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4th edition

CONTEMPORARY ISSUES IN

Human Resource Management



P. Grobler
R. Bothma
C. Brewster
L. Carey
P. Holland
S. Wörnich

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P. Grobler ■ R. Bothma ■ C. Brewster ■ L. Carey ■ P. Holland ■ S. Wörnich

BPP University College



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Preface

This book is intended to give all managers within an organisation (human resource managers included) insight into the changing role of the human resource management (HRM) function and to indicate how it can contribute towards enhancing the competitiveness of a company. Although there are numerous titles giving a solid account of the various functional areas in which HRM operates – such as recruitment, placement, performance appraisal, compensation, and training and development – it is essential for the HR manager to find the optimum framework in which each of these functional areas can contribute towards the competitiveness of the organisation.

The changing role of HR has led to a shift in activities and objectives, which has been the result of a number of new challenges:

- Globalisation – the restructuring of world markets
- Technology and structure – work roles and skill requirements, work teams, the role of managers, company structures and information usage
- Social – the changing composition of the labour market, employee values, legislation and skills deficits
- Quality – meeting customers' needs, service needs and product needs.

These are crucial influences on the world of business and the world of HRM, and they will be addressed in the chapters that follow.

Key changes

In preparing the fourth edition of this very popular text, we have extensively reviewed the academic and practitioner literature, as well as taken cognisance of suggestions received from our adopters and reviewers since the last review. We have also added a new author to our team, Mr Rob Bothma, an expert in the Human Resource Information Systems field.

Learning features

A number of features to help students make the most of this text are included in the book:

- Learning outcomes – the main learning outcomes that a student should aim to achieve from each chapter
- Purpose – a purpose statement of the chapter
- Chapter overview – brief outlines of the content and main points in each chapter
- Boxes – boxed articles relating to the topic under discussion
- Tables and figures – providing detailed information and graphical representation of major concepts
- Chapter summaries – a brief summary of the chapter content

- Key concepts – highlighted concepts in understanding the topic under discussion
- Review questions and activities – to test the understanding of issues raised in the chapter
- Further reading – suggested articles and books to provide a greater understanding of the topics under discussion
- Websites – related websites to enhance the knowledge of the topic under discussion
- Case studies – at the end of each chapter, designed to stimulate critical analysis, discussion and reflection. Additional case studies are also provided at the end of the text
- Glossary – an alphabetical list of key terms used in the book with explanations for easy reference.

Instructor's ancillary material

Oxford University Press will provide supplementary packages to adopters who qualify under our adoption policy. Please contact Oxford University Press at www.oxford.co.za to learn how you may qualify. Go to the Higher Education link on the site. Go to the Business category and click on Human Resource Management. Look for the title *Contemporary Issues in Human Resource Management*. Click on the Lecturer's Resources tab.

Test bank

A comprehensive test bank to assist lecturers is also available.

Included per chapter are:

- 25 multiple-choice questions
- 25 true/false questions
- 25 complete-the-statement questions and comprehensive answers for the review and case study questions
- A number of experiential exercises.

PowerPoint slides

A set of PowerPoint slides is also available for instructors. These slides include graphics of the illustrations within each chapter. In addition to this there are slides available to students online under the More Information tab.

About the authors

CHRIS BREWSTER is Professor of International Human Resource Management and Director of Henley's HR Centre of Excellence. Prior to joining Henley Management College, he was Professor of International HRM at the South Bank Business School, South Bank University, UK, and before this, Professor of European Human Resource Management at the Cranfield School of Management, UK. He has substantial experience in trade unions, government, specialist journals, personnel management in the construction and air transport sector and consultancy. In addition to his teaching role, Professor Brewster has acted as a consultant to British and international organisations mainly in the areas of personnel policies (the subject of his PhD thesis) and management training. He is a frequent conference speaker around the world, presenting papers at the Association of International Business, the Academy of Management, and the European Association of Personnel Management, amongst others. He is author and co-author of some twenty books and over a hundred articles. In 2002 he received the Georges Petitpas Memorial Award from the World Federation of Personnel Management Associations (WFPMA) for advancing knowledge and practice in the international management of people at work.

ROB BOTHMA (HRIS industry specialist) has been in IT for the past thirty-two years, and has been developing, implementing and marketing HR and Payroll solutions for the past twenty-two years. He has been a member of the CSSA (Computer Society of Southern Africa) for the past twenty-five years. With a background in computer operations, programming, business analysis, consulting, solutions design, lecturing and executive management at director level, Rob applies his wealth of experience to assist organisations in selecting and implementing the most suitable HR, payroll, time management and ERP solutions. During the late nineties, with the advent of more sophisticated HR solutions, Rob was invited on numerous occasions to speak at international conferences regarding HR trends, the implementation of job analysis and evaluation systems and the benefits of utilising expert and knowledge based systems in HR. Rob has also spoken at prestigious conferences in South Africa including the Institute of People Management's (IPM) annual conference, the HR Africa conference, the HR Indaba and many others. Rob is currently a non-executive director at the Institute of People Management. As part of his role as an industry expert Rob currently contributes to a monthly editorial in *HR Future*, *People Dynamics* and various other HR publications. In 2011 Rob received a lifetime achievement award from *HR Future* – for his continuous monthly contributions to the publication over a ten-year period starting with its inception.

LORRAINE CAREY (TPTC, Vic College; BA, Monash; MDiv, Harvard; MBA, Monash; PhD, Canberra) is Senior Lecturer at the University of Canberra, where she lectures in business ethics and organisational behaviour. She completed her PhD at the University of Canberra in the operationalisation of corporate ethics. Dr Carey previously held appointments in the USA as director of campus ministry at Trinity College in Washington, DC, and as a medical administrator in Boston, and in Australia as a consultant and an educator in a range of settings, including women's prisons and detention centres.

PIETER GROBLER (BCom, BCom (Hons), MCom, DCom, MHRP, MIAC) is Professor of Human Resource Management in the Department of Human Resource Management at the University of South Africa (UNISA).

He received his DCom in strategic human resource management from UNISA in 1991. He joined the teaching profession in 1986 following a career in human resource management in the government.

