culture is an important facet of forming human resource strategies, because of the impact of national culture on human behaviour. This is easiest to see where differences are most marked, although we must be aware of stereotyping. National approaches to, for example, religion, the family and education can impact in the application or acceptability of certain human resource strategies. The Japanese, for example, have great difficulty with any course of action where they might be perceived as losing face. Japanese children are taught to conform, to work within a group and to develop team spirit. Strategies where individual performance is emphasised are at odds with this background. Similarly, attitudes towards gender differences vary accordingly to national culture. Research suggests that where men are assertive and have dominant roles, so organisations tend to emphasise generating profits, performance and achievement. Where there is a larger role for women, who are more service oriented, so the emphasis tends to be on quality issues, interpersonal relationships and concern for the environment.

What are the strategic pressures on public sector organisations?

One of the key differences in strategy in public sector organisations is the impact of the political view of accountability. At one time, public sector organisations were simply required to provide a public service, whatever the cost. The view then changed to requiring public service operators, at the very least, to meet certain financial targets aimed at ensuring the taxpayer received a certain amount of value for money. Successive governments have built upon this view, to the extent that public service providers now have to meet stringent government-set targets and publish how successful they are at meeting those targets. Funding is frequently dependent upon the successful achievement of such targets, which are often criticised for being based upon general criteria that do not take into account local conditions.

More recently, initiatives such as 'best value' within local authorities have been designed to give local people greater say over the way in which local services are delivered. Local councils aiming for 'best value' status are required to prepare and publish comprehensive annual performance plans that set out overall objectives and establish performance reviews. All services must be reviewed over a five year period and must:

- Ask why the council provides a service at all and ask whether someone else could do it better
- Compare performance with other providers of similar services
- Consult with those who are partners in or recipients of the services
- Demonstrate that they can compete with other potential providers of the service.

Best value, therefore, goes much further than the original principles of compulsory competitive tendering, which aimed at getting the best price for any item or service purchased. Best value also has huge implications for human resource strategies.

For example, if a best value review concludes that the running of local authority retirement and nursing homes would be more appropriately handled by another service provider, what implications do you think this might have on human resources management?

The move towards a more commercial approach to management in the public sector has led to greater emphasis on the strategic approach to human resource management and towards initiatives such as high commitment management. John Storey, writing in *Public Money and Management* in 1989, noted that local authorities and public sector organisations such as the NHS were being forced to adopt human resource practices that are integrated with business plans and to aim for 'committed' employee behaviour, rather than mere compliance with rules. He also noted some of the difficulties faced by local authorities and the public sector generally, not least of which is the short-term nature of the political processes in the UK. Directed by locally elected representatives, for example, local councils in the UK stand for re-election every four years. Thus, virtually overnight, a local authority can change political persuasion, resulting in the need/push for a complete change of emphasis in terms of policies and objectives which human resource management must adapt to. John Storey illustrates this with the case of Bradford Council that had to reverse its social strategy and attendant human resource management approach, when support ceased when an alternative political party gained control of the council.

What are the strategic pressures on the not for profit sector?

As with the public sector, the not-for-profit sector has seen great change in the way its organisations are managed over the last two decades. In the late 1980s, Peter Drucker studied the management of the non-for-profit sector in the United States (reported in Harvard Business Review in 1989) and found that management techniques in the not-for-profit sector were superior to those found within business.

Drucker found that the not-for-profit sector started with a mission that focused the organisation on clear action-based goals and unlike most commercially based organisations who focus on planning and financial returns, the focus for not-for-profits was the performance of the mission.

To a large extent, the not-for-profit sector has led the way with the soft approach to human resource management. By not paying volunteers, the voluntary sector have long supported the view that volunteers must get satisfaction from their endeavours, so strategies aimed at turning well-meaning amateurs into trained, professional, unpaid staff members are a vital part of the overall strategy of the organisation. A strong sense of mission is a vital starting point, which generates high commitment amongst volunteers who, after all, can leave at any time. This is backed up by a clear commitment to providing training and using the individual skills and expertise of those who volunteer. Even if an individual proves unsuitable for a particular role, efforts are concentrated on moving that individual and finding something to which they are suited, rather than simply dispensing with their services. Once volunteers are trained, that knowledge and expertise is continually developed and used so that volunteers continue to get satisfaction from their role. Some not-for-profit organisations have created career ladders for their volunteers, so that performance is repaid by increased responsibility.

Drucker argued that many businesses could profit from the strategies developed by the not-for-profit sector in the field of human resource management. He cites, as an example, a number of students he has taught, all middle to senior executives in a variety of businesses and many of whom are also active in the voluntary sector for several hours a week. When he asked why they did it, he found the reply was always the same: "because in my job there isn't much challenge, not enough achievement, not enough responsibility; and there is no mission, there is only expediency".

C. WHAT ARE THE BENEFITS OF VERTICAL INTEGRATION?

We need HR issues to be on the boardroom agenda

Until the twenty-first century it was a continual irritant to senior HR practitioners and their representative organisations in the western world, that they aspired to have more influence on board-level decision-making but did not attain it. Whilst some claimed this was ambition and vanity, the research was beginning to emerge to show the links between the seriousness paid to HR issues by boards and organisational success. Vertical integration became one of the levers to get boards to take HR issues more seriously and therefore, give HRM the time and financial resources it required. If HRM is clearly supporting the implementation of top-level corporate strategy (downward integration) and HR strategists are having an influence on the formulation of corporate strategy (upward integration) then HR is and is seen to be adding value.

Those are the benefits of vertical integration:

- Corporate business plans and strategies reflect the HR reality of the organisation (and are therefore, more likely to be accepted, understood and succeed)
- HR activities will cascade from the corporate business plans and strategies and will, therefore, support them.

D. HOW DO WE PROMOTE THE VERTICAL INTEGRATION OF OUR HR STRATEGY?

How do we integrate business and human resource strategies?

As we have already noted, business strategies are influenced *by* human resource strategies, as well as having influence *on* them. Thus, the process of achieving vertical integration is a little like trying to decide which comes first, the chicken or the egg! The theoretical approach suggests drawing up a matrix where each of the elements of human resource management (structure, resourcing, human resource development, performance management, reward and employee relations) are matched against each business strategy, to identify which of the human resource strategies are associated with various elements of business strategy. In reality, business strategies might not be so clearly defined or may be 'emerging'.

Perhaps a more realistic approach is to consider each key area of business strategy and the human resource implications of each as a basis for integration. This will require:

- Knowledge of the skills and behaviour necessary to implement the strategy
- Knowledge of the human resource management practices necessary to elicit those skills and behaviours
- The ability to quickly implement the desired system of human resource management practices.

E. WHAT IS HORIZONTAL INTEGRATION?

One of the beauties of HRM is that all people management and development topics can and ought to integrate with each other. Your organisation's long term HR strategy leads to a resourcing plan for getting the people you need. Recruitment (part of people resourcing) overlaps with induction (learning and development). However, induction also involves finding ways to engage the new member of staff with the decision making processes of the business (employee relations). Induction will involve setting work objectives (performance

management) that take account of the direction the business is going in (organisation development). Those objectives will only be met if sufficient rewards are available. We could go on.

We call this horizontal integration. Without it, HRM is dysfunctional.

Human resource management should also be an integral part of the business strategy, contributing to the business planning process as it happens. Horizontal integration with other aspects of the business strategy is required, as well as fit between the different elements of the people strategy. The aim is to achieve a coherent approach to managing people in which the various practices are mutually supportive.

David Guest, for example, writing in 1987 in the *Journal of Management Studies*, said:

"Because they are the most variable, and the least easy to understand and control of all management resources, effective utilisation of human resources is likely to give organisations a significant competitive advantage. The human resource dimension must therefore be fully integrated into the strategic planning process."

The concept of integration has three other aspects:

- The integration or cohesion of human resource policies and practices, to complement each other and to help achieve strategic goals
- The internalisation of the importance of human resources by line managers
- The integration of all workers into the business, to foster commitment or an identity with their organisation.

The basic concept, here, is that if these forms of integration are implemented, workers will be more co-operative, flexible and willing to accept change. Therefore, the organisation's strategic plans are likely to be more successfully implemented.

The 'Matching Model' of Human Resource Management

The underlying basis for the matching or 'fit' model of human resource management is that organisations (certainly in the western world) can only gain competitive advantage by adopting the low cost leadership or differentiation strategies identified by Michael Porter.

You should note at this stage that, although Michael Porter's work is much respected, it is not universally accepted as the only route to competitive advantage. Indeed, at the CIPD National Conference in 2000, many well-respected captains of industry disagreed with Porter's definition of competitive advantage, let alone the methods of achieving it!

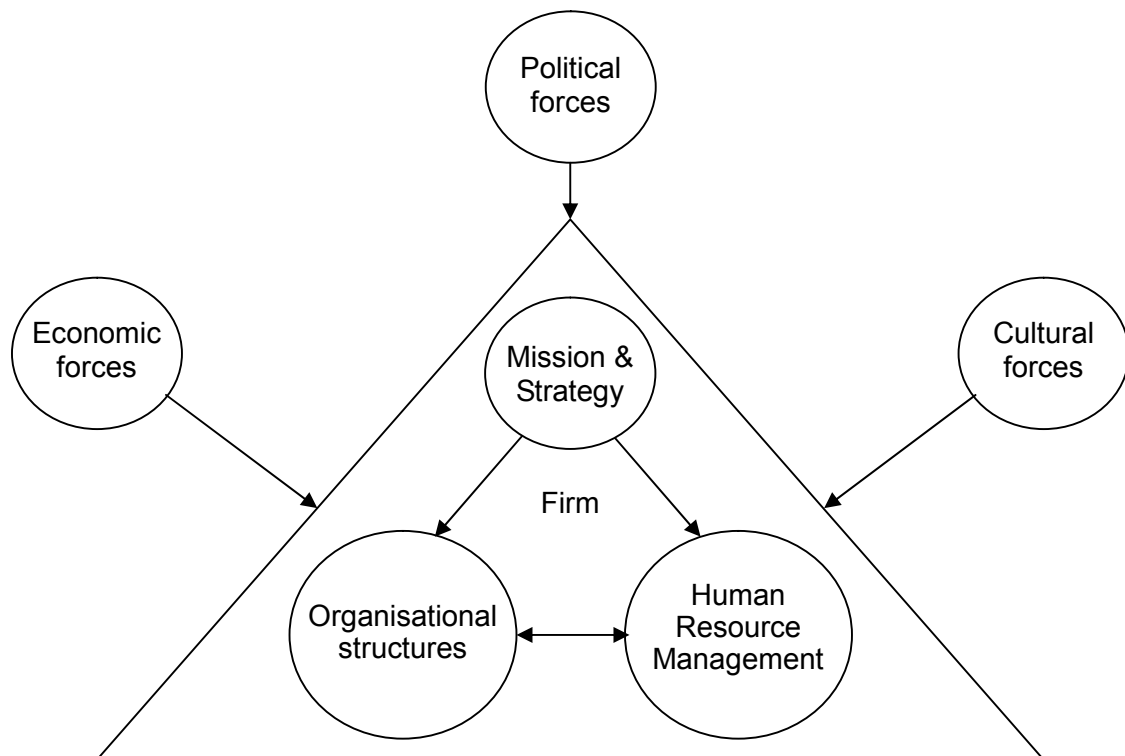
In Unit 1, we looked at some of the common models of human resource management. The first of those, devised by **Fombrun, Tichy and Devanna** you will recall, was an early attempt at the 'matching' model. One of its developers, Devanna, argued, "human resource systems and organisational structure should be managed in a way that is congruent with organisational strategy".

This link between strategy and structure is a common theme, although it is sometimes disputed which comes first, strategy or structure. Theorists will argue that structure should support strategy but many have noted that strategic choice may be heavily influenced by the existing structure.

Why do you think this is?

Devanna acknowledged that strategy and structure feed off each other and developed a **matching model of strategic human resource management**. This model acknowledges the links between strategy and structure and attempts to show how both are influenced by external environmental factors:

Devanna, Fombrun and Tichy's matching model of strategic human resource management



Source: Bratton and Gold, *Human Resource Management*

The **Harvard model** of human resource management also acknowledged the notion of 'fit' between corporate strategy and human resource strategy. Its authors conclude that any inconsistency between internal human resource management practices and competitive strategy is likely to lead to role conflict and ambiguity that can interfere with individual performance and organisational effectiveness.

Criticisms of the Matching Model

The concept of 'fit' between human resource strategy and corporate strategy has been criticised on a number of fronts:

- A number of writers have commented that the matching model implies an approach that human resource strategy is subservient to business strategy. This means that business strategy dictates human resource strategy. For this to apply there is a basic assumption that business strategy is formulated in a rational way, by the top down approach. Whilst this may be true for some organisations, it ignores the reality that not all strategic decisions are made in a planned logical way but may be the result of managers competing for influence, power and resources.

As Purcell put it:

"Strategic decisions are characterised by the political hurly-burly of organisational life with a high incidence of bargaining, a trading off of costs and benefits of one interest group against another, all within a notable lack of clarity in terms of environmental influences and objectives".

- Although the concept of strategic fit has become a somewhat fashionable concept in recent years, some theorists have questioned whether it is always desirable to match

human resource strategy to business strategy. There are several circumstances, often quoted, where a perfect match between business strategy and human resource strategy might not be to the advantage of the organisation as a whole:

- (i) In a volatile environment managers may need to be able to adapt to rapidly changing circumstances. Human resource strategies may be so closely aligned to business strategy that they reduce flexibility and the ability to react quickly.
- (ii) Similarly, in periods of financial downturn, there is a tendency for corporate management to attempt to increase profitability through measures such as downsizing, acquisitions and asset stripping. The 'logical' human resource strategies that flow from these business strategies would tend to favour short-term contracts, compulsory redundancies and a reward system based upon short-term results. Whilst these strategies seem to fit business strategy, they are hardly likely to generate employee commitment, flexibility and quality; all goals seen by many writers as some of the key characteristics of successful companies.

Think about your own approach to management here. If you are a manager in an organisation which offers rewards for quick results, what type of project might you be likely to promote: one which offers a low initial rate of return but over, say, a ten year period offers the potential for greater benefit for the company, or a short term project which promises a quick high return but only over a relatively short period?

Which project would benefit the company most?

- (iii) Some writers argue that there is no proven link between the matching model and superior organisational performance. In fact, writers have noted that the organisations that tend to outperform the market are likely to adopt low cost business strategies rather than differentiation and such business strategies, by their nature, tend to drive out long term human resource strategies, thereby destroying the whole basis for human resource strategic management.

You must remember that this is just one point of view but does tend to support the criticism of the matching model identified above.

- (iv) The matching model, it is alleged, tends to ignore the unique characteristics of the workforce it seeks to manage. Purcell commented that the model ignores the complex nature of human beings and the possibility that workers and their unions might influence strategic planning.

Case Study

In the latter half of the 1990s, Yorkshire Water plc introduced a series of strategies aimed at moving Yorkshire Water out of the era of public-sector utilities and creating a business that satisfied the needs of shareholders and other stakeholders. As part of the human resource strategies geared to 'fit' this business strategy, employee involvement was to be encouraged through a reward policy which included performance related pay. However, getting employees, and many managers, to accept performance related pay proved to be particularly difficult and it was only introduced when the then human resources director appealed directly to the workers, by-passing their shop stewards. Even so, Karen Moir, HR director at Yorkshire Water reported to the 2000 National Conference of the CIPD, the union, GMB had tried every year since to persuade the company to drop performance related pay.

Adapted from People Management, November 2000

Business Level Strategy and Human Resource Management

There has been much written about the links between human resource strategy and business level strategy.

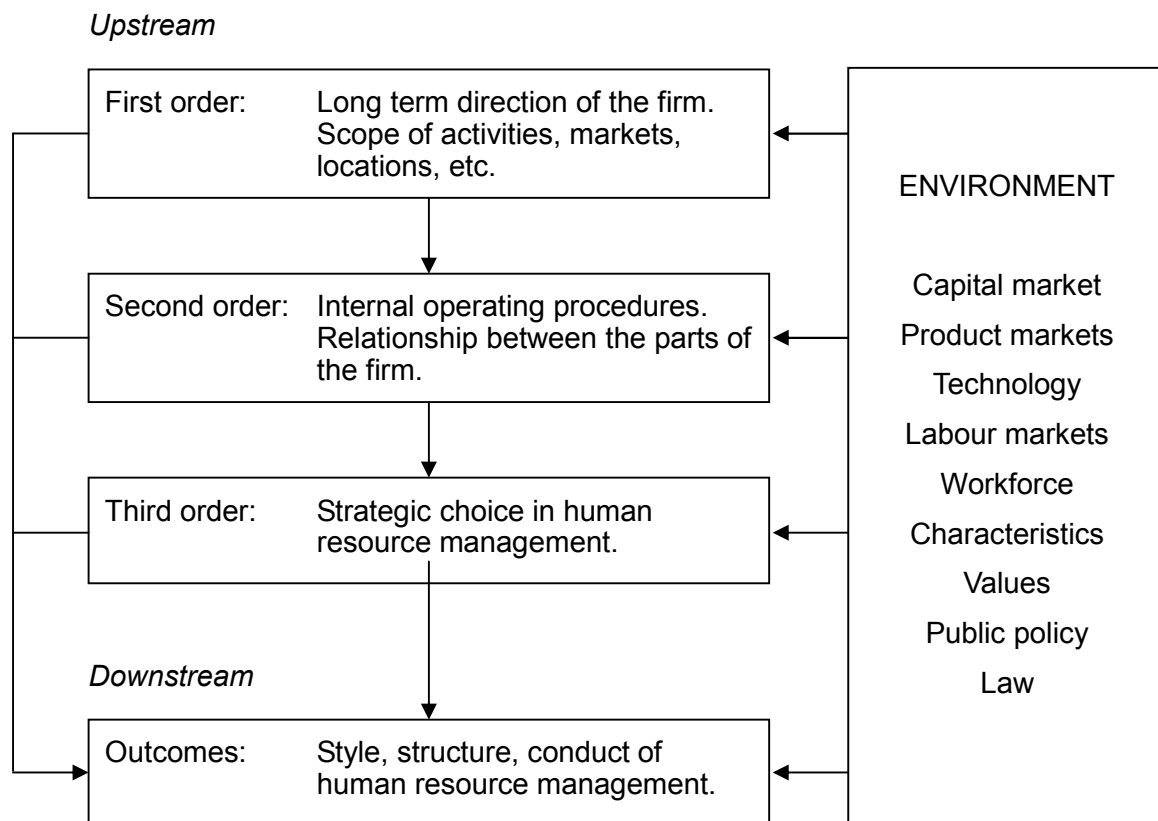
Kydd and Oppenheim, writing in *Human Resource Strategy Journal* in 1990, classify a range of links along a proactive-reactive continuum. At the proactive end of the scale, human resource professionals take an active part in strategy formulation at all levels. At the reactive end of the scale, the human resource function is very much subservient to corporate and business level strategy. Once corporate and business strategies have been determined, the role of human resource management is to support those strategies through policies, programmes, practices and philosophies designed to reinforce employee behaviours appropriate for the chosen competitive strategies.

Some of the models have been criticised for ignoring the impact of environmental influences on human resource management. Those that have attempted to incorporate environmental influences have been criticised for being too vague, abstract or generalised.

John Purcell, writing in *New Perspectives on Human Resource Management* in 1989, identifies what he calls 'upstream' and 'downstream' types of strategic decisions. Upstream strategic decisions are concerned with the long-term direction of the corporation. Upstream first order decisions (as he calls them) set the parameters for the long term direction of the organisation, the scope of its activities, markets etc. Second order decisions flow downstream from the first order decisions and might include the inter-relationship between different parts of the organisation or how the organisation is structured to meet its goals. Both these types of decision are strategic, as they both have implications for organisational behaviour. Purcell argues that it is in the context of downstream strategic decisions on organisational structure that choices on human resource structures and approaches come to be made. He argues that these are themselves strategic, since they establish the basic parameters of human resource management in the organisation but they are likely to be influenced by first and second decisions, as well as environmental factors of law, trade unions and external labour markets.

The following diagram below should simplify these ideas for you:

Purcell's Levels of strategic decision making



Source: Salaman, *Human Resource Strategies*

Further Thoughts on Integration

Coherent and integrated personnel and development strategies are only likely to be developed if the top team understand and act upon the strategic imperatives associated with the employment, development and motivation of people. This is most likely to be achieved when there is a personnel director, or human resources director, playing an active and respected role as a business partner, by forming strategic alliances with key players in the organisation. The effective implementation of human resource strategies depends on the involvement, commitment and co-operation of line managers and staff generally.

Gratton, Hailey, Stiles and Truss, writing in *Strategic Human Resource Management*, comment that good intentions can too easily be subverted by the harsh realities of organisational life. For example, strategic objectives such as increasing commitment by providing more security and offering training to increase employability, may have to be abandoned or at least modified because of the short-term demands made on the business to increase shareholder value.

E. BUNDLING AND BEST FIT

The terms “high commitment”, “best practice” and “high performance work systems”, although used differently by different people, tend to mean the same things: the elements of HRM that, when present, produce high recruitment, retention and commitment from staff and generate quality, quantity, innovation and cost control from the organisation. We will deal with these approaches in Unit 3 – The Alternatives to Strategic Human Resource Management.

However, one of the important features of this is the value of bundling; bringing related elements of HRM together in a mutually supportive way, so that employer branding, training and reward for example are coordinated and support each other. The significant question is 'what does the ideal bundle look like?' The bad news is there is no ideal bundle, because each organisation is different and its external environment is different. The good news is that there are certain key features of bundling that tend to promote excellence and organisational success.

In the USA, Pfeffer produced the following list in 1998 and this is a good summary of the research in this area:

Organisations that have best practice/high commitment HRM tend to:

- Offer employment security (this is regarded as fundamental to many of the following, because it generates a strong and positive psychological contract)
- Offer a career rather than a job
- Use selective hiring and sophisticated selection
- Communicate and involve employees in decision making
- Invest well in learning and development
- Use teams extensively
- Offer high reward (usually financial) that is linked to organisational performance
- Minimise status differentials and promote harmonisation.

Employment security

This is not the same as a job for life. The key is that the psychological contract contains the unwritten clause, 'this employer will do everything reasonably practicable to keep the employee in employment. When there is uncertainty in the organisation's external environment, redundancies may be necessary but they will be regarded as a last resort. The employer will invest in long term planning and employment flexibility to maintain security for core workers.'

Career management

This would now be expanded to include talent management, which stakes a strategic perspective upon and integrates the range of people management and development activities around attracting, identifying, using and developing talent for the immediate, medium and long term benefit of the organisation. High commitment organisations offer careers rather than jobs.

Recruitment and selection

The quality of staff joining an organisation is critical to its long-term success. So, time and money spent on being an attractive employer (employer branding and employer of choice) and careful selection, using a range of ways to gather information about candidates, does show a long-term return on investment.

Employee engagement

Communication can be linear and often one-way (from employer to employee). One way communication is present in all organisations but it is the breadth of the information conveyed that marks out the best practice organisations. Information on the organisation's financial performance, for example, can be quite empowering to staff when it makes them sense that they are treated as intelligent and responsible and when it helps them to make local decisions, confident in the knowledge of the bigger picture.

Two-way systems include problem solving groups and project teams, as well as the grievance procedure. The concept of the 'employee voice' goes further because it

recognises the employee as a principal stakeholder. Partnership relationships with trade unions promote a positive employee voice, expressed through trusted elected representatives.

Learning and development

Investment in learning and development, when accurately targeted and carefully used, has been shown in repeated studies to offer a significant return on investment and is a source of competitive advantage. This has led to the concept of the 'learning organisation' where learning is an integral part of everyday life. The difficulty is in finding measures of investment in learning. In days when learning was assumed to take place only on training programmes, days of formal training were counted. These days it is recognised that learning comes from a much wider range of activities: observing role models; experience and reflection; secondments; job shadowing, knowledge management systems etc. So it is impossible accurately to assess the investment in learning.

Teams

First we need to be clear what is meant by 'team working'. The Katzenbach and Smith (1993) definition is:

- A small number of people, with
- Complementary skills
- Committed to a common purpose, performance goals and approach
- For which they hold themselves mutually accountable.

Whilst, in theory, team working should provide quality, productivity and innovation through:

- Variety of activities
- Autonomy but
- Social interaction
- Personal identity
- Responsibility
- Feedback on performance from colleagues
- Balanced workload
- Clear role and minimum conflict
- Achievement; seeing job through
- Personal development.

The research evidence suggests that these claims are rarely achieved in practice, even in autonomous team working environments. All these features are also claimed to result from good job design.

High level, contingent reward

This has two linked elements: higher levels of reward that differentiate the organisation from similar, often less successful, employers and reward linked to contribution.

The latter is surprising, given the extensive criticism of performance related pay in practice.

Harmonisation

This also has twin elements: external (visible) harmonisation (removal of clocking on; single refectory; shared car parking; one union etc.) and the invisible harmonisation of terms and conditions (holidays, sick pay, pensions etc.). Psychologically harmonisation is an expression of team working on a corporate scale.

What is the Significance of Bundling?

It will be evident from Pfeffer's list above, that it would be difficult to implement any one of these eight elements successfully without implications for most or even all of the others. So a team working initiative would need to involve staff in its design and implementation and the team working arrangements would fail if there were inadequate recognition in the rewards structures of the role played by the new teams. Selection would need to include assessments of team working capabilities and training would need to be given into the concepts and practical outworking of team work. Thus a team working initiative would need to be part of a bundle of changes.

Another key aspect of bundling is the need for internal fit; whatever configuration is chosen must fit with the culture and internal systems of the organisation. So it might be better to use the expression 'best fit' rather than the Universalist 'best practice'.

F. RESOURCE BASED VIEW (RBV)

This approach assumes that sustained competitive advantage can be obtained only from an organisation's SWOT (strengths, weaknesses, opportunities and threats) by exploiting the organisation's internal strengths and external opportunities, whilst minimising its internal weaknesses and the effects of external threats. To achieve this competitive advantage the organisation needs four attributes.

1. It adds value
2. It is rare in the market place
3. It is hard or impossible to imitate
4. There are no real substitutes.

The application of this to HRM is a comparatively recent phenomenon. The question to be answered is 'are an organisation's human resources a key source of its competitive advantage?' The answer is 'yes' if, viewed as a single resource, employees have the four attributes above.

The people add value to customers	Almost certainly yes
The human resource is rare in the market place	It may not be hard to get good people but it is usually a long term activity to build up the social networks etc. that characterise high performing organisations
It is hard or impossible to imitate	
There are no real substitutes	Unless people can be replaced by technology there is no substitute

The Resource Based View explains why organisations with large headcounts are either:

- (a) Thinning down (to make technology rather than people their source of competitive advantage) or
- (b) Moving production to locations where staff costs are low cost (making low cost and therefore low price their competitive advantage) or
- (c) Moving into the professional, knowledge-based service sector (where it is the quality of people that gives the competitive advantage).

Horizontal integration occurs when the various human resource strategies are cohesive and mutually supporting. The process of 'bundling', or 'configuration' can attain this. Bundling

means using human resource practices which are complementary. For example, a business strategy to achieve competitive advantage through quality might suggest:

- Sophisticated recruitment and selection procedures to recruit people who are likely to deliver quality and high levels of customer service
- Focused training in customer care initiatives and total quality management
- The encouragement of organisational learning through initiatives to develop a learning culture and learning organisation
- Appraisal systems which recognise and measure contribution towards quality and organisational learning
- Reward systems that are linked to performance and the achievement of high standards of customer service.

You can see how resourcing, development, performance management and reward strategies are all supportive of each other. The synergy that results from this process means that the impact of the whole 'bundle' on organisational effectiveness can be greater than the sum of its parts.

The Process of Bundling

The process of bundling is driven by the needs of the business. Armstrong suggests that the following six steps are required:

1. An analysis of what the needs of the business are.
2. An assessment of how human resource strategy can help to meet those needs.
3. The identification of appropriate capabilities and behaviours required of employees if they are to make a full contribution to the achievement of strategic goals.
4. A review of the appropriate human resource practices followed by the grouping together of them in ways that are likely to ensure that people with the required capabilities are attracted to and developed by the organisation and which will encourage appropriate behaviours.
5. An analysis of how the items in the bundle can be linked together so that they become mutually reinforcing and therefore coherent.
6. The formulation of programmes for the development of these practices, paying particular attention to the links between them.

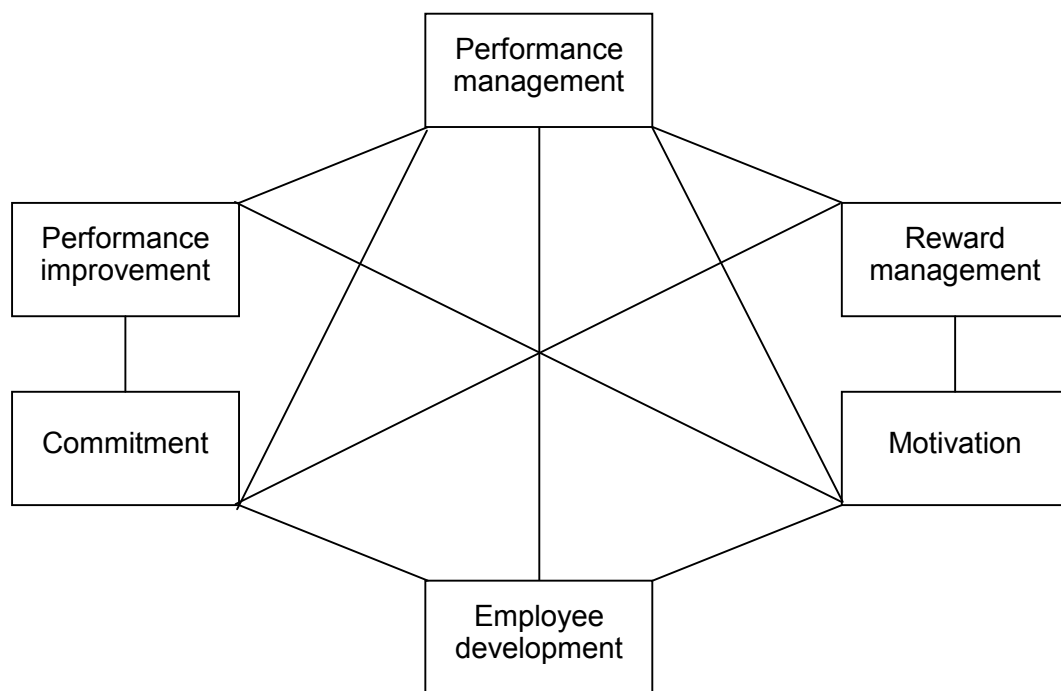
The end result of this process may be several alternative 'bundles' of practices. There have been a number of attempts by writers to identify an 'ideal' set of practices which are the most effective in improving performance but as we have already seen, all organisations differ and a contingency approach (finding a 'best fit' rather than 'best practice') will depend upon the nature and type of organisation.

You will recall that in study Unit 3, we identified several factors that will affect this concept of 'best fit'. If you cannot recall these factors, review that unit again now.

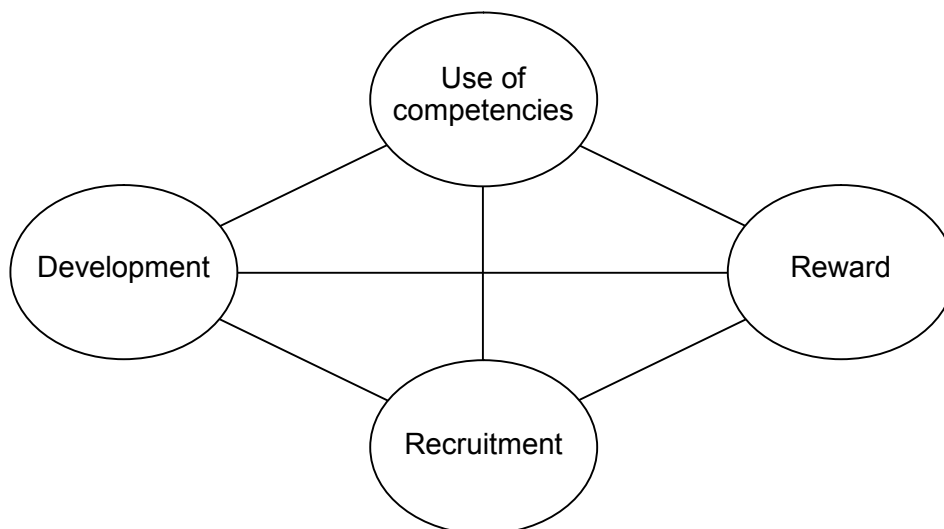
The Use of Integrative Processes

Simply selecting an appropriate bundle of practices is not, in itself, the final stage. The various elements of the 'bundle' need to be brought together by the use of integrative processes and by linking different practices together.

The two main integrative processes are performance management and the use of competencies. Armstrong offers two models to show how performance management and competencies can be used as an integrating force:

Performance management as an integrating force

Source: Armstrong, *Strategic Human Resource Management: A Guide to Action*

Use of competencies as an integrating force

Source: Armstrong, *Strategic Human Resource Management: A Guide to Action*

We will return to the subject of competencies in the next study unit when we will look at how competency frameworks can be put together and their role in modern human resource management. For the moment, however, an example of how competencies can act as a link to human resource practices may help with this idea.

In the next unit we will look at the process of delayering and the growth of the professional organisation. In brief, the professional organisation is a concept where an organisation consists of a 'core' of key employees with other resourcing requirements being met from a 'periphery' of workers generally employed on fixed term and/or part time contracts.

As we will see, the advantage of this structure is that the organisation remains flexible and able to use labour as and when required and dispense with the services of those periphery workers when they are no longer needed. From a human resource point of view, the organisation needs to be able to retain the key workers whilst generating commitment and motivation amongst those periphery workers who have little job security. Organisations try to achieve this by offering 'employability' rather than 'employment', that is, by offering the opportunity to develop transferable skills and gain experience in broader roles so that there is scope for opportunities to move into new roles. The links to human resource strategies in this scenario include:

- **Resourcing:** Developing a positive psychological contract based on an undertaking to identify and develop transferable skills; provide scope for job enlargement/enrichment and opportunities to move into new roles.
- **Development:** Identify skills development needs through personal development planning; institute programmes for developing transferable skills.
- **Reward:** Develop broad-banded/job family structures that identify competence levels for roles or job families and provide a basis for identifying learning needs.

Achieving Flexibility

Strategic flexibility is about the ability of the organisation to respond and adapt to changes in the environment in which it operates. Fit is concerned with aligning business and human resource strategy. Some writers argue that fit and flexibility are mutually exclusive. This is because, if human resource strategies 'fit' business strategy, they are concerned with the current situation, whereas 'flexibility' is required in changing situations.

As we will note again in study Unit 5, the need for flexibility and the ability to respond to change will depend on the nature of the environment in which the organisation operates. In a stable environment, the need for change is largely predictable and infrequent. The organisation will tend towards more fixed roles and practices, requiring tight job descriptions and people with a narrow range of highly tuned skills. In a dynamic environment, the need is for people with the ability to perform many functions or tasks to be multi-skilled and capable of rapid change. Few organisations today are faced with a stable environment. For the most part, the pace of change within the environment is very rapid and there is little opportunity for certainty. Modelling techniques such as scenario building or business forecasting can help to predict some aspects of change in the environment so that human resource strategies can be devised to support the business.

The human resource response to dealing with this dilemma is to aim for resource flexibility by developing a variety of 'behavioural scripts' and encouraging employees to apply them in different situations.

The main components of the flexibility strategy are:

- Developing human resource systems that can be adapted flexibly
- Developing a human capital pool with a broad range of skills
- Selecting people who have the ability to train and adapt
- Promoting behavioural flexibility by, for example, training to extend behavioural range
- Using performance management and reward systems that encourage flexible behaviour
- Bundling these with participative work systems that give employees opportunities to contribute
- Considering other ways to extend organisational and role flexibility.

G. WHAT ARE THE BENEFITS OF HORIZONTAL INTEGRATION?

Bundling has arisen because practitioners and academics have observed the value of dealing with HR issues as a coordinated whole, rather than as a series of unrelated topics dealt with in isolation. Clearly, horizontal integration reduces overlapping, contradiction, misunderstanding and mistiming. Horizontal integration also encourages HR practitioners to think not just about the processes they manage but also about the more significant, higher level issues of the outcomes and impact of HR activity.

Taking this a stage further, it is useful to think of the organisation as a human being rather than a machine; to take the organic rather than mechanistic approach. Humans can be irrational, unpredictable and highly complex. An irritation in one area of the body may cause the whole human being to behave quite differently. When there is a serious failure of one part the whole organism may die and not be capable of revival. These features are true of organisations. The mechanistic approach sees the organisation as a machine; rational, predictable and a set of independent systems, with the output of one system becoming the input for the next one. If one part of a machine breaks down, the machine may stop but the fault can be traced, a part replaced or adjustment made and the machine can be started up again. Horizontal integration treats HRM as a single organism. It has separate parts (recruitment, selection, induction, reward etc.) but these are critically interdependent and you cannot change one without significant implications across the whole organism.

The integrated, organic approach supports the need for strategic HRM.

H. WHAT DIFFERENT APPROACHES CAN BE TAKEN TO ACHIEVE STRATEGIC ALIGNMENT?

Before we go on to look further at the subject of integrating human resource management with corporate strategies, we need to look at the way strategies are developed throughout the organisation. In the previous unit, we noted that strategies are developed at various levels within the organisation.

Corporate Level Strategies

Strategic decision making at the corporate level is concerned with answering the question: *what business are we in?* Such strategies determine the type of business the organisation wants to be in. Initially, corporate strategies will be concerned with issues such as establishing a market and survival but as the organisation develops, corporate strategies become more associated with its philosophy towards growth and the management of the various business units that make up the organisation.

Business Level Strategies

Business level strategy deals with decisions and actions relating to each business unit. The main objective of a business level strategy is to make the unit more competitive in its marketplace. In other words, this level of strategy deals with the question: *how do we compete?*

One of the main writers on the subject of business level strategy is Michael Porter, who identified what he calls 'generic' strategies for ensuring competitive advantage in his book, *Competitive Strategy*.