He has authored numerous articles for local as well as international journals, including the *Bond Management Review* in Australia, the *SAM Advanced Management Journal* as well as the *Journal of Transnational Management Development* in the USA and the Danish management journal *LEDELSE I DAG*. In South Africa his articles have appeared in *Management Dynamics*, *Human Resource Management* (now *Management Today*) the *South African Journal of Business Management*, the *Southern African Business Review* and the *South African Journal of Library and Information Science*.

He has addressed numerous international and local conferences on strategic human resource management, organisational competitiveness, and leadership. Internationally, he serves as a Director on the International Board of the Society for Advancement of Management in the USA. The Society was established in 1912 by the father of Scientific Management, Frederick Taylor. He is also a member of the international network of researchers at the Centre for European Human Resource Management at the School of Management at Cranfield University, UK. Additionally he serves on the Editorial Board of the *SAM Advanced Management Journal*, published by the Society for Advancement of Management and distributed to more than sixty countries. Locally he serves on the Editorial Board of the *South African Journal of Labour Relations* and the *Southern African Business Review*. He is also a reviewer for the *SA Journal of Human Resource Management (SAJHRM)*. Professor Grobler is registered as a Master HR Practitioner in the Generalist category with the South African Board for People Practices. He is also a member of the Institute of Administration and Commerce of Southern Africa, the Institute of People Management, the Southern Africa Institute for Management Scientists, and the Southern Africa Institute of Management Services.

Human resource management's role in the evolving paradigm

1

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Identify the origins of human resource management
- Describe the new role of human resource management within organisations
- Explain the new employee–employer relationship
- List and discuss new innovative approaches to human resource management

PURPOSE

The purpose of this chapter is to introduce you to the changing world of human resource management.

CHAPTER OVERVIEW

This chapter focuses on the evolving role of human resource management. It begins with a discussion of the origins of human resource management. It considers the new role of human resource management within the changing organisational environment. Thereafter it describes the new employee–employer relationship within this environment. The chapter also contains a discussion of new innovative approaches to human resource management. The concluding case study illustrates how to apply this chapter's theory to a practical situation.

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

Introduction

The role human resource management (HRM) plays within organisations has changed dramatically. Having excluded HRM from participating actively in business decisions for most of its existence, organisations now require HRM to play an active role in the fight to be successful and remain competitive.¹⁻² They ask the HR function to respond by cutting costs and finding creative ways to add value to the business. Doing so, however, appears to require a repositioning of the HR department, which will involve not only new roles but also new competencies, new relationships, and new ways of operating³ (see Chapters 2 to 13). To understand the role of HRM, one must understand, firstly, its historical evolution, and, secondly, the challenges facing HR today.

In this chapter we shall discuss the origins and new role of HRM, the new employee–employer relationship, and innovative approaches to HRM.

1.1 The origins of HRM

Although some HR activities had been taking place in the early 1800s in areas such as agriculture and small family businesses, more formal HR practices evolved only at the beginning of the Industrial Revolution, when factories required large numbers of employees with specific skills to operate their machines.⁴ To recruit and train these workers, companies started employing people who would be responsible for these activities. Since then, rapid changes, which have had a profound impact on the role played by the HRM professional, have taken place within organisations.⁵⁻⁶

The researcher McKee⁷ has successfully described these paradigm shifts in business life and has also identified the evolving role of the HRM function during these periods. Before we take a closer look at McKee's work, it may be appropriate to define briefly what

is meant by 'a paradigm'. According to Barker (1989), a futurist, as quoted by Belohlav,⁸ the term 'paradigm' can be described as a set of rules and regulations that define boundaries and tell us what to do to be successful within those boundaries. Thus, the term 'paradigm' refers to a particular way of thinking about, seeing, and doing things within one's environment.

The categories of change that McKee has identified within businesses can be grouped into four distinct periods:

- *The mechanistic period.* This period can be associated with the 1940s and 1950s, when manufacturing was the driving force in industry. This period saw the birth of the personnel/industrial relations profession. The main focus of the HR function was of an administrative nature, e.g. interpreting union contracts, keeping manual records, and hiring and paying people. This period also saw the emergence of benefit programmes as an area of interest.⁹
- *The legalistic period.* The 1960s and 1970s saw an unprecedented amount of legislation in the social and employment areas. This legislation had a major impact on the workplace and the roles and responsibilities assumed by the personnel officer. The legislation began a trend towards the regulation of the workforce beyond the union contract and company rules. Training and development began to emerge as a separate and specialised area of HRM and continues to play an important and vital role. Also in the early 1970s, the first HR information systems application (the computerisation of the salary database) was started.¹⁰
- *The organic period.* Tremendous organisational change started to take place in the 1980s. Here we think of globalisation, mergers, acquisitions, re-engineering, and downsizing. These activities brought about radical changes

in the workplace and created an environment in which the HRM function faced numerous challenges (e.g. an increasingly diverse workforce and an increase of awareness of work and family issues). During this period the movement towards cost and profit centres became an important issue for HRM, as did the implementation of more command-and-control policies and procedures to save the organisation from failing to deal with the turbulent environment. This period can also be seen as the height of HRM specialisation.¹¹

- *The strategic period.* The 1990s has become known as the strategic period. During this time strategic thinking and planning emerged as the most prominent activity to deal with the continual change faced by corporate organisations. In this period organisations were in flux, with structures ranging from webs to networks and matrices. Owing to the fierce competition, organisations turned to the HRM function to assist them in their struggle to remain successful and competitive. The HRM function now became a true strategic partner, reporting to the CEO and interacting with the Board of Directors. HR professionals also played an active role in determining the future direction of organisations.¹²

Beyond 2000, McKee projected the trends described above and called this period the catalytic period. In this period, she argued, the following issues would play major roles:¹³

- An increase in cross-border employment
- A workforce that will be comfortable in, and with, other cultures
- Fewer organisations as a result of continued mergers and acquisitions
- The use of just-in-time professional workers

- An increase in outsourcing of administrative functions
- More innovative compensation practices
- A more selective approach by employees regarding their careers
- Telecommuting and other forms of flexible work being widely introduced
- Teams playing a major role.

Thus, to summarise, the good old days of HRM are over, and in the future HRM will emerge as an even more critical factor in developing and maintaining a company's competitive edge. However, if HRM is to play this significant part successfully, it is important to take a look at how the function is adapting to its new role in order to meet the needs of the future.

1.2 The new role of HRM

As indicated in the previous section, rapid changes have taken place within the organisation as well as in the role HR professionals play. Thus, few successful businesses can continue to rely on past policies and practices, while their HR professionals can ill afford to continue to be functional experts.¹⁴⁻¹⁶ Management and HR professionals must become partners in decision making and share accountability for organising the work to be performed – including where it is to be performed. To be successful, the HR professional will have to:¹⁷

- Become involved with line managers in strategy formulation and implementation, resulting in the design of HR strategies that will support the overall company strategy
- Become an expert in the way work is organised and executed
- Become involved in reducing costs through administrative efficiency, while at the same time maintaining high quality; this can be achieved by delivering state-of-the-art, innovative HR practices

- Become a reliable representative for employees when putting their concerns to management
- Become involved in efforts to increase the employees' contribution to the organisation
- Become an agent for continuous transformation, shaping processes and culture to help organisations improve their capacity for change.

If all these tasks are done well, the HR professional will receive the recognition he or she deserves within the organisation.

The strategic alliance between management and HR has received substantial attention in both popular and academic literature. However, a study of these articles reveals a focus on the strategic partnership role (e.g. getting to know the needs of the business and where it is going), while no mention is made of HR's past operational role.

In his popular book *Human resource champions*, Ulrich¹⁸⁻¹⁹ warns about this one-sided view and proposes a multiple role model for HRM, which addresses these as well as other issues. Ulrich is of the opinion that for HR professionals to be successful, they will have to play at least four different roles, namely strategic partner, administrative expert, employee champion and change agent.²⁰ He also proposes that HR professionals should focus on what they can deliver before they look at the activities or work of HR. As his model has been successfully implemented by major corporations around the world (e.g. Hewlett-Packard, General Electric, and Sears), it would be wise to take a closer look at the model.

The axes of Ulrich's model (see Figure 1.1) represent two aspects, namely focus (i.e. short-term and long-term) and activities (managing processes, HR tools and systems, and managing people). The HRM roles mentioned earlier are depicted in the four quadrants of the model. To clarify these

roles, each quadrant also contains the outcome of each role as well as the activities the HR professional is to perform. For example:

- Top left quadrant (Cell 1). In this cell (management of strategic human resources) the HR manager works to be a strategic partner by focusing on the alignment of HR strategies and practices with the overall business strategy (see Chapter 4 for more detail). By fulfilling this role, HR professionals increase the capacity of the business to execute its strategies.²¹
- Bottom left quadrant (Cell 2). This role (management of company infrastructure) requires HR professionals to design and deliver efficient HR processes, e.g. staffing, training, appraisal, rewarding, and promotion. HR professionals must ensure that these organisational processes are designed and delivered efficiently. This process is ongoing.²²
- Top right quadrant (Cell 3). The third key role to be played by the HR professional is management of transformation and change. This entails making fundamental cultural changes within the organisation.²³
- Bottom right quadrant (Cell 4). The employee-contribution role of HR professionals encompasses their involvement in the day-to-day problems, concerns, and needs of employees. Where, for example, intellectual capital becomes a critical source of a company's value, HR professionals should be active and aggressive in developing this capital.²⁴

Thus, by turning the four HRM roles into specific types of behaviour and actions, a world-class HR organisation can be created, as seen in companies such as Hewlett-Packard and some others already mentioned. According to Ulrich, the business partner concept has changed to become a more

Figure 1.1 HRM's roles in building a competitive organisation

Future/strategic focus (short-long term)			
Processes	Cell 1 Management of strategic human resources Deliverable/outcome Executing strategy Activity Aligning HR and business strategy: 'Organisational diagnoses' Role Strategic partner	Cell 3 Management of transformation and change Deliverable/outcome Creating a renewed organisation Activity Managing transformation and change: 'Ensuring capacity for change' Role Change agent	People
	Cell 2 Management of firm infrastructure Deliverable/outcome Building an efficient infrastructure Activity Re-engineering organisation processes: 'Shared services' Role Administrative expert	Cell 4 Management of employee contribution Deliverable/outcome Increasing employee commitment and capability Activity Listening and responding to employees: 'Providing resources to employees' Role Employee champion	
Day-to-day/operational focus			

SOURCE: Adapted and reprinted by permission of Harvard Business Review Press. From ULRICH, D. 1997. *Human resource champions: The next agenda for adding value and delivering results*. Boston, MA: Harvard Business Review Press. This figure is a combination of Figure 2.1 on page 24 and Table 2.1 on page 25 of the text. Copyright © 1999 by the President and Fellows of Harvard College, all rights reserved.

dynamic, all-encompassing equation, thus replacing the simple concept of business partner (i.e. only working with general managers to implement strategy), with:

*Business partner = strategic partner + administrative expert + employee champion + change agent.*²⁵

In conclusion, being an effective HR professional does not mean simply moving from operational to strategic work as the new challenges demand; it means learning to master both operational and strategic processes and people. For today's HR professionals to deliver value to a company, they must fulfil multiple roles.

1.3 The new employee-employer relationship

From the discussion thus far it has become clear that successful and competitive organisations are able to turn their strategies into action quickly, manage their processes efficiently, and maximise their employees' contributions and commitment. For this to be possible, organisations must abolish the old way of doing things and implement new practices. This can take place through re-engineering, restructuring, downsizing, and other activities.

These changes will inevitably result in employees being dismissed, not only those working in factories, but also those who, traditionally, were offered long-term careers within the organisation. Thus, the psychological contract – what employees and employers want and expect from each other^{26–27} – will change dramatically in the new work environment. The question now is: what will this new contract look like?