You will have studied these in your Corporate Strategy module, but to remind you these are:

- Cost leadership, which involves creating a very low cost base and becoming the lowest cost producer for the industry.

- Differentiation, which is based on making a company's products different from those of its competitors, creating a unique brand.
- Focus strategy based on cost leadership, where the organisation sets out to be the 'key player' in a particular market segment based on low prices.
- Focus strategy based on differentiation, where the organisation sets out to be a key player in a particular market segment based on differentiation or 'uniqueness'.

Writers Miles and Snow also wrote about different approaches to competitive strategy, identifying four models of strategic orientations:

1. Defenders, which are companies with a limited product line where management focus is on improving the efficiency of their existing operations. Defenders, therefore, follow a low cost leadership strategy where the commitment to low cost tends to stifle innovation.
2. Prospectors, on the other hand, tend to have a wide product range and will adopt a strategy that is focused upon innovation and market opportunities. Prospectors therefore follow a strategy of differentiation that emphasises creativity, sometimes at the expense of efficiency.
3. Analysers are companies that operate in at least two different product market areas, one stable and one variable. In this situation, managers emphasise efficiency in the stable areas and innovation in the variable areas.
4. Reactors are companies that lack a consistent strategy-structure-culture relationship. Senior managers react to external environmental pressures by piecemeal strategic adjustments.

Different business level strategies are translated into functional level strategies.

Functional Level Strategy

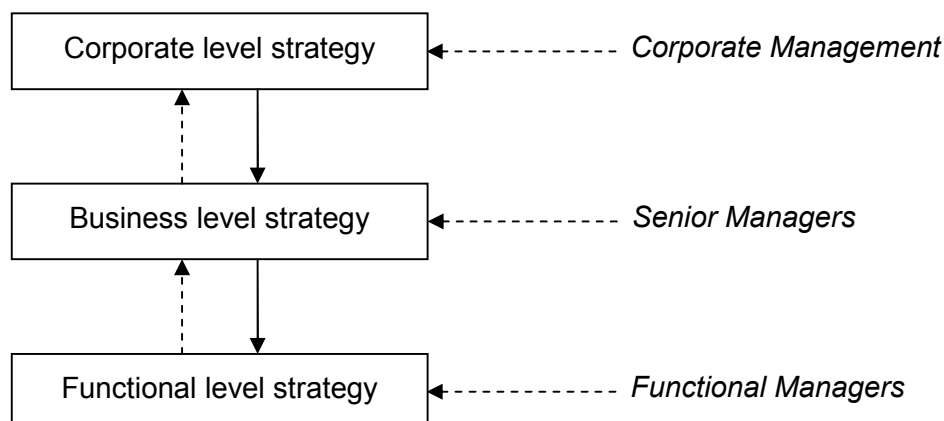
This level relates to the major functional operations within the business unit, such as manufacturing, finance, marketing etc.

At this level, strategy is concerned with the question: *how do we support the business level competitive strategy?* Thus, for example, for a low cost leadership approach to competition, strategies at functional level will be aimed at reducing costs, such as specific purchasing policies and guidelines.

Strategic Integration

As we have already seen, research suggests that, in order to be successful, organisations need to ensure that strategies at all levels are integrated.

This is sometimes shown as a hierarchy of strategy as follows:



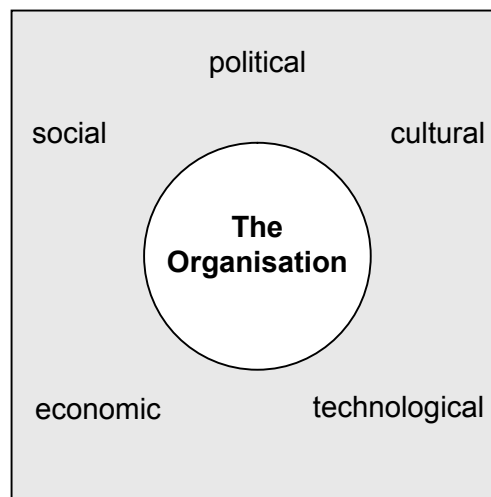
To be successful, strategy formulation should be a two-way process and not just a top down approach.

The drawback with the above diagram as a means of illustrating strategy formulation is that it implies that the process is a largely internal matter for organisations.

This is not the case.

All organisations are subject to influences not only from within, but also from the environment in which they operate. Economic, social, technological, political and cultural influences impact upon the organisation by offering opportunities or restricting strategic choices.

This is sometimes shown as follows, showing the organisation at the centre, influenced by external factors that are political, cultural, social, economic and technological in nature:



We will take a practical look at the development of human resource strategies in the next unit, when we look at the activities involved in turning human resource aims into actual plans for implementation. However, at this stage we need to complete our review of the factors which are relevant to the development of human resource strategies, by looking at the main approaches to the development of human resource strategies.

Various writers have used different terminology to describe approaches to the development of human resource strategies but all seem to agree that three main approaches can be identified. The CIPD describes these approaches as:

- The best practice approach
- The best fit approach
- Bundling.

The Best Practice Approach

The best practice approach is based upon the concept that there is a set of best human resource practices, adoption of which will lead to superior organisational performance. Pfeffer, in *Competitive Advantage Through People*, listed seven human resource practices which he identified as commonly adopted by successful companies:

1. Employment security. This means that employees are not quickly made redundant during periods of economic downturns or poor performance of the organisation as a whole. This is a tactic that fits with the concept of high performance management, which, you will recall, involves careful recruitment and selection procedures, extensive training, information sharing and delegation. Such practices involve high expenditure

- and organisations adopting them would expect employees to stay with them for some time so that the investment can be recouped.
2. Selective hiring. This requires the organisation to look to recruit people with the right attitudes, values and cultural fit (all characteristics that are difficult to change) and to train people in the behaviours and skills that are easily learned.
 3. Self-managed teams. This is a key requirement for high performance management systems as self-managed teams promote information sharing to encourage creativity and use peer control rather than hierarchical control, thereby allowing the organisation to remove layers within the hierarchy.
 4. High compensation contingent on performance. Again, this commonly features in high performance management systems. Compensation (pay) is based upon organisational, team or individual performance, such as profit sharing or performance related pay.
 5. Training. We have already noted that training is a key element of high performance management practices, to provide a skilled and motivated workforce that has the knowledge and capability to perform the requisite tasks.
 6. Reduction of status differentials. Organisations that are able to use the skills, knowledge and ideas of people at all levels are, some writers have argued, able to achieve superior performance. Status differentials (different terms and conditions of employment, visible signs such as office space contingent upon position within the hierarchy, etc.) can send signals that people are not valuable or valued. Organisations wishing to adopt high performance management practices must reduce or eliminate status differentials.
 7. Sharing information. Similarly, the sharing of information is an essential feature of high performance work systems. This is for two reasons. Firstly, sharing information on the organisation's performance and business strategies conveys to employees that they are trusted. Secondly, information on business objectives and performance is essential if people are to contribute effectively.

Criticisms of the Best Practice Approach

If you have followed the argument for the contingency approach, that is that there is no ideal format for management practices that will produce superior performance; organisations need to develop their own unique set of practices to be tailored to their own unique combination of internal and external influences.

You will probably have already realised that the best practice approach is inconsistent with contingency theory.

Laudable though many of the best practice elements may seem, if they are at odds with the organisation's corporate and business strategies, it will give mixed messages to the workforce and may lead to conflict and inflexibility.

The best practice approach has been criticised because 'best practice' frequently means little more than a statement that 'the vast majority of organisations do it', without clear evidence that 'it' (whatever it is) actually improves organisational performance. Furthermore, best practice measures are predominantly input based; for example, the number of training days achieved or cost per position filled. There is a tendency, therefore, to measure human resources achievements in terms of what can be easily measured, rather than what is actually required or will have a positive impact on organisational performance.

These criticisms should not dismiss the best practice approach outright, as a best practice policy can be a good starting point for adapting policies to suit the organisation.

The 'Best Fit' Approach

This approach is aimed, largely, at overcoming the criticisms of the best practice approach. It recognises that there can be no overall 'prescription' for human resource practices, as it depends on the nature of the organisation. This does not mean that elements of the best practice approach that work for other organisations should be ignored. It requires organisations to investigate and identify strategies that are effective in similar or other environments and then adopt or adapt them to meet the individual requirements of the organisation. We have already identified the need for human resource strategies to be integrated with organisational strategies so this approach does have some logic.

The starting point for the best-fit approach is an analysis of the organisation and its environment (and we will look at specific techniques for doing so in the next study unit) and a review of practices and innovations in both similar and dissimilar organisations. Benchmarking can be useful as a tool to identify developments that are used to good effect elsewhere.

Criticisms of the Best Fit Approach

Many writers, Purcell in particular, have criticised the best fit approach as being too reliant on the 'here and now' rather than looking towards the future. The best fit approach looks at what the organisation is, rather than what it wants to be and promotes the adoption of human resource strategies to fit the organisation as it is perceived. In Purcell's view, organisations should be less concerned with best fit and best practice and should concentrate on the process of organisational change, so they can '*avoid being trapped in the logic of rational choice*'. When you remember that strategic planning as a process implies, by its nature, change of some kind, Purcell's arguments seem to have some logic.

Bundling

A 1999 CIPD survey, The impact of people management practices on business performance: a literature review, carried out by Richardson and Thompson commented that:

"A strategy's success turns on combining 'vertical' or external fit and 'horizontal' or internal fit. This has consolidated the importance of 'bundles' or HR practices'.

Bundling refers to the adoption of combinations of practices. Implicit with the concept of 'bundling' is that the practices adopted are complementary and thereby self-reinforcing. Research suggests that adoption of 'bundles' of human resource practices can lead to higher levels of organisational performance provided that these bundles achieve high levels of fit with competitive strategies.

The main problem with this approach is deciding which is the best way to relate different practices together. There is no evidence that one bundle is generally better than another, although Armstrong notes that the use of performance management practices and competence frameworks are two ways that are typically adopted to provide for coherence across a range of HR activities.

I. PUTTING STRATEGY INTO PRACTICE

In the same way that the content of an HR strategy must 'fit' with the internal and external environments, the process of implementation must fit. Since every organisation is different every implementation strategy must fit.

Clearly, board membership or at least a voice on the board, is a great aid to implementation. HR practitioners are often confused about who is their prime customer: the staff, the unions, line managers or the board? The customer for HR strategy must be the board and

particularly the chief executive. With the ear of the chief executive, implementation is much more likely to be successful.

Lower down in the organisation there is also a need for champions; individuals who:

- Understand the strategy to be implemented
- Are committed to it
- Have social capital locally in order to facilitate implementation locally.

The problem with champions is that:

- To have credibility, locally, they will have been in post for a while
- They are often talented people whose career is characterised by frequent moves.

The combination of these two factors means that champions are not always as useful in practice as the theory would suggest.

J. BARRIERS TO IMPLEMENTATION OF HR STRATEGY

Marchington and Wilkinson in *People Management and Development* (2002) suggest five reasons why HR strategy is blocked or slowed:

1. A disconnect between managers responsible for implementation and senior managers responsible for the strategy. This may be ideological ('them up there have no idea what work is like down here in the real world') or cynicism about the commitment to the strategy in the long term ('they will have another grand plan by next week').
2. Work overload and therefore, the conflict of priorities.
3. A lack of competence in implementing change – this may reflect the need for training in interpersonal or managerial skill.
4. The desire for supervisors to maintain flexibility by adapting the rules
5. A lack of awareness of the rules by both the formulators and the implementers of strategy.

Study Unit 3

The Alternatives to Strategic Human Resource Management

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Objectives

The aim of this unit is to critically examine the advantages and disadvantages of the major alternative models for strategic human resource management.

When you have completed this study unit you will be able to:

- Describe and explain High Performance Working
- Describe and explain High Commitment Management
- Describe and explain High Involvement Management.

A. INTRODUCTION

In Unit 1 we noted the development of different schools of thought on the subject of management and identified that the changing approach to the management of people was due in part to the emerging management theories. The modern approach to management theory is a development of the systems approach which, you will recall, is based upon the concept of the organisation as a structured socio-technical system consisting of at least three sub-systems:

- Structure (division of labour, authority, relationships and communication channels)
- Technological system (the work to be done and the techniques and tools used to do it) and
- Social system (the people within the organisation, the ways they think and interact with each other).

Contingency theory acknowledges the interrelationship of these sub-systems but goes further to acknowledge that there is no 'best way' for these sub-systems to be arranged to provide an 'ideal' management model. Each organisation is a unique blend of internal and external factors and strategies must be developed to meet the needs of this unique blend.

The contingency approach to human resource management follows similar lines of thought. In other words, there is no 'ideal' collection of human resource strategies that all organisations should adopt but strategies should be developed according to the nature of the business strategy, the resources available and the environment in which the organisation operates.

However, against this background there are a number of models that suggest approaches for strategic human resource management, some of which we will look at below.

B. WHAT IS HIGH PERFORMANCE WORKING?

The four elements of HPW are:

- Employee autonomy and involvement in decision making
- Support for employee performance
- Rewards for performance
- Sharing of knowledge and information (learning).

Details will vary from organisation to organisation.

Why move towards HPW?

Because if you are not driving up performance:

- Staff motivation will be lost
- Quality, quantity and innovation will decline
- Pressure to reduce your prices will grow or
- Customers may simply stop buying your goods or services altogether or
- Competitors may take your work.

What does this mean in practice?

Employee autonomy and involvement	● Develop flexibility of skills ● Team working to give variety and responsibility.
Support for employee performance	● Appropriate selection and recruitment processes (finding staff at all levels who will support a high performance culture) ● Comprehensive induction programmes ● Sophisticated and wide training ● Integrated and wide ranging performance management ● Emphasis upon work-life balance.
Rewards for performance	● Offer a career not just a job ● Harmonised terms and conditions ● Pay that is competitive with other employers ● Rewards linked to individual and team performance.
Learning	● Plenty of effective communication ● Quality improvement teams ● Lean systems ● Spending on training.

What evidence is there that it works?

- The bottom line (according to 2004 research by the Engineering Employers' Federation and Chartered Institute of Personnel and Development, HPW explains about 20% of increases in productivity and profit in manufacturing organisations that have adopted HPW)
- Increased job satisfaction and commitment: quality, quantity and innovation
- Employees more likely to say 'a great place to work'
- Increased earnings potential for employees.

Exercise

Tick the relevant boxes where HPW practices are present in your organisation:

Employee autonomy and involvement	☐ We develop flexibility of skills ☐ Team working gives variety and responsibility
Support for employee performance	☐ We look for staff at all levels who will support a high performance culture ☐ We have a comprehensive induction programme ☐ Training is wide and appropriately sophisticated ☐ Performance management is wide ranging and integrated into our operations ☐ We provide work-life balance
Rewards for performance	☐ We offer a career not just a job ☐ Terms and conditions are harmonised ☐ Pay is competitive for the sorts of work we do ☐ Rewards are linked to individual and team performance
Learning	☐ There is plenty of effective communication ☐ We have quality improvement teams ☐ We have lean systems ☐ We invest adequately in training our people

How do we go about implementing high performance working?

Things that may need to be addressed are:

- Getting top management's commitment, particularly to resource, to communicate and to demonstrate the required behaviours. (Managers are the key.)
- Getting the resources HPW needs (both financial and risk taking e.g. new reward structures)
- Carrying out team and individual appraisals that make a real difference
- Seeking and rewarding discretionary behaviour (Ability x Motivation x Opportunity = AMO)
- Allowing employees to re-design jobs to maximise interest and challenge
- Changing existing strong cultures (especially to promote local discretion)
- Increasing levels of trust between management and employees
- Getting staff to be understand about organisational performance (so they see where they fit in and ratchet it up)
- Involving employees in design and implementation of HPW
- Not regarding HPW as one simple solution; it is a number of themes woven together
- Integrating initiatives, so that they reinforce each other, therefore:
 - (a) Implementation is in bundles
 - (b) Staff understand it and show commitment
 - (c) Other organisations are used as benchmarks
 - (d) Continuous improvement is developed.

The High-Performance Management Model

The high performance management model is often the model used by researchers investigating the people management/performance link. It aims to make an impact on the performance of the firm through its people, in such areas as productivity; quality; levels of customer service; growth, profits and ultimately, the delivery of increased shareholder value.

The United States Department of Labor offers the most well known definition of high performance work systems (as it is referred to in the US), published in 1993. The characteristics listed were:

- Careful and extensive systems for recruitment, selection and training
- Formal systems for sharing information with the individuals who work in the organisation
- Clear job design
- High level participation processes
- Monitoring of attitudes
- Performance appraisals
- Properly functioning grievance procedures
- Promotion and compensation schemes that provide for the recognition and financial rewarding of the high performing members of the work force.

You will see that when we look at different approaches to human resource strategy formation how the high performance model features strongly in what is termed the 'best practice approach'.

C. WHAT IS HIGH COMMITMENT MANAGEMENT?

What is the High Commitment Model?

The high commitment model goes beyond performance, alone, to embrace workforce commitment and identification with the organisation's values and goals. Stephen Wood, writing in the *International Journal of Human Resource Management* in 1996, defined high commitment management as:

'a form of management which is aimed at eliciting a commitment, so that behaviour is primarily self-regulated rather than controlled by sanctions and pressure external to the individual, and relations within the organisation are based on high levels of trust'.

Walton, writing in *Harvard Business Review* in 1985 and more recently Wood and Albanese in *Journal of Management Studies* in 1995 identify the main features of high commitment management as:

- Development of career ladders and emphasis on trainability and commitment as highly valued characteristics of employees at all levels in the organisation
- High level of functional flexibility with the abandonment of potentially rigid job descriptions
- Reduction of hierarchies and the ending of status differentials
- Heavy reliance on team structure for disseminating information (team briefing), structuring work (team working) and problem solving (quality circles)
- Job design as something management consciously does in order to provide jobs which have a considerable level of intrinsic satisfaction
- No compulsory lay-offs or redundancies policy and permanent employment guarantees with possible use of temporary workers to cushion fluctuations in the demand for labour
- New forms of assessment and payment systems and, more specifically, merit pay profit sharing
- High involvement of employees in the management of quality.

D. WHAT IS HIGH INVOLVEMENT MANAGEMENT?

This approach involves treating employees as partners in the enterprise, whose interests are respected and who have a voice in matters that concern them. Armstrong identifies that the aim is to create a climate in which a continuing dialogue between managers and the members of their teams takes place to define expectations and share information on the organisation's mission, values and objectives. This establishes mutual understanding of what is to be achieved and a framework for managing and developing people to ensure that it will be achieved.

E. WHICH MODEL IS RIGHT?

There are three main models that suggest approaches for strategic human resource management:

- High performance management model
- High commitment management model
- High involvement model.

None of these models should be thought of as mutually exclusive. In fact, a study by the CIPD in 2000 on people management and business performance (*The case for good people management*) found that the approaches are complementary and concluded that:

"there is no proven universal set of 'best personnel practices' which is likely to produce improved business performance, but there are clear indications of the essential building blocks. The effective application and 'fit' of selection, training, job design and communication and involvement practices feature strongly in the evidence and are likely to be key components of what we would expect to find in a thought through HR strategy".

Can these models be seen in organisations?

The models highlighted above concentrate on the role and purpose of human resource strategies, depending upon which model is selected. However, from a practical point of view, the aims of human resource management must be translated into policies and procedures covering functional areas that can be implemented to achieve the desired aim.

The CIPD study supports the view first identified in their 1997 study, *Impact of people management practices on performance* and underlined by their *Workplace Employee Relations Survey* in 1998 (carried out by, amongst others, David Guest) that the following practices are commonly found in effective human resource strategies:

- Selection and the careful use of selection tests to identify those with potential to make a contribution
- Training and in particular a recognition that training is an on-going activity
- Job design to ensure flexibility, commitment and motivation, including steps to ensure that employees have the responsibility and autonomy to use their knowledge and skills to the full
- Communication to ensure that a two-way process keeps everyone fully informed
- In the private sector, employee share ownership programmes (ESOPs) to keep employees aware of the implications of their actions, including absence and labour turnover, for the financial performance of the organisation.

F. WHAT OTHER APPROACHES ARE THERE?

The traditional view of human resource management is sometimes considered at odds with some of the modern developments in management thinking and practices. In this section, we will look at some of the implications for human resource management of recent initiatives such as delayering, business process re-engineering, the quality movement and the learning organisation.

Delaying and the 'Professional' Organisation

Although not exactly a new idea, delaying often goes hand in hand with downsizing. Delaying is a process whereby layers of management are taken out of the hierarchy to speed up response times and make the operation more efficient. Drucker suggested the need for delaying in 1988 when he expressed the view that, in future, organisations would be based upon a range of highly skilled experts who know exactly what to do and whose efforts are co-ordinated rather than controlled.

Torrington and Hall take Drucker's ideas a stage further by suggesting that in future organisations, hierarchy will become redundant and working relationships will be based upon market transactions, where required services are purchased when necessary and dispensed with when not required. Charles Handy, writing in the Royal Society of Arts Journal in 1997, used the concept of the mercenary to describe the situation:

"we are on hire to the best bidder for as long as we are useful to that bidder and then we hope we will be useful to another bidder. We are mercenaries all of us, and organisations too. You can see why that might make sense in terms of short-term efficiency but it does not build continuity, any sense of pride or any sense of commitment."

Torrington and Hall also predict a move away from traditional organisational boundaries. Traditional approaches show organisations expanding their activities along the supply chain. Torrington and Hall identify a shift away from the traditional acquisition route towards moving activities along the supply chain by contractual controls on quality, price etc. Using their example, car manufacturers not only manufacture and sell vehicles but control the servicing of those vehicles by specifying the standards to which servicing should be carried out. They also frequently dictate which organisations carry out servicing by the use of 'approved' service centres, which must be used if the customer wishes to retain the benefit of a warranty in excess of the legal minimum. They view this as a blurring of traditional organisational boundaries which, combined with less emphasis on hierarchy, suggests an organisational structure which they call *professional*. The professional structure consists of a central core containing all those activities which will be carried out by employees, while the periphery contains activities which are put out to tender by contractors (outsourced, to use a phrase that you are probably familiar with) or moved elsewhere in the supply chain. Core activities are those activities which the organisation has specialist skills in (also described as a 'distinctive competence' in some literature), or which are crucial to the business, rare or secret.

From a human resource management point of view, the approach to the core employees is to give them a strong sense of identification with the business and its success, usually through developing a corporate culture, with shared values and reinforced, consistent behaviours. Those at the periphery have a close specification of what is required from them and their continued engagement depends on meeting the terms of the contract.

To many people, this type of organisation might seem unattractive as, for those working within it, it lacks job security. Kanter, in *When Giants Learn to Dance* (1989) believes that security in the future will come from continued employability rather than continued employment.

Business Process Re-Engineering (BPR)

The term *business process re-engineering* was first used by Hammer and Champy in *Re-engineering the Corporation* to describe a process of redesigning work to encourage the vertical and horizontal compression of tasks. They defined BPR as:

"The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service and speed."

According to Hammer and Champy, for the new approach to organisational design to work, the hierarchy of the corporation must be 'flattened' by the removal of many middle management positions, to give way to 'enabling' information technology and self managed work teams. Then work is redesigned into self-managed work teams and managerial accountability is shifted to the 'front line'. Information technology is seen as a critical enabler that allows organisations to do work in different ways.

Of paramount importance to the success of BPR is senior management's commitment to the process, ability to set ambitious goals and to initiate the process. It highlights the need for strong leadership and a clear, strong, corporate culture.

Human resource strategies to support the aims of BPR suggest that practices are required that seek to achieve workers behaviour and performance, more consistent with the organisation's culture and goals. This suggests the 'soft' approach to human resource management but it is interesting to note that Champy observed that *"the only way to persuade many folks to undertake a painful therapy like re-engineering is to persuade them that the alternative will be even more painful"*. This suggests that the 'hard' version of human resource management might be a necessary prerequisite before the 'soft' version can work in the re-engineered workplace.

The Quality Movement

The recent emphasis on 'quality issues' has come about, in part, as a result of the success of Japanese companies and in particular in their commitment to improving production processes. Total quality management (or TQM as it is better known) was a phrase coined by Ken Holmes in his work of the same name, when he defined quality as 'the totality of features and characteristics of a product or service which bears on its ability to meet stated or implied needs'. This rather complex definition can be simplified down to the idea of 'fitness for purpose' and therefore TQM is associated with the establishment of standards for a product or service according to the needs of customers; setting up procedures for ensuring those standards are met, monitoring actual quality and taking action when standards fall below those required. This represents a major difference from the traditional approach to quality as it emphasises continuous improvement and the need for ensuring quality throughout the organisation, not just the production process. As Holmes put it: "if a company wishes to ensure that it reliably meets its customers' requirements, all parts of the company must be involved in quality". Thus in Holmes' view, TQM is more of a management technique or cultural issue rather than just a production matter.

Dale and Cooper, in *Total Quality and Human Resources: an executive guide* (1992) identified seven key elements of total quality management:

(a) Commitment and leadership of the Chief Executive

It is generally agreed that commitment from the top is an essential feature of successful TQM.

(b) Culture change

A culture of not passing on faults to either internal or external customers is clearly important, together with a belief that all tasks can be continually improved. Critically, a culture of viewing mistakes as learning opportunities needs to be developed.

(c) Planning and organisation

This involves:

- Designing quality into the product, planning and communicating systems and procedures to be followed to ensure quality
- Designing work structures to support quality improvement (such as work teams or inter-department teams)

- Ensuring the necessary resources are made available for quality improvements
- Identifying how quality will be measured and monitored.

(d) Education and training

This is an important element in understanding the new approach to management, learning new skills in a team environment, learning new priorities and new tasks. Problem solving techniques needed for TQM may differ from techniques traditionally used. Torrington and Hall comment that one often overlooked aspect is management development. Managers' tasks and roles change with TQM and they require new skills in the form of decision-making, giving guidance and support rather than control and direction setting.

(e) Involvement

Involving employees in the process of quality improvement is key, whether this is through suggestion schemes, team based quality meetings or involvement in cross-function project teams looking at quality issues.

(f) Recognition

Senior managers need to recognise and reward quality improvements, either in the form of publicity or in company newsletters, for example. Similarly, it is important that reward and appraisal systems support quality achievements.

(g) Measurement

Measurement of quality is an important aspect, through techniques such as benchmarking, where an organisation or a department within it, compares itself on a range of indicators to direct competitors or other organisations in the same sector.

Many organisations have had difficulty in attempting to implement TQM. A CIPD study found that many organisations experienced problem because middle managers lacked commitment; seeing TQM as representing a greater workload for them without any immediate payoff, or because they saw TQM as leaving them with no job or role.

From the point of view of human resource strategy, Storey, in *Developments in the management of human resources* (1992) concluded that, ideally, the personnel function (or human resources function) should be involved in the development of TQM strategy itself. Critically, human resource strategies need to be aligned to TQM strategies to be effective. For example, in the appraisal system, appraisal criteria should be in line with quality criteria. Similarly, the organisation's reward policy should be based upon TQM practices, such as rewarding group efforts.

Torrington and Hall also found that applying quality criteria within the personnel function is an essential part of TQM and enables the function to act as a role model for the rest of the organisation and understand first hand problems and issues.

Study Unit 4

Designing Strategic Human Resource Management

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Objectives

The aim of this unit is to design human resource strategies that may be related to the current and expected requirements of organisations confronting a range of contingencies.

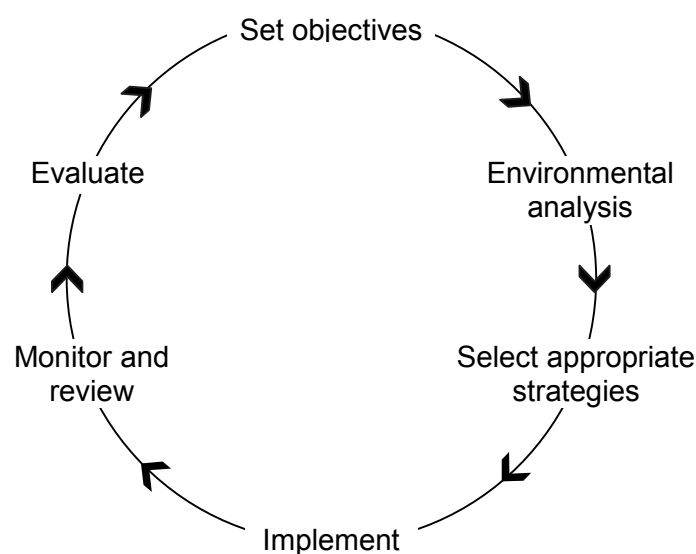
When you have completed this study unit you will be able to:

- Describe the general principles of design applicable to a human resource strategy
- Evaluate the factors in the organisation's internal and external environment that will be relevant to the construction of a human resource strategy, e.g., technological, social, economic, competitor change, the organisation's culture and climate etc.
- Evaluate human resource strategies for various contingencies, e.g., continued growth, the business cycle, stability/stasis, (slow) decline, and corporate transience
- Evaluate human resource strategies for special-case scenarios, e.g., mergers and acquisitions, strategic alliances and joint ventures
- Evaluate human resource strategies related to organisations in multinational or global environments
- Describe and explain implementation issues: the interpersonal and other skills needed by the human resource strategist in order to generate commitment among key stakeholders and business partners towards a given human resource strategy.

A. INTRODUCTION

In this unit, we will take an overview of the sequence of activities involved in the development of a meaningful human resource strategy, culminating in credible action plans for its implementation, and look at ways of monitoring and measuring the effectiveness of human resource strategies.

In Unit 1 we noted briefly the strategic management model, that is, the step-by-step process that describes the processes involved in strategic management. We described the process then as a five point cyclical process, but now we are going to add a further element into the cycle specifically to highlight the analysis which precedes the identification of strategies:



In this unit, then, we will look in more detail at the processes involved in creating strategic human resource choices. That is, we will look at the role of the internal and external analysis in creating strategic options, techniques that can be used to identify the gap between what the organisation is likely to achieve without intervention and what it wishes to achieve (known as the strategic gap) and how risk and uncertainty can be assessed and dealt with. We will also assess how factors such as the size, structure and life cycle of the organisation might impact on strategic choice.

B. HRM STRATEGY – DESIGN PRINCIPLES

From what we have studied so far, you will recall that there is no overall single human resource strategy or series of strategies that can be considered ideal or prescriptive for all organisations.

Boxall, writing in the *Journal of human resource management* in 1993 listed the following basic propositions about the formulation of human resource strategy:

- *There is typically no single human resource strategy in an organisation.* From his research, Boxall found that successful organisations did have an overall strategic approach within which there were specific human resource strategies.
- *Business strategy may be an important influence on human resource strategy but it is only one of several factors.* In the last study unit, we identified some of the factors that have an influence on human resource strategy.
- *Implicit (if not explicit) in the mix of factors that influence the shape of human resource strategies is a set of historical compromises and trade-offs from stakeholders.*
- *Management may seek to shift the historical pattern of human resource strategy significantly, in response to major contextual change but not all managements will respond and not all in the same way.* In other words, human resource strategies may be used as a method of effecting change.
- *The strategy formation process is complex and excessively rationalistic models that advocate formalistic linkages between strategic planning and human resource planning are not particularly helpful.* In reality, therefore, there is no magic formula which will lead to adoption of a logical collection of human resource strategies to support a given set of business strategies.
- *Descriptions of the dimensions that underpin human resource strategies are critical to the development of useful typologies but remain controversial, as no one set of constructs have established an intellectual superiority over others.*

Armstrong, in *Strategic Human Resource Management: A guide to action*, also notes:

- That coherent and integrated human resource strategies are only likely to be *developed if the top team understand and act upon the strategic imperatives associated with the employment, development and motivation of people.*
- This will be achieved more effectively if there is a human resource director who is playing an active and respected role as a business partner.
- The effective implementation of human resource strategies depends on the involvement, commitment and co-operation of line managers and staff generally.

There would seem to be no basic process, therefore, for formulating effective strategies but we can make some general comments and statements about the possible routes.

Formulating a human resource strategy is the start of effective human resource management but implementing it is the main task. Strategies tend to be full of general aims and rhetoric and these must be translated into concrete action plans with clearly stated, measurable

objectives and the resources to achieve them. All too often there is a gap between the fine words of the strategy and what actually happens on the ground! There are a number of reasons for this:

- Complex or ambiguous initiatives may not be understood by those who have to carry them out or may be perceived in a way which is different to what was intended
- There is a tendency for people to accept only those initiatives which they perceive to be relevant to their own areas
- Where initiatives represent change of some sort, people may resist that change for a number of reasons
- If the initiative appears to be contrary to the organisation's culture, it will be resisted (for example, layering in a culture where role within the organisation is a driving force)
- If the initiative is seen as a threat, for example, to job security
- If the initiative is perceived as unfair
- Inertia can lead to initiatives being only partly implemented.

Armstrong identifies a number of 'barriers' to the implementation of human resource strategies, such as:

- Failure to understand the strategic needs of the business with the result that human resource strategic initiatives are seen as irrelevant or counter-productive
- Inadequate assessment of the environmental and cultural factors that affect the content of the strategy
- The development of ill-conceived and irrelevant initiatives, possibly because they are current fads or because there has been an ill-digested analysis of best practice that does not fit the organisation's requirements
- The selection of one initiative in isolation, without considering its implications on other areas of human resource practice or trying to ensure that a coherent holistic approach is adopted
- Failure to appreciate the practical problems of getting the initiative accepted by all concerned and of embedding it as part of the normal routines of the organisation
- Inability to persuade top management actively to support the initiative
- Inability to achieve ownership among line managers
- Inability to gain the understanding and acceptance of employees
- Failure to take into account the need to have established supporting processes for the initiative (for example, performance management to support performance pay)
- Failure to recognise that the initiative will make new demands on the commitment and skills of the line managers who may have to play a major part in implementing it (for example, trying to implement an appraisal system without training line managers in the skills necessary to carry out the process)
- Failure to ensure that the resources (finance, people and time) are available to implement the initiative (for example, failing to train managers in appraisal systems because there is no budget to finance that training)
- Failure to monitor and evaluate the implementation of the strategy and to take swift remedial action where things are not going according to plan.

A planned approach to strategy formulation and implementation should help to avoid many of these barriers. A thorough analysis of the needs of the business, coupled with an analysis of likely barriers, will ensure that steps can be taken to avoid difficulties. It is important to

consider the monitoring and evaluation of the initiative during the implementation stage so that problems can be identified and dealt with quickly. We will look at evaluating human resource strategies later in this study unit.

Armstrong suggests preparing a plan for implementing a strategy in a formal manner. This is a useful discipline to ensure matters are not forgotten and a useful tool for your examination!

The strategy should be set out under the following headings:

1. Basis

- Business needs in terms of the key elements of the business strategy
- Analysis of the environmental factors (using techniques such as a SWOT analysis and/or PEST analysis)
- An analysis of the cultural factors.

2. Content

- Details of the proposed strategy.

3. Rationale

- The business case for the strategy against the background of business needs and environmental/cultural factors.

4. Implementation plan

- Action plan
- Responsibility for each stage
- Resources required
- Proposed arrangements for communication, consultation, involvement and training
- Project-management arrangements.

5. Costs and benefits analysis

- An analysis of the resource implications of the plan (costs, people and facilities) and the benefits that will accrue, for the organisation as a whole, for managers and for individual employees.

C. WHAT IS THE EXTERNAL CONTEXT FOR A HRM STRATEGY?

Having identified in earlier study units that the organisation is affected by both internal and external influences in the way in which it operates and agrees and implements its strategic plans, this study unit looks at some of the external influences which affect human resource planning. We will also look at the ways in which human resource planning responds to some of these issues.

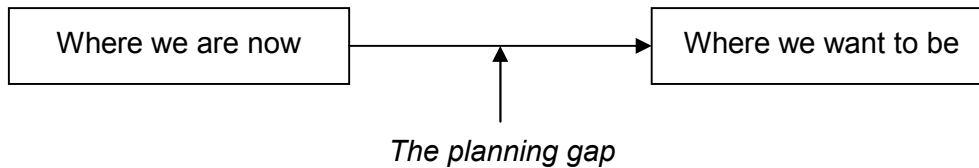
For this study unit, therefore, we will look at

- The labour market generally, how the political environment has shaped and will undoubtedly continue to shape human resource strategies,
- The political environment, the implications of law and political emphasis
- The social/cultural environment
- The economic environment

- The internal environment of the organisation in terms of internal politics/culture with particular reference to the management of change
- The changing nature of human resource management and in particular the changing nature of the employment relationship.

D. WHAT IS THE INTERNAL CONTEXT FOR A HRM STRATEGY?

In its simplest form the process of developing strategies starts with identifying the 'planning gap', that is the difference between the current state of affairs and the desired state of affairs:



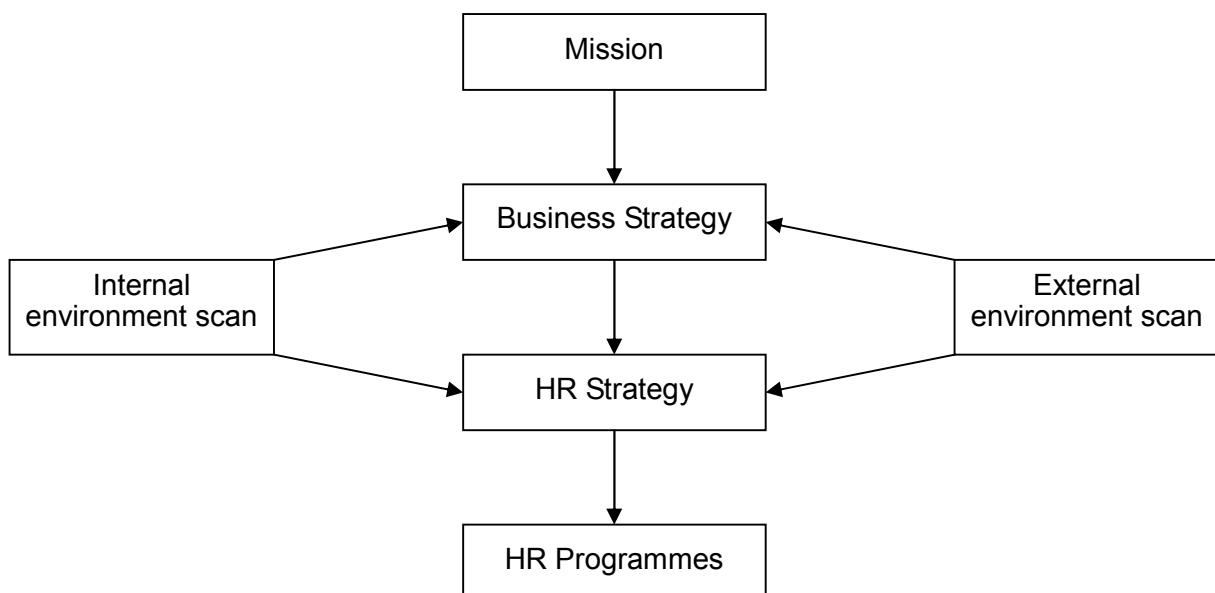
This is a very simplistic view but it identifies the basic process.