The psychological contract that is dynamic, voluntary, subjective, and informal accomplishes two tasks: firstly, it defines the employment relationship, and, secondly, it manages mutual expectations.^{28–29}

Perhaps the most significant change in the new work environment is the lack of job security offered to employees. In the old paradigm, an employee's current and future position were very clear and predictable, which resulted in employee loyalty being fostered. For this loyalty, employers would provide good pay, regular promotion, and benefits, and would also invest in the training and development of their staff. The relationship between the employer and the employee was a good one. However, this happy marriage has become strained in the new work environment, in which cutting costs and improving productivity are management goals. The flexible, de-layered, slimmer organisation is constantly changing to suit volatile and shifting markets, and

can logically no longer sustain secure career progression.³⁰

What is interesting is that, while these changes are occurring from the employer's side, new values, trends, and workplace demographics have resulted in revised expectations from employees themselves. For example, there seems to be a significant shift in employees' attitudes and values as regards career management, leadership style, motivation, and working conditions. This highly educated new generation of workers wants more opportunities for development, autonomy, flexibility, and meaningful experiences. These workers also value independence, imagination, tolerance, and responsibility.³¹

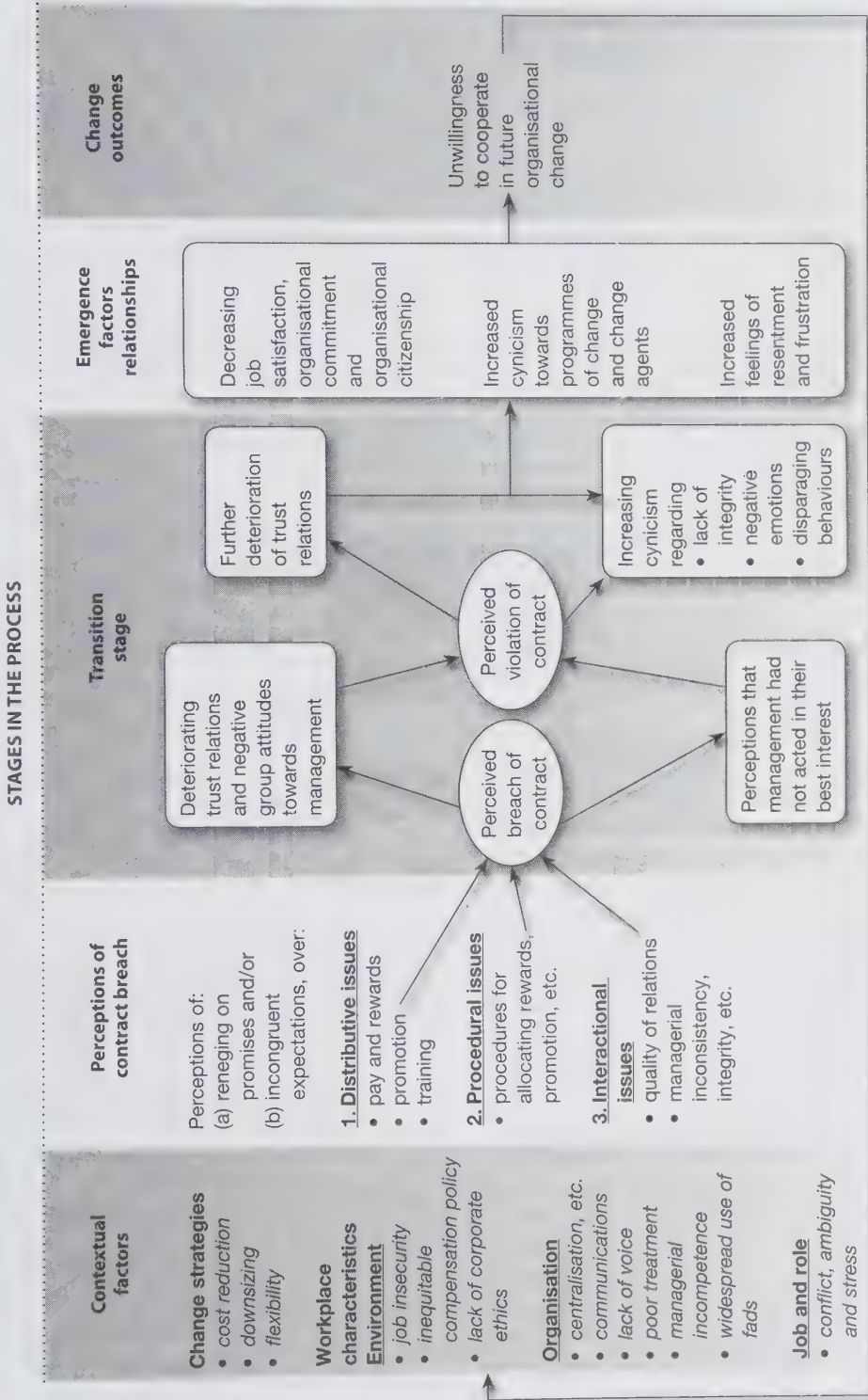
Thus, with changes taking place on the employer's as well as the employee's side, a new type of psychological contract is emerging – one that is more situational and short term and assumes that each party is much less dependent on the other for survival and growth.

According to Hiltrop, this new contract can be defined as follows:^{32–33}

There is no job security, the employee will be employed as long as he or she adds value to the organisation, and is personally responsible for finding new ways to add value. In return the employee has the right to demand interesting and important work, has the freedom and resources to perform it well, receives pay that reflects his or her contribution and gets the experience and training needed to be employable here or elsewhere.

SOURCE: HILTROP, J-M. 1995. The changing psychological contract: The human resource challenge of the 1990s. *European Management Journal*, 13(3):286–294, September.

Figure 1.2 A process model of the links between contract violation, trust, cynicism, and organisational change



SOURCE: Adapted from PAYE, J., MARTIN, G. & STAINES, H. 2000. Exploring the relationship between psychological contracts and organisational change: A process model and case study evidence. *Strategic Change*, 9:482. 2000 © John Wiley and Sons Limited. Reproduced with permission.

As the old employment contract, which is based on security and predictability, is withdrawn, it will be replaced with one of faint promises. Thus employees will give their time but not much more.