Like the rational approach to strategic planning, identified earlier, the systematic approach to developing human resource strategies:

- Considers all the relevant business and environmental issues
- Creates a 'vision', to use Mintzberg's phraseology, or if you prefer, determines goals. These goals represent the main issues to be worked on and derive primarily from the content of the business strategy
- Determines the means of achieving goals.

Armstrong uses the following model to describe the process:

A Sequential Strategic HRM Model



Source: Armstrong, *Strategic Human Resource Management: A Guide to Action*

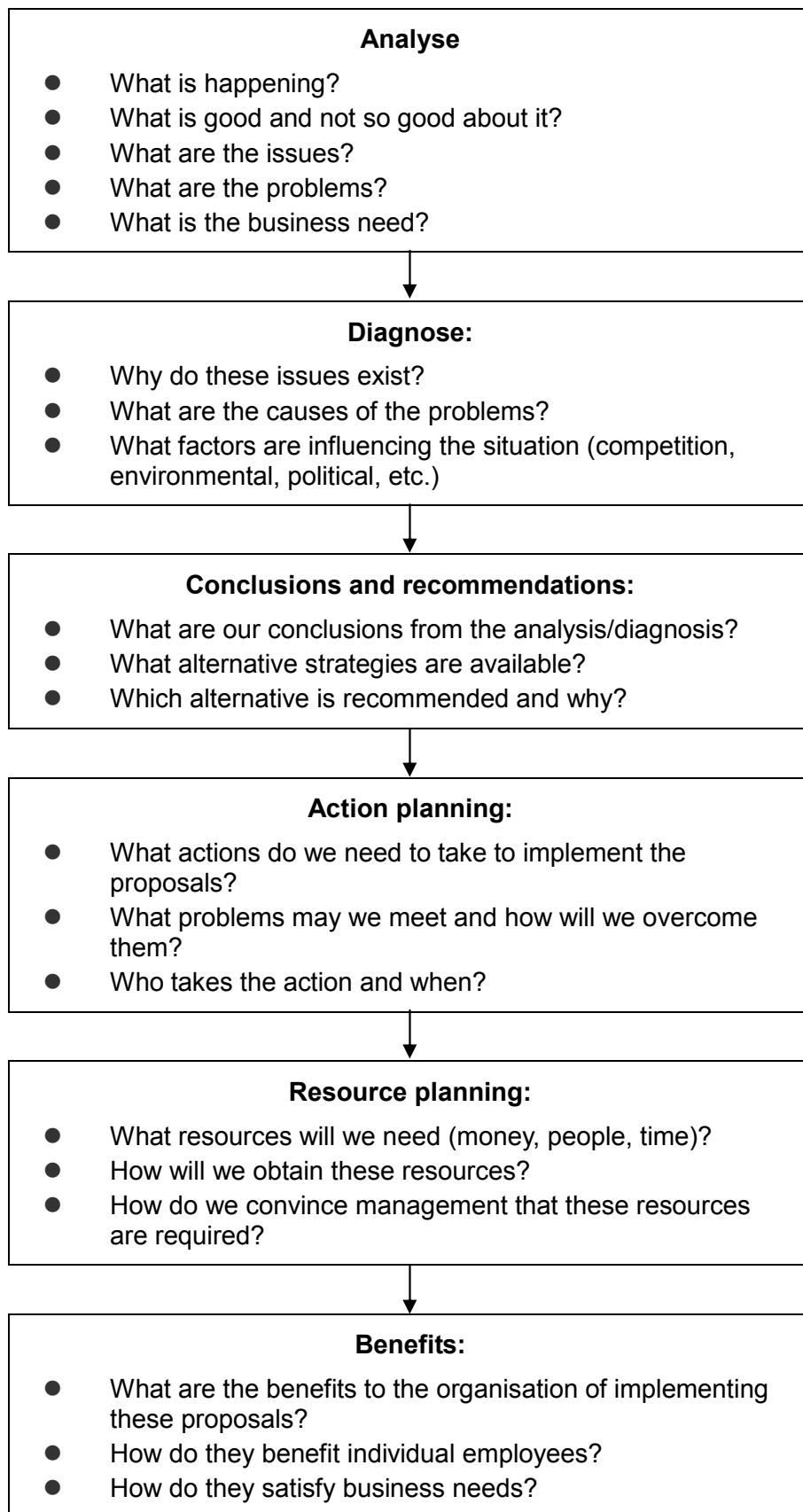
This model is clearly business led, although it would be wrong to say that business level strategies dictate human resource strategies, as HR strategies are formed in accordance with the framework of the human resource approach to be adopted by the organisation. The process of formulating human resource strategies, therefore, becomes more along the following lines first identified by Dyer and Holden in 1988 in *Strategic Human Resource Management and Planning*:

- **Assess feasibility:** From a human resource point of view, feasibility depends on whether the numbers and types of key people required to make the proposal succeed can be obtained when required and at a reasonable cost. Internal and external analysis of the labour market, skills availability etc. are some of the tools that might be used at this point.
- **Determine desirability:** The implications of the strategy in terms of human resource policies must be examined. For example, an organisation with a policy of full employment is unlikely to accept a strategy of enforced redundancies.
- **Determine goals:** These indicate the main issues to be worked on and they derive primarily from the content of the business strategy. For example, a strategy to become a lower-cost producer would require the reduction of labour costs. This in turn translates into two types of human resource goals: higher performance standards and reduced numbers.
- **Decide means of achieving goals:** The general rule is that the closer the external and internal fit, the better the strategy, consistent with the need to adapt to change. For example, a strategy to improve employee retention would need to consider employment conditions and practices locally and perhaps nationally. Employees are unlikely to remain with the company if the organisation's reward system appears out of step with the local or national market, unless there are other factors that might encourage staff to remain.

Armstrong sets out a model which demonstrates the sequence of human resource strategy formulation but points out that, in reality, the process is likely to be far less orderly, as human resource management is all about the management of change in conditions of uncertainty. You may find the model useful in your examination as it provides a good checklist for highlighting the relevant issues!

You should also bear in mind that much of the process we have described here is probably only relevant to larger organisations. Bear in mind some of the comments we have made in the last study unit about influences on the process of strategic human resource management, such as structure of the business, the lifecycle of the organisation, its culture and industry sector.

The Sequence of Human Resource Strategy Formulation



Source: Armstrong, Strategic Human Resource Management: A Guide to Action

In practice, a far less scientific approach to forming strategy is more likely and even desirable. Strategy selection is a process that is guided by the *intentions* of senior management, which may or may not be specified in the mission. Sometimes this '*intention*' is referred to as the '*vision*'. It is intention or vision that leads to actions being exercised on a collective yet consistent basis. Strong leadership from the chief executive, with other members of the senior management acting jointly, bring together appropriate strategies to meet business needs.

We have already noted that the extent to which human resource strategy is led by or leads business strategy is dependent upon a number of factors. It is also worth remembering that the formulation of corporate and business strategy is influenced not only by environmental factors (which we will look at in more detail later) but also by internal factors within the organisation that impact at the point of strategic option generation and strategic choice. Political and cultural influences within the organisation, in particular, can influence and be influenced by strategic choice. We will look at some of these issues briefly here.

Power

Lines of authority in an organisation indicate a right to do something but this is not necessarily the same as power to do something, which is associated with ability to do something rather than authority. In this sense, 'ability' has nothing to do with the skill or expertise to perform a task but is more associated with the ability to negotiated desirable outcomes.

Charles Handy, in *Understanding Organisations*, identified six sources of power within organisations:

- **Physical power.** This is the power of force and is rare in modern organisations, other than the militia. Physical power sometimes manifests itself in bullying and intimidation and can be a symptom of poor industrial relations. Those with physical power may dictate an outcome favourable to themselves through threats and bullying.
- **Resource power.** This is linked to control over physical resources or information. The extent depends upon the way the resource is controlled, how valuable it is and how much of it there is. Managers can, for example, exert resource power by limiting the information they pass on to subordinates (and of course the reverse can often be true!). Unions have, over the years, wielded varying levels of resource power by their ability to control the human resource. In our earlier case study from Yorkshire Water plc, we noted that the introduction of performance related pay was delayed because it was not supported by the union and this lack of support has led to difficulties ever since.
- **Position power.** This is power derived from the job itself. It is the equivalent to formal authority and carries, for example, the right to access to information, to be consulted on certain matters, etc. Senior managers to some extent but the Chief Executive to a great extent, has position power and studies on the effect of leadership and managerial style have looked at the impact of this power on strategy formulation.
- **Expert power** is associated with the level of expertise of an individual and is dependent upon the expertise being of value to and recognised by others within the organisation. Lawyers and accountants within organisations often rely upon expert power to exercise staff authority. Personnel managers often have to rely upon expert power to influence strategy formulation.
- **Personal power** is associated with charisma. Charismatic individuals, may not necessarily occupy positions of authority within an organisation or group, but their personal qualities often allow them to influence others.

Leadership and human resource management

Leadership is often defined in terms of personality traits; behaviour; contingency, power and occupation of an administrative position. Most definitions reflect the assumption that leadership involves a process whereby an individual exerts influence upon others in an organisational context. Leadership, therefore, can involve aspects of resource power, position power and personal power.

There has been much written about what constitutes 'leadership' and 'management'. Kotter in *Leading Change* in 1996 proposed that managers develop plans, whereas leaders create a vision and a strategy for achieving the vision. Kotter also highlighted the difference in the way managers and leaders seek to promote their agenda. Managers, it is argued, organise and engage in a process of controlling and problem solving, whilst leaders engage in a process of alignment and seek to motivate and inspire. Kotter suggests that a balance is needed between management and leadership within any successful organisation.

The definition above supports the view of leadership as key to a high performance organisation, as a strong charismatic leader has the ability to build high levels of commitment and co-operation. Peter Senge, in *The Fifth Discipline* made the link between leadership and strategic human resource management and suggests that a key constraint in the development of a resource based, strategic human resources management model is leadership competencies.

Other writers have considered the characteristics of those in leadership positions and argued that leaders that are open and participative are more likely to adopt 'prospector' and 'differentiation' strategies and the human resource management strategies to support that approach. Alternatively, leaders who desire 'control' and are 'challenge-averse' will focus on 'defender' and 'cost' leadership strategies.

Trade unions and strategic human resource management

Much of the theory relating to strategic human resource management has tended towards the view that management and workers share common goals and that differences are treated and resolved rationally. According to theory, if all workers are fully integrated into the business they will identify with their company's goals and management's problems, so that what is good for the company is perceived by workers as also being good for them. Critical to achieving this goal is the nature of worker 'commitment' to the organisation.

This goal has been criticised by many writers as being inconsistent with traditional industrial relations and collective bargaining. Critics argue that human resource policies and practices are designed to provide workers with a false sense of job security. Furthermore, some writers have suggested that one of the reasons for the growth in 'progressive' human resource practices is to weaken or avoid the unions.

Even today, when the apparent power of trade unions has weakened, it is clear that they are still a force to be recognised and a potential tool to be employed in the pursuit of organisational effectiveness.

The personnel profession and human resource strategy

It seems to go almost without saying that the personnel manager is likely to be influential in the development of human resource strategy but it is worth noting that the perception of the personnel function and its professionalism has been and is likely to remain, key to the adoption of a strategic approach to human resource management.

Michael Porter, speaking at the 2000 National Conference of the CIPD commented that, to have an impact on the performance of business, human resource managers need to make sure their human resource practices are wired into the strategy of the organisation. "That is not going to happen", he warned, "unless you get very business-oriented. Think of yourself as a business manager, not an HR person."

The extent to which human resource strategies are integrated into corporate and business level strategies, therefore, seems to be influenced to some extent by the perception of human resources within the organisation. Where the positive benefits of a strategic approach are recognised and the professionalism of human resource practitioners is acknowledged, so the degree to which strategies are integrated or even influenced by human resources, increases.

Culture

An organisation's structure and culture are often thought of as two sides of a related feature. We will look at how structure affects and is affected by human resource strategies in a later study unit.

As we have already noted, it can sometimes be difficult to assess what comes first, strategy or structure. The same is true for cultural aspects of an organisation. In other words, is strategy formulation influenced by culture or is culture influenced by strategy?

Culture can be a difficult thing to define with any precision. It is associated with the beliefs, attitudes and patterns of behaviour within the organisation. Mintzberg refers to 'organisational ideology' but most other writers use the term 'organisational culture'.

Culture can have visible and invisible signs. Visible signs might include a dress code or uniform, customs and rituals (the office party or long service awards can indicate a particular culture, for example, where loyalty is rewarded), physical signs such as the layout of the working environment (larger offices for more senior managers could indicate a culture where position within the hierarchy is valued), or the language or jargon used at work. Invisible signs of culture tend to be associated with the 'way' things are done, the values and beliefs that underpin the decision making process.

Charles Handy, in *Gods of Management* identified four culture types:

- **Power culture.** This is usually found in small organisations where there is little formal structure. Culture is dependent upon the power source within the organisation, often the owner-manager. Employees will gear their activities towards the needs or directions of the power source.
- **Role culture.** This type of culture is concerned with logic and formality. In a role culture everything and everybody has its place and success is judged by ability to follow rules and procedures and marked by movement up the hierarchy. There are formal rules, strict job descriptions and written procedures in a role culture and employees are expected to fulfil the role of their job rather than display individuality. This type of culture is commonly found in large bureaucratic organisations.
- **Task culture.** In a task culture the nature of the task becomes the driving force to the activities of employees. The principal concern is to get the job done and performance is judged by results. This type of culture is common in a team based environment as the emphasis is on co-operation to solve problems. Job satisfaction is often high in a task culture. It is the culture to which modern organisations often aspire.
- **Person culture.** This type of culture is not that common. In a person culture, the individual is the driving force for the activities of the organisation. It tends to be found in professional groups where the success of the organisation depends on the talent of the individuals. Doctors and lawyers (in particular barristers) tend to display the characteristics of a person culture. One overriding difference between a person culture and any other type of culture is that management authority is derived not from the authority of the owners but from the willingness of the managed to be managed.

Culture is an important factor in strategy. As culture is a collection of shared beliefs and attitudes, it acts as a limiting factor on strategic choice. An organisation is unlikely to select a strategy that conflicts with its culture. Conversely, culture may lead to the selection of

strategies that are consistent with the existing culture. For example, in an organisation where the pursuit of excellence is valued, strategies are likely to be adopted that support that culture.

Culture has become a fashionable topic in recent years with writers arguing whether or not culture impacts on organisational performance. You will have noted above that Handy's task culture is currently seen as something to aspire to. This is partly as a result of the current interest in the resource based theory, which we identified earlier and which values employee commitment, flexibility and quality. Writers have argued that a strong task based culture promotes these values.

Culture is seen as a key element in organisational performance. If human resource management strategies can enhance organisational performance, can human resource strategies change corporate culture? Many writers have argued that culture represents a complex set of ideas and values and cannot be 'managed', whilst others contend that adopting strategies that are consistent with the 'desired' culture will ultimately lead to a change in culture, albeit slowly. In reality, this is only likely to be achieved in combination with a great many other factors, such as top management commitment to change and managers being seen to adopt the new patterns of behaviour, not just directing others to do so. However, if these are supported by appropriate human resource strategies, such as reward systems that support the desired culture, appropriate recruitment and selection criteria and procedures, etc. then clearly human resource strategies have a very strong role to play in promoting cultural change. Against this procedural background, the specific issues that have to be addressed include:

- The business issues facing the organisation
- Achieving integration and vertical fit
- Approaches to achieving horizontal integration
- Flexibility.

Key Business Issues Facing the Organisation

Key business issues that impact on human resource strategies include:

- (a) Intentions concerning:
 - Growth or retrenchment
 - Acquisitions
 - Mergers
 - Divestments
 - Diversification
 - Product/market development.
- (b) Proposals on increasing competitive advantage through:
 - Innovation leading to product/service differentiation
 - Productivity gains
 - Improved quality/customer service
 - Cost reduction.
- (c) The perceived need to develop a more positive, performance-oriented culture.

- (d) Any other culture management imperatives associated with changes in the philosophies of the organisation in such areas as:
- Gaining commitment
 - Mutuality
 - Communications
 - Involvement
 - Devolution
 - Team working.

Human resource strategies are all about making business strategies work but it must be realised that to some extent this is and should be a two-way process where business strategies may be influenced by human resource strategies, by taking into account key human resource opportunities and constraints.

Business strategy guides human resource strategies in the following areas:

- The human resource mission
- Values, culture and style
- Organisational philosophy and approach to the management of people
- Top management as a corporate resource
- Resourcing
- Skills acquisition and development
- High-commitment management
- High-performance management.

E. DEVELOPMENTS IN HUMAN RESOURCES

The need to respond to the changing nature of human resource management and to meet the demands of the internal and external environment, has led to the development of a number of initiatives, some of which we will look at in this last section of this study unit.

The Changing Nature of the Employment Contract

(a) The Full-time Contract

The traditional view of employment involves people employed under a contract of employment on a full-time, permanent basis. In fact, the traditional view went one stage further and represented men employed on a full-time permanent basis. However, we have already noted that this pattern of employment is no longer sustainable and full-time permanent employment is rapidly declining. A variety of alternative working arrangements are now common.

In the nineteenth century, a working week consisting of ten hours a day, six days a week, was common. Since then, there has been a consistent shift towards a shorter working week with an average official full-time working week now of 38 - 44 hours. In October 1998 the Working Time Regulations attempted to restrict the working week to 48 hours per week, although there is some debate whether this piece of legislation has been effective. Of course, there are many people (middle managers it seems from the research) who work well in excess of these hours.

(b) Shift Working

Shift working can be traced back for as long as there are records. In industry, split shifts were operated as early as 1694. One of the effects of increased competition in a range of industry sectors is that, in an effort to attract customers, particularly in organisations supplying the end consumer, there has been a move towards offering a 24 hour, 7 day a week service (or as close to this as legislation permits). Even where this service is offered by using IT technology, this round-the-clock opening requires some staff. As a result, shift working is more common today than it ever was.

(c) Part-time Working

At one time, part-time working was relatively unusual. This was partly because it was uneconomic for the employer as national insurance costs for the part-time employee were disproportionately higher than those for the full-time employee. A part-time contract was seen as an unattractive alternative to those for whom full-time work was not available as rates of pay and benefits were proportionately lower than for full-time employees. However, the need for flexibility, labour and skills shortages and changes in national insurance rates have all led to a huge rise in the number of people now employed under part-time contracts.

Defining part-time work is difficult. Virtually any job which requires an employee to work less than the standard number of full-time hours per week for a particular organisation is classed as part-time, so 'part-time' can mean anything from a couple of hours a week to 35 hours per week or even more. In the past, some employers tried to use part-time contracts as a means of reducing employment costs by requiring part-time workers to work close to a full working week but on a reduced pay rate and by restricting benefits such as paid holidays, sick pay, pensions and training opportunities to full-time contract staff. Recognising that part-time contracts offered the organisation greater flexibility, enlightened employers treated part-time employees equally to full-time employees and more recently, the Part time Workers Regulations have required this equal treatment by law; at least in theory!

The rise in part-time contracts in recent years has been almost exclusively female, with over 90% of new part-time positions being filled by women. Recent research by the CIPD suggests that employers are finding other benefits from offering part-time contracts. Part-timers are said to:

- Have lower levels of absenteeism than full-time employees
- Be better motivated
- Be more productive.

However, part-time work is not without its problems.

Employers are finding that:

- They may need to adopt different communication methods where there are a number of part-time workers as, at any one time, many employees may be absent from the workplace.
- There can be difficulties co-ordinating tasks, so traditional approaches to job design and work allocation may no longer be appropriate.
- Some full-time workers can resent the flexibility offered to part-time staff, which can cause difficulties with work groups.
- Where there are a large number of part-time employees, costs for training can be disproportionately high.

- It can be more difficult generating involvement and commitment with part-time staff, who may be working so few hours that it is difficult to ensure that they are kept up to date with the objectives and values of the organisation.

Perhaps it is not surprising that many employers view part-time workers as a problem to be solved, rather than an opportunity for greater flexibility.

(d) Flexible Working Hours

Flexible working hours were seen, originally, as a means of overcoming travel to work problems. The most common approach to flexible working is where the employer has no fixed start or finish times but allows the employee to start work within a fixed timeframe (say between 8am – 10am) and finish between a fixed time-frame (say 4pm – 6pm). Employees are free to choose when to start and finish work provided they are in attendance during the 'core' period and provided that, at the end of the period (week, month or some other arbitrary period), they have completed the minimum number of hours required.

Although such arrangements have been around for over 30 years, they did not prove particularly popular with either employers or employees. There are a number of reasons for this.

- Employers found that if the 'core period' was too short, tasks requiring staff interaction were hindered.
- There were increased costs from the increased monitoring required to ensure that staff completed the minimum number of hours.
- The greater the flexibility offered to employees (for example by offering the opportunity for time worked over the minimum to be taken as time off in lieu of payment), the greater the disruption to work.

Even so, there were benefits to employers, mainly from reduced overtime costs and supporting an increased working day.

Employees were, at least initially, suspicious of the flexible working time as they saw it as a way of restricting paid overtime opportunities and they resented the way in which their attendance was registered, often by the re-introduction of the mechanical time clock.

Interest in flexible working hours has been increasing again recently, partly in response to the debate of the work-life balance.

The following case study was reported at the 2000 CIPD National Conference and appeared in *People Management* in November 2000.

Case Study 1

A BT trial scheme has produced hard evidence that employees with a better work-life balance really do make their organisations more profitable.

Bob Mason, BT wireless's senior vice president of human resources, told conference delegates about a trial that initially offered 18 employees at a BT Work software office the opportunity to determine their own working times and patterns under a "Freedom to Work" agreement. It has since been rolled out to about 3,000 people.

"I've got real evidence to show [that a better work-life balance] reduces absenteeism and the costs of business and increases productivity," Mason said. "It's good business sense."

And employees reported that they felt increased loyalty to the firm and felt empowered to take control of their own lives. One employee turned down a better-paid job in favour of this increased flexibility, and other BT employees expressed an interest in transferring to areas offering "Freedom to work", Mason claimed.

The company also accrued other unforeseen benefits from the new working systems. "We now require less office space", he said. "We stumbled upon a way of spreading the working hours right across the day." This has led to improved customer satisfaction, with customers across time zones – in the UK and India, for example – reaping the benefits of staff being available 24 hours a day.

In today's tight labour market, the business arguments for a better work-life balance were "compelling", Mason argued.

Source: People Management, 9 November 2000

(e) Annual Hours

One variation on the flexible working hours is that of the annual hours contract. This approach was developed in response to the difficulties sometimes faced by businesses with seasonal or fluctuating demand periods, either predictable or unpredictable. The main basis for an annual hours contract is that the period of time within which full-time employees must work their contractual hours is defined over a whole year. Such arrangements are becoming more common in manufacturing environments, where annualised hours enables the organisation to separate employee working hours from operating hours and use expensive plant and equipment over a longer period by operating a "five crew system", particularly in continuous process production, which enables the plant to be operated for 50 or more weeks in the year without the need for overtime.

Annualised hours are also becoming more common in fields such as further education, where the move towards modularised courses means that teaching staff can be required to undertake more 'contact hours' at certain times of the year to meet the demands of student numbers.

Flexibility is one of the main advantages to the employer but on the downside, the system places some distance between the employer and employee, to the extent that the employee becomes more like a subcontractor, working as and when required.

(f) Temporary Contracts

Although no contract is, in reality, permanent, the traditional approach to contracts of employment is that they were indefinite. Temporary or fixed-term contracts have a definite start and finish date so are for a defined period.

The main use of fixed-term or temporary contracts is to cover periods of high labour demand, for example, the pre-Christmas period in the retail trade. Fixed-term contracts offer employers the flexibility to hire and eventually dispense with the services of members of staff. This can also be valuable in periods of unpredictability and uncertainty, or where there is a short-term need for a particular skill or expertise that will not be required later.

Until recently, some employers saw temporary contracts purely as a method of cutting costs. Temporary staff, for example, didn't have to be offered paid holidays, sick pay or pensions. Furthermore, temporary staff could be got rid of without the need for redundancy payments. Some organisations exploited this 'loophole' in employment protection legislation by issuing a series of temporary contracts so that the same employee could be employed for many years but on a series of one-year temporary contracts. Case law and legislation have combined to ensure that employees in this situation now have some employment protection in such circumstances but temporary contracts are still seen by many organisations as a route to cheaper labour costs.

It would be easy to think that lack of job security would make temporary workers less committed to the organisation and less productive, but research tends to support the opposite view. Temporary workers are often more motivated and keen to put a lot of effort into their work, are rarely absent and often keen to work overtime if required, perhaps in the hope that they might become permanent.

(g) Distance Working

Distance working, or teleworking as it is sometimes known, is one form of flexibility that has been made possible by the advances in information and communications technology. There are two main forms of distance working:

- The individualised form of teleworking where an employee works away from the employer's premises, such as home-based teleworking or multi-location working
- A form of collective teleworking where work is completed on non-domestic premises and managed by the employer or third party. This includes call centres and tele-cottages.

The number of people engaged in teleworking is difficult to estimate, as the nature and range of jobs that can fall into this category is vast. Sales representatives, for example, have always worked this way but now it is possible for a wide range of types of employment to be undertaken by distance working. Some teleworkers may spend some of their working week at the employer's premises, whilst others never, or only rarely, work 'at the office'.

Managing teleworkers presents new challenges for managers. Particular care must be taken when selecting candidates for teleworking, as workers who are separated from the main activities of the organisation can feel isolated and lack motivation. Very clear parameters must be laid down to establish the criteria for decision making and issues that need reference back. New employees need an induction to the organisation in the same way as 'office-based' employees and indeed, may need more because the social aspects of work will be absent. Building relationships and team working present particular difficulties for those who are physically separate from the organisation.

A great many organisations offer some form of teleworking now and most if not all point to reduction in office and support costs as one of the main advantages.

(h) Outsourcing

Outsourcing is another way of working that is increasing in popularity. Many large companies used to carry out various tasks in-house that they now contract out to external organisations that specialise in the field in question. In some cases, whole departments have disappeared and all the work is carried out by outside contractors. This has meant that numbers employed by the larger organisations have fallen but those employed by the smaller specialist organisations have increased.

Outsourcing has a number of advantages:

- Outsourcing can be used in the same way as temporary contracts to reduce costs, particularly where the work is seasonal or of a temporary nature. Rather than set up a department or part of the organisation to handle a particular task or range of tasks, outside contractors may be employed. A typical example might be to outsource (use contractors) to handle a new product launch or the installation of a new computer system. The contract would be for a limited period and when the period has expired, or the task has been completed, the contract ends.

Outsourcing

Example 1

Outsourcing might be used when there is an occasional need to recruit a very senior manager or director, using the services of a specialist recruitment agency. The company's own personnel department might be experienced in recruiting production workers or secretaries but lack experience in recruiting senior executives.

- Similarly, outsourcing can be used where the organisation lacks the expertise or equipment for a particular peripheral task. A manufacturing company, for example, might outsource its insurance portfolio to an insurance broker. The broker, working to guidelines laid down by the company, would assume responsibility for arranging insurance cover for the company, handling any claims and dealing with any associated paperwork.

Outsourcing

Example 2

One of the commonest uses of outsourcing is in facilities management. Facilities management is defined by the British Institute of Facilities Management as "*the integration of multi-disciplinary activities within the built environment and their impact upon people and the workplace*".

Typically, facilities management can incorporate:

- Cleaning
- Catering
- Energy management
- Heating and lighting
- Cabling
- Lift maintenance
- Car parking
- Landscaping
- Location
- Planned maintenance
- Air conditioning
- Space planning
- Fire protection
- Risk management
- Office services, such as telephones, reprographics, post
- Decoration and the internal environment

As accommodation costs have risen sharply and regulations relating to the health and safety of those at work have been introduced, the scale and skills required of the task of managing, say, the head office, has increased. It is not unusual, therefore, to find that this task is outsourced to a specialist facilities management company which, in return for fee (which may or may not include items such as rates and energy charges), take over the responsibility (and liabilities) associated with managing the building. The owner or occupier of the building may have to employ or appoint one member of staff to act as liaison with the contractor, but does not then have to appoint staff such as caterers, maintenance engineers, decorators, etc.

- Outsourcing can represent real savings in expensive office space and the other additional costs of employing people direct. Staff numbers can be reduced whilst still getting the work done.

Outsourcing is not suitable for all functions, although in theory any function can be outsourced. Where work is of a 'core' nature, that is vital to the organisation, most companies prefer to keep these functions in-house. Similarly, work of a particularly confidential or secret nature is usually kept in-house.

A Diagnostic Approach to Manpower Analysis

Different ways of working, such as teleworking or outsourcing, are not the only change in the way the human resource strategies are attempting to work with and resolve the problems of managing the human resource. Back in Study Unit 1, we noted that attitudes to people management are behind the revolution that has turned personnel practice into human resource management. One facet of this change in attitudes manifests itself in a changing attitude to manpower planning and in particular, to solving problems associated with people management at a strategic level.

The traditional (sometimes called the rational) approach to manpower planning involves assessing the gap between current levels of manpower and desired levels of manpower and selecting strategies to close that gap, usually recruitment, efforts to retain staff, or a reduction in numbers through redundancy. A sophisticated approach to this process might involve complex models of likely labour demand and supply, with computers enabling a range of variables to be taken into consideration. However, it is essentially a statistical analysis and one that may look impressive on paper or on a computer screen but one that often proves inaccurate. The more likely real life situation is one of continuous imbalance as a result of the dynamic conditions facing any organisation, the behaviour of people and the imperfections of manpower models. Hence, the diagnostic approach was developed in the mid 1980s to try to find a more realistic method of analysing manpower.

The diagnostic approach requires managers to identify the reason behind any apparent imbalance, rather than simply try to resolve an imbalance by recruitment, retention or redundancy. An example may help to explain this more clearly.

If a telephone sales organisation faces a problem of retaining staff, the rational approach would be to step up recruitment or try to retain staff by increasing pay. However, a diagnostic approach would mean becoming aware of this problem by monitoring manpower statistics such as wastage and stability and obtaining qualitative data by interviewing staff. The interviews might reveal concerns with job satisfaction and career paths open to staff, reflecting their aspirations that are not being met by current practices. Rather than express these aspirations openly for fear of conflict with management, many staff prefer to seek employment elsewhere. The loss of skilled labour has important cost implications and in the face of continuing shortages of skilled workers, a diagnostic approach to retention can provide a significant pay-off.

The diagnostic approach enables strategies to be targeted that are more specifically aligned to the needs of the organisation, rather than attempt a general approach. For example, in the telesales example above, the organisation could attempt to improve the work environment and work practices, to provide avenues for greater job satisfaction and personal growth. This may have implications for job design, departmental structure and management style, creating a tension that will have to be resolved. In this way, manpower planning becomes integrated into the whole process of the management of the employment relationship.

The Competency Approach

The terms 'competence' and 'competency' have become interchangeable recently. 'Competency' generally means something that you can do or a behaviour that you can demonstrate. 'Competence' generally means the standard that is demonstrated. There is some debate over the birth of the concept of the competence approach but the basic idea is relatively simple. Most tasks require a range of skills and a certain level of underlying knowledge to complete the task. To take a simple telephone message, you need to be able to converse in the language, to be able to operate the telephone and to have some method of recording information. The manner in which you answer the telephone might be important (particularly in a sales environment).

You probably don't need to know how the telephone actually works! Some of these skills, such as the ability to converse in the appropriate language or the ability to write down a message, could be gained in any other environment where these skills are required, such as in a shop. These, therefore, represent transferable skills, because they can be transferred to or from other situations. You don't have to have acquired them in a telephone sales environment.

The use of competency frameworks was intended to provide employees with a clearly defined set of outcomes or recognised skills and managers with a consistent measurement tool that could be used across geographical, cultural and national boundaries.

The competency approach to human resources is concerned with behaviour and skills that are relevant to the job and the effective or competent performance of that job. A competency approach concentrates on the skills and behaviours required for the job.

Most frameworks are in the form of a matrix of descriptors and levels. Typically, competency frameworks contain a mix of behaviours, functional skills and knowledge but care should be taken that only measurable components are included.

A critical aspect of all frameworks is the degree of detail. If a framework is too general (containing only statements about communication, team working, etc.), it will not provide enough guidance, either to employees as to what is expected of them, or to managers who have to assess their staff against these terms. If, on the other hand, it is too detailed, the entire process becomes excessively bureaucratic and time-consuming and may lose credibility.

The most widely used competency headings include:

- Communication
- Management of people
- Leadership
- Customer or client focus
- Team work
- Intellect, creativity and judgement
- Delivery of results
- Strategic thinking and planning; organising
- Management of financial and other resources; business awareness
- Expertise and professional competence.

Developing a competency framework can begin with importing an existing off-the-shelf package through to developing the entire thing from scratch. Analysis is required to determine what competencies are applicable to specific jobs, using techniques such as observation, self-reporting, interviews with employees, checklists and inventories. It is important to take care that none of the competencies discriminate against any particular group of employees or potential employees, both in terms of complying with the organisation's approach to diversity issues and in avoiding legislative controls such as the Disability Discrimination Act.

Initially, competency frameworks were restricted to management positions, probably because it was thought to be too time-consuming to develop frameworks for all levels within the organisation and because off-the-shelf packages were available for management roles. However, organisations are now recognising the value of competency frameworks beyond the simple use as a performance management tool and frameworks are being developed for a wide range of jobs.

Competency frameworks can be used for:

- *Training and development*: identifying gaps and helping employees develop in the right direction
- *Development, promotion and succession planning*: assessing employees' readiness or potential to take on new challenges
- *Annual appraisals and/or performance related pay*: appraising and managing performance according to competency
- *Recruitment*: choosing the right people to join an organisation
- *Change management*: using competencies when restructuring or dealing with other cultural change
- *Grading structures*.

The Competency Approach

Example

A number of organisations are using competency frameworks to refine recruitment and selection procedures. Instead of requiring candidates to provide evidence of a similar work background to the vacancy, or a specific level of nationally recognised qualification, candidates are given the competence profile of the job and must justify their selection for interview by offering evidence or examples of how they meet the required competencies. Companies using these criteria argue that the process is fairer on candidates whose employment or educational background does not fit the standard pattern and, as a result, it is argued, is less likely to discriminate against candidates from different ethnic or employment backgrounds. From an organisation point of view, the organisation is likely to attract candidates from a wide range of backgrounds, which can help raise levels of creativity and innovation. Competency frameworks can similarly be used for career development opportunities, removing, supporters argue, artificial barriers to advancement, such as race, gender, age or disability discrimination.

The main benefits of a competency-based system are:

- Employees have a set of objectives to work towards and are clear about how they are expected to perform their jobs
- The appraisal and recruitment systems are fairer and more open
- There is a link between organisational and personal objectives
- Processes are measurable and standardised across organisational and geographical boundaries.

Criticisms of a competency-based system are that:

- It can be over-elaborate and bureaucratic
- The language used to describe competencies may be off-putting
- It is difficult to strike the right balance between reviewing the competencies often enough for them to remain relevant but not so often as to become confusing

- If too much emphasis is placed on 'inputs' at the expense of 'outputs', there is a risk that it will result in employees who are good in theory but not in practice and will fail to achieve the results that make the business successful
- Competencies are based on what good performers have done in the past and this approach works against rapidly changing circumstances by setting one particular group of attitudes and behaviours in stone
- Because of earlier discrimination against certain groups in society, the models used for developing competencies tend to exclude the attitudes and behaviours of these groups, so it subsequently becomes difficult, for example, for women or people with disabilities or from ethnic minorities to match the underlying behavioural and attitude assumptions of the competency framework
- Some behavioural competencies are basically personality traits which an individual may be unable or unwilling to change and it is not reasonable to judge someone on these rather than what they actually achieve.

As a final comment on competency and competence based models, you are probably aware that NVQs or National Vocational Qualifications are competence based qualifications. These qualifications differ from academic qualifications by focusing on performance at work and outcomes that can be assessed against standards defined as performance criteria. NVQs are provided at different levels, starting at level 1 for work that is composed of routine and predictable activities, through to level 5 for work involving the application of complex techniques in unpredictable contexts. This allows people to build up qualifications from the time they complete formal education to the end of their career. NVQs have become a key part of government initiative to improve the skill base of the UK economy and an important means for many people to progressively achieve higher qualifications.

Emotional Intelligence

Emotional intelligence is not a new concept but a way of analysing the capabilities of the organisation. The term 'emotional intelligence' was defined in 1999 by Goleman at the CIPD Annual Conference as *"the capacity for recognising our own feelings and those of others, for motivating ourselves, for managing emotions well in ourselves and in our relationships"*. Emotional intelligence is seen as a necessary attribute for effective leadership and effective leadership has been recognised as an essential for effective achievement of the organisation's strategic goals.

By analysing and evaluating the emotional intelligence of the organisation, a measure is obtained of the effectiveness of leadership. Strategies can then be developed to develop emotional intelligence, thereby developing leadership capability. We will look at how emotional intelligence can be developed when we consider employee development generally in Study Unit 8.

F. HRM STRATEGY AND LIFECYCLE STAGE

The Lifecycle of Organisations

Organisations, like people, change as they grow and develop. We can identify four key stages in an organisation's development:

- **Birth** or start up is the founding stage. The organisation usually lacks a formal structure that only emerges as the organisation develops and grows in size. In the early states, an organisation's main objective is to establish a market for its products or services and to stay solvent.