According to Grant (1997), as quoted by Niehoff and Paul,³⁴ Kodak has one of the most innovative applications of paying attention to psychological contracts. Kodak has, for example, formalised the development of a 'social contract' with each employee, whereby the employee pledges to understand the business and the customers and also give 100% of his or her effort to the job. The company, from its side, pledges to provide extensive training, career-development opportunities, and appraisal of managerial performance. The main purpose of Kodak's actions, according to the authors, has been to take the 'psychological' out of the contract by putting both parties' obligations in writing. Besides this formal approach from the employer's side, employees can also play an active role in minimising any problems with the psychological contract. This can take place by engaging organisational agents (e.g. HR managers and supervisors) in explicit discussions of obligations to ensure that both their perceptions of the terms of the employment relationship are shared and that those terms are as clear as possible.³⁵ These types of discussion are especially important when there are cultural differences between the employee and the organisational agents responsible for executing the terms of the psychological contract and when the employee lacks knowledge regarding the norms of the organisation.

Consequently, when psychological contracts go unfulfilled or are perceived to have been violated, employees may experience reduced organisational commitment, stronger intentions to quit, and other disaffections, such as the likelihood for sabotage, theft, and other aggressive types of behaviour which can impact negatively on the organisation and its efforts to gain

and sustain a competitive advantage³⁶ (see Figure 1.2).

Two types of violation of the psychological contract can occur, namely reneging and incongruence.³⁷ Reneging occurs when either party to a psychological contract knowingly breaks a promise to the other. Reneging may also occur because one party is unable to fulfil its promise or because one party does not want to fulfil the terms of the agreement. In contrast, incongruence occurs when the parties have different understandings of their obligations in terms of the contract. Those different understandings occur because the terms and conditions of psychological contracts are often perceptual. On the opposite end of the continuum, employers who understand and uphold these psychological contracts promote employee trust in management as well as higher levels of job satisfaction, organisational commitment, and the intention to remain with the employer – the desired state.³⁸

1.4 Innovative approaches to HRM

There is no doubt that each of the factors mentioned thus far is creating a number of new challenges for HRM.

Hiltrop summarises these challenges skilfully when he asks the following questions:³⁹

- How can we attract and retain people who can live with and often thrive upon uncertainty?
- How can we get and maintain the loyalty and commitment of our employees when job security, promotion opportunities and career entitlements are declining?
- How can we meet career expectations of employees who expect

rapid promotions in an organisation that is becoming flatter and leaner and is not expanding enough?

- How can we encourage (older) employees to take more responsibility for their own personal and professional development?
- How can we develop procedures and processes that help managers and specialists understand and commit themselves to working together?
- How can we build an organisation culture and structure in which employees feel satisfied, challenged and empowered?

SOURCE: HILTROP, J.-M. 1995. The changing psychological contract: The human resource challenge of the 1990s. *European Management Journal*, 13(3):286. September.

To manage this complex and challenging environment, HR professionals have not only adopted new roles within the workplace, as was mentioned earlier, but have also designed, in conjunction with line managers, some innovative HR approaches. In the following section we shall discuss some of the more important approaches: self-managed work teams, alternative workplaces, E-HRM, and talent management.

1.4.1 Self-managed work teams

Although not totally new, self-managed work teams (SMWT) – also known as self-directed work teams (SDWT) or as self-maintaining, self-leading and self-regulating work teams⁴⁰ – have again recently come to the fore as a method of improving employee commitment and thus the general well-being of the organisation.⁴¹ In Europe, these teams are used by companies such as Volvo, Saab, and (in Spain) the Mondragon cooperative

movement, resulting in significantly higher profits and productivity gains than those of the average operator. These teams are also used in other parts of the world.⁴² For example, in a recent survey of *Fortune* 1000 companies in the USA, the results indicated that 79% of the companies and 81% of manufacturing organisations used SMWTs or so-called 'high-performance' teams.⁴³

As the term 'self-managed' implies, these teams within the work environment are responsible for determining what they want to do, how they want to do it, and when they want to do it. The teams are thus empowered to use their initiative in solving problems and managing themselves.⁴⁴ The advantage of these teams is that they can respond quickly to the needs of a particular situation, which is of great importance for companies finding themselves in a turbulent environment. Team members participate in decisions regarding, for example, who to hire for their teams, what equipment to purchase, and what training is necessary to operate the equipment.

The most profound implication for establishing these teams appears to be in the overall role of HRM.⁴⁵ Moving from a centralised functional staff position, as indicated earlier in the chapter, the HR professional now becomes a coach or counsellor or advisor to the team. For example, when hiring or selecting people for the company, the team members play an important role in deciding whether the applicants will be good team members or not. Also, in the job-analysis process, the team plays an important role.⁴⁶ Not only are certain kinds of behaviour necessary to perform a specific job, but the team members also have to learn new sets of behaviour to be able to work together successfully. These sets of behaviour have to be identified during the job-analysis stage. In training, the SMWT assesses its own training needs and, with the input and advice from the HR professional, participates in the design, delivery,

and evaluation of the training programmes. Besides its own job-training requirements, the team also needs training in communication, listening and supervisory skills, conflict resolution, decision making, running meetings, and time management. For overall business responsibility, the team needs to learn customer relations and how to deal with suppliers and unions.⁴⁷

Owing to the teams' unique situation, changes will also have to be made to the compensation system within the company. In the past, individuals were paid according to the job category in which they were classified. Now, however, with teams, the most prevalent pay system used is pay for knowledge. Thus, team members are paid according to how many team tasks they can perform. Other innovations in the compensation system for teams include gainsharing or suggestion-system payments in order to encourage team initiative.⁴⁸

New procedures to determine the critical factors of performance for teams must also be implemented. Team members must become involved in both the design and the appraisal itself. The team will also be responsible for its own work schedule and vacation policy. It is clear that the development of team-based work systems has the potential to create a more productive, creative, and individual-fulfilling working environment and thus plays a critical role in the new challenges facing HRM.

However, despite these successes, there are a number of 'no-gos' that can doom SMWTs to near-certain failure and thus need to be noted. These include the following:⁴⁹

- The company is not willing to commit the time and resources (including problem-solving resources) necessary for the teams to succeed
- The work does not allow employees time to think, meet, and discuss ideas
- Employees work independently much more than interdependently

- Employees do not have highly developed technical competencies
- The organisational leader or champion of the team concept cannot guarantee a personal commitment for at least two years, perhaps due to retirement or a pending transfer.