At the start up stage, organisations need to remain flexible and therefore, human resource strategies will tend towards flexible working patterns, the recruitment of

employees who are likely to be well motivated, highly committed and probably, no unions. Pay policies are likely to be competitive.

- **The growth** stage is where most organisations hope to remain! As the organisation grows in terms of turnover and number of employees, so there tends to be increased division of labour, a more formal structure and adoption of competitive strategies. During the growth period, organisations move towards more progressive and sophisticated recruitment and selection, training and development, performance management processes and reward systems, focus on achieving high commitment and place emphasis on developing stable employee relations.
- **Maturity** is a period of slow or negative growth and can be a period of consolidation before a second growth phase. It can also signify the start of a period of decline. To try to prevent decline organisations pay close attention to the control of costs both of labour and productivity. Labour relations can become strained and training is often cut back as the cost becomes harder to justify.
- **Decline** occurs if the measures taken in maturity are not effective. The emphasis shifts to rationalisation and downsizing, cost cutting becomes a driving force. Lay-offs, redundancies and short-term contracts can be a key feature of the decline period.

This is not the only basis for analysis of organisational development from birth onwards. Alfred Chandler, in 1962, identified three stages of organisational development. Although his work was some time ago and written at a time when growth was seen as a primary objective of all organisations, his basic three stages of development are still quoted as valid today.

Chandler concluded that all organisations pass through three stages of development:

- Unit
- Functional
- Multi-divisional.

The unit stage begins with a single location, single product and a single decision maker. The numbers employed are small enough for everyone to work together and to perform almost every function. Control is exercised through mutual adjustment. This is the equivalent to our 'birth' stage above and human resource strategies therefore are concerned with flexibility and commitment with supporting reward policies.

As the unit stage develops and more people are employed, so there is a gradual move towards specialist functions being carried out by dedicated employees. A hierarchy starts to evolve and strategic emphasis shifts from establishing a market towards growth as the business starts to expand, perhaps by acquiring other businesses or developing supplier or customer outlets.

As specialist functions develop so the organisation evolves into Chandler's functional stage where specialist departments are created to carry out functions such as marketing, finance, production etc. If the business expands still further and diversifies into different industries and products, there is then the final stage of turning into a multi-divisional form.

Centralised and Decentralised Organisations

In Chandler's work on the development of organisations, he found that as organisations moved from the unit and functional stages towards a multi-divisional structure, so there was a move from a centralised to decentralised structure.

One form of decentralised structure, made popular in the 1980s is the strategic business unit (SBU) that was seen as a method of empowerment of the unit as a whole. In an SBU structure, the management of the unit are given an agreed budget or targets for the forthcoming period. Thereafter, they have freedom to manage themselves in whatever way they think fit, provided that they submit regular reports and meet the targets or comply with

the budget expectations. Interestingly, when moving towards decentralisation, the personnel or human resources function is often the last to be decentralised.

On the surface, decentralisation and the strategic role of human resource management seem to be at odds. The rationale behind decentralisation is that each business unit has to maximise its contribution to group objectives. The contingency approach would almost seem to suggest different human resource strategies for different units, which may well lead to conflict. Torrington and Hall take the view that in a decentralised environment, the role of human resource management changes. They suggest that the emphasis should be on generating a common mission and shared purpose and on co-ordinating through the development of standards and norms.

Structural Implications

We have already noted that it can sometimes be difficult to establish which comes first, strategy or structure. In theory, structure should support strategy but in practice it is often a limiting factor. Managers are unlikely to adopt a strategy that requires structural change as changing a structure is a time consuming and frequently expensive exercise. Pre-existing structures, therefore, might suggest a particular approach to human resource strategy.

As with the previous sections where we considered the impact on human resource strategies of where the organisation is in terms of its life cycle, we can make similar comments for differing structures. For the purpose of looking at this briefly, we will use Charles Handy's classification of structures, but you can apply similar comments to other classifications.

- **The entrepreneurial** form emphasises central power. Decisions are made at the centre and behaviour reflects the expectations of the power source at the centre. There are few collective decisions and the emphasis is on individual performance rather than team working or group work. Thus human resource strategies tend to support individual rather than team performance.
- **The bureaucratic** form emphasises distribution rather than centralisation of power and responsibility. Bureaucracies have earned themselves a poor reputation on the grounds of inflexibility and an over dependence upon rules and procedures but they have been the dominant structure for many years. The bureaucratic approach is intended to provide organisational control through ensuring a high degree of predictability in people's behaviour. It also means trying to ensure that different clients or employees are treated fairly through the application of general rules and procedures.

Human resource strategies that sit well with the bureaucratic form emphasise equality, predictability and a role culture. Selection and recruitment policies, for example, would favour strict selection criteria based on thorough job analysis. Performance appraisals would emphasise compliance with the needs of the job rather than innovation.

- **The matrix** form has gained much popularity as it emphasises the co-ordination of expertise into project-oriented groups of people with individual responsibility. This approach is favoured as it has been developed largely to avoid some of the criticisms of the entrepreneurial and bureaucratic structures. The matrix structure requires the group and team based approach that is currently popular. Human resource strategies to support this approach are based upon recognition of group rather than individual efforts, promoting communication and information exchange. The matrix form lost some of its popularity when it was found that the administrative structure to support it tended to be costly but the increasing internationalisation of business, where the impracticability of bureaucracy is most obvious, has given it a new lease of life.

G. WHAT IF THE ORGANISATION IS GOING THROUGH STRUCTURAL CHANGE?

What is the HR strategy for mergers and acquisitions?

International mergers and acquisitions are increasingly frequent, with 172 cross border deals, worth \$1bn, in 2006 alone. It is the international aspect of these mergers that makes them difficult. HR professionals can play a key role in making integration a success for all employees and can lead the transfer of knowledge. According to the CIPD's report, *International Mergers and Acquisitions: How can HR play a strategic role?* 60% of overseas-owned organisations growing through acquisition have already made deliberate attempts to share and integrate with the acquired firms' knowledge in the UK.

The CIPD recommends five steps for a smooth transition:

- Ensure commitment and a willingness to learn from the new company; from all levels of the organisation.
- Integrate staff involved in the acquisition into common processes; give them a voice in the new firm.
- Allow the acquired organisation to preserve its positive practices; that's why you chose to buy them in the first instance.
- Make sure enough time is allowed to digest and share knowledge.

Case Study 2

Satish Pradhan, executive vice president of group HR at Indian conglomerate Tata Sons, acquirer of 98 companies across six continents, says:

"When we begin to think about a potential M&A candidate, we are already thinking about the future combined entity. This has huge implications for the way we approach and address issues right through the whole process – from scanning to integration."

Rather than a challenge, an M&A should be seen as an opportunity for HR. It's a great chance to bring the function into the strategic heart of a company, and a means of quickly the company culture in new members of staff.

H. IMPLICATIONS OF GLOBALISATION

Companies that are operating globally must have a strategy for dealing with the implications of this. Those implications include:

- Diversity of language, culture, economics and political process
- Decentralisation of power from the 'we know best' mother country to local managers who understand their local cultures and can behave sympathetically but need to be controlled
- Reward structures need to fit the local culture
- Attitudes to risk will vary from country to country

- Formality vs. informality of process and behaviour
- Loyalty to the organisation and long-term career expectation
- Willingness (or unwillingness) to relocate, short term or long term.

I. SKILLS NEEDED TO IMPLEMENT STRATEGIC HUMAN RESOURCE MANAGEMENT

As we have noted earlier, an organisation is influenced by both external forces (typically analysed in terms of the political, technological, economic and social factors) and by internal issues such as the structure and culture of the organisation. Some of these issues we have already considered. For example, in the last study unit we noted how structure, leadership styles and culture can all have an influence on the formulation of human resource strategies. In this study unit, therefore, we will look at how some of these issues work together, particularly in the area of change and change management.

Change can occur in small incremental steps or on a more significant scale. Some people will argue that if, change is going to occur, then it is better for it to do so on a major scale so that problems can be addressed together, whilst others argue that incremental change is easier to manage. There is no right or wrong way to change; it depends on the needs of the organisation. It is the way that change is managed that dictates whether it will be introduced with major disruption or relatively smoothly. It generally falls to the human resource professional to manage change.

In the dynamic business environment today, change seems almost inevitable at some stage for most organisations, yet the process is rarely without difficulties. In 1991, Pettigrew and Whipp studied competitiveness and managing change in the motor, financial services, insurance and publishing industries. In *Managing Change for Strategic Success*, they noted:

"The process by which strategic changes are made seldom move directly through neat, successive stages of analysis, choice and implementation. Changes in the firm's environment persistently threaten the course and logic of strategic changes: dilemma abounds. We conclude that one of the defining features of the process, in so far as management action is concerned, is ambiguity; seldom is there an easily isolated logic to strategic change. Instead, that process may derive its motive force from an amalgam of economic, personal and political imperatives. Their introduction through time requires that those responsible for managing that process make continual assessments, repeated choices and multiple adjustments."

Change management strategies may be mainly directed towards strategic change but it may also be necessary to adopt a strategic approach to operational change.

Operational change relates to new systems, procedures, structures or technology that will have an immediate effect on working arrangements within part of the organisation.

Operational change can impact more significantly on people within the organisation and therefore, has to be handled carefully.

Conflict and Change

Change generates conflict. Our traditional view of conflict is that it is something bad and something to be avoided. Organisations spend much effort (and money) avoiding conflict by promoting team working and valuing managing skills such as negotiation. We often view conflict as a management failure. However, there is an alternative view, that conflict is inevitable in organisations and may even help the process of change and be beneficial.

The view that conflict is inevitable arises out of the view that, in the majority of organisations, employees have to compete for limited resources and the hierarchical nature of the structure promotes competition. Individual and organisational goals do not always coincide, nor do those of other stakeholders such as shareholders and customers.

The view that conflict can actually help an organisation comes from the concept that conflict reflects the need of the organisation to change. Conflict is said to reflect internal and external influences and in particular, to identify when those influences are out of balance. As such, conflict is said to be an indicator of the need for change and should be viewed positively. Opponents of this view argue that organisations deliberately set out to manage the environment by, for example, ensuring customer expectations are able to be met by the organisation and thus stakeholder influence can no longer be seen as an independent indicator of change. However, promoting change as positive does lessen the psychological effects sometimes encountered with change.

Change and the Individual

For most people, change represents uncertainty; the fear of the unknown. As a result, most people are, at least to some extent, unhappy with change.

Change has physiological, physical and psychological implications for human beings:

- Physiological affects might include disturbed sleep patterns (particularly following a change in working patterns such as a move to shift working)
- Physical changes can come about if a house move is required, or travel patterns are disrupted because of change
- Psychological changes commonly arise when someone feels disoriented by the changes, feels insecure or where old social relationships are disrupted.

Resistance to Change

It is perhaps not surprising that the usual reaction to change, therefore, is to resist it. Resistance can also arise:

- Through conflict with cultural, religious or class influences such as a resistance to change brought about by changes in the Sunday Trading laws
- Through conflict with group loyalties, such as might arise if established working groups are dismantled
- Through conflict with habitual patterns of work or behaviour, common in situations where change is brought about through the introduction of new technology
- Through loss of status or perceived loss of status, for example, if the change appears to devalue certain skills or power sources.

However, commonly, resistance arises not because of the nature of the change but the way it is introduced.

The four most common causes of resistance to change are said to be:

- **Self-interest.** Where the status quo is felt to be comfortable or advantageous to an individual or the group.
- **Misunderstanding/distrust.** Where the reasons for the change or the nature of the change have not been made clear and in particular, where there is a perceived threat
- **Contradictory assessments.** Where an individual's assessment or evaluation of the stated benefits of the change differ from management's view
- **Low tolerance of change.** Some individuals have a lower tolerance of uncertainty.

Reactions to Change

There are four main types of reaction to change:

- **Acceptance**

Acceptance of change doesn't necessarily have to be enthusiastic but it does recognise that the change proposed is going to take place and the individual agrees to or accepts their role in the process.

- **Indifference**

Where change does not directly affect an individual, indifference may be the result. The individual appears apathetic and lacking in interest in the proposals.

- **Passive resistance**

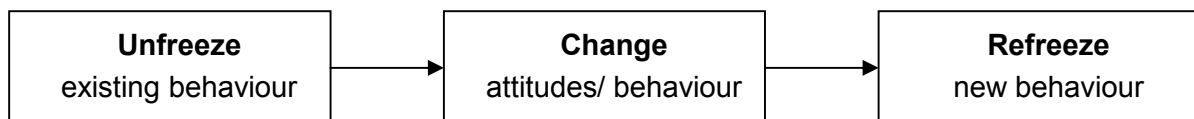
Here the individual does not co-operate and may refuse to learn the new technology or ways of working and deliberately stick to the old work patterns. Sometimes passive resistance can be hard to identify but on examination, the individual may be continuing with behaviour that reinforces the old ways of working. Typical examples of such behaviour might include procrastination, where an individual is unhappy with accepting increased responsibilities.

- **Active resistance**

Common examples of active resistance include absenteeism, strikes, sabotage or deliberate errors. Such active resistance does not have to be malicious in nature but will reflect a deliberate attempt to avoid or reverse the proposed change.

Change Models

There are a number of models for change management that have been developed over the years. Probably one of the best known is that developed by Lewin in 1951. His model can be shown as follows:



Unfreeze is that part of the process associated with breaking old patterns of behaviour so that new patterns can be established. People should know why they are required to change and be committed to it (or at least know why they are required to change) before they can be expected to implement change. The process of 'unfreeze', therefore, is often associated with the communication process.

Change is concerned with identifying what the new behaviour/process/procedure is or should be and encouraging individuals and groups to adopt the new behaviour.

Refreezing is the final stage and encompasses consolidation or reinforcement. Ideally, reinforcement should be positive in the form of praise or reward for adapting to the new circumstances but sometimes negative reinforcement may be used, such as applying sanctions to those who fail to comply.

Change Management Strategies

Armstrong, in *Strategic Human Resource Management, A Guide to Action*, sets out the following guidelines for change management strategies:

- The achievement of sustainable change requires strong commitment and visionary leadership from the top.

- There is a need to understand the culture of the organisation and the levers for change that are most likely to be effective in that culture.
- Those concerned with managing change at all levels should have the temperament and leadership skills appropriate to the circumstances of the organisation and its change strategies.
- It is important to build a working environment that is conducive to change. This means developing the firm as a 'learning organisation'.
- 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 reward system should encourage innovation and recognise success in achieving it change.
- Strategies for change must be adaptable; the ability to respond swiftly to new situations and demands, which will inevitably arise, is essential.
- Change will always involve failure as well as success. The failures must be expected and learned 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.
- The emphasis must be on changing behaviour, not trying to enforce corporate values.
- It is easier to change behaviour by changing processes, structure and systems than to change attitudes.
- It is necessary to anticipate problems of implementation, which will include:
 - (i) Resource dependency (shortages in the resources required, people and time as well as money, will inhibit change)
 - (ii) The capacity and willingness of middle managers to support the change (without their co-operation, change strategies are likely to fail)
 - (iii) The capacity and willingness of human resource professionals to ensure that the change is embedded, in spite of indifference or negative reactions (this includes the ability of human resources to provide guidance, advice and training as well as developing procedures that are user-friendly and not over-engineered).
- There are usually people in organisations that 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.
- 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 organisation 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.

The Process of Change

Changes within the organisation need careful planning. A typical approach is to develop a procedure along the following lines:

- Identify the need for change. This may come about as a result of a strategic review or perhaps as a possible solution to a particular problem. Change might not necessarily be the answer to a problem, so alternative approaches should be investigated at an early stage.
- Once the need for change has been established, a tentative plan can be put together, identifying alternative choices that might be available for implementation or the nature of the change.
- Potential reactions to change need to be analysed for each of the options identified so that a final decision can be made based upon the facts.
- A timetable needs to be put together to implement the change. Some changes can be implemented quickly (usually the smaller changes or those which are being forced on employees rather than negotiated). The analysis of potential reactions to the change can help dictate how quickly the change is introduced. The analysis can also help identify those mostly likely to resist the change and those likely to be in favour, which in turn can be useful as a guide to establishing the most appropriate communication methods.
- Communication is vital and should continue throughout the process. It requires careful thought to ensure that the right message is being given to the right people. Problems implementing change can often be traced back to poor or inappropriate communication methods.
- Implement the change.
- Review and evaluate the success of the change against the original objectives, making modifications if required.

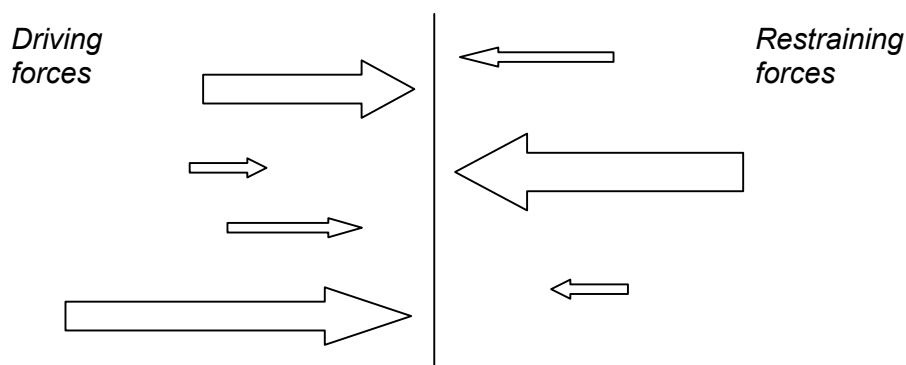
The timetable and implementation stages need to ensure that any training or retraining takes place at an appropriate time i.e. not too early so that skills are forgotten but not so late than there is no time to ensure familiarity with any new procedures or equipment before they must be used.

Force Field Analysis

One fairly simple technique to help identify difficulties with the proposed change is to use force field analysis.

Developed by Kurt Lewin, the technique is based upon the concept that, in any organisational situation, the status quo is determined by the interaction between opposing forces. Driving forces are those forces that are pushing the organisation towards the desired state, whilst restraining forces are forces that are pushing the organisation back away from the desired state. When these forces are in equilibrium, the organisation is static.

Arrows are used on a simple diagram to represent these forces and the thickness of these arrows represent the relative strength of the forces, as follows:



The arrows can represent any force, such as a new law or technology, an interpersonal force such as the vision of a leader or an institutional force, such as the culture of the organisation. The diagram can help to identify and visualise some of the potential difficulties that might arise from the proposed change.

Force field analysis does suggest that there are two approaches to dealing with opposition or difficulties arising out of change; either strengthen your own position or weaken the opposing forces.

Overcoming Resistance to Change

A critical factor in the successful implementation of change is overcoming resistance to it. Look back at the four common causes of resistance to change. Can you suggest ways of overcoming these causes? You could have identified some of the following:

- Negotiation and incentives can help where resistance stems from self interest (i.e. those involved feel that they are likely to lose something).
- Support should be offered to those with a low tolerance of change, with rewards for adopting new behaviours.
- Misunderstanding is best dealt with by appropriate communication and education.
- Where people's perception of the benefits etc. are different from those of management, it is sometimes found that allowing those people a more active role in the change process helps in the communication and persuasion process and also helps build trust.

The Pace, Manner and Scope of Change

There are three main areas that must be addressed when considering strategies for overcoming resistance to change:

- The pace and timing of the change
- The manner in which it is introduced
- The scope of the proposed change.

(a) Timing

Some changes have to be introduced quickly in response to a crisis. Some can only be introduced over a longer period because of the amount of work necessary before the change can be introduced. Rapid changes are often perceived as threatening and although the timescale leaves little room for the build-up of resistance, in the longer term, resentment and suspicion may lead to future problems. A slower pace can allow time for communication, questions and reassurance.

Timing is just as important as speed. An organisation can lose credibility if a change is introduced at a time when it might appear, for example, that the change is as a result of a knee-jerk reaction to a problem, despite the fact that the change might have been planned for some time.

(b) Manner

If you identified words such as 'support', 'communication' and 'participation' or 'involvement' when looking at ways of overcoming resistance to change, you will have identified the importance of the manner in which change is introduced. Involving people in the process of implementing change; listening to people's concerns and acting upon them, providing support, advice and assistance, will all help to ensure people are motivated to accept change; in effect, adopting a democratic approach to introducing change.

Although senior management generates change, successful change comes through a more participative and genuinely democratic approach. Careful planning, particularly in terms of identifying training needs, etc. also generates an impression of empowerment rather than change being imposed from above.

It is important that participation is genuine and not (as Rosabeth Kanter described it) "something the top orders the middle to do from the bottom". For participation to be successful there has to be genuine support from all levels and a prevailing culture of participation.

Donald Kirkpatrick in, 'How to Manage Change Effectively, stressed the importance of a two-way communication process, i.e. listening to feedback from people, not just telling them about the proposed change.

All of the above suggests that the autocratic imposition of change can never work, but is not necessarily the case. Where the prevailing culture is such that employees do not expect (or want) anything other than a dictatorial approach, this can be effective. The armed forces are probably the most common example where imposed change is accepted as the norm.

(c) Scope of Change

As we have already commented, some people support the view that change should be implemented in small incremental steps, whilst others will claim that large-scale total transformation is to be preferred. It is true that total transformation, when carefully managed, can create a dynamic and exciting environment, provided that the organisational culture for innovation and dynamism is already present. However, for most people, smaller changes are more likely to win support more quickly.

There are often hidden challenges associated with change. It would be rare for all the effects of a change to be predicted with 100% accuracy and in most cases, a period after a change is required for adjustment and consolidation, so that minor difficulties can be addressed. The bigger the scope of the proposed change, the greater the risk of unpredicted difficulties.

Finally, you should be aware that there is a finite limit to the amount of change that most people can accommodate in their lives. Although some people seem better able to handle change than others, the proposed level of changes should be aimed at the average employee. Change represents a major source of stress in the workplace.

Managing Cultural Change

As a final comment on our section on change, it is worth considering some of the aspects involved in a cultural change.

Changing an organisation's culture is a notoriously difficult thing to do. Culture is difficult to define and even more difficult to distil out into parts that can be changed. Furthermore, an organisation's culture is reflected in its existing recruitment policies, so that individuals that conform to the old culture will have been recruited in the past, perpetuating and strengthening the very cultural aspects that subsequently have to change. Most research has shown that it can take between three and eight years to change an organisation's culture.

Establishing new patterns of behaviour and norms needs a consistent approach that addresses the following areas:

- Top management commitment
- Managers must be seen to adopt the new patterns of behaviour, not just directing others to do so

- There must be positive support for new behaviours, preferably including recognition (perhaps through an appraisal system) and/or rewards for adopting new patterns of behaviour
- Recruitment and selection procedures and policies may need reviewing to ensure individuals conforming to the new patterns of behaviour are recruited
- The new behaviours must be clearly communicated to existing employees and to new employees via an induction programme
- Training is almost always required.

Study Unit 5

Evaluating Strategic Human Resource Management

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Objectives

The aim of this unit is to critically evaluate the processes required in order to assess the effectiveness of any given human resource strategy, especially in relation to the strategy's impact on overall corporate outcomes and results.

When you have completed this study unit you will be able to:

- Explain the nature of correlations and the problems associated with tracing causal relationships between events
- Describe and explain the factors involved in measuring the impact of a given human resource strategy
- Evaluate of the available tools for measuring the effectiveness of a human resource strategy: the balanced scorecard, best practice, competitor benchmarking, etc
- Assess some of the key research findings about the connections between human resource strategy and organisational performance (e.g., Purcell, Huseleid, Guest).

A. INTRODUCTION

When we looked at the process of strategic human resource management, we noted that it is not the end of the process when strategies are implemented. Whenever a course of action is put in place, it is never 100% certain that the course of action will achieve the desired results. A variety of factors can knock a plan off course and this is just as true with human resource strategies as any other type of plan. The role of monitoring, review and evaluation is to oversee the progress of an action plan, so that deviations from expected results can be spotted quickly and, if necessary, corrective action taken.

You may recall from earlier studies that the features of a basic control system are:

- An identification of what the process should achieve (i.e. its objectives)
- Measurement of what is actually being achieved (called the feedback stage)
- A comparison of what is actually being achieved against what should have been achieved
- Identification of any required corrective action
- Implementing corrective action.

This basic control system can be applied to human resource strategies but it does create some difficulties in establishing clear objectives and what measurements should be taken to establish whether objectives are being met.

At an operational level, objectives for specific strategies are clearly identifiable and the evaluation process becomes straightforward. For example, one of the objectives of introducing an induction programme might be to improve retention levels for new recruits. The success or failure of this initiative can be measured by recording the numbers of staff leaving within, say, 3 months, 6 months, or 1 year of starting work. The results can be compared with an industry benchmark or against historical data that can then be used to evaluate whether the cost of providing the induction training was justified by savings in recruitment costs.

Quantitative measurements tend to be preferred by managers because they are easier to measure and easier to explain. Measurements such as labour turnover (the number of members of the workforce leaving during the period, expressed as a percentage of the total workforce) are easy to calculate and can be adapted for a number of different uses. However, while quantitative measures can be useful indicators, they can over-simplify a situation and mask the real problems or successes. Furthermore, because quantitative

measures are so easy, there is a tendency to make measurements and comparisons that are irrelevant to the real objectives of the plan or course of action. For example, it would be tempting to evaluate the success of a training course for telesales operators by the number of calls each operator makes, as collecting this data is easy. However, it is not the number of calls that is relevant but the number where a successful sale is made or perhaps the value of sales made by each operator.

Monitoring effectiveness in strategic terms is not easy. Quantitative techniques like budgetary controls are commonly used, with the achievement of budgetary targets seen as evidence that the strategy is working. However, financial targets alone can over-simplify the role of strategy and do not address the role of performance and can even hide problems of performance. Furthermore, we must not lose sight of the fact that we have concluded that no one strategy should be considered as an isolated case, for it is the synergy created by the 'bundle' that dictates the true success of the human resource management function.

Attempts, therefore, to measure the effectiveness of the strategic contribution of human resource management tend to concentrate on the overall contribution to the success of the organisation, in terms of added value, competitive advantage and the impact on business performance. Typically, ways in which this contribution has been made will include:

- Developing a positive psychological contract
- Increasing motivation and commitment
- Increasing employee skills and extending the skills base
- Providing employees with extended responsibilities so that they can make full use of their skills and abilities
- Spelling out career opportunities and defining competence requirements
- Instituting processes of performance management and continuous development
- Using reward management systems to convey messages about what the organisation believes to be important and what it is prepared to provide financial and non-financial rewards for
- Developing employment relations strategies that provide employees with a voice.

B. HOW EASY IS IT TO LINK CAUSE AND EFFECT?

This is one of the major assumptions about strategy formulation; there is a tendency to determinism: an expectation that it is possible to read across from the organisation's business strategy and its external environment on to its HR strategy. This might be true for 'classical' strategies in stable organisations (classical strategy was described in Unit 1). However, many organisations lack a single and clear business strategy.

C. HOW CAN YOU MEASURE THE IMPACT OF STRATEGIC HUMAN RESOURCE MANAGEMENT?

Demonstrating the link between good practice HRM and organisational success has been a matter of great concern and considerable research. Many would claim that their model of HRM would improve the bottom line but the evidence has been hard to find. The Black Box research, dealt with elsewhere in this guide, gives some good evidence that there are demonstrable links. However, a universal model for measuring the success of HR strategy does not exist. Measurement and analysis must be tailored to fit the organisation and in dynamic environments, there are simply too many other variables to allow safe conclusions to be drawn about the causal link between HR strategy and its impact.

That said, the following measures make a useful contribution to measuring HR strategy's impact:

Micro Measures

- Headcount
- Salary and other staff costs
- Absence rates and costs
- Cost of investment made in employees
- HR cost per employee
- Recruitment costs per recruit
- Staff turnover
- Appraisal rates
- Employee profile (age, gender, ethnicity etc).
- Average manager's span of control
- Grievances lodged per employee (collective and individual)
- Number of tribunal cases
- Disciplinary actions per employee
- Exit polls
- Employee satisfaction survey
- Management satisfaction with HR
- Employee representative satisfaction
- Time taken to complete HR processes (recruitment, discipline etc).

Macro Measures

- Customer satisfaction levels
- Value added per employee
- Productivity rates
- Value of rejects and rework
- Per item production costs
- Bottom line profit.

If the information is available, these can be benchmarked against other organisations.

D. TOOLS AVAILABLE TO HELP MEASURE STRATEGIC HUMAN RESOURCE MANAGEMENT

As with any aspect of strategic HRM there is no one right way to measure its effectiveness. However, there are a number of tools.

Contribution to Added Value

The term 'added value' has a particular meaning in accounting terms; the difference between the income of the business arising from output (sales) and the amount spent on input (purchased materials, services etc.). Here, we use the term in a more general way to mean the development and use of a resource in a way that ensures it yields a substantial and sustainable higher return on whatever has been invested in it. Added value, therefore, can mean the creation of more out of less. A common measurement used is added value per £ of employment costs.

People create added value, for it is people who develop visions, define and set goals, develop strategic plans and implement them. It will be enhanced by anything that is done to obtain and develop the right sort of people; to motivate and manage them effectively; to gain their commitment to organisational values; to build and maintain stable relationships with them, to develop the right sort of organisation structure and to deploy them effectively and productively in that structure.

An added value approach to human resources will be directed towards improving:

- Motivation
- Commitment
- Skills
- Performance and
- Contribution.

Evaluating the human resource contribution, therefore, will be directed towards measurements associated with these factors, both in quantitative and qualitative terms. For example, employee attitude surveys might be used to judge levels of motivation and commitment; a skills analysis would look at the skills base of the organisation, traditional measures of performance such as units of production per production operative, value of sales per salesperson, etc.

Contribution to Competitive Advantage

The ability to gain and retain competitive advantage is crucial to a business's growth and prosperity. Unique talents among employees, including superior performance; productivity; flexibility, innovation and the ability to deliver high levels of personal customer service, are ways in which people provide a key component in developing an organisation's competitive position.

Competitive advantage is achieved by developing core competencies in the workforce through functions such as resourcing, reward and development and by developing the organisation as a learning organisation.

Traditional measures of competitive advantage centre on measurements such as market share or sales turnover per employee. Such measures can provide some indication of the benefit of human resource strategies.

Contribution toward Business Performance

Research concludes that high performance working processes lead to reduced employee turnover, increased productivity and superior corporate financial performance. This suggests that human resource strategies can be evaluated using traditional measurements, such as productivity levels, labour turnover and financial indicators, such as profit levels (e.g. profitability per employee), return on investment, etc.

The Balanced Scorecard Approach

Kaplan and Norton in Harvard Business Review first identified the balanced scorecard approach in January 1996. This performance management technique involves reviewing the business from four main perspectives – customers, finance, people and operations:

- **Customer perspective:** Which seeks to identify the key elements of the organisation's performance through the eyes of its customers
- **Internal business perspective:** Which identifies the business processes and technologies that are critical to success, such as manufacturing capability, quality, etc
- **Financial perspective:** Which considers factors of relevance to the financial health of the business and to providers of finance, such as shareholders
- **People, innovation and learning perspective:** Which addresses the question "How do we continue to grow and improve?" and therefore, considers the future needs of the business.

The balanced scorecard approach provides an approach towards the management of individual and team performance and thereby the effectiveness of human resource strategies, by measuring and valuing qualitative factors such as creativity, learning and flexibility rather than the traditional quantitative methods of measuring individual output, for example.

This approach is fast becoming one of the more popular approaches to measuring human resource effectiveness, because of the qualitative as well as quantitative range of measurements.

Benchmarking

No discussion on performance measures would be complete without some mention of benchmarking, which has been seen as one of the major new management techniques of the 1990s and has been accepted as a technique applicable to both private and public sectors in the UK. It is a practice whereby better practice is identified from other organisations and compared with practice within one's own organisation, to provide information for the purpose of improving operations. Thus, it goes a little further than a simple comparison of (usually) quantitative data between companies.

Benchmarking has its origins in the 1980s when Xerox, realising that there was a performance gap between itself and its top competitors (the price of Canon photocopiers was less than Xerox's own manufacturing cost), sent a team to Japan to investigate the reasons for the disparity. From the findings, Xerox implemented a process of change that ultimately led to a reduction in manufacturing cost and improvement in production time, quality and development lead times. Since then, benchmarking has been developed and now the technique is regarded as an important tool in bringing about improvements in business performance.

Benchmarking can be used in three ways:

- Simple comparison between companies
- A corporate learning tool to identify how things are done elsewhere and why results are achieved

- A performance improvement tool, seeking out examples of 'best practice' that can be adopted if appropriate.

Benchmarking activities can be differentiated according to the type of comparison that is being made:

- **Functional benchmarking** looks at comparative performance between organisations of a single business function, looking at inputs, activities and outputs of that function.
- **Process benchmarking** compares performance between organisations of a structured set of activities designed to produce a specified output for a particular customer or market. In other words, this type of benchmarking looks at the activities of competitors supplying the same or a similar customer or market and may involve activities within more than one functional area.

It is also possible to carry out a benchmarking exercise:

- **Internally**, whereby the comparisons are made between units, divisions, plants or subsidiaries.
- **Externally**, with comparisons made with companies outside the organisation.

Internal benchmarking does make comparison of like-with-like easier and relevant data is relatively easy to obtain but it does have a number of drawbacks, as it is mainly inward looking and tends to be narrow in perspective.

Benchmarking within the human resource function has now become established practice. Benefits of using this technique are that it:

- Enables the setting of more meaningful and realistic targets
- Increases motivation of staff through sharing with them what is possible
- Provides an early warning of competitive disadvantage
- Promotes teamwork and cross-functional learning.

Other Analytical Tools

Structured or semi-structured questionnaires of stakeholders (particularly managers) are widely used and management consultancy firms can provide a service for designing and running such a survey.

Service level agreements (SLAs) between HR providers and users of customers are increasingly common, particularly in the public sector. They offer a way to identify the key issues between users and providers of HR services, the reasonable standards that will be attained and how performance will be measured and evaluated.

The presence or absence of an HR professional has always been a very rough but useful measure of the seriousness afforded to HR in an organisation.

Using Evaluation Data

Evaluation is not just about measuring performance and assessing whether strategies represent value for money, although clearly that information is valuable. More importantly, monitoring and evaluation exercises should be part of the on-going process of strategic human resource management, as the means of establishing the effectiveness of human resource strategies and taking corrective action if necessary.

Evaluation, therefore, brings us back full circle to the establishment of objectives for strategies, as it is against those objectives that the results of the data collection must be viewed. Where results are not as expected, the reasons should be assessed and adjustments made in the light of experiences. Easily said, but not always easily done!

Study Unit 6

The Ethical Implications of Strategic Human Resource Management

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Objectives

The aim of this unit is to design, implement and assess a human resource strategy, evaluating appropriate ethical principles and values.

When you have completed this study unit you will be able to:

- Describe and explain moral, ethical and practical issues in relation to the management of people in an organisational setting
- Explain the rationale for ethical codes of conduct/behaviour and their enforcement
- Explain the differences between 'hard' and 'soft' human resource strategies
- Explain the effective management of ethical dilemmas in organisations, e.g., whistle blowing, a multinational workforce, equal opportunities and diversity.

A. INTRODUCTION

It is usually accepted that governments have a primary role to set the scene for society, internationally, nationally and locally. Owners and managers hold the key responsibility for determining and enforcing the acceptable standards within their organisations. They are expected to understand and follow the moral code prevalent within society, even if this is not expressly stated in law or company policy. Hence ethics are always changing.

How do managers make decisions ethically?

The terms "accountability" and "social responsibility" refer to the way in which an organisation is run and held responsible for its actions. The word "ethics" refers to actions that are held to be right or wrong. The debate about business ethics centres on whether the only responsibility of organisations and management is to maximise profits. This is the usual driving force behind the founding of an enterprise and is an assumption of most microeconomic models used to analyse the behaviour of firms.

Most decisions that organisations make will be founded upon one of four basic beliefs:

- **Deontology:** That the organisation has a responsibility to act in ways that respect the fundamental rights of human beings (as if there is a set moral code that is larger than the organisation). The morality of the actions is to be considered, not just their consequences.
- **Utilitarianism:** That the business should serve the greatest good of the greatest number.
- **Teleology:** That the end justifies the means, irrespective of the damage that is caused to people on the way to utopia.
- **Egoism:** That moral behaviour should be considered in terms of personal self-interest.

These are wider views of management responsibility. They can and often do conflict with the profit motive espoused by the purists.

Personnel management has always had an ethical dimension, being associated with people management but for many years personnel managers seemed to attempt to bury this aspect. This is due, in part, to business concerns with bottom line profits being at odds with the concept of a social role for businesses.

The 1980s and early 1990s saw a number of incidents within the business world that highlighted the consequences of unethical and immoral behaviour by businesses. At the same time, increasing involvement of the media in business affairs has resulted in members of the public being more informed and less tolerant of what they consider to be immoral business behaviour. Since then, there has been an increase in ethics, not just as a

personnel issue but more in terms of a general management issue, culminating in the appointment of a Minister for Corporate Social Responsibility in 2000. Now, walk into the reception of almost any large organisation and you'll probably find a statement of the corporate values pinned proudly on the wall.

In this study unit we will:

- Examine the importance of ethics and values in the design of human resource strategies
- Consider the development of action plans which reflect both organisational priorities and cultural preferences
- Identify what constitutes ethical and unethical behaviour within the workplace
- Investigate value statements and their practical implications
- Consider issues of equality and diversity
- Identify the benefits and problems associated with adopting an ethical approach to organisational practices.

B. MAIN ETHICAL ISSUES IN PEOPLE MANAGEMENT AND DEVELOPMENT

It is not sufficient just to make a statement that the organisation is an ethical organisation or to express these ideas in a value statement. To be effective and to reap the benefits that are claimed for ethical management, these values must be translated into actual practice and must be reflected in all the systems and procedures used by the organisation.

In the same way that we acknowledged that human resource strategies needed to achieve a 'fit' with the business strategies of the organisation, so they must also be seen to 'fit' and to uphold the values and ethics of the organisation.

Case Study 1

At Ulster Bank Group, regular workshops were held in support of the value statements that we looked at earlier. Ulster Bank found these invaluable and in particular they provided information about areas where there were inconsistencies between what the company says and what it does. Staff highlighted, for example, that managers smoking in their offices despite a non-smoking policy wasn't in tune with the value of 'leadership by example'.

Human resource managers are in a unique position to ensure that ethics and value-based management is applied throughout the organisation, by ensuring communication and training programmes are in place. They can also set an example of good practice, by ensuring that all human resource strategies and practice comply with the code.

This compliance or fit is not always as straightforward as it might appear on paper. It requires a very thorough investigation, to ensure that all policies meet the code, without ambiguity. Michel Syrett, chief executive of New Ways to Work and writing in *People Management* in 2000 noted that a token approach to implementing strategies based on ethical and value codes is bound to fail. Talking about the introduction of work-life balance initiatives, introduced in support of a family-friendly approach, he said: *"It is sheer tokenism to launch a work-life balance scheme involving, for example, access to parental leave, part-time working and sabbaticals, and then sit back and expect employees to rush in if their line*

managers are unconvinced or resentful, or if their departments are overworked, under-resourced and unable to provide cover."

The Institute of Management recommend the following approach to value management:

- Make the link between corporate strategy and the ethical values and vision of the organisation
- Ensure you have top team commitment and that managers are prepared to 'walk the talk'
- Make sure there is clarity throughout the company about what the values really mean
- Incorporate the values into a performance appraisal system
- Develop open channels of communication, so employees can give and receive confidential advice and information
- Measure and report on business performance in relation to the values of the organisation
- Update and review the values regularly, through an inclusive process of dialogue with all employees; values must be shared if they are to be effective.

The Good Corporation Charter provides a useful perspective on ethical issues in HRM (www.goodcorporation.com):

The organisation provides clear and fair terms of employment.	● There are clear employment terms and conditions for all employees ● There is a process to ensure that the privacy of employees is respected ● There is a clear disciplinary procedure that is applied fairly ● There is an effective process to deal with employee complaints and grievances ● Freedom of association and organisation of employees is respected ● There are effective employee communication and consultation processes ● There is a process to monitor compliance with relevant employment laws and regulations.
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(Continued over)

The organisation provides clean, healthy and safe working conditions.	● There are procedures to ensure the provision of a healthy and safe working environment and the continuous improvement of health and safety performance ● There are processes to provide adequate resources and training for the provision of a healthy and safe working environment ● The organisation has a fair remuneration policy everywhere it operates ● There is a process to ensure that employees know how and when their pay and benefits are determined ● Local cost of living and market rates are taken into account when setting pay and benefits.
The organisation strives for equality and diversity for all present and potential employees. It does not discriminate on the grounds of disability, colour, ethnic origin, gender, sexual orientation, age, religion, and political or other opinions.	● The organisation encourages diversity and recruits, promotes and rewards employees on the basis of merit alone.
The organisation encourages employees to develop skills and progress in their careers.	● All employees have appropriate learning and development opportunities to support their work ● Employees have regular performance reviews that consider skills development and career prospects.
The organisation does not tolerate any sexual, physical or mental harassment or bullying of its employees.	● There is a process to ensure that no forms of harassment, bullying or discrimination are tolerated.
The organisation employs only voluntary and appropriately aged employees.	● There is a policy not to employ forced, bonded or otherwise exploited labour ● There are processes to ensure that employment practices for young people follow internationally accepted standards.

C. EQUALITY AND DIVERSITY

Aren't all HR professionals discriminating all the time?

We discriminate against different types of people, consciously or unconsciously, in many aspects of our life and work. This is not, in itself, a problem. For example, the process of selection is specifically concerned with discrimination between people, by making decisions about who and who not to shortlist, to interview and to appoint. Discrimination in this sense is perfectly acceptable as long as it is done and is seen to be done, on the basis of fair treatment of the people concerned. Forms of discrimination that are not fair have increasingly become unacceptable and in many cases have been the subject of legislation, making them unlawful.

This has a particular impact on management practice. Managers need to ensure that they do not discriminate unfairly in their decisions or actions towards employees, whether before or during employment. Here, we shall review those aspects of legislation that apply directly to these issues and also explore how organisations meet the challenge of providing equal opportunities.

We then go on to consider the future of these issues, with particular reference to the move away from a concern with equality, per se, towards the issue of managing cultural diversity.

So who experiences unfair treatment?

There are certain groups in any society who are discriminated against for unjustifiable reasons. Members of these groups are subjected to treatment which is different from that accorded to other people, purely on the basis of their membership of that group. Such unequal treatment derives from the prejudices and preconceptions of the people with whom they have to deal and needs to be seen as a problem of those acting in a discriminatory manner, rather than a problem of the victim of the discrimination.

Within the United Kingdom, there are six main characteristics which have resulted in unfair treatment and which the Government has addressed through legislation:

- Sex/gender
- Race/ethnicity
- Disability
- Age (older and younger workers)
- Religion and belief
- Sexual orientation.

(There is legislation covering some other issues such as trade union membership. However, these topics are often known colloquially as the 'six pack'.)

These groups are, in this context, referred to as **disadvantaged** in that, as victims of persistent discrimination, they have been excluded from playing their full part in society, or in particular parts of it (for example, in employment).

Recognising the basis of discrimination is the first step towards establishing equal treatment for disadvantaged groups. As we noted above, it derives from prejudice towards and preconceptions about, the members of those groups. On some occasions these attitudes are consciously and overtly displayed but very often the people holding them are not even aware that they influence their dealings with other people. As such, many of the preconceptions are widely held, particularly in respect of certain characteristics that these groups are assumed to possess and which are then used to pass judgement on individual members.

This may be seen, in the context of employment, from the following list of attitudes about the above six groups.

(a) Sex and gender

This is aimed at equalising the treatment of women and men. The main benefit has been to women who have been subject to assumptions such as:

- Women should not work; their place is in the home
- They do not want much responsibility at work
- Their home commitments (children) will impinge on their working life
- Women are less mobile as they have to stay in the part of the country where their husband has a job.

Legislation also encompasses equal pay, although this appears to have had limited effect in bringing the pay of women in line with that of men. (In 2007 UK women who worked full time were paid on average between 83 and 86% of men's hourly earnings - source UK Government's Women and Equality Unit).

(b) Race and ethnicity

This is aimed at removing race and ethnicity as a reason for disadvantageous treatment. The main benefit has been to ethnic minorities who have been subject to views such as:

- They require time-off for religious holidays that do not mesh with the needs of the employer
- Qualifications gained abroad are not as good as those to be found in the UK
- Workers will not want to work for a black supervisor
- The ability to fill out an application form in good English is a requirement for someone who is being employed in low-level manual work.

(c) Disability

This covers both physical and mental disability; the latter also including learning disability. Assumptions countered by the legislation include:

- An employee with facial disfigurement will be an embarrassment to other workers or customers.
- A visual handicap cannot be overcome.
- A physical impairment affects mental faculties.
- Someone who has suffered mental illness will automatically not be able to take any kind of pressure that the working environment could provide.

Employers and service providers are required to make reasonable adjustments to premises and practices to compensate for someone's disability. What is reasonable will vary from organisation to organisation.

(d) Age

The Employment Equality (Age) Regulations 2006 came into force in October 2006 and counters assumptions such as:

- Older people are less adaptable and are not interested in new technology
- They will work much more slowly than younger employees
- They have become less interested in their career development
- Younger workers are immature or lack skill.

(e) Religion and belief

Although much of the discrimination directed at members of religious groups was covered by the legislation dealing with race and ethnicity, in the United Kingdom the law, irrespective of their race or ethnicity, covers discrimination against someone because of their religion or similar belief system.

(f) Sexual orientation

Likewise discrimination on the grounds of someone's sexual orientation is unlawful. This includes less favourable treatment arising from a belief (without any evidence) that someone might be gay, lesbian or transgender.

How is discrimination relevant to employment?

The need for fair treatment is particularly acute in the area of employment in general and of management in particular, where decisions are constantly being made which affect the lives and opportunities of individuals. As a result, partly driven by legislation and partly by good practice, most organisations have adopted policies and practices designed to ensure the fair and equal treatment of those with whom they have dealings (and note that this does not just cover their own employees).

There is, though, a continuing concern to ensure the effectiveness of such policies and practices in the face of the widespread existence of, particularly, unconscious prejudices and preconceptions in society at large, which invariably, will be reflected to a greater or lesser extent within the organisation's own workforce. The adoption of policies, of itself, does not eradicate the problem and control over practice has become more difficult with responsibility for more and more employee issues being devolved to line management.

What behaviours are outlawed by the legislation?

Principally three:

- Less advantageous treatment (not giving a job to a woman because of her sex; dismissing a gay man because of his sexual orientation; not promoting a middle aged worker because of her age)
- Harassment and bullying (teasing a young person because of her age or a worker with a visual impairment because of his disability)
- Victimisation (treating someone less advantageously because he or she had previously complained or had supported someone else who had complained).

The main differences between the equal opportunities approach and managing diversity approach are compared in the following table:

Aspect	Equal Opportunities	Managing Diversity
Purpose	Reduce discrimination	Utilise employee potential to maximum advantage
Case argued	Moral and ethical	Business case – improve profitability
Whose responsibility	Personnel department	All managers
Focus	Groups	Individuals
Perspective	Dealing with different needs of different groups	Integrated
Benefits for employees	Opportunities improved for disadvantaged groups, primarily through setting targets	Opportunities improved for all employees
Focus on management activity	Recruitment	Managing
Remedies	Changing systems and practices	Changing the culture

Source: Torrington and Hall, *Human Resource Management*

Benefits of Managing Diversity

Over the last decade, many organisations have learned from practical experience that equal opportunities policies can bring important business benefits. Increasingly, it is recognised that initiatives are more likely to thrive if they positively advance business goals and performance.

A number of writers have researched the positive benefits of managing diversity, rather than simply adopting equal opportunities policies. For example, Rosabeth Moss Kanter, in *The Change Masters: Corporate Entrepreneurs at Work*, in 1994 noted that organisations that are serious about diversity show better overall financial performance.

Kanter also noted that the business reasons for valuing diversity are also linked to those which relate individual need to the health of society generally. The willing contribution of responsibility, initiative and creativity depends on a fair and encouraging relationship between employer and employee. These relationships will not be realised in organisations that marginalise parts of their workforce by neglecting the diverse needs of employees.

The CIPD, in considering the importance of adopting a management of diversity approach to equal opportunities, suggest that the reasons why diversity matters in business can be sub-divided into six areas:

- **Customer care**

Increased emphasis on customer care for internal and external customers makes the need to address diversity issues more important. Active diversity management can open up new opportunities and improve market share by broadening the customer base.

- **Ethics and values**

Ethical behaviour in the conduct of business is a significant concern of organisations, as we have already noted earlier in this study unit. Increasing importance is placed on behaving ethically and being seen to behave ethically. New 'dignity at work' policies require that all forms of intimidating behaviour, including sexual and racial harassment

and bullying are regarded as contravening the values of the organisation and, as such, are treated as serious disciplinary matters.

- **People management**

Research, including that carried out by the CIPD in 1994, shows that organisations which focus on equality and diversity are able to:

- Attract and recruit people from a wider range of talented candidates
- Retain the best talent
- Benefit from lower turnover and absenteeism
- Demonstrate greater organisational flexibility to respond to change.

Other reported benefits include better decision making; improved teamwork; greater creativity, better customer service skills and improved quality of outcome.

- **Changes in society**

Expectations of fair treatment at work have increased and people have become more aware of equal opportunity issues. This influences their aspirations to work for employers with good employment practices.

As we have seen, changes in patterns of academic and vocational achievement have changed the distribution of skills in the labour force. Important demographic changes, such as the growing proportion of older people, are also affecting the availability of labour. All of these changes are challenging the effectiveness of traditional methods of recruiting and retaining talent.

Organisations recognise that healthy businesses flourish in a healthy society and some employers are concerned about the threat of social disintegration because they recognise that the economic exclusion of groups in society, in the long term, will limit the growth of the total business market.

- **Legislation**

Laws prohibit discrimination on the grounds of sex/gender; race/ethnicity; disability; age (older and younger workers), religion and belief and sexual orientation. The cost of legal action for failing to comply with legislation can be high not only in terms of the actual financial impact but also in the associated costs from damage to the organisation's reputation and public image.

- **Best practice**

Benchmarking against good practice in other organisations maintains momentum and stimulates ideas. Keeping up with best practice helps to avoid losing out to competitors with more open and attractive employment policies. Initiatives such as the equality checklist produced by the Equal Opportunities Commission have also encouraged employers to take action.

Managing Diversity – The CIPD Checklist

According to the CIPD, the management of diversity is more than just words, policies and procedures. It requires systematic management action and changes to working practices and organisational culture. It depends upon leadership and commitment from management at all levels.

The CIPD set out a checklist of key principles for the management of diversity, as follows:

- **Lead and set values**

- (i) Communicate a value system based on trust, which welcomes individual differences. Develop an open culture with good communication channels and

open dialogue, starting with and actively supported by the Chief Executive and the top management team. Use value statements and seek to create a well-balanced, diverse workforce.

- (ii) Make equality an issue for everybody by using eligibility criteria which are fair to all and supportive of business goals, as well as reflecting legal requirements and aspirations for best practice. Review documents such as application forms and job descriptions.
- (iii) Set and communicate standards of behaviour based on treating people with respect and dignity. Use codes of conduct and training programmes. Take disciplinary action when codes are broken.
- (iv) Use public debate and changes in UK and European law on equality as a prompt for action but do not wait for the law, act as soon as the need is clear.
- (v) Mainstream equality principles as the basis for developing all people management practices and business activities; valuing difference becomes part of the fabric of the organisation and its approach to customers.
- (vi) Look for ways of addressing the diverse needs of customers and clients, for example, when undertaking market research. Link this to the use of diversity within the organisation to improve overall business performance.
- (vii) Be aware that international culture issues add an extra complexity to managing diversity. Multi-national organisations and those operating in world markets need to ensure that approaches to managing a diverse workforce take into account the ways in which individual working styles and personal preferences are influenced by national culture.

● **Establish a policy agenda**

- (i) Accept that, having satisfied the requirements of the law, everything cannot be done at once. Prioritise initiatives which nurture personal development and individual contributions. Aim to release and develop the potential of as many people as possible as quickly as practicable.
- (ii) Make sure the organisation is kept informed about developments in the equality field.
- (iii) Aim to create an empowering culture in which decisions are made at the most appropriate levels. Encourage experimentation and innovation, continuous learning and development through mentoring and training. Commit to realistic but stretching objectives. Monitor training across diverse groups.
- (iv) Link the management of diversity to other systematic value-driven initiatives, such as Investors in People, total quality management and the UK Quality Aware.
- (v) Build diversity concepts and practice into management training and team building programmes. This will increase awareness about the need to handle different views, perceptions and ideas in positive ways. Include diversity objectives in job descriptions and appraisal systems.
- (vi) Train widely to encourage an understanding of why valuing people as individuals is important to the organisation. Introduce awareness raising about diversity and provide skills training to help people work together better in a diverse environment. Include diversity issues in induction programmes so that all new employees know about the organisation's policies and values.
- (vii) Make clear that the organisation recognises that employees have caring responsibilities. This can be achieved by having employment provisions which help people to make the best arrangements to balance their work and personal

responsibilities. Provisions should be available fairly to everybody, comply with the law and support business needs.

- (viii) Encourage suppliers to adopt diversity management approaches in their organisations and include specific requirements in contract specifications.

- **Embed policy in procedures**

- (i) Make sure that merit, competence and potential are the basis for all recruitment, employment and development decisions.
- (ii) To respond appropriately to diversity needs, draw up guidelines for managers which give scope for flexible decision making.
- (iii) Introduce mechanisms to deal with all forms of harassment, bullying and intimidating behaviour. Make it clear that such behaviour will not be tolerated and set out the consequences of breaking the organisation's behaviour code.
- (iv) Make sure that appraisal systems take into account the achievement of diversity objectives and workplace behaviour.
- (v) Support development training to help people to reach levels of competence which let them release their true potential. Take into account legal requirements under the Race Relations and Sex Discrimination Acts and Disability Discrimination Acts regarding positive action, in connection with targeted ethnic group, single sex and disability training. Take professional advice if necessary.
- (vi) Be pro-active in checking for and removing unfair biases in systems, procedures and their applications; these can restrict the benefits of diversity.
- (vii) Focus on essential and objective job related criteria when making employment and training decisions about people. Remove subjectivity and only use 'desirable but not essential' requirements to differentiate between candidates of the same calibre.

- **Measure, review and reinforce**

- (i) Regularly audit, review and evaluate progress and keep qualitative and quantitative data to chart progress and show business benefits.
- (ii) Make use of employee surveys to evaluate the success of initiatives and to provide a platform for improvement.
- (iii) Encourage employee consultation, involvement, good communication and feedback to make sure the organisation has commitment to diversity management; this will also help to maintain the momentum of improvements.
- (iv) Monitor the equality approaches of other organisations and adopt and adapt relevant ideas where appropriate.
- (v) Celebrate successes and identify learning opportunities from failures; use these as building bricks
- (vi) Remember that managing diversity is a continuous process of improvement, not a once and for all initiative.

Diversity – Examples

The following are published statements outlining approaches to diversity:

Nationwide Building Society

"The Nationwide Building Society is firmly committed to remaining a building society, focused exclusively on the needs of the customer. We believe that meeting the needs of a diverse customer base requires a highly skilled, competent and flexible workforce, who all feel that Nationwide is where they want to work. Nationwide is achieving this through the ethos of working for equality of opportunity, supported by a broad range of policies, practices and procedures which aim to recognise individual contribution and performance, develop each individual's capability and give everyone an equal opportunity of using their talent and releasing their potential. Managing the diversity of our customers and employees is an exciting and rewarding challenge for us all".

Bedfordshire County Council

"Bedfordshire County Council is committed to equal opportunities in carrying out all its various activities and is opposed to any form of unfair treatment. Equal opportunities is about the culture of the organisation: whether it is welcoming and supportive, or hostile and critical. The way that we treat one another is a critical element in ensuring that we create the right environment in which people can grow, develop and maximise their contribution"

D. ADVANTAGES OF AN ETHICAL APPROACH TO PEOPLE MANAGEMENT AND DEVELOPMENT

Ethics are a code of behaviour considered to be morally correct. Business ethics can provide businesses with moral guidelines in conducting their affairs. An ethical decision means doing what is morally right, as opposed to assessing the most profitable course of action. Sceptics argue that business ethics is little more than an interesting marketing ploy designed to encourage the consumer to think that the organisation is somehow 'better' than its competitors and therefore, more worthy of the consumer's custom. However, research does seem to suggest that there may be some real advantages to the organisation in taking an ethical view and encouraging ethical behaviour amongst its employees.

Some writers have claimed that values represent the 'corporate DNA', containing the identity that helps businesses prepare for the future and cope with their challenges. The arguments in favour of taking an ethical or value-based approach include:

- Values can provide a framework for all the other activities of the organisation
- Values can guide decision making and discussion
- Values enhance the corporate reputation
- Values can enhance recruitment by attracting candidates whose own values are in tune with the organisation
- Values can also play a role in helping with the management of change by providing a 'theme' that employees can recognise as valid and valued

- For companies operating in a market containing undifferentiated products, an ethical stance can provide a unique selling point
- Values can help to enhance a sense of commitment to the organisation and therefore, are an important part of high commitment management.

The concept of ethics and values in business applies to all the relationships within and outside the organisation:

- Between the organisation and the outside world generally, value statements might cover the manner in which the organisation does business; its attitude towards the use of renewable and non-renewable raw materials; its views of the environment, the company's attitude towards its social responsibility, etc
- Between the organisation and its customers and consumers, value statements might cover the way in which it intends to do business
- Between the organisation and its workforce, typical value statements identify attitudes towards equal opportunities and diversity
- Between management and employees, value statements guide the manager-employee relationship, identifying the importance of trust, respect and equality
- Between employees, value statements identify how employees are expected to behave towards their fellow employee.

Case Study 2

Ulster Bank

Ulster Bank group decided a clear set of corporate principles would help its employees understand and participate fully in the changes planned to ensure the company remained successful into the millennium.

The top team began the process of brainstorming a set of values they felt were important. Before the words became set in stone, they organised a series of workshops to give employees the opportunity to comment. Initial feedback confirmed they were on the right track – but identified two values employees felt had been missed off the list. Staff also felt the values were written in 'management speak' and needed to be described more clearly.

An intensive year-long process of consultation followed, which resulted in a list of seven corporate values:

- fair and honest
- leadership by example
- added value for our customers
- shared purpose and individual responsibility
- performance and achievement
- innovation and creativity, and (finally)
- our people.

These values all link into Ulster Bank Group's vision, which is "*through the relentless pursuit of excellence, we will be the preferred financial services group on the island of Ireland*".

Source: Professional Manager, November 1999

E. PROMOTING AND ENFORCING ETHICAL BEHAVIOUR

There are a number of perspectives on ethics in HRM but the stakeholder perspective is the one most likely to result in the best all round conformity to the principles of ethical behaviour. It is when one group begins to behave without concern for the rights or views of others that ethical issues are most likely to arise.

One of the stakeholders for all organisations is their local and national government. In most countries the government legislates and provides resources to both promote and enforce ethical HRM. So in Europe there are national minimum wage rates, anti-discrimination legislation and minimum standards on handling dismissals and redundancies.

Shareholders and to a lesser extent, customers of commercial organisations also apply pressure to enforce ethical behaviour, e.g. in relation to boardroom pay.

Within the organisation, HR professionals have a role in ensuring the existence, promulgation and enforcement of good practice on handling discipline, grievances and whistle blowing.

The organisation may enforce its standards on sub-contractors via contract compliance (requiring a supplier or subcontractor to demonstrate that it meets basic standards of employee rights).

F. 'HARD' AND 'SOFT' HUMAN RESOURCE STRATEGIES

The 'hard' approach to HRM sees employees as a measurable commodity, human capital, to be managed in a detached way as any other resource (such as land, buildings, plant or equipment) would be managed. This usually results in a close vertical integration between the business and the HR strategies. The human resource is relatively easily disposable. The emphasis is upon employee compliance. This is the mechanistic approach.

The 'soft' approach views employees as 'resourceful humans', an invaluable source of competitive advantage. The emphasis is upon employee commitment. This is the organic approach.

The perspective adopted will have a strong influence upon the organisation's treatment of its people. Some organisations take a clear public stance on these issues (international investment banks for instance will tend to take the hard perspective; creative industries will adopt the softer approach).

Study Unit 7

The Strategic Approach to People Resourcing

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Objectives

The aim of this unit is to critically evaluate strategies for people resourcing which increase the available pool of 'talent' within the enterprise.

When you have completed this study unit you will be able to:

- Describe and explain strategies for recruitment
- Describe and explain the development of 'employer of choice' strategies
- Describe and explain strategies for selection and the search for 'talent'
- Describe and explain strategies for the deployment and redeployment of people, including strategies for redundancy and dismissal
- Describe and explain strategies for people retention
- Describe and explain strategies for coping with issues of poor performance, including absence

A. INTRODUCTION

Employee resourcing strategy is concerned with ensuring that the organisation obtains and retains the people it needs and employs them efficiently. It is, therefore, a key part of the process of human resource management.

The rationale behind employee resourcing is found in the resource based view that we identified in Study Unit 2. The aim of human resourcing strategy, therefore, is to ensure that an organisation achieves competitive advantage by employing the right number of people with the right skills, who will behave in ways that will maximise their contribution. It is concerned with obtaining and keeping the number and quality of staff required but also with selecting and promoting people who 'fit' the culture and strategic requirements of the organisation.

In this study unit we will examine strategies for recruitment; selection; deployment, retention and reward of staff, to meet corporate needs in the context of the commercial and cultural environment. We shall:

- Discuss the role of recruitment, selection, deployment, retention and reward strategies in the achievement of organisational purposes
- Identify appropriate strategies for the recruitment, selection, deployment and retention of staff in the context of the modern commercial and cultural environment
- Identify the variety of reward strategies available and discuss their application in different organisational scenarios.

The traditional view of employee resourcing concentrated on obtaining people with the right range of skills and attitudes for the organisation. This sounds fine in principle but there is a tendency to interpret this in terms of existing skills and attitudes, so that managers tend to recruit people who display the same characteristics as themselves. However, as we have already seen, creativity, innovation and flexibility are key issues in today's modern business environment and new thinking is not likely to result from people who display the same or similar characteristics to those already within the organisation. Peters and Waterman, in *In search of excellence* suggest that superior organisational performance comes from employing individuals that are mavericks. In their view, the usual selection methods requiring evidence of continuous and verifiable employment actually work against the organisation that is seeking a freethinker.

The strategic approach to employee resourcing recognises that maintaining the status quo is not necessarily the best option but it can mean radical changes in thinking about the skills and behaviours required in the future to achieve sustainable growth and cultural change.

Integrating Business and Resourcing Strategies

Armstrong, in *Strategic Human Resource Management: A guide to action*, notes that the integration of business and resourcing strategies is based on an understanding of the direction in which the organisation 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 impact of organisational restructuring as a result of rationalisation, decentralisation, layering, mergers, product or market development, or the introduction of new technology
- Plans for changing the culture of the organisation in such areas as ability to deliver, performance standards, quality, customer service, team working and flexibility, which indicate the need for people with different attitudes, beliefs and personal characteristics.

As we have seen in Study Units 2 and 3, these factors will be influenced by the type of business strategies adopted by the organisation and the type of organisation. This is a two-way process as, not only will employee resourcing strategies be affected by business strategies; they will affect the selection of appropriate business strategies.

Bundling Resourcing Strategies and Activities

Employee resourcing is not just about recruitment and selection. It is concerned with any means available to meet the needs of the organisation for certain skills and behaviours. A strategy to enlarge the skill base may start with recruitment and selection but would also extend into training and development, to enhance skills and modify behaviours and methods of rewarding people for the acquisition of additional skills. Performance management processes can be used to identify development needs and motivate people to make the most effective use of their skills. Diversity initiatives might permeate throughout the process. Competence frameworks and profiles can be prepared to define the skills and behaviours required and used in selection, employee development and employee reward processes. Thus, supporting strategies should be developed along these lines. This is, you will recall from Study Unit 4, a process called bundling.

B. EMPLOYMENT FLEXIBILITY

Flexible Resourcing Strategies

At several points throughout this subject area, we have noted how flexibility is a key issue in human resource management. The concept of 'flexibility' can cover a number of different aspects. Blyton and Morris, in *Human Resource Management and the limits of flexibility*, define flexibility in four different ways:

- Numerical flexibility, which is the ability to vary the numbers employed at short notice in response to fluctuations in demand for labour. This can be achieved by using a mixture of different types of employment contract – for example, a combination of full-time permanent, part-time permanent, full and part-time temporary/fixed term contracts, etc.
- Temporal flexibility refers to variations in the pattern of hours worked, to respond to business demands and employee needs. Using strategies such as annualised hours is one way of achieving temporal flexibility.

- Functional flexibility is where employees may be multi-skilled and involved in a wide range of tasks, with fewer boundaries between jobs. This type of flexibility encourages team working practices and in its ultimate form destroys the distinction between craft and operator jobs and tasks.
- Wage flexibility is where wages offered are individualised rather than standardised, by the use, for example, of performance related pay or pay for skills offered rather than tasks allocated. Similar arrangements include 'cafeteria' style benefits where employees can 'choose' a range of benefits according to their own preferences.

It is important to remember that flexibility, although desirable, can sometimes come at the expense of other strategies. Torrington and Hall, in *Human Resource Management*, note that numerical flexibility, if achieved through the use of temporary contracts and/or outsourcing, may have an adverse impact on the achievement of a quality strategy.

What is the flexible firm?

Atkinson also split the organisation into two groups:

- The 'core' group, which is permanent, displaying functional flexibility characteristics. Core workers may display common features and may have firm specific skills that would be hard to buy in.
- The peripheral workers, who are offered numerical and distance flexibility and are used and discarded as required by demand. The peripheral worker provides a buffer allowing functional flexibility to be exploited to the full. Contracting out takes responsibility for all problems concerning adjustments in contractual arrangement e.g. wage rates and hours worked. The organisation can then concentrate on its core activities.

Why might we want to increase flexibility?

- To focus resources and attention on core activities
- To reduce waste by increasing the speed with which the organisation can adapt to meet changing market needs
- To take advantage of staff available in the external labour market
- To clarify career development routes
- To reduce the power of trades unions.

Does the flexible firm exist in practice?

The flexible firm model is useful in showing what flexibilities organisations might seek and how they might go about keeping things flexible, research has failed to show a wide scale adoption of the flexible firm model. So we cannot yet say, 'this is the way everyone structures their organisation'. However, there is no doubt that the elements of the model are present in most middle to large organisations, to some degree or another, even if the model is not adopted in a wholesale fashion.

Case Study

Pindar Set

Pindar Set is a small family-owned Yorkshire business which has been typesetting the Yellow Pages directories for many years. A one-customer, one-site operation, it enjoyed a highly profitable 10-year contract to design and set advertisements for Yellow Pages' customers. However, in 1995 Yellow Pages indicated that it wanted to move to a shorter-term contract with tighter margins and greater responsiveness to customer demand. Pindar Set was asked for new turnaround times, a new emphasis on quality and customer service and was offered three of Yellow Pages own design studios to incorporate into its business. It was impossible to achieve the targets and integrate the new studios without a radical revision of operations. The way it went about it, putting people management at the heart of its strategy, earned the company the CIPD People Management Award in 2000.

The challenges facing the company at the outset were enormous. Not only was it necessary to rethink the way in which work was carried out, but the transfer of the three design studios doubled the workforce, resulting in a mixture of different working practices and a degree of uncertainty on the part of the new workforce, all at a time of major change.

The company began the process of change by making a thorough review of its own business, assessing what it was doing and how. One of the first requirements was to reduce turnaround time for advertisements from 25 days to just 5. The result of the review was that from 1997 the company set about training its entire unskilled staff to do skilled jobs, phasing out unskilled text-inputting jobs completely. All the unskilled workers upgraded as planned, despite some initial wariness of the new accreditation process that was established to ensure consistent standards across the business. Remedial training was provided where necessary. Employees were also trained to follow a job through from start to finish, reducing the internal 'pipeline' from 80 processes to one. Teamworking was also introduced, which meant creating new team leader roles with team leaders given more responsibility for financial, operations and people management than before. This also required the introduction of an 18-month development plan for new and existing team leaders, at a cost of some £3,000 each. Team leaders are now recognised at the company's key players.

The second phase of initiatives involved changing working times with the introduction of a new shift system to replace the previous overtime regime. A twilight shift operating from 4.30pm to 1am was set up, initially with new recruits hired on a temporary basis but subsequently on permanent contracts. This increased the production window from 8 to 16 hours, making better use of premises and equipment and helping to bring fresh blood into the company. Pindar Set found that this twilight shift became the most productive in the company – which it attributed to the fact that there are fewer interruptions at these times. The change also cut overtime by two-thirds, and increased Pindar Set's availability to customers.

Finally, the company introduced a flexible working scheme to help cope with the uneven flow of work from customers. With one week's notice (and often much less) employees agree to the hours to be worked the following week, with built-in safeguards so that they can balance their work and home lives.

The flexible hours scheme is based upon a form of annualised hours, with employees expected to work 1680 hours a year and both daylight and twilight shifts annualised, but the scheme doesn't work to a standardised format. For example, the company agreed with its staff that they would never be asked to work more than 45 hours or less than 25 hours a week or more than five days or less than four days, unless they wanted to do otherwise. Furthermore, staff who finish their annual hours can choose to take the rest of the year as holiday, or can volunteer to do additional hours paid at time and a half, if the need is there. On the other hand, if they are asked to work fewer than the set hours in a year, the company still pays the full rate.

Pindar Set themselves note that not all the changes were plain sailing. The original plant, a traditional print environment which was heavily unionised, had to be left out of the flexible working arrangements because of opposition to annualised hours by the union. People weren't forced to join the scheme and indeed the company found some benefits in retaining some workers on a more traditional employment basis.

The change programme has delivered real business benefits for Pindar Set, which has seen pre-tax profits increase, absentee levels decrease and customer complaints fall from 123 per month to an average now of just 10.

What strategic approaches can be taken towards flexible working?

It depends what upon the context in which the expression is used:

- The flexible labour market see Flexible working (this section)
 - Numerical flexibility (e.g. arrangements for varying the size of the workforce using temporary, fixed term and agency staff)
 - Functional flexibility (e.g. multi-skilling).
- } see The flexible firm (Study Unit 3 – Human Resource Planning)

Here, principally, we mean the organisation's working arrangements in terms of working time, working location and the pattern of working:

- Part-time working: Anything 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.
- 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 period within which full-time employees must work is defined over a whole year.
- 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, normally unpaid, leave of up to five years or more.

Organisations are showing more understanding of employee's responsibilities outside work. According to a study by the UK government, in 1998 84 per cent of UK managers believed it was up to an individual employee to balance their work and family responsibilities. By 2004 this had fallen to 65 per cent.

Why are organisations using more flexible working arrangements?

- Its potential value as a recruitment and retention tool in a tight labour market
- The changing profile of the workforce (for example, with more women in the labour market and an ageing population, it is increasingly common for workers to have caring responsibilities outside the workplace)
- Advances in technology (facilitating, for example, remote working and hot desking arrangements)
- An increasing need for businesses to be able to deliver services to customers on a 24/7 basis.

What are the potential benefits of flexible working?

Research by the UK Chartered Institute of Personnel and Development (CIPD) on employee attitudes and the psychological contract demonstrated a correlation between a flexible working and positive psychological contract. Workers on flexible contracts tend to be more emotionally engaged, more satisfied with their work, more likely to speak positively about their organisation and less likely to leave.

How should we implement flexible working practices?

Effectively communicating and implementing flexible working is likely to require effort and energy. The kind of challenges you might encounter include:

- Overcoming concerns about operational pressures and meeting customer requirements
- Line managers' current ability to effectively manage flexible working
- Line managers' current attitudes toward flexible working
- Your existing organisational culture
- A lack of support at senior levels.

Here are some ideas:

- Establish a clear process for how flexible working works in your organisation
- Ensure there are clear roles and responsibilities for employees, line managers and HR
- Assess the current levels of support you offer your line managers and ensure it is sufficient
- Invest in ongoing communication and awareness raising

- Assess how conducive your organisation culture is to flexible working and take action accordingly
- Make use of pilots (when introducing new initiatives) and trial periods (for individual flexible working arrangements) to highlight potential problems with flexible working arrangements
- Build in opportunities and mechanisms to monitor and evaluate progress with flexible working.

C. HUMAN RESOURCE PLANNING

Doesn't the flexible firm lead on to strategic questions about the sorts of people an organisation aims to employ?

Be clear about the **sorts of people** your organisation should recruit: a high number of low competence, low pay and high turnover people or a small number of highly competent, high pay, low turnover people with a long-term career in your sector. Do you need multi-skilled or specialist people? Does the board agree on this? Do your employment terms support what you are trying to achieve? For most organisations the answers to these questions will vary slightly across functions and from one level of hierarchy to another. Nevertheless, a coherent employer brand usually demands a common stance. A high pay city bank will demand quality catering and good office cleaners.

Armstrong suggests that the components of employee resourcing strategy should include:

- **Human resource planning:** An assessment of future business needs and deciding on the numbers and types of people required
- **Resourcing plans:** Preparing plans for finding people from within the organisation and/or for training programmes to help people learn new skills. If needs cannot be satisfied from within the organisation, preparing longer-term plans for ensuring that recruitment and selection processes will satisfy them.
- **Retention strategy:** Preparing plans for retaining the people the organisation needs, and
- **Flexibility strategy:** Planning for increased flexibility in the use of human resources to enable the organisation to make the best use of people and adapt swiftly to changing circumstances.

Let us now look at each of these in turn:

Human Resource Planning

In simple terms, human resource planning (or manpower planning as it is sometimes called, although many writers argue that the two terms do not mean the same thing) aims to address human resource needs in the longer term (although sometimes short-term issues are also addressed) in both quantitative and qualitative terms, that is, not just the numbers required, but the nature and type of person, skills etc.

Human resource planning also involves a look at the broader issues of resourcing, such as the ways in which people are employed and developed to improve organisational effectiveness.

There are two recognised approaches to human resource planning: the 'hard' and 'soft' approach. The 'hard' or 'rational' approach is based primarily on numbers; a quantitative analysis designed to ensure that the right number of the right sort of people is available when needed.

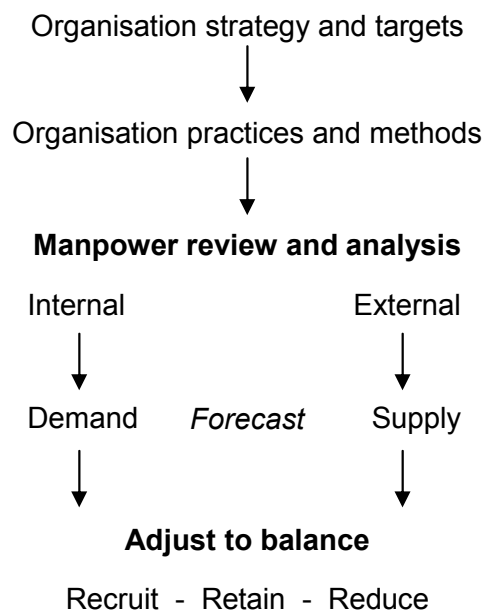
The process involves:

1. An evaluation or appreciation of existing manpower resources
2. An estimation of the proportion of currently employed manpower resources which are likely to be within the organisation by the forecast date
3. An assessment or forecast of labour requirements if the organisation's overall objectives are to be achieved by the forecast date
4. The measures to ensure that the necessary resources are available as and when required, that is, the manpower plan.

Stages 1 and 2 represent the supply aspect of manpower. It would include both internal and external resources and an evaluation of the 'quality' or competencies (skills) available to the organisation. Stage 3 represents the demand aspect of manpower. Stage 4 is the 'gap' that is to be filled by measures to recruit, retain or reduce labour.