With the greater availability of technology within companies, the SMWTs have now also evolved into virtual teams.⁵⁰

According to Townsend, De Marie, and Hendrickson, these teams can be defined as follows:⁵¹

Virtual teams are groups of geographically and/or organisationally dispersed co-workers that are assembled using a combination of telecommunications and information technologies to accomplish an organisational task. They rarely meet face-to-face, they may be set up as temporary structures existing only to accomplish a specific task or may be more permanent structures to address ongoing issues.

SOURCE: TOWNSEND, A.M., DE MARIE, S.M. & HENDRICKSON, A.R. 1998. Virtual teams: Technology and the workplace of the future. *Academy of Management Executive*, 12(3):17-29.

Virtual teams have become important for a number of reasons, including:⁵²

- The change in organisation structures to flat or horizontal formats
- The emergence of environments that require interorganisational cooperation as well as competition
- Changes in workers' expectations regarding their involvement in organisations
- The globalisation of trade and organisation activity.

Virtual-team formation can expand telecommuting potential by allowing employees involved in highly collaborative teamwork to participate from remote locations. However, these teams will be successful only if all the members became proficient in a wide variety of computer-based technologies and learn new ways to express themselves and understand others in an environment with a diminished sense of presence. Also, in many organisations, virtual-team membership crosses national boundaries, involving a variety of cultural backgrounds, which will require additional team development in areas such as cultural diversity.⁵³ An important aspect pertaining to these teams is leadership. The leaders of virtual teams do not have the same powers of physical observation as leaders have within a normal work environment. As such, leaders have to be creative in setting up structures and processes so that variations from expectations

can be observed virtually. In Table 1.1 a number of practices which effective virtual team leaders can follow to enhance team effectiveness are indicated.

A further new development in this area has been the establishment of the interorganisational virtual organisation.

This new term is defined by Fuehrer and Ashkanasy⁵⁴ as

... a temporary network organisation, consisting of independent enterprises (organisations, companies, institutions or specialised individuals) that come together swiftly to exploit an apparent market opportunity. The enterprises utilise their core competencies in an attempt to create a best-of-everything

Table 1.1 Critical success factors for global virtual teams

Virtual team challenge	Critical success factors for effective global virtual teams
Communication	Emphasise continuous communication Set meeting schedules and rules of engagement Conduct periodic face-to-face meetings Engage in team-building activities at onset of virtual team creation
Culture	Instil a sense of cultural awareness Create teams from complementary cultures
Technology	Utilise multiple computer mediated communications systems (CMCS) Train team members in the use of various CMCS Ensure infrastructure compatibility among geographic locations Assess political and economic barriers to international telecommunications
Project management (leadership)	Set clear team goals and provide continuous performance feedback Build team cohesiveness Express flexibility and empathy towards virtual team members Exhibit cultural awareness

SOURCE: Reprinted from KAYWORTHY, T. & LEIDNER, D. The global virtual manager: A prescription for success, *European Management Journal*, 18(2):190, (April). © 2000 with permission from Elsevier Science.

organisation in a value-adding partnership (VAP), facilitated by information and communication technology (ICT). As such these virtual organisations act in all appearances as a single organisational unit.

SOURCE: FUEHRER, E.C. & ASHKANASY, N.M. 1998. *The virtual organisation: Defining a Webrian ideal type from the interorganisational perspective*. Annual meeting of the Academy of Management. San Diego: C.A.:19. [Paper.]

From this definition it is clear that three important characteristics of these organisations can be identified, namely:⁵⁵

1. The central role to be played by ICT
2. The cooperative character of these organisations
3. Their temporary nature.

Although not much research is at present available on these types of organisation, they undoubtedly have HRM implications such as, for example, building trust, which is essential for the functioning and success of these organisations.

1.4.2 Alternative workplace

Besides the SMWTs and virtual teams, other approaches have been developed to increase employee commitment and productivity. The alternative workplace is such an effort by HR management to transform the workplace by moving the work to the worker instead of the worker to the work.⁵⁶ The alternative-workplace approach is a combination of non-traditional work practices, settings and locations that is beginning to supplement traditional offices. It can also give companies an edge in vying for talent as well as in keeping it. Today, AT&T in the USA is just one among many organisations pioneering the alternative workplace. By recent estimates, nearly 18 million

US workers currently spend at least a portion of their workweek in virtual mode and that number has increased by almost 100% since 1997.⁵⁷ Virtual work is important because of its increasing prevalence and also because virtual organisations and virtual workers may be the key factors in the 'new economy'.⁵⁸

Other reasons of importance include the following:⁵⁹

- The ability of a field sales or service organisation to function effectively as a team without having to come to the office to collect messages, attend meetings, and interact with co-workers
- The desire to eliminate wastage of time in commuting, thus giving workers more free time for personal or business needs
- The interest in spending more time at home with family members by virtue of conducting business from a home office
- The significant cost savings for companies over time, as fewer employees require expensive office space and other support services
- The perceived increase in productivity when employees have more time to spend on their jobs without having to commute to the workplace.

Although different companies use different variations on the alternative-workplace theme to tailor work arrangements to their own needs, Apgar IV has identified a number of options available, namely:⁶⁰

- *Placing workers on different shifts or travel schedules.* This enables them to share the same desk and office space.
- *Replacing traditional offices with open-plan space.*
- *Implementing the concept of 'hotelling'.* As in other shared office options, 'hotel' work spaces are furnished, equipped, and supported with typical office services. These spaces can then be reserved by the hour, day or week instead of being permanently assigned.

In addition, 'hotels' may appoint a concierge to provide employees with travel and logistical support.

- *Creating satellite offices.* Such offices are the result of breaking up large, centralised facilities into a network of smaller workplaces that can be located close to customers or to employees' homes.
- *Introducing telecommuting or virtual offices.* This is one of the most commonly recognised forms of alternative workplace and has been used for some time. Telecommuting – performing work electronically wherever the worker chooses, e.g. from home – generally supplements the traditional workplace rather than replacing it.

Some interesting information pertaining to these different options appears in Appendices 1A and 1B to this chapter.