This can be shown as follows:

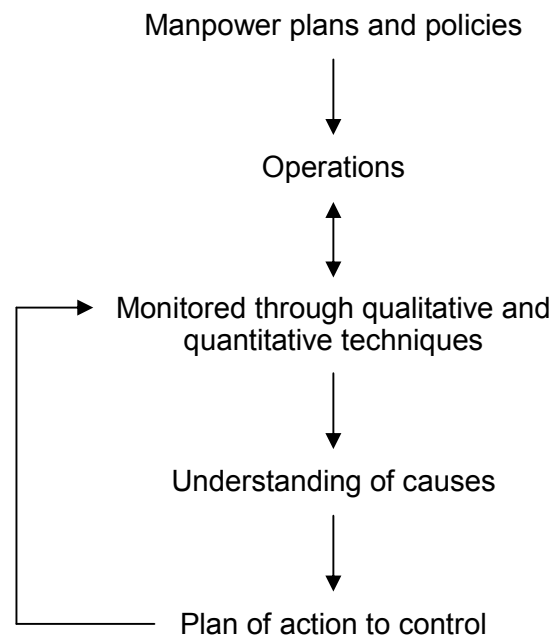
The Rational Approach to Manpower Planning



Source: Bratton and Gold, Human Resource Management; Theory and Practice

The 'soft' approach takes a more diagnostic view by looking at the underlying causes of the supply and demand for labour and how shaping the organisation and its culture can influence demand and supply, as follows:

The Diagnostic Approach to Manpower Planning



Source: Bratton and Gold, Human Resource Management; Theory and Practice

Whichever of the two approaches is adopted, the stages involved are closely interrelated and often overlap. For example, demand forecasts are estimates of future requirements and these may be prepared on the basis of assumptions about the productivity of employees. However, the supply forecast would also have to consider productivity trends and how they might affect the supply of people.

Although both of these approaches to planning appear logical, it must be said that the extent to which they are actually adopted by companies is questionable. You might consider whether they take place in your own organisation. Armstrong quotes Rothwell, who identified some of the reasons why such activities are not as widespread as might be imagined, when writing in *Human Resource Management, a critical text* in 1995, as:

- The impact of change and the difficulty of predicting the future: 'the need for planning may be in inverse proportion to its feasibility'
- The 'shifting kaleidoscope' of policy priorities and strategies within organisations
- The distrust of theory or planning that is displayed by many managers: they often prefer pragmatic adaptation to conceptualisation
- The lack of evidence that human resource planning works.

There does seem some, theoretical, advantage in broadly determining future human resource requirements as a basis for strategic planning and action.

D. HOW DO WE TAKE A STRATEGIC APPROACH TO RECRUITMENT?

Resourcing Plans

The analysis of future requirements should indicate what steps need to be taken to appoint people from within the organisation and what training programmes should be planned. The analysis will also establish how many people will need to be recruited, in the absence of qualified employees within the organisation or the impossibility of training people in the new skills in time.

Internal resourcing should be based on data which is already available, such as competency frameworks and the outcomes of performance reviews. Such information can be backed up by internal advertising campaigns, etc.

External resourcing requirements can be met through the development of a recruitment strategy.

Recruitment Strategy

The aims of this strategy should be:

- To make the organisation attractive to potential candidates by being the 'employer of choice'
- To plan the best methods of defining what is needed in terms of skills and competencies
- Concerned with planning the most effective methods of obtaining the number and type of people required.

The strategy needs to consider:

- The skill and behaviour requirements, ideally identified by conducting a skill and competence analysis and/or using existing competence frameworks. The advantage of using such an analysis is that interviews can be structured and selection criteria identified based upon the requisite skills and behaviours.
- The factors affecting decisions to join the organisation, so that a thorough review of each can be determined to ensure that the organisation remains or becomes the 'employer of choice' for potential candidates. Such factors might include:
 - (a) Pay and benefits package
 - (b) Career opportunities
 - (c) Training opportunities
 - (d) Career structure
 - (e) Technology and equipment available
 - (f) The design of the job itself
 - (g) The values of the organisation
 - (h) The organisation's culture
 - (i) Reputation of the organisation.
- An analysis of the labour market locally or perhaps nationally, identifying the main competitors for labour and highlighting any factors which the organisation is able to offer candidates which are superior to competitors (i.e. the competitive edge) so that these can be exploited to attract the 'best' candidates. Pay and benefits might not be

the only factor. Where labour resources are relatively limited, restructuring jobs so that flexible working hours, job sharing, part-time work, etc. are able to be offered, might make a whole new sector of the labour market suddenly available to the organisation.

Example 1

In towns where there is a large student population (where there are colleges of further education or universities) many employers have found a readily available market of young people anxious to pay their college tuition fees and supplement grants through working.

Offering part-time and shift work which can be combined with studies, not only enables the organisation to tap into this source of labour but brings with it a number of other advantages, such as:

- (a) Access to high quality undergraduates who may be persuaded to stay with the organisation after graduation, bringing with them experience in the business plus up to date qualifications
- (b) High quality workers who are less concerned (whilst studying) with matters such as job security – important if short-term flexibility is required
- (c) Workers who may view their employment as an extension of their learning experience, which can help organisations generate and maintain a 'learning environment'.

An organisation's reputation can be enhanced by being seen to offer valuable work experience to young people.

- Any alternative strategies available such as:

- (a) Outsourcing
- (b) Re-engineering
- (c) Increasing flexibility
- (d) Skills training
- (e) Multi-skilling
- (f) Downsizing.

We have address many of these developments in Study Unit 5 but, if you are unsure what they mean, turn back to that Study Unit now as a reminder.

Most of these strategies tend to assume a relatively abundant supply of labour but in many parts of the country and particularly in rural areas, shortages through demographic change must be addressed, for example, by aiming to recruit and retain older workers (in the absence of younger workers) or specifically to recruit and retain women returners. Alternative strategies might include stepping up retention strategies, offering 'golden hellos' or attractive relocation packages, or even relocating the organisation to an area where recruitment prospects are more favourable.

Example 2

The NHS is an example where specific strategies have been developed to encourage trained nurses to return to the profession after taking time off to raise young families. Special recruitment drives, flexible working patterns and part-time work, special retraining or updating courses, have all been used to encourage nurses back into nursing.

Recruitment and Selection Techniques

The resourcing strategy also needs to explore methods of identifying suitable candidates by considering recruitment and selection techniques. You will have studied these techniques in your studies for human resource management but to remind you, these might include:

- Recruitment sources such as:
 - (a) Newspapers
 - (b) Specialist recruitment agencies
 - (c) Trade journals
 - (d) The internet
- Skills analysis and competence mapping
- Structured interviews
- Psychometric testing
- Using assessment centres.

E. WHAT DOES IT MEAN TO BE AN 'EMPLOYER OF CHOICE'?***What is an employer of choice?***

Organisations that create an excellent working environment will naturally find that more of the best people will want to work for them and that, once in the organisation, employees will be more productive, produce better quality work and be more innovative. These organisations are employers of choice.

The UK's Sunday Times newspaper lists the '100 best companies to work for'. The list changes from year to year but has included retailer ASDA and software giant Microsoft, shoe repairer and key cutter Timpson and not-for-profit Bromford Housing Association. These employers have created an environment in which employees feel valued and respected; in which they feel connected to the company, so that they willingly give the effort required to deliver high performance i.e. discretionary behaviour.

Is this the same as employer branding?

Whether we like it or not, every organisation has a 'brand'. The perception of that brand may be different within the organisation and outside. The perception may also be different at the top of the organisation and the bottom. Like the brand of any commercial product, the employer brand can be influenced and even manipulated by HR's advertising and by marketing. But it is the hard realities of organisational performance that will probably most influence the perception of the employer in its key market, the labour market, from which it draws its new recruits.

Who decides upon the employer brand?

Some organisations spend a lot of money in external employer branding, particularly when there is heavy competition for the right people. Armed services (army, navy or air forces) and those who recruit large numbers of graduates or apprentices are all examples. As well as the hype in their advertising, these organisations need to ensure that their recruitment processes send out complimentary messages, so that the public perception is maintained. If brand and reality are in line, the task is relatively straightforward. If they are not, brand management will be key.

What about the internal employer brand?

Internal image, the image that employees have of their organisation, is also important. However, the internal brand is much less susceptible to manipulation, because employees see the reality every day. This element of the brand is personal to each employee and is assembled from an enormous number of different encounters that the individual has with their employer: treatment by management colleagues and customers; the type of work the organisation does; reward levels and conditions of service; systems and technology; the physical working environment; the willingness to invest in staff, the handling of conduct and capability issues and the delivery of the deal on the psychological contract. The list might also include the reinforcement (or manipulation) of the internal brand by publications, videos and road shows.

How does an employer go about influencing its employer brand?

A guide to creating a positive employer brand was published by CIPD in 2007 (*Employer Branding – a No Nonsense Approach*). It recommends an employer wishing to change their brand go through four stages:

- **Discover** Gather perceptions from top management, employees and the external talent market.
- **Analyse, interpret and create** Define the brand, create the plan and gather the resources needed.
- **Implement and communicate** Ensure the rhetoric of the brand can be delivered and then begin applying it.
- **Measure, maintain and optimise** Evaluate progress and adjust.

F. HOW DO WE TAKE A STRATEGIC APPROACH TO STAFF SELECTION?

Each stage of the recruitment and selection process builds upon the previous stage. The whole process is founded upon good job analysis: reviewing the job and clearly describing, via the person specification, what the employer is looking for. One of the key issues in the person specification is whether the employer is seeking for the finished product (someone who will arrive fully trained) or someone who is trainable but not yet fully trained. The former is looking for current competence, the latter for trainability.

This, then, has a profound effect upon the selection process. Testing for competence leads the employer to design test and ask questions that simulate the post to be filled. Testing for trainability is much harder because potential is far harder to assess.

“Recruit for attitude and aptitude, train for skills.”

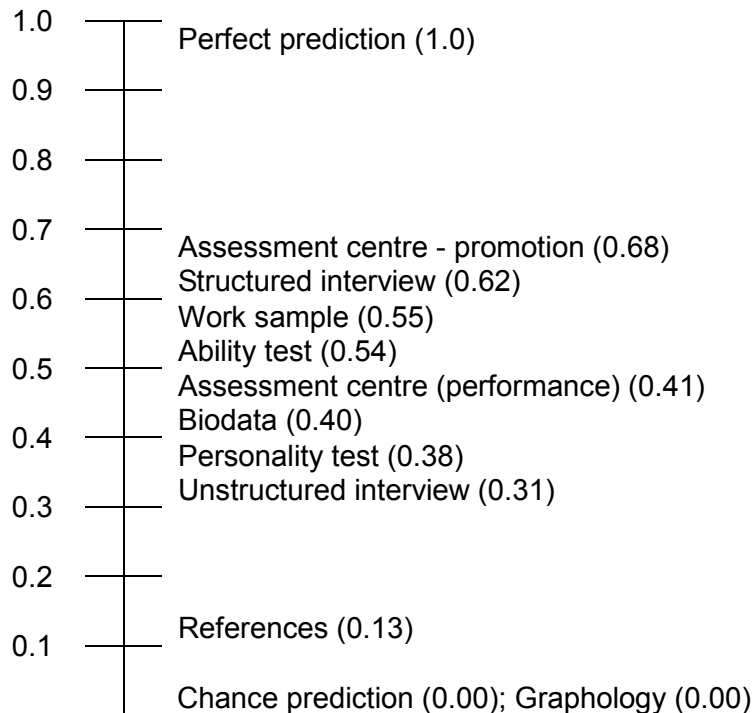
There is very heavy reliance upon selection interviewing. However, whilst the interview is good because it is interactive and wide ranging, its validity can be low and there are other

selection tools that give better validity. The annual CIPD Recruitment Survey showed the main data gathering tools UK employers were using in 2007:

Selection tool	% of organisations using tool
Interviews following contents of CV/application form (that is, biographical)	92
Structured interviews (panel)	88
Competency-based interviews	86
Tests for specific skills	80
General ability tests	72
Literacy and/or numeracy tests	70
Telephone interviews	61
Personality/aptitude questionnaires	56
Assessment centres	47
Group exercises (for example, role playing)	46
Pre-interview references (academic or employment)	45
Online tests (selection)	30

Source: CIPD Recruitment Survey, 2007

The following diagram illustrates the value of different forms of selection as a predictor of future performance:



Source: Adapted from Anderson and Shackelton, *Successful Selection Interviewing*, 1993

How do we go about choosing which selection tools to use?

There are five key issues to consider in deciding a selection strategy:

- **Sufficiency.** Are you using enough tools to cover the topics on the person specification? You need to choose the tests that will distinguish between the candidates (some would call this 'sensitivity')
- **Validity.** Are you testing what you think you are testing? (Also, face validity; does it look valid to those involved and is it acceptable?)
- **Authenticity.** Is this the candidate's work?
- **Reliability.** If we did this tomorrow, would we get the same results?
- **Cost.** At what point does the cost of doing more tests exceed the value of the data they provide?

G. HOW DO WE TAKE A STRATEGIC APPROACH TO STAFF DEPLOYMENT?

As we have seen, a significant feature of the modern organisation environment is relentless change. This suggests that the patterns of employment will change but so too, will the ways in which work is done. For the organisation, alternatives to the traditional "nine to five" pattern of full-time, permanent working offer the opportunity to provide themselves with **more flexibility at lower cost**. For the individual worker, different working patterns offer the opportunity to fit work in with other responsibilities and interests (domestic and social), as well as gaining more personal control over their working lives.

There are a great many new patterns of work evolving; some based on computer technologies but many simply based on building greater flexibility into traditional types of job.

What forms of employment are there?**(a) Part-time Workers**

Part-timers are often cheaper and can be more flexible. Furthermore, the organisation can lay off part-time workers more easily during slack periods and part-timers have fewer rights to statutory redundancy payments.

Technology has made it easier for organisations to bring in new working methods. For example, using a PC and a modem a person who used to come to the office every day can work from home, making use of e-mail as well as "lower tech" devices such as fax machines.

(b) Fixed/short-term Contract Workers

Here, workers are taken on for a specified period, to ensure that when the needs of the organisation change, the complexion of the labour force can be altered to reflect new needs.

Fixed-term contracts are quite common in positions such as overseas appointments and domestic senior level/executive jobs. For the former, it means that the person entering the job knows that the work will last a specific time and enable both them and the employer to plan accordingly for the next time period. For the latter, this reduces the damage that can be done by having the wrong person to do the job for any longer than necessary.

Fixed-term contracts can provide useful flexibility but they do require careful planning to:

- Avoid getting the period of employment wrong, otherwise the person may stay too long as an unproductive resource, or alternatively have to have the contract "rolled over" for a new period
- Avoid losing valuable people who might otherwise stay
- Reduce or eliminate the likelihood of the fixed-term employee going off to a competitor with valuable intelligence
- Gain the full commitment of the person, who after all will only be with the employer for a while and cannot be expected to foster the same loyalty as a "full timer".

(c) Outside Contractors/Sub-contractors

There are several advantages of outsourcing work to independent contractors:

- The organisation only has to pay for what it gets
- The contractor may be negotiable on rates of pay or fees, especially if the organisation is competing with others for the same contracts
- Contracts can be written precisely to reflect needs and can include clauses to invoke time or quality penalties
- Often the outsourcing permits both the buyer and seller of the service to specialise
- Long-term relationships can be built up between buyer and contractor.

Many functions that were traditionally the domain of internal labour are now out-sourced. These include:

- Catering services
- Information technology services (often put out to bureaux)

- Printing and stationery
- Specialist advisory units.

(d) Self-employed Labour

Many organisations now have people working for them who work on a self-employed basis, even if all the work is provided by one source. This is common in life assurance sales functions, where self-employed persons operate as direct sales personnel earning mainly commission.

The "employer" has to take great care to ensure that quality standards are maintained and that the self-employed person does not have any conflicts of interest. Decisions also have to be taken on methods of pay and who provides any equipment or machinery.

(e) Agencies

An organisation can give itself more flexibility by using agency labour. There are many employment agencies, some of which specialise in certain fields of expertise.

There are obvious dangers with quality control, especially when the relationship with the agency is not well established. The turnover of agency personnel is also high, which can result in continuity problems.

(f) Get the Customer to do the Work

Technology now enables companies to deliver services on a DIY basis, e.g.

- Scanning your own goods at supermarkets
- Filling up the car with petrol and paying at the pump by debit or credit card
- Internet shopping.

What time-based methods are there?

(a) Shift Working

Shift working allows the production process to be ongoing so that the factory environment never really shuts down (apart from during holiday periods). It also enables the effective utilisation of employees and machinery.

Different types of shift working systems include:

- ***The Continental System***

Organisations are increasingly moving over to a continental pattern of shift working. It involves employees working a rota such as two mornings followed by two nights followed by two or three rest days. In some companies it means 12 hour shifts on each occasion worked, but it means that employees have "rest days" to catch up on lost sleep, etc. It is a popular option with some companies as it gives employees variety, and also means that staff have more time to spend with their families and on leisure activities.

- ***Three Shift System***

Here employees work a pattern of three shifts: mornings (7 am to 2 pm), afternoons (2 pm to 10 pm) and nights (10 pm to 7 am). When employees work the night shift they usually work four nights (Monday to Thursday inclusive) and go home on Friday morning. Friday nights are left free. As you can imagine the night shift (as well as shift working *per se*) puts enormous psychological and physical stress on individuals.

(b) Flexi-time

Flexi-time gives employees the opportunity to determine when they come in to work and when they go home (within certain parameters). "Core time" is the time when employees are **required** to be at work (usually between 10.00 am and 4.00 pm). For example, if their normal working week is 37 hours individuals can determine the hours they work during each working day, around the core time, as long as the hours at the end of the week add up to 37. Companies usually have a recording mechanism to ensure that employees do not abuse the flexi-system.

(c) Job Share

One full-time job is shared between two employees working on a part-time basis, usually, but not necessarily, dividing the time (and the pay) equally between them. The earnings are also shared. Tasks are also shared equally between jobholders, thus increasing personal flexibility for workers.

This is ideal for individuals who only want to work for a proportion of the normal working week. There is, clearly, a limiting factor in the reaction of many staff who are dependent on income from full-time employment. There may be practical difficulties of liaison between the two part-time staff members in some cases but these can be overcome. Job-sharing is most likely to appeal to staff who have domestic commitments and so prefer part-time work to full-time work, or to older employees who may regard part-time work as a compromise between full-time work and retirement.

Job sharing has become popular partly because of equal opportunities awareness. It provides a format, particularly for women with child care responsibilities, to carry on with their jobs on a specialised part-time basis.

Many organisations are critical of job sharing and believe that it is more expensive to run and harder to manage. However, the evidence seems to be that job sharers work harder and better because they are doing what they want to do and are more motivated.

Job sharing can be an effective tool to keep staff who might leave because they cannot or will not work full time any more and can work well for both employer and employees provided both employees are happy with the continuation of the arrangement. Difficulties can arise if one employee leaves or wishes to work full time.

(d) Annualised Hours

An annual hours contract requires the employee to supply a given number of hours of labour over a 12 month period. It is usual to have arrangements to review quarterly or half yearly, to take account of changes in the organisation. Within the agreement the actual hours worked can vary from week to week and month to month. For example, the length of the working day can be varied up to, say, 9 hours a day in a period of peak demand. The extra hours worked in the busy period can be compensated by shorter days in the quieter period, or by aggregating the hours into blocks of time off.

From this example you can see that annualised hours is a good strategy for organisations that have a demand for labour that is predictable but not regular. Annualised hours contracts were first developed in the pulp and paper industries in Sweden and Finland. They allowed people to work more hours in the busy times and less at off-peak periods, without the organisation having to employ more staff on temporary contracts or pay large overtime payments. They are also highly relevant when employing parents who wish to manage their time around school hours and holidays.

Annualised hours contracts are gaining popularity with employees and employers, although there is a suggestion that administratively they are more complicated to manage. The introduction of annualised hours can often be part of a change in

management strategy where the objective is to alter working practices to reduce costs, increase flexibility and introduce new cultures.

The **benefits** of annualised hours include:

- A reduction in overtime worked
- Lower labour costs
- Reduced absenteeism
- Greater flexibility
- Increased productivity.

The **disadvantages** include:

- Reluctance to work "pay back" hours
- Difficulties in organising shift cover
- The complexity of planning shift rotas
- Problems in scheduling holidays.

What location-based methods are there?

(a) Teleworking

Teleworking is working at a distance from one's employer, either at home, on the road, or at a locally based centre. Teleworkers use e-mail, mobile phones and faxes to keep in contact with their employers or customers. They can be supported, virtually, by video and audio conferencing and Internet meetings and also by fast delivery services for other materials.

It has been the advance of this modern technology that has made it feasible for many people to carry out their jobs without working from an office. For example, a large insurance company in Surrey reorganised its sales structure and closed many of its regional offices after it found that it was far cheaper to set up individuals with the technology required to work from home than to run expensive offices in large cities. Many organisations are following suit, including the Nationwide Building Society, Lloyds/TSB, Scottish Widows, the Co-operative Bank and the Britannia Building Society.

Certain types of work lend themselves more easily to teleworking e.g. data processing, sales reps, and clerical work, whilst other jobs are better carried out at head office. Equally, teleworking is not right for everybody. Teleworkers have to be disciplined and organised to ensure that the work is completed; they must also be content to work mostly alone at home.

It is also important to consider the office staff with whom the teleworker has to liaise. They need to be sensitive to the fact that the teleworker may only be in the office occasionally and that if they need to see them, they must organise themselves to see them that day. They, too, need to be organised and disciplined in the way they work.

In some organisations teleworkers are retained as staff, whilst in others they work freelance, which means having to run their own organisation, control budgets, etc., which does not suit everyone. For the employer it can be a benefit to employ someone as a freelance contractor rather than a full member of staff. Staff benefits (e.g. pension contributions) do not have to be paid; the employer does not need to worry about National Insurance contributions or tax, as the contractor will handle these.

The contractors can be employed on a series of short-term contracts rather than earning employment rights as employees. They can be employed just while there is

work available and then re-employed when there is a further demand, whilst employees will continue to be employed even through slack periods of work.

The **advantages** of teleworking include:

- A substantial increase in productivity, generally because of the flexibility the employee has to work when and where they want, without being confined to the 9.00 am to 5.00 pm restrictions
- No travelling to work; no time wasted waiting for trains or in traffic jams, and no money spent on commuting
- A considerable reduction in office overheads.

The **disadvantages** of teleworking include:

- Some organisations are concerned about the security of confidential and sensitive material
- Technical support has to be organised for the maintenance of complex equipment
- The training of staff has to be organised at a remote facility, or by recalling staff to the head office
- The difficulty that some people have to maintain the self-discipline and motivation required to work on their own
- Lack of face-to-face contact with fellow workers.

(b) Hot Desking

Many organisations have staff whose jobs involve them being out of the office for a significant amount of their working time, attending site visits, visiting clients/customers, etc. Alternatively, companies may employ consultants or support staff who only come into the office occasionally but have their own desk available to them permanently.

To save accommodation space and the associated costs, hot desking is a working system that has been introduced in some companies. No longer does each employee have their own desk/workstation, with drawers filled with their personal belongings; the desk is "depersonalised" and available to be used by anyone coming into the office, usually on a pre-booked basis. Hot desking means that a smaller space produces the same or better output than before. Savings that result from reduced accommodation can be significant for organisations but some staff do feel that they no longer have the security and stability of their own desk in the office and that they lose personal involvement with their work colleagues. Because of the developments that have taken place in communications technology, when they are not hot desking the staff can work from home, the train if they are travelling long distances and even from their car, if necessary.

(c) Home Working

Home working affords individuals the same benefits as teleworking without the network of support and the same need for communications. It is essentially used by freelance or self-employed workers who can carry out their entire business from home, or at least from a home base. Typical home workers are market researchers; graphic artists; editors; mobile hairdressers; financial consultants etc.

H. HOW DO WE TAKE A STRATEGIC APPROACH TO STAFF RETENTION?

Retention Strategies

Keeping staff, in whom the organisation has invested (training, etc) is an important aspect of human resource management. Identifying why people remain with the organisation can be established through attitude surveys and focus groups. Ideally, attitude surveys should be analysed both in terms of responses of different age groups and also by responses according to gender.

Many companies try to establish why people leave by conducting exit interviews but these are rarely sufficiently accurate, as many people will not give the full reason why they are leaving for fear of jeopardising future reference requirements or because they may wish to return to the company at some later stage in their career, particularly in rural areas.

The retention plan should address each of the main areas in which dissatisfaction can arise. Armstrong identifies the following:

- **Pay**

Uncompetitive, inequitable or unfair pay systems are frequently cited as causes of dissatisfaction. Possible actions include:

- (i) Reviewing pay levels on the basis of market surveys
- (ii) Introducing job evaluation or improving an existing scheme to provide for equitable grading decisions
- (iii) Ensuring that employees understand the link between performance and reward
- (iv) Reviewing performance-related pay schemes to ensure that they operate fairly
- (v) Adapting payment-by-results systems to ensure that employees are not penalised when they are engaged on short runs
- (vi) Tailoring benefits to individual requirements and preferences
- (vii) Involving employees in developing and operating job evaluation and performance-related pay schemes.

- **Job Design**

Dissatisfaction may be caused by jobs that are unrewarding in themselves. Jobs should be designed to maximise skill variety, task significance, autonomy and feedback and they should provide opportunities for learning and growth.

- **Performance**

Performance assessments must be fair and the standards against which employees are to be measured must be clear. The following actions might be taken:

- (i) Performance targets must be expressed as specific, measurable, attainable and realistic
- (ii) Targets and goals should be agreed, as should the actions needed to attain them, rather than imposed from above
- (iii) Managers should be trained and encouraged to provide regular feedback, especially positive feedback, so that problems are not kept just for an annual performance review
- (iv) Managers must be trained in performance review techniques such as counselling.

- **Training**

It is important to ensure that new employees are given adequate induction training. Research suggests that new recruits go through a period of 'induction crisis' if they are not given adequate training when they join the organisation and may leave. Similarly, all employees who are inadequately trained for the demands made upon them (or who feel they are inadequately trained) may be dissatisfied or leave.

Armstrong suggests that learning programmes and training schemes should be developed and introduced which:

- (i) Give employees the competence and confidence to achieve expected performance standards
- (ii) Enhance existing skills and competences
- (iii) Help people to acquire new skills and competences so that they can make better use of their abilities, take on greater responsibilities, undertake a greater variety of tasks and earn more under skill and competence-based pay schemes
- (iv) Ensure that new employees quickly acquire and learn the basic skills and knowledge needed to make a good start in their jobs
- (v) Increase employability inside and outside the organisation.

- **Career Development**

One of the most commonly expressed reasons for leaving an organisation, certainly by younger members of staff, is dissatisfaction with career prospects. To a certain extent this is unavoidable and some organisations view it as healthy, as employees move on to gain experience and skills elsewhere, allowing new employees to bring new ideas and skills into the company. Even so, there is still a place within most organisations for a stable core workforce. It is important that those who do not wish to have advancement do not feel obliged to seek it but Armstrong notes that career opportunities can be provided by:

- (i) Providing employees with wider experience, perhaps by offering secondments or experience of projects or project management
- (ii) Introducing more systematic procedures for identifying potential, such as assessment or development centres
- (iii) Encouraging promotion from within
- (iv) Developing more equitable promotion procedures
- (v) Providing advice and guidance on career paths.

- **Commitment**

We identified the high-commitment management model earlier in Study Unit 3 but here we are concerned primarily with how low levels of commitment amongst employees can lead to a high turnover of staff. Commitment can be increased by:

- (i) Operating clear communication systems so that all staff know the organisation's mission, values and objectives and have an opportunity to discuss them and put forward their own ideas
- (ii) Using open methods of communication, such as briefings and ensuring information is passed on expediently
- (iii) Providing opportunities for employees to take part in the process of managing the operation through mechanisms such as suggestion schemes, focus groups, etc
- (iv) Ensuring employees are consulted about changes that are likely to affect them

- (v) A team working or group approach can also help to generate or improve commitment.

- **Dissatisfaction with Supervision**

Dissatisfaction with supervision or leadership generally, or specific conflict with individual leaders/managers can result in employees choosing to leave. Some of these problems can be avoided by:

- (i) Using appropriate recruitment and selection techniques for managers and supervisors, so that those displaying appropriate behaviours are selected
- (ii) Providing training for managers and supervisors in interpersonal skills, conflict resolution, negotiation, etc
- (iii) Designing appropriate discipline and grievance procedures that are fair and fairly applied and ensuring that all people are properly trained in their application.

- **Recruitment and Selection**

A high turnover of staff can be an indication of ineffective recruitment and selection practices. Inappropriate selection criteria or an inability to match a candidate's capabilities with the requirements of the job can lead to a rapid turnover. Similarly, creating expectations about a job or promotion that cannot be fulfilled, will lead to dissatisfaction.

If you have changed jobs in the past, why did you do so? If you were dissatisfied with the job in some way, what could your employer have done to respond to this dissatisfaction? Can you identify any initiatives within your current employer that are aimed at retaining staff? How effective are these initiatives?

I. HOW DO WE TAKE A STRATEGIC APPROACH TO PERFORMANCE MANAGEMENT?

What is performance management?

"How I get my people to do what I want them to do, in the way I want them to do it!"

Yes, but how do you do this?

Organisations that take performance management seriously manage a range of different but inter-related topics:

- Mission (what your unit is trying to achieve)
- Vision (what things might look like if yours really was a quality outfit)
- Strategy (a long term sense of direction)
- Business plans (more immediate targets and plans for reaching them)
- Values (how people should and should not behave)
- Culture in which improving performance is valued and developed
- Monitoring of performance – at individual, unit and Guild levels
- Feedback of that monitoring to staff
- Clear goals
- A set of competencies (to describe what good performance looks like)
- Appraisal discussions

- Personal development (anything that would help people perform better: off the job training, coaching, reading, 'sitting with Nellie' etc)
- Management development
- Good job design (creating jobs that satisfy)
- Team working (interaction and mutual responsibility)
- Extrinsic reward and recognition (basic pay, performance pay, awards, saying 'well done')
- Intrinsic rewards (the satisfaction from doing a worthwhile job reasonably well)
- Effective remedies for under performers.

Isn't each of these a subject on its own?

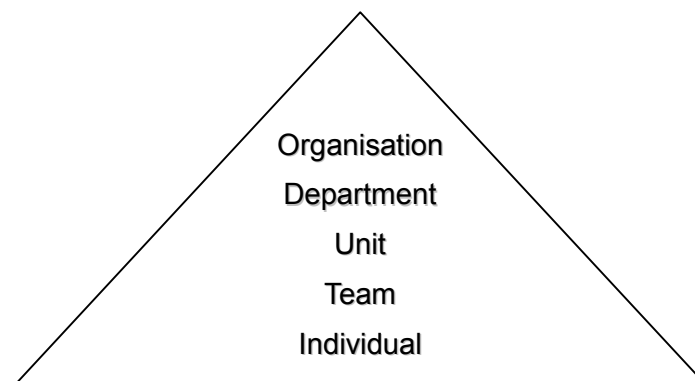
Yes and many of them are therefore dealt with elsewhere in this study guide. The beauty of performance management is that it is a way of uniting a wide array of seemingly unrelated topics so that you can deal with them in a coordinated fashion. This is integration.

Is there a connection between performance management and leadership?

They are very closely linked. Performance management deals with the more tangible aspects of getting the best out of your people: systems; techniques; team working; structures etc. It concentrates on the ways to organise your people. It is about management. Leadership concentrates on the inter-personal dynamics of your relationships with individuals and groups. Clearly the two intertwine.

Do we performance manage only individual employees?

No. Performance management must take place at several levels:



That means that there ought to be vertical integration. For example, an organisational objective to become greener might translate into a departmental plan to reduce transport miles by x%, a unit plan to reduce their transport miles by an equivalent proportion, a team initiative to car share and an individual plan to reduce unaccompanied car miles by y%. Likewise an organisational goal to penetrate new markets in the China might cascade to an individual as a development plan to learn to converse in Chinese.

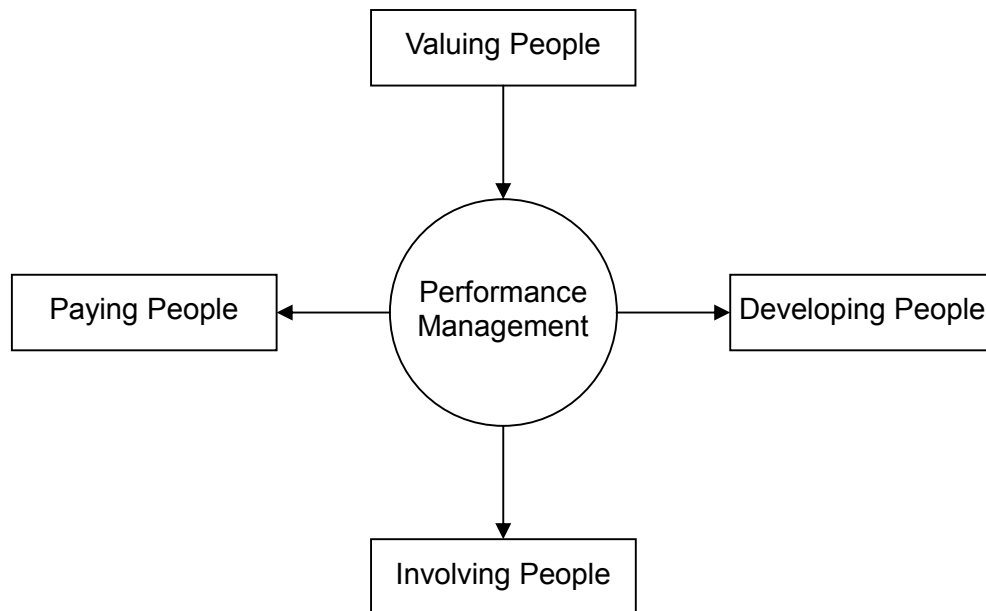
'Performance' is a term which we can apply to all aspects of the business, not just to the people within it and performance management techniques can be used across the spectrum of business systems. Here, we are concerned with the performance of people, whether individually or in teams.

Managing the performance of people is concerned with improving organisational effectiveness on an individual and/or team basis. Performance appraisals are an important

part of that process but are not the only aspect. Managing performance involves monitoring how the organisation/team/individual is actually performing and measuring this against how it/they should be performing, identifying any gaps between planned and actual performance and putting in place action plans to deal with any detected deficiency.

Performance management, therefore, has an important role to play in employee development as it forms the basis for identifying training and development needs, so that activities can be focused on meeting those needs. Armstrong shows the role of performance management in a simple diagram which demonstrates the integrating role of performance management:

Performance Management as a Focal Point for the Integration of HR Activities



Source: Armstrong, *Strategic Human Resource Management: A Guide to Action*

Performance Measurement Techniques

When considering individual performance monitoring and review or measurement techniques, we have a tendency to think simply of performance appraisals. However, although appraisals have an important role to play, which we will look at further later, it is important not to think of appraisals as the only approach to measuring performance. The modern approach is to take a more holistic view of measuring performance by considering a range of techniques used together.

One attempt at formalising this approach is through the **balanced scorecard approach** first identified by Kaplan and Norton in Harvard Business Review in January 1996. This technique involves reviewing the business from four main perspectives:

- **The customer perspective**, which seeks to identify the key elements of the organisation's performance through the eyes of its customers. It identifies what customers expect from the business, sets objectives to meet those expectations and measures performance against these objectives.
- **Internal business perspective**, which identifies the business processes and technologies which are critical to success, such as manufacturing capability, quality etc. and sets objectives based upon these critical success factors.

- **Financial perspective**, which considers factors of relevance to the financial health of the business and to providers of finance, such as shareholders. Objectives are again set to reflect these factors.
- **Innovation and learning perspective**, which addresses the question "how do we continue to grow and improve" and therefore, considers the future needs of the business. Measurements here might be associated with factors such as staff morale, emotional intelligence, information sharing etc.

The balanced scorecard approach provides an approach towards the management of individual and team performance by measuring and valuing qualitative factors such as creativity, learning and flexibility rather than the traditional quantitative methods of measuring individual output, for example.

The Role of Appraisals

You will have studied performance appraisal systems in your studies for Human Resource Management so should be familiar with the different forms of appraisal systems and how they can be operated. If you cannot recall the main basic formats for appraisal systems, you should review that part of the course now.

Performance appraisals have an important role to play in performance management as they provide an opportunity for both measuring and providing feedback on individual performance. They provide an opportunity for praise and recognition, which plays an important role in motivation. They have an essential role to play in employee development, as they provide the basis for identifying training and development needs. We have also mentioned, several times throughout this subject area, the role of appraisals in reinforcing desired performance by measuring and ultimately rewarding, those attributes, behaviours and skills. In view of this pivotal role in performance management, it is perhaps surprising that appraisal systems in the United Kingdom seem to be poorly perceived and operated and frequently fail to deliver the benefits they should. In fact, Tom Peters, in *Thriving on Chaos* in 1989, referred to appraisals as "downright dangerous"!

Appraisals fail because:

- They are poorly designed. This is probably the most common problem with appraisal systems, particularly prevalent where the system has been based upon another company's system or some 'model' rather than designed for the organisation itself. It is absolutely vital that the factors that are being assessed are relevant to the business and more specifically, relevant to the business strategy. For example, if the organisation aims to increase diversity, appraisal systems should be designed so that initiatives to encourage diversity are a factor which is assessed and therefore discussed during the appraisal.

Another common design fault is that appraisals become too backward looking. There is little point concentrating on last year's disasters (or successes) other than to learn lessons from them to apply in the future. Even so, a feature that is commonly missed from appraisals is target setting for the future. In well designed systems, 90% of the appraisal concentrates on future needs and goals rather than past events.

- They are poorly operated. To operate effectively, appraisers and appraisees must be trained how to use the system. Training should include interview and listening skills, giving and receiving feedback and counselling, as well as the basic operation of the system. A well designed system will fail if the individuals involved are not committed to its success or ill equipped to apply it. Furthermore, appraisals must be conducted in an atmosphere of trust.
- They are poorly communicated. Lack of understanding of the role and purpose of appraisals can result in appraisals being perceived as nothing more than a paper system.

A Strategic Approach to Performance Management

A strategic approach to performance management aims to provide the means through which better results can be obtained from the organisation, teams and individuals. Performance management strategy, therefore, is concerned with four main elements:

- Improving performance
- Employee development
- Satisfying the needs of *all* stakeholders – employees, managers, customers, shareholders, suppliers, the general public, etc
- Communication and involvement.

Study Unit 8

The Strategic Approach to Learning and Development

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Objectives

The aim of this unit is to critically evaluate strategies for people training, learning and development which maximise the skills and contribution of people.

When you have completed this study unit you will be able to:

- Describe and explain strategies for induction, training/learning and development
- Describe and explain strategies for creating the learning organisation through self-managed learning, the promotion of 'intellectual capital' and knowledge management
- Describe and explain strategies for performance review (as a tool for individual and organisational development)
- Describe and explain strategies for management development.

A. INTRODUCTION

The traditional view of employee development was very much that it was an expense or cost. In times of financial hardship, training and in particular employee development, was always the first item to be cut from the budget. Training to ensure employees could undertake specific tasks was somewhat more acceptable but it was and is difficult to demonstrate the link between employee development and organisational performance.

In many organisations this traditional view of training and development is being challenged. The tendency, now, is to refer to employee development as an 'investment' rather than an 'expense'. This change is probably due, in part, to changes in the labour market, both internally and externally and also because of changes in the perception of people as a resource. Attitudes towards diversity are also relevant. These factors, government initiatives and external support for employee development, have led to a greater emphasis on training and development at a strategic level. Our early model of human resource management, devised by Fombrun, Tichy and Devanna, in Study Unit 1, attempted to show the relationship between human resource development and organisational performance and other human resource management activities.

Throughout this subject area, we have stressed the dynamic nature of the environment in which organisations operate and how this inevitably leads to change, if the organisation is to survive. Change requires an investment in training and development and successful change requires a culture that recognises and values development. From a slow start, this is increasingly being recognised by both large and small organisations in the United Kingdom. The concept of the learning organisation (outlined in Study Unit 3) is the ultimate evidence of this change in attitude towards employee development.

In this study unit, we will look at strategies for ensuring employees' skills remain relevant to the changing demands of work and that motivation and effective performance are maintained. We shall:

- Discuss the role of employee development strategies in the achievement of organisational purposes and in the context of the modern commercial and cultural environment
- Identify appropriate strategies for developing staff and improving/maintaining employee motivation and performance
- Evaluate the investment of resources in employee development activities.

B. HOW DO WE TAKE A STRATEGIC APPROACH TO STAFF INDUCTION?

Induction can be defined as:

A planned and systematic process, structured and implemented by the organisation, to help new employees settle into their new jobs quickly, happily and effectively.

The term 'induction' is generally used to describe the whole process whereby employees adjust or acclimatise to their jobs and working environment.

Orientation	Socialisation
Specific course or training event that new starters attend.	The ways in which new employees build up working relationships and find roles for themselves within their new teams.

Source: Stephen Taylor, People Resourcing, CIPD, 2005

To take a strategic approach to induction, it must be seen as an integral part of the organisation's performance management processes. Induction is the employees' entrance porch into the culture and systems of the new organisation. It must integrate vertically by imparting understanding and acceptance of the organisation's mission, values and business plans. It must also integrate horizontally by enmeshing with other hard HR processes such as health and safety, objective setting, reward, learning and development and particularly appraisal. It must also integrate horizontally with the softer systems, for example the psychological contract.

One of the key ways to create a strategic approach to induction is to use it to establish good practices in employee learning and development.

Those involved in planning induction must decide:

- **Policy:** How flexible the system must be to accommodate the range of different employees that will join. (It is usually helpful to design a process that gives maximum control to the new member of staff, because they can then tailor it to their needs)
- **Training needs analysing:** What knowledge, skills and attitudes a new member of staff requires (each person will be slightly different)
- **Design:** How the new employee can effectively acquire the required knowledge, skills and attitudes
- **Delivery:** Who is to be responsible for the learning and how they can be required and enabled to carry out their induction role effectively
- **Evaluation:** How the learning will be reviewed and further learning identified and fulfilled.

The horizontal integration of induction means that it leads on to other HR processes:

Area	Topic	Following start at induction
Resourcing	Selection Appraisal	Probationary reviews that confirm the selection decision Work and developmental objective Formal and informal reviews with manager
Development	Competency framework Continuing professional development Talent management/ management development/ fast tracking	Assessing and learning to meet competencies Lifelong self managed learning Induction will be first part of processes
Reward	Contingent pay	Awareness of standards and systems
Relations	Compliance e.g. health and safety Employee involvement/ engagement/commitment/ positive psychological contract Conduct	Awareness of standards and systems Getting staff over the induction crisis and promoting positive relationship with employer Awareness of standards and systems Awareness of standards and systems. Where probation reveals incapability or conduct issues it will lead into disciplinary action.

Case Study 1

HM Courts Service (HMCS) in the UK says the following to all new staff

You can expect your Induction Programme to include:

- A positive welcome to the office and the team
- Information about HMCS (National and Regional)
- Clear messages about HMCS culture and current initiatives
- A clear Induction plan
- A timetable of Induction events which is flexible to meet your needs and meets Induction targets
- Information about Policies, Procedures and administrative systems
- Information about Performance Management Systems (appraisal), including objectives and competencies
- Early opportunities to meet colleagues, mentors, buddies etc
- Visits to Courts or other relevant visits to build Regional knowledge
- A clear understanding of role and responsibilities (job description, initial objectives and supporting competencies (where appropriate))
- Time to read and reflect
- An Induction Programme that meets individual learning styles (activist, pragmatist, theorist, reflector)
- A clear conclusion to the Induction Process and an opportunity to evaluate its effectiveness.

C. HOW DO WE TAKE A STRATEGIC APPROACH TO TRAINING AND DEVELOPMENT?

The phrases 'training' and 'development' are often used by organisations to mean the same thing but is there a difference between the two?

Traditionally, the term 'training' has been used to identify a process whereby a person acquires the necessary skills to carry out a job or task. In an industrial setting, for example, a machine operator would be 'trained' to operate the machine. This training would include all the essential sequence of events to ensure the machine operates to the standard or output required and would also ensure that the operator is able to use the equipment safely. Some basic maintenance procedures might also be included.

In the past 'development' was a term more usually applied to managers (hence the term 'management development') and tends to refer to a more holistic approach to ensuring the manager is able to carry out their role, now and in the future. Development is less concerned with physical skills and more concerned with the knowledge, values, attitudes and behaviour in addition to specific skills. Development is a continuous process whereas training has a specific objective which, once achieved, is considered completed.

Training, in the traditional sense, is still very much a part of modern commercial and industrial life but more and more organisations are realising that training alone is insufficient

to meet the needs of the organisation, or indeed the expectations of workers. In the modern dynamic environment, companies need workers who are able to look to the future and are comfortable with change. Fostering an environment where constant improvement (and self-improvement) is considered the norm can facilitate the process of change. Thus developing, rather than just training employees (not just managers) is now recognised as the way to deliver real business benefits.

Furthermore, workers now view development as a 'benefit' of considerable value. Organisations that are able to offer development opportunities are able to attract better quality candidates, so human resource development becomes an integral part of employee resourcing strategies and indeed an integral part of human resource management strategies. Human resource development (as it is called) is seen by many organisations as the triggering mechanism for the progression of other human resource management policies.

Attitudes towards Training and Development

As we have already seen, traditional attitudes towards training and development view training as an expense to be suffered rather than an investment. There is a great deal of literature and evidence to show the main disadvantages of taking this approach:

- Where a traditional view of training is prevalent, the emphasis is on training to bring employees up to the desired level of competence but no further, often as cheaply as possible. The organisation becomes adept at maintaining the status quo but is not able to effect change when it is needed or to react to changes in circumstances. Sometimes the rationale for this approach is that new skills can be purchased. Where skills are readily available this is a realistic strategy but if not, the organisation will be restricted in its own development.
- If no direct relationship between the cost of training and increase in productivity or performance can be demonstrated, the tendency is to cut the cost of the training. The long term effects of this accounting based approach to justifying training are a lowering of skill standards generally and a de-skilling of the workforce. There is clear evidence that multinationals and overseas investors are currently encountering the results of this approach.

Partly as a result of difficulties of low skill levels in the UK, there have been a number of government initiatives to raise awareness of the benefits of training and development. Probably the best known of these initiatives is the Investors in People (IIP) scheme, which was launched in 1991. IIP requires organisations to develop business plans that include plans to develop all employees and evaluate the results. Achieving the standards for IIP does require considerable effort and investment on the part of the organisation. The organisation is required to:

- Make a public commitment from the top to develop all employees to achieve the organisation's business objectives
- Regularly review the training and development needs of all employees
- Take action to train and develop individuals on recruitment and throughout their employment
- Evaluate the investment in training and development to assess achievement and improve effectiveness.

Organisations are also encouraged to develop their own solutions and methods but to use the national standards as benchmarks against which to evaluate their achievements.

The Strategic Role of Human Resource Development

Strategic human resource development is concerned with the development of a learning organisation and the provision of learning, development and training opportunities to improve individual, team and organisational performance. It takes a broad and long term view about how human resource development strategies can support the achievement of business strategies. Thus, human resource development strategies flow from business strategies. Torrington and Hall noted that, where organisations take a strategic view of development, they see it as a means of implementing business strategy, which means that there is an emphasis on identifying development needs from an organisational perspective rather than, but not at the expense of, individually identified development needs.

You will have studied the basic format for assessing training needs in your studies for Human Resource Management. If you cannot remember how to perform a training needs assessment, you should revise that section now.

Identifying development needs for an organisation can be carried out using the same process but on an organisational basis rather than an individual one. If you refer back to the case study in Pindar Set in the previous study unit, you will see that the management at Pindar Set used the organisation's objectives and strategic plan to identify what change was required in order to achieve those objectives. This review resulted in identifying a key role for team leaders and from this came the recognition that a development programme was required for these key employees.

Adopting a strategic approach to development means that a consistent approach to assessment and development is generated. Some organisations have created development centres, similar to assessment centres, where individual development plans are drawn up for each participant related to their current levels of competence and potential career moves and key competencies required by the organisation.

Integrating Human Resource Development Strategies with other Human Resource Strategies

As we have already noted, development opportunities are valued by employees and prospective employees, so human resource development strategies can have a large impact on recruitment and retention strategies. Torrington and Hall point out that sometimes this impact is not always positive. If development opportunities are selectively offered, it can have the reverse of the intended impact.

Not all employees see the need for, or value of, development and this means that the organisation's reward systems need to be supportive of the development strategy. If employees need to learn new skills or become multi-skilled, skills development needs to be rewarded rather than rewards for the job currently undertaken.

Promotions and career moves also need to reflect the development strategy by providing career pathways if the strategy is to encourage a multi-functional, creative perspective in the development of future general management. Not only do the pathways have to be available, they also have to be used and this means encouraging managers to use them for their staff.

Human resource development strategies have an impact on and are influenced by diversity strategies. In the past, organisations with an apparently good track record for training and development were highly restrictive in the extent to which training and development was available to all employees. Typically, training and development would be offered to a very limited group (say young and generally male employees).

Example

Until quite recently, one high street supermarket offered staff the opportunity to gain an NVQ in retailing by providing full support. However, only staff under the age of 25 were offered this opportunity. It is difficult to justify such an arbitrary restriction on access to training and development.

Such attitudes are more commonly found where the organisation subscribes to the 'expense' approach to training and development. Similar evidence exists where quite inventive barriers were employed to restrict training opportunities to selected, usually male, employees. Holding courses at times when those with family responsibilities would be unable to attend is a commonly quoted example.

It is important that development strategies and techniques reflect the diversity strategies employed by the organisation. This might mean employing differing training techniques, providing specialist equipment or providing greater flexibility in the methods used.

Finally, an organisation needs to reinforce the skills and competencies that it wishes to develop by appraising those skills and competencies rather than something else. Developmentally based appraisal systems can be of use here. We will look at these further later in this study unit.

Components of Strategic Human Resource Development

The main aim of strategic human resource development is to produce a coherent and comprehensive framework for developing people. Development activities may include traditional training programmes but many writers argue that the emphasis should be much more on developing intellectual capital and promoting organisational, team and individual learning. There should also be a planned approach to the encouragement of self-development (sometimes called self-managed learning) with appropriate support and guidance from the organisation. The importance of increasing employability, particularly with the growth of the 'professional' organisation, with its core of key personnel and periphery of flexible staff, is also considered a key issue.

Armstrong suggests that the main components of strategic human resource development should be aimed at:

- The development of individual learning strategies
- The development of organisational learning and the learning organisation
- Knowledge management
- The development of intellectual capital
- Developing managers
- The development of emotional intelligence
- The development of strategic capability.

We will now look at these in a little more detail.

Individual Learning Strategies

The starting point for developing individual learning strategies should be the sort of skills and behaviours that will be required to achieve business goals. The strategy should cover:

- How learning needs will be identified (perhaps through appraisal systems or through assessment via development centres)

- The role of personal development planning and self managed learning
- The support that should be provided for individual learning. Typically, organisations might offer all or some of the following:
 - (i) Guidance
 - (ii) Coaching
 - (iii) Learning resource centres
 - (iv) Mentoring
 - (v) Internal courses designed to meet the needs of groups of employees
 - (vi) External courses designed to meet the needs of the individual.

Organisational Learning Strategies

An organisational learning strategy aims to develop the organisation by using the knowledge, skills and experience of the workforce for the benefit of all employees and importantly, the organisation as a whole.

The process of organisational learning is the basis for the concept of the learning organisation, which we described briefly in Study Unit 3. Pedler, Burgoyne and Boydell identify the following as characteristics of a learning organisation:

- **Learning Approach to Strategy**

The organisational development process (or strategic process) must be designed as a learning process. There must be opportunities for experimentation and feedback mechanisms must be built in. An environment where mistakes are valued rather than criticised is a clear requirement for such an approach.

- **Learning Climate**

This describes how the function of management changes to that of supporting rather than controlling or leading and encourages the direct involvement of all workers in a more participative style of management. For example, if there is a problem with the distribution process, those most knowledgeable about that process are likely to be those actually operating it. By actively seeking and encouraging participation from those people by providing support, problems can be quickly and accurately identified and solved.

- **Self Development**

Training and development has a high priority in a learning organisation, as it increases the flow of information and ideas and develops the skills that can make use of them. In Motorola, for example, senior executives take part in a mentoring scheme that involves mentoring younger managers, particularly in less developed areas of the world. In effect, the senior managers are being used as role models to educate young managers and pass on their experience and knowledge to the next generation of managers.

- **Inter-company Learning**

Inter-company learning involves looking at best practice within the industry generally and adopting and developing techniques and systems for use within the organisation.

Case Study 2

Motorola University discovered as part of a study in South Africa that one organisation was able to explore difficult ideas and concepts with students through the use of theatre and drama. This concept was developed and used to good effect in the Philippines where national cultural effects made it difficult to encourage workers to offer constructive criticism (as culture within the Philippines promotes a deferential attitude towards those senior or older). By using theatre and drama, workers are encouraged to exchange their views in an environment that is deliberately outside the normal working environment and where, therefore, workers feel they can talk freely.

- **Informatting**

Pedler, Burgoyne and Boydell use this term to describe the use of information as a resource rather than a control mechanism. This is sometimes referred to as knowledge management and is discussed further, below.

- **Enabling Structures**

This concept views organisational structures as temporary rather than fixed; able to change and respond to changed conditions and exploit opportunities.

- **Environmental Scanning**

In a learning organisation, monitoring opportunities within the environment is not just the role of a specialist department but is encouraged throughout the organisation. Thus, if one department deals with a particular internal or external customer, any opportunity to develop that opportunity elsewhere within the organisation is identified and passed on to the appropriate department.

- **Participative Policy Making**

You may be more familiar with this idea under the heading of stakeholder influence. In effect, all those with an interest in the organisation (the term 'interest' being widely defined) should have a right to participate in the policy setting of the organisation.

- **Reward Flexibility**

In a learning organisation there is a flexible and open approach to reward systems. Changing the rewards offered to participants (workers) and making the rationale behind the reward system open, the balance of power within the organisation shifts away from salary as an indicator of power.

Motorola recognised that, to become a learning organisation, they needed to encourage:

- A systematic problem solving by adopting a scientific approach to diagnose and resolve problems
- Experimentation by looking for innovative approaches to problem solving
- Learning from past experiences by conducting post incident reviews and encouraging reflection, not as a means of allocating blame or bouquets but with the intention of identifying the success or failure factors from which to learn
- Learning from others by looking at best practice and using benchmarking and by exploring learning opportunities offered by customers, suppliers etc
- Disseminating knowledge throughout the organisation through education and training programmes and a shared approach to information.

All of these factors suggest a fundamental change in the way the organisation is structured; its culture and its processes. Not an easy task! Those organisations that have made a success of it have done so by ensuring that their human resource strategies clearly support its ideals. A team based structure that supports and encourages communication, rewards initiative and offers training to use and adapt learning are usual features.

A learning organisation strategy will be based on the belief that learning is a continuous process rather than a set of discrete training activities.

Knowledge Management

We noted above that knowledge management (referred to by Pedler as 'informatting') is a key feature of the learning organisation.

Knowledge management involves transforming knowledge resources by identifying relevant information and then sharing it so that learning can take place. The aim is to unlock the flow of knowledge and then make it flow faster in the direction of individual learners and away from the organisation. Knowledge management strategies, therefore, promote the sharing of knowledge by linking people with information so that they learn from other experiences.

Traditional methods of sharing knowledge include meetings; workshops; courses; written publications, videos and tapes. The intranet provides an additional and very effective method for communicating information.

The Development of Intellectual Capital

Intellectual capital consists of the intangible assets an organisation possesses, such as brands; loyalty; corporate expertise; accumulated knowledge; trade secrets; systems and methodologies; know-how; capability, skills, etc. Organisations can identify intellectual capital by means of techniques such as a position audit.

Mayo, talking at the 1998 CIPD annual conference, drew up a balance sheet of human capital (shown below) and went on to explain that any strategy for developing intellectual capital needed to concentrate on promoting the asset side of the balance sheet and minimising the liabilities.

The Balance Sheet of Human Capital

Examples of assets	Examples of liabilities
● Continuous learning ● Up-to-date expertise ● Continuity of teams ● Shared accessible knowledge ● Mistakes shared/learnt from ● Extensive collaboration ● Low loss rate of talent ● Cross-boundary careers ● Open and customer-focused ● Flexible organisation	● Spasmodic training ● Out-of-date experience ● Constant instability ● Knowledge localised ● Blame culture ● Insularity ● High staff turnover ● 'Silo' progression ● Consumed with internal issues ● Rigid hierarchy

Source: Armstrong, Strategic Human Resource Management: A Guide to Action

D. HOW DO WE CREATE A LEARNING ORGANISATION?

The idea of a learning or thinking organisation was put forward by the management expert Senge but has been given wider application by other experts.

Senge argues that organisations should have the sort of culture that allows them to shape their own futures to a far greater degree than has been the case in the past. Organisations must be constantly improving their performance and to do this, both management and employees must be actively seeking ways in which they can improve performance. They must not be content to be "just doing their job".

Pedler summarises a wide ranging approach by defining a learning organisation as one that **facilitates learning of all its members and continuously transforms itself**. Pedler draws attention to the fact that a learning organisation is more than the sum of the learning individuals who work in it, crucial though those individuals are. A learning organisation must have a culture and a structure suitable for learning to take place.

Learning organisations, then, bring together ideas of culture, structure and leadership. The idea of learning organisations is a logical follow-up to organic theories that compare organisations with human bodies. Organisations are made up of functioning parts that should act in harmony. They adapt to and can influence their environments. Learning theorists go one step further by talking about listening and learning organisations. Learning assists organisations to survive and develop.

Aspects of a Learning Organisation

- The culture of a learning organisation should be liberating for those who work in it. Employees should be **empowered**; they should be involved in decision making, there should be **bottom-up** contributions to the development of the organisation.
- Excellence theorists like Peters emphasise the importance of encouraging staff not to be afraid to make mistakes. There should not be a culture of blame. The emphasis is on **continuous experiment and improvement**.
- Another approach to culture is the suggestion to view and treat **employees as customers**. The root of this idea is found in stakeholder theory that sees customers as the dominant stakeholder; the learning approach brings employees to the centre of attention, they should be encouraged to learn from their work.
- Learning theorists argue that a **flat structure** making use of **multifunctional teams linked by efficient IT and open communications** is conducive for organisations to learn. Many of the ideas of excellence theorists on flat, flexible structures can be used to guide a learning structure. The culture and structure of learning organisations are quite different from those of tall, bureaucratic, authoritarian organisations.
- Leadership should be democratic/participative; sharing a vision of the way forward. Leaders should set an example of risk taking and learning from mistakes. Leaders should be enablers, helping staff to learn and develop.

To create a learning organisation, management must recognise the need for change. The areas where change may be needed are: leadership; structure; culture, empowerment of employees and an obsession with improving quality.

Criticisms of the Concept

Despite the popularity of the learning organisation concept, there are critics of this approach. From the outset there have been problems with defining a learning organisation. Some definitions focus on individuals learning how to learn, while others emphasise the culture and structure of the organisation.

Perhaps the most frequently voiced criticism is that managers only pay lip service to the concept of a learning organisation; they make only cosmetic changes, e.g. they introduce carefully controlled organisational development (OD) schemes.

Radical critics, like R. Harrison, argue that many managers jealously guard the control of learning. If the distribution of power remains in the hands of top management, the culture of the organisation cannot be conducive to learning.

Finally, critics argue that it is difficult to measure the degree to which a given organisation is a learning organisation.

In summary, to make the learning organisation an effective idea, measurable changes must take place in leadership, structure and function. In addition, individuals need development; encouragement to be risk takers, to be obsessed with quality and above all, to embrace change and learning with enthusiasm. An assessment of the success of a learning organisation may be obtained by benchmarking against other excellent organisations in similar spheres of activity.

E. HOW DO WE TAKE A STRATEGIC APPROACH TO APPRAISAL?

Earlier in this unit we suggested that induction is the entrance into the new organisation and that it should lead seamlessly into the appraisal process. We have also suggested, elsewhere, that performance management is at the heart of an organisation's HRM processes. If we add that appraisal is itself at the heart of performance management we create an argument that a well run appraisal process is at the very centre of good HRM. Appraisal must, therefore, be regarded as a strategic activity. The problem is that appraisal, by whatever title it is known, is rarely treated that way. All too often it is viewed as a waste of time, imposed upon reluctant staff and their managers by HR professionals who are remote from the real activities of the organisation.

What does appraisal cover?

The three areas commonly covered by appraisal are:

- Performance
- Potential
- Reward.

Any strategic approach to appraisal ought to consider the balance between these three; in particular, the tendency for reward reviews to reduce the level of openness and engagement in the process by the appraisee.

What is the purpose of appraisal?

The title 'appraisal' is considered to emphasise the top-down process, whereby something is done to you by your manager and emphasises the outcome; a judgement. The word 'review' is becoming increasingly common because it better describes more the process.

'Review' has the disadvantage of emphasising the retrospective nature of the process and 'review and planning' would be more accurate. However, that would result in a formal title of:

'Performance, potential, reward, review and plan'.

This is clumsy; even if abbreviated to PPRRP! So we may be stuck with 'appraisal' or the slightly inaccurate 'Performance and Development Review' (PDR).

Does appraisal have to be formal?

No. Indeed the processes of appraisal (setting objectives, providing resources, evaluating performance, giving feedback, providing reward and keeping records) are what a good manager will do less formally on a day to day basis. The benefit of stepping back from the day to day activities is that it enables the appraisee and manager to look at the longer terms issues both backwards (in retrospect) and forwards. In other words, appraisal is a strategic planning tool.

Does appraisal have to concentrate on the hard issues?

No. Although research is suggesting that there is increasing emphasis upon the more measurable (harder) aspects of appraisal in the list below.

- Link between business and individual objectives
- Measurement of performance contribution including performance against objectives and associated reward
- The performance agreement between employer and employee
- Identification of training and development needs and how they can be met
- Career and succession planning
- General discussion about the working environment.

Harder



Softer

What about 360-degree appraisal?

It is widely accepted that the traditional 'tell and share' appraisal process (manager tells employee what gradings they have awarded and these are then discussed with the appraisee) places too much emphasis upon the views of the line manager. The perspective of the appraisee must be given greater weight. Once the stranglehold of top down manager to appraisee has been broken, it allows organisations to consider the views of other potential participants, including colleagues, customers and subordinate staff. The objective is to assemble a balanced picture of the employee's performance for the purpose of career and development planning.

Does a review concentrate upon an appraisee's performance against objectives or competencies?

Both, so any overall assessment of performance must take account of both.

F. HOW DO WE TAKE A STRATEGIC APPROACH TO MANAGEMENT DEVELOPMENT?

Management development is a key component of a strategic response to human resource development. Even in organisations that take a more traditional approach to training and development, the development of managers is generally recognised as a component of organisational success. At a strategic level, management development strategies should take a long term view about approaches to increase the effectiveness of the organisation.

Armstrong suggests that the strategic aims for management development should be:

- Ensuring that managers understand what is expected of them, agreeing with them objectives against which their performance will be measured and areas where competence levels need to be improved
- Identifying managers with potential; encouraging them to prepare and implement personal development plans and ensuring that they receive the required development, training and experience to equip them for more demanding responsibilities within their own locations and elsewhere in the organisation
- Providing for management succession and creating a system whereby this is kept under regular review.

One of the potential areas of difficulty is that management development should be business led, even though it will be concerned with development of the individual. The organisation needs to decide what sort of manager it needs, to achieve its strategic goals and how best to obtain and develop these managers. Where the emphasis is on self-development, as it should be, it is for the organisation to indicate the direction in which self-development in terms of the acquisition of skills and knowledge and behavioural modification should go.

As with any training and development, the process of identifying management development needs involves:

- Assessing present and future management needs, taking into account present and future business strategy.
- Assessing current and potential skills and effectiveness of managers against the identified needs
- Producing plans and strategies to address the gap between the current skills etc. and those required for the future.

The following notes on the development of emotional intelligence also have bearing on strategies for developing management potential.

Emotional Intelligence

We noted the development of the concept of emotional intelligence in Study Unit 3 when we considered current human resource responses to the changing working environment. To remind you, the term 'emotional intelligence' was defined in 1999 by Goleman at the CIPD Annual Conference as *"the capacity for recognising our own feelings and those of others, for motivating ourselves, for managing emotions well in ourselves and in our relationships"*. Emotional intelligence is seen as a necessary attribute for effective leadership. Therefore, strategies for developing emotional intelligence are viewed as an important component of management development and indeed for development in all workers.

Goleman defined four components of emotional intelligence:

- **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.

Six competencies are associated with this component:

- (i) Self-control
- (ii) Trustworthiness/integrity
- (iii) Initiative
- (iv) Adaptability
- (v) Openness to change
- (vi) The desire to achieve.

- **Self-awareness:** The ability to recognise and understand your moods, emotions and drives as well as their effect on others. The competencies associated with this aspect are:
 - (i) Self-confidence
 - (ii) Realistic self-assessment
 - (iii) Emotional self-awareness.
- **Social awareness:** The ability to understand the emotional make-up of other people and skill in treating people according to their emotional reactions. The competencies associated with this aspect are:
 - (i) Empathy
 - (ii) Expertise in building and retaining talent
 - (iii) Organisational awareness
 - (iv) Cross cultural sensitivity
 - (v) Valuing diversity
 - (vi) Service to clients and customers.
- **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 competencies associated with this aspect are:
 - (i) Leadership
 - (ii) Effectiveness in leading change
 - (iii) Conflict management
 - (iv) Influence/communication
 - (v) Expertise in building and leading teams.

Goleman went on to identify the steps necessary to develop emotional intelligence:

- Assess the requirements of jobs in terms of emotional skills
- Assess individuals to identify their level of emotional intelligence; 360 degree feedback can be a powerful source of data
- Gauge readiness; ensure that people are prepared to improve their level of emotional intelligence
- Motivate people to believe that the learning experience will benefit them
- Make change self-directed; encourage people to prepare a learning plan that fits their interests, resources and goals
- Focus on clear, manageable goals; the focus must be on immediate, manageable steps, bearing in mind that cultivating a new skill is gradual with stops and starts; the old ways will re-assert themselves from time to time
- Prevent relapse; show people how they can learn lessons from the inevitable relapses
- Give performance feedback
- Encourage practice, remembering that emotional competence cannot be improved overnight
- Provide models of desired behaviours
- Encourage and reinforce; create a climate that rewards self-improvement

- Evaluate; establish sound outcome measures and then assess performance against them.

Strategic Capability

Strategic capability is the ability to select the most appropriate strategy and the courses of action required to implement it. Harrison, writing in *Employee Development*, a CIPD publication, in 1997, identified that a human resource development strategy for enhancing strategic capability involves planning the kind of learning activities that will improve:

- Understanding of rapidly changing business environments
- The ability to create a strategic vision
- Understanding of strategic decision-making tools and processes
- Understanding of strategy-making models
- The selection and assessment of strategic decision-makers
- The link between strategy and operational implementation
- The quality of strategic thinking and learning
- The management and development of the organisation's knowledge base.

Clearly, all these strategies are interlinked and in some cases almost impossible to identify as separate study areas. Integration of all development strategies is essential.

Study Unit 9

The Strategic Approach to Employee Relations

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Objectives

The aim of this unit is to critically evaluate strategies for employee relations which optimise the likelihood of generating positive attitudes throughout the workforce.

When you have completed this study unit you will be able to:

- Explain alternative approaches to employee relations, with a focus on the benefits to be gained from 'partnership'
- Describe and explain the mechanisms to promote employee involvement and engagement, and the willingness to undertake discretionary (Organisational Citizenship) behaviour, including consultation/participation strategies and partnership agreements
- Examine strategies for communicating with the workforce, including grievance management.

A INTRODUCTION

Employee relations is concerned with:

- Building a stable and co-operative relationship with employees that minimises conflict
- Achieving commitment through involvement and communication processes
- Developing mutuality; a common interest in achieving the organisation's goals through the development of organisational cultures based on shared values between management and employees.

The term 'employee relations' should not be confused with 'industrial relations'. This latter term generally is used to refer to the relationship between the organisation and trade unions, whilst the term 'employee relations' is concerned with the wider implications of relationships with employees, including their trade union representatives. In fact, the more modern term to use is '**employment relations**', which does help to stress the fact that we are talking here about the relationship between employees and the organisation, not just on an individual level but on a collective level, whether represented or not. It also highlights the fact that this is an area of rapid change and one that is trying to throw off its rather confrontational image of the past. For this reason, we have chosen to use the term 'employment relations' for this study unit, although you may find other textbooks will continue to refer to 'employee relations'.

Research suggests that organisations that out perform their competitors do so because they apply a coherent set of people management and development practices, appropriate to their needs. Research by the CIPD suggests there is a positive relationship between managerial strategies on employment relations and employees' identification with and support for performance improvement and organisational change. Successful organisations are increasingly those that have a constructive relationship with employees and a management approach that enables them to develop and draw on the full potential of their people.

In this study unit we will look at the way in which individual and collective relationships between employees and employers are changing and suggest a framework for organisations to develop strategies for improving employment relations. We shall:

- Discuss the role of employee relations strategies in the achievement of organisational purposes and in the context of the modern commercial and cultural environment
- Identify the objectives of and evaluate appropriate strategies for employee communications and for employee consultation, involvement and participation.

B. WHAT ARE THE DIFFERENT STRATEGIC APPROACHES TO EMPLOYEE RELATIONS?

How has employee relations developed?

To understand the context of modern employment relations, it is necessary to look at some of the history surrounding this subject.

The relative freedom of employers and employees to determine their own relationships has been a characteristic of British industrial life. Even within the bounds of contractual relationships, the tendency has been for both sides to see what might be done to squeeze more out of the other. These patterns of behaviour are now being questioned, in favour of a more co-operative approach.

Until the end of the 1970s the pattern of relationships within British industry was that of conflict resolution. It was accepted that for each management issue there should be a trade union counter view and a trade union based representative body to pursue it. Trade unions and employers were adversaries and although some initiatives were undertaken aimed at bringing trade unions and employers together, they lacked support from both employers and trade unions alike.

Paradoxically, while adversarial industrial relations lay at the heart of the conventional picture of employment relations in the 1970s, few organisations experienced industrial action. Lack of serious competitive pressure meant that many employers adopted employment relations strategies aimed at buying off trouble and maintaining output. There was little need for employers to seek to improve performance or look for employee support for organisational change.

However, by the end of the 1970s a new pattern was emerging. Disorderly collective bargaining played its part in bringing down the elected government and began a period during which much of the legislation underpinning trade union influence was removed and replaced by new legislation limiting the scope for industrial action. In other European countries, their employment relations systems were seen as contributing to competitive success rather than hindering it. The result was European Union directives having increasing influence in the UK.

Since the 1970s attitudes to work and relationships at work have changed, partly as a result of economic pressures and competitive pressures on organisations. Customers have become more demanding, wanting high quality service and low prices. Fast moving markets, which include large parts of retail distribution and the leisure industries, as well as manufacturing, require a speed of change within supplying organisations that is beyond anything which could have been anticipated in the 1970s.

Many people recognise the need for change in the way organisations operate but change initiatives tend to prove difficult or impossible to implement or implement quickly enough. Research on behalf of the CIPD found that employers felt that employees do not own the corporate objectives and too often want to stand aside from the process of change.

The modern approach to management has, as we have noted on several occasions, moved towards a greater emphasis on allowing employees the freedom to use their skills and abilities for the benefit of the organisation. Management becomes a facilitator of individual and organisational development rather than commander and controller of activities.

However, for this style of management to work, employees must be willing to contribute towards the success of the organisation and willing contribution is unlikely if employees are unclear of the direction the organisation is taking or are not committed to its success.

It would be wrong to suggest that the old adversarial approach to employment relations no longer exists. Industrial Relations Services found, in 1994, four common approaches adopted by employers:

- **Adversarial.** The organisation decides what it wants to do and employees are expected to fit in. Employees only exercise power by refusing to co-operate.
- **Traditional.** A good day to day working relationship but management proposes and the workforce reacts through its elected representatives.
- **Partnership.** The organisation involves employees in the drawing up and execution of organisational policies but retains the right to manage.
- **Power sharing.** Employees are involved in both day to day and strategic decision making.

Adversarial approaches are much less common than in the 1970s. The traditional approach is still the most typical but more interest is being expressed in partnership. Power sharing is rare.

Against the background of a preference for one of the four approaches above, employment relations strategy will be based on an organisation's philosophy about the sort of relationships wanted between management and employees and their unions and how those relationships should be handled. A partnership strategy will aim to develop and maintain a positive, productive, co-operative and trusting climate of employment relations.

The remainder of this unit is based upon aiming for a partnership approach, as this represents current 'best practice'. However, you must remember that this is not the only approach you will find evidence of.

What is the psychological contract?

Some writers talk about the 'psychological contract' between employers and employees. This is a difficult thing to define but it expresses the combination of beliefs held by an individual and their employer about what they expect of one another. Generally unwritten, it was described by Guest on behalf of the CIPD in 1996 as:

"concerned with assumptions, expectations, promises and mutual obligations".

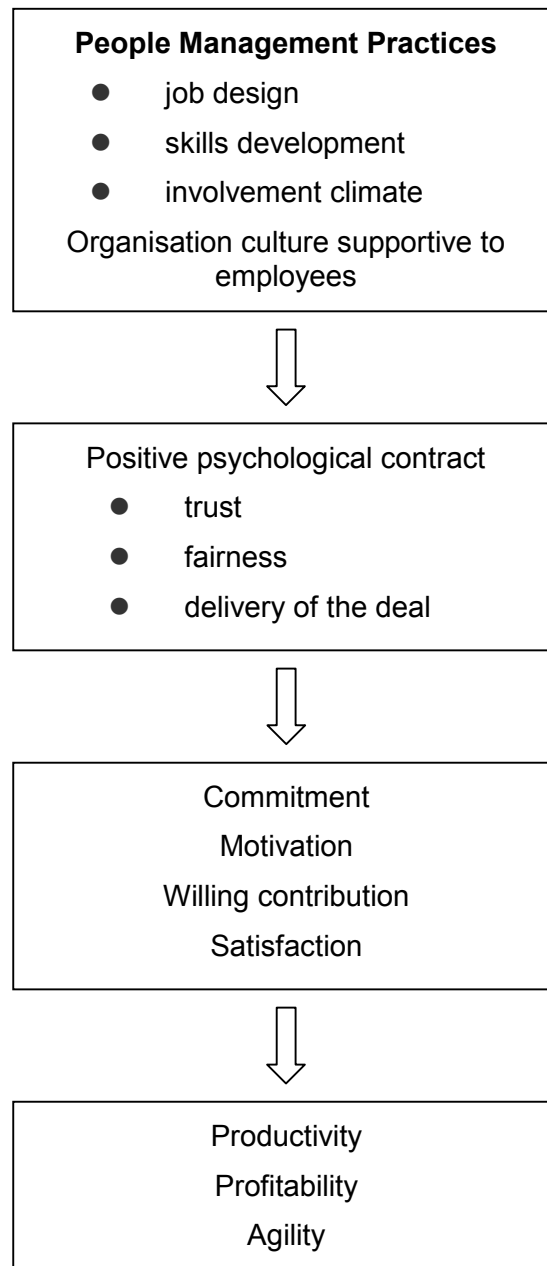
The psychological contract is dynamic; it changes as experience accumulates, employment conditions change and employees re-evaluate their expectations.

Guest's research, which was reported in *People Management* in 1997, demonstrated that:

- The key elements of good people management practice are job design, skills development and a climate of regular, systematic involvement
- Good people management practices are associated with a positive psychological contract based on trust, fairness and delivery of the deal
- An organisation culture in which employees believe their employer will look after their interests has positive outcomes for work performance.

In other words, there seems to be a business case for arguing that good relations with employees bring positive results for the business.

A way of showing this in model form might be as follows:

The Relationship between Good People Management Practices and Business Success

Source: CIPD position paper, Employment Relations into the 21st Century, 1997

The psychological contract is a convenient way to describe the relationship between an employee and an employer. It depends upon:

- Employee trust
- Perceptions of fairness
- Delivery of the deal.