Although these different forms of alternative workplace have been identified separately, they are sometimes also found in combination within organisations (e.g. shared offices and telecommuting); see the article in Box 1.1 on the next page, entitled 'One company, two telecommuting arrangements'. It is also interesting to note that a dynamic, non-hierarchical, technologically advanced organisation is more likely to use these practices than a highly structured, command-driven company is to do so.

One of the most critical HR issues in setting up these alternative workplace practices is that of measuring the employees' performance. It is very clear that the traditional approaches will not work and new methods have to be devised. This also applies to the manner in which employees receive rewards. As a result of the different locations at which the employees will be working, a culture change within the company will be necessary as employees learn new ways of connecting with one another.⁶¹ It is also important to note that some personalities

suit working alone for extended periods from a remote location better than other personalities do. When choosing telecommuters for example, one should look for:

- Self-motivation
- High level of job knowledge and skills
- Flexibility
- Strong organisational skills
- Strong communication skills
- Low need for social interaction
- Team-player mentality
- Enjoyment of responsibility
- Trustworthiness and reliability.⁶²

The decision to implement alternative workplace practices is normally based on a number of assumptions, for example that certain jobs either do not depend on specific locations and types of facilities or depend only partly on them.

For the successful implementation of the different workplace practices, Apgar IV suggests asking the following questions:⁶³

- What function does the job serve?
- Is the work performed over the phone?
- How much time does the employee have to spend in direct contact with other employees/customers and business contacts?
- Is the location of the office critical to performance?
- Is it important for others to be able to reach the employee immediately?

SOURCE: APGAR IV, M. 1998. The alternative workplace: Changing where and how people work. *Harvard Business Review*, May/June: 121–136.

BOX 1.1***One company, two telecommuting arrangements***

Lucent Technologies, a high-tech firm that split off from AT&T in 1996, continues to promote telecommuting for several reasons, according to company spokesman William T. Price: 'First, it offers a recruiting advantage because flexible work arrangements weigh heavily with today's employees. Second, and very important for a company like Lucent, telecommuting uses the technology we provide to the world. We can promote our own products; we can use our own workforce as pioneers in telecommunications; we gain marketing knowledge and product knowledge.'

Unlike AT&T, which places the decision to allow telecommuting squarely in the laps of its department heads, Lucent has people who go from unit to unit and division to division, pre-screening individual employees to determine whether they're suitable candidates. According to Price, they ask questions like: 'Do you have a need for a lot of personal contact? Are you comfortable enough with technology to download files, do routine maintenance and so on? Are you a self-starter? A self-motivator? On the other hand, will you not be able to stop working?' They also interview supervisors, asking questions like: 'Are you comfortable supervising a person you don't see every day? How will you measure the employee's performance?'

'Rarely does an employee have to be brought back to the office, once given a work-at-home arrangement,' Price claims, 'because with this pre-screening system, we ensure that each telecommuter can work well from home.'

Lucent uses two telecommuting arrangements – 'formal' and 'casual'. In a 'formal' arrangement, employees have no office space in the Lucent building. Instead, they're provided with the necessary equipment, telephone connections and coaching. They're rarely seen on the company premises.

Employees with 'casual' work-at-home arrangements work at home only occasionally, for instance if there's bad weather or a family illness. Price estimates that 20% of Lucent's 150 000 employees worldwide have some sort of telecommuting arrangement. Of that 20% (most are based in the US), more than half use the formal system.

Price asserts that monitoring the performance of telecommuters is not a problem. Lucent has an extensive performance management plan, by which key objectives are set every year, and supervisors give out semi-annual assessments.

Lucent's telecommuting policies would work in many other industries, he believes. 'In general, the line between people's personal and professional lives has become blurred, and having the flexibility to work at home, whether you're in your own business or working for a paper company, makes you a more productive worker and family person.'

SOURCE: SANDLER, S. (Ed). 1999. *HR Focus*, December:12, 212/2440360. <http://www.ioma.com>. Reprinted with permission © HR Focus.

Having answered these questions satisfactorily, the company will also have to look at a number of other issues before proceeding with the implementation of alternative-workplace programmes. One such

aspect that needs attention is the attitude of middle management. These employees normally see their roles being diminished when their subordinates work at home. Informing them of the positive contribution these

programmes can make to the company – as well as their crucial role therein – is vital. Undertaking programmes with only partial support from the staff results only in confusion and frustration for the employees at home, with a consequent drop in productivity.⁶⁴

The company will also have to look at the cost aspects of implementing the programmes. These programmes need hardware, software, and other support, which can involve large sums of money. The company also needs to budget for ongoing costs such as allowances, phone charges, and technical support, as well as the time necessary to reorientate and train the employees involved.⁶⁵

Besides these problems, certain external barriers may exist. For example, in Japan people's homes are so small that they cannot contain a home office. Also, in many other countries around the world, some citizens' homes either do not have electricity or are structures not conducive to housing highly sophisticated technical equipment. Thus, when an employee at home cannot communicate with other employees or clients, gain access to the right information or easily reach a help desk to solve a technological problem, the initiative is destined to fail.⁶⁶

Thus, to improve the chances of an alternative-workplace programme, those involved must have a full set of tools, relevant training, and appropriate and flexible administrative support.

If all these problems are solved satisfactorily, the company is then in a position to implement such a programme. It is advisable to start with simple activities, for example functions such as telemarketing and personal sales, before moving to more complex ones.

It is also important to inform the employees involved of how their performance will be monitored. Setting clear goals from the outset and agreeing on what to monitor is critical. The success of a programme will also depend on how successfully the individuals

can distribute their time between their work and family at home.⁶⁷

A major US company, Merrill Lynch, has reduced its people risk by setting up telecommuting laboratories at a number of its offices. After extensive pre-screening, employees spend about two weeks at work in a simulated home office. Here, the prospective telecommuters communicate with their managers, customers, and colleagues by phone, e-mail or fax. If they do not like this way of working, they can drop out.