Therefore, it reflects all aspects of the relationship with employees, including:

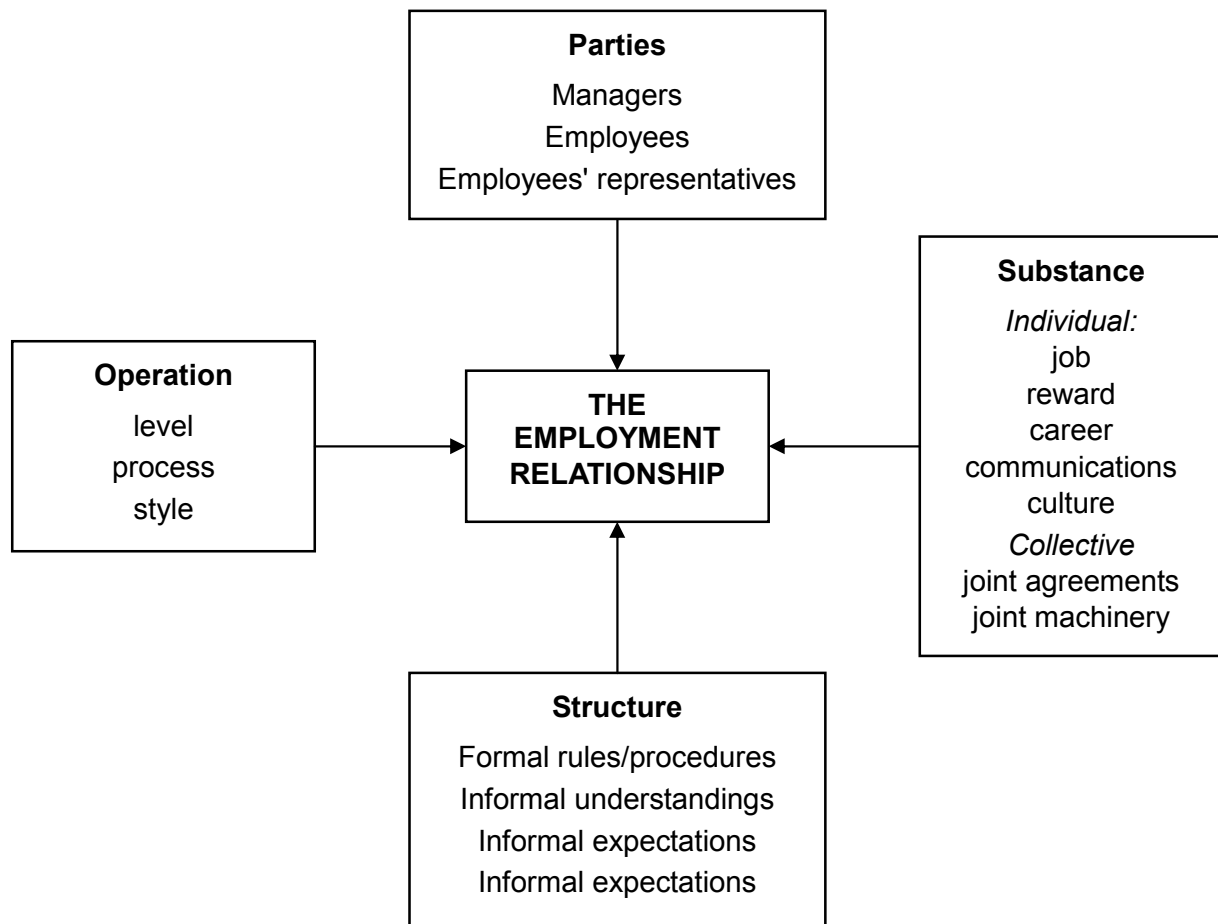
- **Reward.** The fairness of the process within which it is determined and the outcome in relation to other employees

- **Job satisfaction.** The intrinsic interest of the job, its design and the degree of control, empowerment and relationships with customers and fellow employees
- **Skill development and technology.** Upgrading adds significantly to a sense of self worth
- **Relationships with managers.** Direct relationships and in cross functional structures, are particularly important
- **Well being.** A sense of employment security with the same or another employer, involvement and trust that management decisions are being taken in ways which reflect, as far as possible, the best interests of employees.

All of this adds up to a total employment experience.

Kessler and Undy, writing in *The New Employment Relationship: Examining the psychological contract*, a CIPD publication, in 1996, described the dimensions of the employment relationship as shown below:

Dimensions of the Employment Relationship



Source: Armstrong, *Strategic Human Resource Management: A Guide to Action*

How has the HRM approach changed employment relations?

The human resource management approach to employment relations involves co-ordinating (or bundling) strategies to promote the psychological contract and improve involvement and communication. Armstrong suggests the following model for employment relations:

- A drive for commitment. Winning the 'hearts and minds' of employees to get them to identify with the organisation, to exert themselves more on its behalf and to remain with the organisation, thus ensuring a return on their training and development.
- An emphasis on mutuality. Getting the message across that 'we are all in this together' and that the interests of management and employees coincide (i.e. a unitarist approach).
- The organisation of complementary forms of communication, such as team briefing, alongside traditional collective bargaining i.e. approaching employees directly as individuals or in groups rather than through their representatives.
- A shift from collective bargaining to individual contracts.
- The use of employee involvement techniques such as quality circles or improvement groups.
- Continuous pressure on quality; total quality management.
- Increased flexibility in working arrangements, including multi-skilling, to provide for the more effective use of human resources, sometimes accompanied by an agreement to provide secure employment for the 'core workers'.
- Harmonisation of terms and conditions for all employees.
- Emphasis on teamwork.

Guest describes four options policy options that need to be considered when developing an employment relations strategy.

- The new realism. A high emphasis on HRM and industrial relations.
The aim is to integrate human resource management and industrial relations. This is the policy of such organisation as Nissan and Toshiba. New collaborative arrangements in the shape of single table bargaining are usually the result of employer initiatives but both employers and unions are often satisfied with them. They have facilitated greater flexibility, more multi-skilling, the removal of demarcations and improvements in quality. They can also extend consultation processes and accelerate moves towards single status.
- Traditional collectivism. Priority to industrial relations without HRM.
This involves retaining the traditional pluralist industrial relations arrangements within an eventually unchanged industrial relations system. Management may take the view in these circumstances that it is easier to continue to operate within a union since it provides a useful, well established channel for communication and for the handling of grievance, discipline and safety issues.
- Individualised human resource management. High priority to HRM with no industrial relations.
According to Guest, this approach is not very common, except in North American owned firms. It is, he believes, 'essentially piecemeal and opportunist'.
- The black hole. No industrial relations.
This option is becoming more prevalent in organisations in which human resource management is not a policy priority for management and where they do not see that there is a compelling reason to operate within a traditional industrial relations system.

When such organisations are facing a decision on whether or not to recognise a union, they are increasingly deciding not to do so.

The Big Idea

An employee relations issue that has gained popularity in the first decade of the 21st century is the concept of the organisation's Big Idea. This is a significant concept that people within the organisation are fired up about. In the engineering firm Rolls Royce the Big Idea is quality; in the Nationwide Building Society (investing and lending finance for property) it is mutual ownership. Big Ideas include world class; customer experience; making clients smile; year on year growth, unbeatable quality and making this a better place to live.

C. WHAT CAN BE GAINED FROM PARTNERSHIP WORKING?

There is no agreed definition of 'partnership' in this context but the Trades Union Congress (TUC) has suggested '*a sense of common action and purpose*'. It suggests the development of a longer term relationship, in which the partners will be more concerned with maximising growth than with short-term negotiations over shares of the results.

In good partnership agreements, each has regard to the needs of the other and to the needs of customers and investors. In this sense, a partnership approach with employees seems to contain elements of the 'balanced scorecard approach'.

Not all employees will have or want trade union representation but where a majority of employees in a relevant business unit want to have a trade union recognised to represent their interests, the CIPD recommends that the employer should reach such an agreement although it concludes that "*partnership has more to do with an approach to the relationship between employers and employees individually and in groups, than it has to do with trade unions as such.*"

Armstrong suggests that a partnership agreement may be one way of getting employment relation strategies into action and CIPD research suggests that a number of companies are developing partnership arrangements with trade unions and that the elements of good practice which are emerging match up to the requirements of good employment relations. In general, the employer recognises that employee security is an issue and offers some reassurance, for example, by undertaking that there will be no compulsory redundancies. Trade unions, for their part, commit themselves to working with management to improve business performance. These commitments are supported by mechanisms for communication and involvement.

Research in the United States suggests that where the following five key values are addressed in partnerships, the companies can expect productivity gains; quality improvements, a better motivated and committed workforce and lower absenteeism and turnover rates:

- Mutual trust and respect
- A joint vision for the future and the means to achieve it
- Continuous exchange of information
- Recognition of the central role of collective bargaining
- Devolved decision making.

The Department for Trade and Industry and the Department for Education and Employment reported on partnerships at work in 1997. Their report concludes that partnership is central to the strategy of successful organisations. It was based on interviews with managers and

employees in 67 private and public sector organisations identified as 'innovative and successful'. Five main themes or 'paths' were identified as producing a balanced environment in which employees thrived and sought success for themselves and their organisations:

- **Shared goals: 'understanding the business we are in'**

All employees should be involved in developing the organisation's vision, resulting in a shared direction and enabling people to see how they fit into the organisation and the contribution they are making. Senior managers, in turn, receive ideas from those who really understand the problems and the opportunities.

- **Shared culture: 'agreed values binding us together'**

In the research, organisations acknowledged that a culture has to build up over time; it cannot be imposed by senior executives but must rather be developed in an atmosphere of fairness, trust and respect until it permeates every activity of the organisation. Once achieved, a shared culture means that employees feel respected and so give of their best.

This supports the view of the importance of maintaining and developing the psychological contract we discussed earlier.

- **Shared learning: 'continuously improving ourselves'**

Key business benefits of shared learning include an increasing receptiveness to change and the benefits of increased organisation loyalty brought by career and personal development plans.

- **Shared effort: 'one business driven by flexible teams'**

Change has become such an important part of our daily lives that organisations have learnt that they cannot deal with it in an unstructured way. The response to change cannot be purely reactive, as business opportunities may be missed. While team working 'leads to essential co-operation across the whole organisation', care must be taken to ensure that teams do not compete with each other in a counter productive way. It is essential that the organisation develops an effective communication system to ensure that the flow of information from and to teams enhances their effectiveness.

- **Shared information: 'effective communication throughout the enterprise'**

While most organisations work hard at downward communication, the most effective communication of all 'runs up, down and across the business in a mixture of formal systems and informal processes'. Many organisations with unions have built successful relationships with them, developing key partnership roles in the effective dissemination of information, communication and facilitation of change. Others have found representative works councils useful in consulting employees and providing information.

D. HOW DO WE PROMOTE EMPLOYEE ENGAGEMENT?

The fundamental question to be addressed is a political one: which perspective is your organisation going to adopt?

- **Pluralist.** The aspirations of the employer and the employee are essentially opposite (as much work for as little money vs. as much money for as little work) and the 'war' must be controlled by establishing rules (the left wing approach).
- **Unitary.** Prosperous employers make for prosperous employees, so both parties share the same objective, the success of the business (the market driven, right wing approach).

The next question is:

- Does the organisation want direct participation or indirect representation?

With the decline of collective bargaining, many organisations now concentrate on communication with employees individually, rather than on a collective basis. Communication and involvement are generally more meaningful at the level of the job or team than at higher levels. However, most people like to feel that their interests are being taken into account when important decisions are being considered. Particularly in larger organisations, in which it is not easy for all employees to meet informally, some form of machinery to represent employees collectively, whether procedural or structural, can offer useful reassurance on this score. Need and purpose should be the criteria by which the desirability of representation arrangement should be determined.

Employee representation should not be confused with that of trade union recognition or the role of trade unions in the workplace. Some UK companies operate effective representation arrangements, although they do not recognise trade unions. Within the UK, an employee's right to be represented at grievance or disciplinary hearings is already recognised by industrial tribunals. Employees also have rights to be consulted on health and safety, major redundancies or business transfers but there is no requirement that this should be through a trade union.

Recent analysis by the CIPD suggests that management practices are more important than trade union membership in determining whether employees feel fairly treated.

Trade Unions

The decline in trade union membership has continued throughout the 1990s. The trade union role in determining actual pay and conditions has declined in many organisations. Opportunities for trade unions to negotiate detailed changes in working arrangements and in some cases to exercise an effective veto, have largely gone. The pace of change, the need to respond to competitive pressures, the decentralisation of decision making and the wider involvement of employees in operational decisions have helped to undermine workplace bargaining between managers and trade unions.

Trade unions are developing new roles beyond the workplace. They now offer a range of benefits to members, such as insurance, banking and financial services. Some unions offer help with job finding and advice about pension rights. They also continue to provide services such as representation in grievance and disciplinary procedures and bringing claims under employment protection or health and safety legislation. Some unions now market their services to employers as consultants on training and employment matters.

The CIPD suggests that the role of trade unions is likely to develop towards a 'social partnership' with employers in developing national employment policies, building on their involvement at European level. Trade unions are well placed to contribute to discussions about issues including 'fairness', productivity and investment. This suggests that in future trade unions will have more of a role in strategic issues and strategic decision making within organisations.

The Role of Law

Current legislation and case law on employment relations in the United Kingdom is extensive and is likely to grow. In recent years, measures such as the Working Time Regulations; Part-time Workers Regulations; changes to the National Minimum Wage, the Human Rights Act and stakeholder pensions have all been introduced. Within the UK, industrial tribunals and courts regularly add to the weight of case law and advice to employers on employment law is a major growth industry.

Most successful organisations view the minimum requirements of legislation in matters such as 'fairness' as secondary to moral and ethical practice but in some organisations the minimum standards represent challenges.

The theories of employee relations in the western world have changed dramatically since 1980 (although some would argue that the underlying politics remains unchanged and despite the rhetoric, the behaviour of employers, employees and their representatives has remained largely unchanged).

What about employee involvement?

Employee involvement grew during the final quarter of the twentieth century and is generally characterised by four things:

Form of communication	Purpose	Methods
Downward communication from employer to employee	To create educated staff and to enable them to engage in problem solving	Team briefing Internet / Intranet / Corporate email Informal communication Written media- report, journal, newsletter Video
Upward problem-solving	To widen the pool of knowledge used to solve problems. Knowledge management is a fuller blown version of this	Quality circle Action team Suggestion scheme Attitude survey
Task participation and team working	To devolve responsibility for problem-identification and problem-solving	Team working Autonomous working group
Financial involvement	To give employees a stake in the success of the organisation through	Profit sharing Share ownership Bonus scheme

More recently the concept of the 'employee voice' has become fashionable. HR professionals are often the driver for this and the variety of channels through which this voice may be heard is large. The idea recognises the value of employees' contributions across a range of issues and in Europe the concept has been enshrined in the somewhat prescriptive legislation requiring organisations to set up Works Councils if they do not already have them.

E. HOW DO WE INCREASE DISCRETIONARY BEHAVIOUR?

Alongside employee involvement in decision making organisations have moved from employee compliance (do as we say or we will punish you; keep out of trouble and you can have a job for life) to employee commitment (you are expected to show commitment to this organisation and to be creative in solving problems).

Discretionary behaviour is voluntary performance over and above the minimum required. It is this that promotes excellence (as opposed to mediocrity) and this is a critical ingredient in organisational success.

It is usually expressed as:

$$\begin{aligned}\text{Discretionary behaviour} &= \text{Ability} \times \text{Motivation} \times \text{Opportunity} \\ &= \text{AMO}\end{aligned}$$

Guest suggests that strategies for developing a positive psychological contract should include:

- Provision of opportunities for learning, training and development
- Focus on job security, promotion and careers
- Minimising status differentials
- Fair reward systems
- Comprehensive communication and involvement processes.

Practices that can be incorporated into the strategy include:

- During recruitment interviews, presenting the unfavourable as well as the favourable aspects of a job in a realistic job preview.
- In induction programmes, communicating to new starters the organisation's personnel 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.
- Issuing and updating employee handbooks that reinforce the messages delivered in induction programmes.
- Encouraging the development of performance management processes that ensure that performance expectations are agreed and reviewed regularly.
- By encouraging the use of personal development plans that spell out how continuous improvement of performance can be achieved, mainly by self-managed learning.
- By using training and management development programmes to underpin core values and define performance expectations.
- By ensuring, through manager and team leader training, that managers and team leaders understand their roles in managing the employment relationship, through such processes as performance management and team leadership.
- 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 which affect them, employees know what is happening, why it is happening and the impact it will make on their employment, development and prospects.

- By developing human resource procedures covering grievance handling; discipline; equal opportunities, promotion and redundancy and ensuring that they are implemented fairly and consistently.
- By developing human resource policies covering the major areas of employment, development, reward and employee relations.
- By ensuring that the reward system is developed and managed to achieve equity, fairness and consistency in all aspects of pay and benefits.
- Generally, by advising on employment relations procedures, processes and issues that further good collective relationships.

You will have noticed that these strategies for managing the employment relationship by developing the psychological contract cover all aspects of people management!

We have talked about high commitment management in an earlier study unit. Commitment refers to feelings of attachment and loyalty and as such, plays an important part in human resource management philosophy and in approaches to employment relations.

Commitment is said to have three factors:

- A strong desire to remain a member of the organisation
- A strong belief in and acceptance of the values and goals of the organisation
- A readiness to exert considerable effort on behalf of the organisation.

There are some accepted difficulties with the concept of commitment, or at least managing it. This is because organisations are made up of people with differing interests, rather than a set of shared interests. Furthermore, we have noted that a mixture of different interests and values encourages flexibility and creativity, so aiming for shared interests and beliefs may not be in the best interests of the organisation. That being said, there is no doubt that having a workforce that supports the values of the organisation is a useful thing.

Strategies for improving commitment are concerned with:

- Communication
- Education and training programmes
- Initiatives to increase involvement and 'ownership'
- Performance and reward management processes.

CIPD research in 1994 suggested that a strategy for building trust is the only basis upon which commitment can be generated. It commented that, in many organisations, there is a difference between what is said and what is done, to the extent that trust is destroyed and once compromised, is very difficult to renew.

Armstrong suggests that a strategy for creating a climate of trust should be based on the understanding that management is more likely to be trusted by employees when the latter:

- Believe that the management means what it says
- Observe that management does what it says it is going to do; suiting the action to the word
- Know from experience that management delivers the deal; it keeps its word and fulfils its side of the bargain
- Feel they are treated fairly, equitably and consistently.

Many writers argue that trust cannot be 'managed' as any attempt to 'create' it effectively destroys the basis of trust. What do you think?

F. HOW DO WE TAKE A STRATEGIC APPROACH TO COMMUNICATING WITH EMPLOYEES?

What are the strategic choices when it comes to communicating?

Most communication to individuals or groups falls into one of four categories:

	Negotiating	Joint problem solving	Consultation	Communication
	<i>Management and staff (or staff representatives) come together without a predetermined solution</i>		<i>Management sound out others about their ideas.</i>	<i>Management tell the staff what is to happen</i>
Opposing objectives	Yes	No	Probably	Probably
The power to choose	Shared (joint)	Management (veto)	Management (moderate)	Management (powerful)
Example	Pay Grievance settlement	Redundancies Recognition agreement	Policy change Reorganisation of work	Financial performance Takeover announcement

The key issues are:

- Do the two parties have opposing objectives?
- Who holds the balance of power?

The terms 'consultation', 'communication' and 'negotiation' are often used carelessly and sometimes deliberately misused to create a false impression. For example, management will pretend to consult when really they have made up their mind, so it is really communication, or the power of one party is so strong that the outcome of a 'negotiation' is a foregone conclusion.

Study Unit 10

The Strategic Approach to Reward and Recognition

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Objectives

The aim of this unit is to critically evaluate critically evaluate strategies for people reward which bring added-value benefits to the organisation in excess of their costs.

When you have completed this study unit you will be able to:

- Examine the purposes behind reward and recognition strategies
- Assess the methods through which the purposes of reward/recognition strategies may be accomplished
- Explain the effectiveness of both financial and non-financial rewards and benefits
- Evaluate Performance Management (measuring performance for added value), including performance appraisal as a tool for measuring contribution and recognising achievement.

A. INTRODUCTION

Throughout this subject area, we have frequently mentioned the magic word 'reward'. Reward is recognised by practitioners and academics alike as one of the key features of human resource management yet probably one of the most difficult features to design and 'get right'.

Torrington and Hall (who prefer the term 'payment' to reward) note that our attitude to pay (a term which they use to refer also to elements such as pensions and benefits such as health care schemes) is bound up in historical views on pay and attitudes towards capitalism. The concept of 'a fair day's pay for a fair day's work' is generally accepted but few people can define the term 'fair'.

There is also a fundamental difference in the way employers and employees view the role of rewards/pay:

- **Employees** view pay firstly in terms of its purchasing power and secondly in terms of the relative level of reward compared to other people. For most people, the pay cheque or salary cheque represents their main source of income and is required to maintain a certain standard of living. Inflation and rising expectations mean that employees will constantly seek to increase the amount they are paid. Furthermore, employees have a need for a relatively stable income to meet basic living expenses as they fall due.

An employee's definition of 'fair' will depend upon their perception of their role and relative importance within the organisation compared with others. Most people see their payment arrangements as part of the recognition of their contribution towards the success of the organisation. A trade union might argue that employees have a 'right' to a share of the wealth of the organisation that they have helped to create.

An employee, who feels underpaid, feels undervalued and is likely to react by withdrawing, or looking for another job. Absenteeism, carelessness and other similar difficulties may result. While this might suggest that pay is a motivator, your studies for Human Resource Management should have identified that most evidence suggests otherwise.

- **Employers** also have differing views of pay/rewards. Whilst the absolute cost of paying staff is an important factor, many organisations take pride in being 'a good payer'. In a similar way to the employee perception of 'fair' this concept is often applied in a relative sense as being 'good' in comparison to the competition.

Pay is also seen as a means of controlling operating costs. The traditional approach of using piecework payment is rare nowadays but cost control through the pay packet in terms of how reward structures are set up still exists.

Despite some evidence to the contrary, pay is still seen very much as a motivator or means of improving performance. Incentive payments and performance related pay are well established and well used within industry in the UK.

B. WHAT ARE THE PURPOSES OF REWARD AND RECOGNITION?

There are four outputs that employers are looking for from their reward strategy:

Recruitment	Providing a steady flow of new employees into the organisation but without breaking the bank.
Retention	Keeping people loyal but not keeping staff who are no longer offering best value for money.
Motivation	Employee commitment. This is slightly different from retention and is an element of the psychological contract for a fair day's work for a fair day's pay. Fairness. Or at least a sense of 'felt fairness' (i.e. it may be hard to justify objectively that it is fair but the employees sense that it is). Image. Some employees want a reputation as the best payers around. Others want to emphasise the importance of flexibility or creativity.
Control	Controlling cost. Pay is usually the largest element of an organisation's budget and therefore the area offering scope for the largest belt tightening when needed. Maintaining internal relativities. Strengthening the hierarchy of power within the organisation. Supporting organisational change. Change reward structures and employees sit up and take notice! So linking pay to performance focuses attention on what performance. Creating a broad banded structure draws attention to career development. Reducing power of trades unions. For example, by devolving pay determination to local managers and particularly by individualising pay, the central power of unions is eroded. Increasing the power of line managers. Especially through local pay determination.

This will be achieved by concentrating upon three processes:

- **Service**

The focus on service is characterised by open ended agreements about continuity of employment, incremental pay scales and annual reviews.

- **Skills**

The focus on skills produces higher rates of pay with greater or rarer skills.

- **Performance**

The focus on performance emphasises target setting, adapting to change and a close relationship between what the employee achieves and what the employee is paid.

What is in a reward strategy?

As we have already noted, management attitudes towards the purpose of reward systems, coupled with the nature of the organisation and the historical approach to reward, will provide a framework for the design of a reward system.

Armstrong notes that a reward strategy will generally be concerned with:

- The demands of the business strategy, including cost constraints
- How business performance can be driven by influencing important individual and organisational behaviours
- Helping to achieve culture change
- Meeting objectives for ensuring the organisation gets and keeps high quality employees
- Aligning organisational core competences and individual competence
- Underpinning organisational changes, for example, introducing broad banding following a delayering exercise
- The development of competitive pay structures
- Ensuring that reward policies are used to convey messages about the expectations and values of the organisation
- Achieving the right balance between rewards for individual, team and organisational performance
- Evolving total reward processes that incorporate the best mix of financial and non financial rewards and employee benefits
- Achieving the flexibility required when administering reward processes within fast-changing organisations, existing in highly competitive or turbulent environments
- Fitting reward processes to the individual needs and expectations of employees.

C. HOW DO WE TAKE A STRATEGIC APPROACH TO REWARD AND RECOGNITION?

Armstrong points out that a reward strategy can make an important contribution to the achievement of corporate goals if it:

- Provides for the integration of reward policies and processes with key strategies for growth and improved performance
- Underpins the organisation's values, especially those concerned with innovation, teamwork, flexibility, customer service and quality
- Fits the culture and management style of the organisation as it is or as it is planned to be
- Drives and supports desired behaviour at all levels by indicating to employees what types of behaviour will be rewarded, how this will take place and how their expectations will be satisfied
- Provides the competitive edge required to attract and retain the level of skills the organisation needs
- Enables the organisation to obtain value for money from its reward practices.

Developing a Reward Strategy

According to Armstrong, when developing reward strategies, three key questions need to be answered:

- How will the strategy fit the business strategy and support the achievement of business goals?
- How can the impact of reward strategies be maximised by integrating reward processes with other human resource processes so that they are mutually supportive?
- How can we be certain that the reward strategy will enhance the organisation's strategic capability?

John Bratton, in *Japanisation at work; managerial studies for the 1990s*, quotes a simple example, which highlights the role of reward management in supporting organisational goals. At Flowpack Engineering, the company substituted the individual performance related pay system for a straightforward payment by time arrangement, to encourage co-operation and to tap the synergy from team working. The Human Resource Director described the cultural change on the factory floor like this:

"As soon as people realised that there was no personal, peculiar advantage in hiding bits of knowledge, being flexible, hogging the good jobs, and all that it was like suddenly turning the key."

Reward strategies deal with issues concerning:

- Pay structures
- Job evaluation
- Keeping pace with market rates
- Pay for individual performance, competence or skill
- Team pay
- Relating bonuses to organisational performance
- Benefits, including flexible benefits and pensions.

In practice, reward strategies come in all shapes and sizes, as there is no single reward package which offers a 'best practice' approach. Legislation requires reward systems to be 'fair' and non discriminatory, although the concept of 'equal pay for equal work' can be difficult to work in practice. There is also a requirement under legislation for basic components (up to the statutory minimum) for elements such as maternity pay; sick pay; access to pension schemes, paid holidays and for payments to at least equal the national minimum wage. A decision may well be necessary in many organisations as to whether to exceed the statutory minimum or not.

Generally reward systems include some or all of the following:

Type of reward		Type of effort
Individual rewards	Basic wage Overtime Piece rate Commissions Bonuses Merit Paid leave Benefits	Time: Maintaining work attendance Energy: Performing tasks Competence: completing tasks without error
Team rewards	Team bonuses Gainsharing	Co-operation: Co-operation with co-workers
Organisational rewards	Profit sharing Share ownership Gainsharing	Co-operation: Co-operation with co-workers

Source: Bratton and Gold, *Human Resource Management: Theory and Practice*

Practical Reward Strategy

In Strategic '*Human Resource Management: A guide to Action*', Armstrong quotes several examples of different approaches towards reward management. Some of these are reproduced below:

Glaxo Wellcome

At Glaxo Wellcome the key features of the new reward strategy developed in 1995 were expressed as:

- Competitive market rates to attract, develop, motivate and retain quality staff
- Levels of reward that vary, depending on the contribution of the individual, team and operating company to overall business success
- Designed to maximise the potential contribution of all employees (a strong emphasis on continuous development)
- Cost-effective employee choice in determining component parts of their own benefits package.

BOC Gases (UK)

The business strategy at BOC was to increase profitability. The reward strategy was to develop a new incentive pay plan based upon both the achievement of individual profit targets and wider business targets.

Halifax plc

The aims of the reward strategy are:

- Change the emphasis from measuring the job and its accountabilities to recognising the person and the contribution they make to the business
- Reflect the way the organisation is changing by encouraging staff to be more responsive and flexible to customers' needs
- Improve reward for excellent performance by freeing up salary ranges.

Finally, we must not lose sight of the fact that employers are interested in the absolute cost of payment and its bearing on the profitability or cost effectiveness of their organisation. The importance of this varies with the type of organisation and the relative cost of employees. In a heavily mechanised environment such as petrol refining, employment costs are modest. In teaching or health care, both of which are very labour intensive, the costs are substantial. The indirect costs of employing people can also be substantial.

D. HOW EFFECTIVE ARE FINANCIAL AND NON FINANCIAL REWARDS?

Herzberg suggested that money is not a motivator but a hygiene factor; you do not notice it when it is present but you become dissatisfied when there is not enough of it. Hence, reasonable pay alone is not a motivator and once people are used to their existing level of reward they become dissatisfied with it and want more. Herzberg suggested that high performance comes by providing motivators such as personal development and intrinsic motivation. These are rarely linked to financial reward.

Financial reward is clearly a significant cost to an organisation and for most organisations it is their largest cost. However, as well as cost, employee reward provides a major opportunity to improve performance. Many forces are at work: economic, legal, social etc and the reward mix is always changing.

What is the reward mix?

The total reward package that takes account of all the benefits that an employee gets from working:

- Financial (wages or salary, pension, bonus, expenses etc.)
- Benefits (leave, accommodation etc.)
- Social (work relationship and social status)
- Developmental (professional and personal)
- Intrinsic job satisfaction (doing something considered worthwhile and an additional purpose for living)
- A structure to daily life.

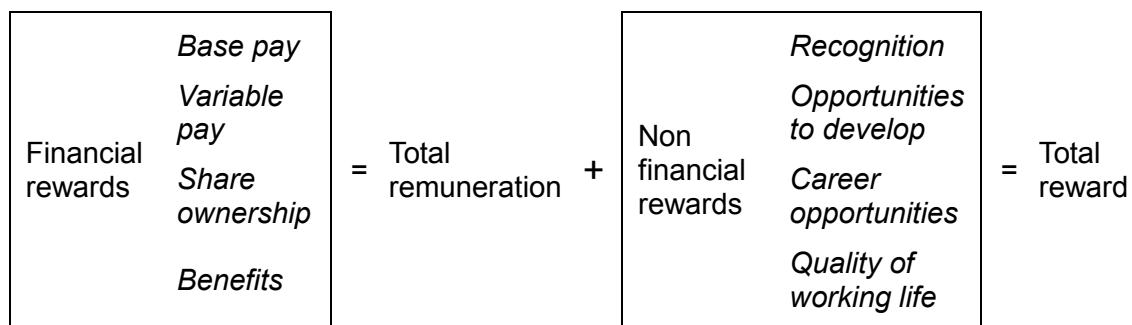
A comparison of financial and non-financial benefits might include the following elements:

Financial benefits	Non-financial benefits
Sickness pay	Leave entitlement
Superannuation scheme	Flexible working hours
Season ticket loan	Career breaks
Removal expenses	Additional maternity/paternity leave
Lease car or car allowance	Crèche
Clothing allowances	Education facilities and study leave
Private medical insurance.	Sports and social club facilities.

In addition, certain organisations provide incentive schemes linked to non monetary rewards, such as additional leave for long service.

What is Total Reward?

Components of Total Reward



Source: *New Dimensions in Pay Management*, CIPD, 2001

Why adopt total reward?

Total reward is:

- **Holistic:** It focuses on how employers attract, retain and motivate employees to contribute to organisational success using an array of financial and non financial rewards.
- **Best fit:** It adopts a contingency approach; total reward programmes need to be tailored to the organisation's own particular culture, structure, work process and business objectives.
- **Integrative:** It delivers innovative rewards that are integrated with other human resource management policies and practices.
- **Strategic:** It aligns all aspects of reward to business strategy; total reward is driven by business needs and rewards the business activities, employee behaviour and values that support strategic goals and objectives.
- **People-centred:** It recognises that people are a key source of sustainable competitive advantage and begins by focusing on what employees' value in the total work environment.
- **Customised:** It identifies a flexible mix of rewards that offers choice and is better designed to meet employees' needs, their lifestyle and stage of life.

- **Distinctive:** It uses a complex and diverse set of rewards to create a powerful and idiosyncratic employer brand that serves to differentiate the organisation from its rivals.
- **Evolutionary:** It is a long term approach based on incremental rather than on radical change.

How widely is total reward taken up by employers?

In 2007, nearly four in 10 UK employers had adopted or were implementing a total reward approach, with a higher proportion among larger private sector firms.

Why are employers considering total reward?

Both new and old economy companies have to rethink their reward strategies. Traditional companies had a paternalistic approach to reward; one benefit for employees was that they could be relatively confident of staying with the same employer for as long as they wished, possibly for their entire working careers. Newer companies (particularly those in the hi-tech sectors) rewarded employees with exciting and challenging surroundings but with no guarantee of job security. They also offered significant financial rewards, in the form of stock options. Now that the stock options have to be expensed on the profit and loss account and the traditional companies have stopped providing a job for life, both have to look at new ways of attracting and retaining key personnel. Demographic changes have resulted in a more diverse workforce demanding different returns from work. Total reward is a mindset that enables employers to look at the bigger picture.

Flexible benefits (see below) are important but are seen by many as little more than an extension to the existing salary package and something, therefore, that can be matched by rival companies. To obtain maximum effect from these benefits, they have to become part of a bigger business strategy.

At present, pay and benefits may be covered under a single and controllable, flexible benefit scheme but the employer is still faced with the prospect of having to meet demands for a wide range of other benefits, including better office accommodation or more training. In a fully integrated total reward package, all the elements of the employee's work become part of a single flexible package. It is only when all the elements of the reward package (that is total rewards) are considered within the context of business and HR strategies that the total cost of each employee's job can provide the most valuable return to the organisation. Thus, total reward links cost control with the demand by employees for greater choice and flexibility in the workplace. It also offers employers the opportunity to differentiate and create cultural brand and thence competitive advantage; it is hard to replicate.

What might be included in a total reward scheme?

Broadly, total reward encompasses pay and benefits (generally in the form of a flexible benefits scheme), the working environment and career and personal development. In more detail it may include some, or all, of the following elements:

- Flexible benefits
- Access to professional and career development
- A challenging role at work
- Freedom and autonomy at work
- Opportunity for personal growth
- Recognition of achievements
- Preferred office space
- Being able to raise matters of concern

- Being involved in decisions that affect the way work is done
- Preferred office equipment and mobile phone
- Flexible working hours
- Home or teleworking
- Secretarial support.

Clearly, some of these rewards are more easily provided than others and some are more quantifiable than others. One difficulty in a total reward package, beyond the challenge of supplying these less tangible rewards, is attempting to balance them against one another.

What are the perceived advantages of total reward?

The benefits are those of reward in general: recruitment, retention, motivation and control.

What are the perceived problems with total reward?

Total reward may be regarded as the next logical step after flexible benefits have been implemented. As only relatively few companies in the UK are successfully operating flexible benefits schemes at present (though increasing numbers are considering such schemes), the number that could even contemplate introducing a total reward scheme is even smaller. As with other reward solutions, no 'off the shelf' package is available for companies simply to plug into their operation. To develop an appropriate programme would be enormously complex and would not be without risks in its implementation, so it is an area that would almost certainly benefit from help provided by consultants. Within the field of total reward, there is currently serious debate over where to draw the line between choices related to personal needs (such as life assurance) and choices that are strictly business-related (such as the choice of computer).

Clearly, existing flexible benefits schemes already have grey areas, such as holidays, where the employee's decision is not without an impact on the rest of the organisation. However, when it comes to choosing, say, a computer, some employers (and experts) believe that this is not an appropriate area for employee choice but should be a purely business decision.

Similarly, the choice of office accommodation may occasionally lend itself to a trade off where limited office space is rationed according to who is prepared to sacrifice other benefits to obtain it but (unlike, for example, life assurance) office accommodation is a finite and not particularly flexible resource. In this case, it would often be very difficult to meet everyone's requirements, regardless of how much they were prepared to sacrifice by way of other benefits.

What is employer branding?

Every organisation has a brand as a potential employer; the way it is perceived in the labour market. Providing the right mix of pay, prospects (for internal promotion and career development for the next job outside), intrinsic motivation, status and management style all help determine the employer brand.

E. HOW DO WE EVALUATE PERFORMANCE MANAGEMENT?

A performance management strategy has five stages:

Plan for performance	● Exploit all elements of performance management (see below) ● Set objectives for work and development ● Define competencies to complement the objectives ● Communicate what good performance looks like.
Manage the day-to-day performance issues	● Manage individual employees' behaviour ● Manage team behaviour ● Deal with under performance.
Monitor your people's performance	● Have a systematic approach to monitoring individuals and teams.
Evaluate your people's performance	● Look for causes and cures, not just symptoms ● Review Ability, Motivation and Opportunity ● Create interesting jobs ● Evaluate team performance.
Create a high performance culture	● (See Study Unit 3 – The Alternatives to Strategic HRM).

The **18 elements** of performance management are:

- Mission (what your unit is trying to achieve)
- Vision (what things might look like if yours really was a quality outfit)
- Strategy (a long term sense of direction)
- Business plans (more immediate targets and plans for reaching them)
- Values (how people should and should not behave)
- Culture in which improving performance is valued and developed
- Monitoring of performance at individual, unit and Guild levels
- Feedback of that monitoring to staff
- Clear goals
- A set of competencies (to describe what good performance looks like)
- Appraisal discussions
- Personal development (anything that would help people perform better – off the job training, coaching, reading, sitting with Nellie etc)
- Management development
- Good job design (creating jobs that satisfy)

- Teamworking (interaction and mutual responsibility)
- Extrinsic reward and recognition (basic pay, performance pay, awards, saying 'well done')
- Intrinsic rewards (the satisfaction from doing a worthwhile job reasonably well)
- Effective remedies for under performers.

Each of these can be evaluated independently and in relation to its fellow activities.