This approach has proved very valuable to Merrill Lynch in that it has enabled the company to minimise the risk of placing people in jobs they do not like. Interestingly, approximately 17% of IBM's total worldwide workforce is sufficiently equipped and trained to work in alternative-workplace programmes.⁶⁸

1.4.3 E-HRM

One of the more innovative methods of managing employees efficiently is using the World Wide Web for HR applications.⁶⁹ Although this development is still limited in its application, HR departments worldwide are showing a keen interest in it. E-HRM includes a wide range of functions, ranging from something as simple as making a company's HR policies and procedures available through its intranet to managing the development and deployment of the company's most strategic skills.

In this section we shall focus on the work reported by Letart, an employee at the TALX Corporation. This company is responsible for the design and implementation of interactive web and interactive voice response (IVR) solutions for HR. It is based in St Louis, USA.⁷⁰

According to Letart, there are five stages of web deployment within organisations. These stages can be used to determine where an organisation stands. Let us take a brief look at each of these stages.

- *Stage I – information publishing.* Many companies find themselves at this stage of development. Here the HR policies and procedures of the company are published for general scrutiny. Other information also available includes the company history, a directory of services, and information on the management team. This is a very cost-effective way of making up-to-date company information available to employees.⁷¹
- *Stage II – database inquiry.* Like the previous level, this level provides one-way communication to employees. However, increased security requirements now exist, as the user is given the opportunity to gain some personal information from the system. Examples include current benefit coverage, personal demographic data, and work schedules. The advantage of this stage of development is that it reduces phone calls and e-mails to the HR department; this reduction can, ultimately, have a major impact on staffing needs. This level begins to change the way companies do business.⁷²
- *Stage III – simple HR transactions.* At this stage, paperwork is replaced with transactions using electronic input. Here the employee updates personal information, such as bank particulars for salary deposits, on the HR database available in the company. This is the first step in HR transaction processing and represents a much bigger change in the way HR departments work.⁷³
- *Stage IV – complex HR transactions.* Stage IV applications differ from those of the previous stage in the complexity of the interaction between the user and the HR transactions being processed. In addition to updates, calculations or other internal processing of data take place – for example, an employee may access the employee benefits database and make a selection of items which will

be calculated by the system, approved within the budget limits allowed, and confirmed by e-mail to the employee.⁷⁴

- *Stage V – HR workflow over the web.* This is the ultimate stage of development. Here HR executives give employees and managers a way to administer their own HR data and processes without paperwork or administrative support. The users are walked through all the steps necessary to complete whole processes rather than just discrete transactions. For example, an employee who gets divorced may need to change her or his address, contacts, income-tax particulars, benefits profile, and pension contributions.⁷⁵

It is clear that the web application for HR departments is enormous. It can lead not only to improved services, better communication, and cost reduction, but also to the ultimate goal of making the organisation more successful and more competitive, especially when deployed globally, increasing the capability to manage a global workforce. But how can this ultimate goal be realised? This will be our next focus.

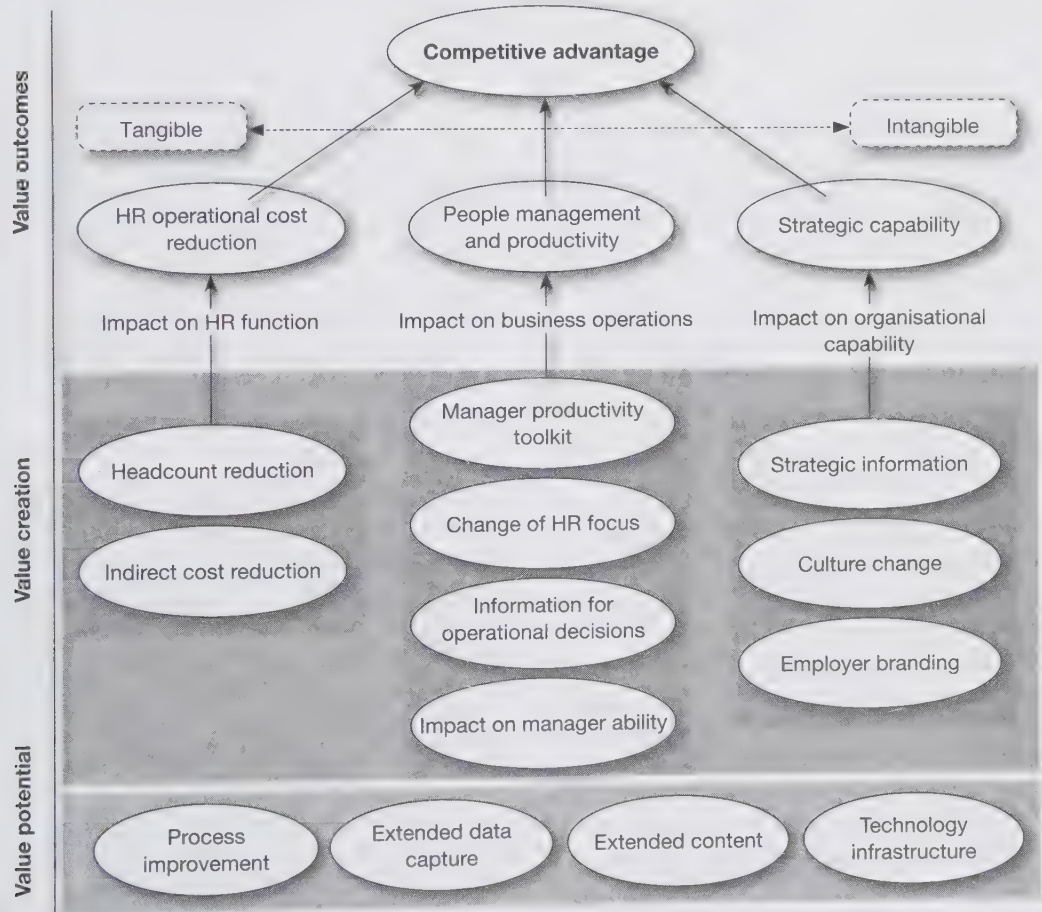
- *Linking E-HRM to the competitive advantage.*

There is no doubt that over the years the HR function has struggled to prove how it can actually create organisational value. This has had serious implications for the HR function, as many new initiatives had to compete with other stakeholders for internal funding.⁷⁶ One area where HR has an opportunity to create value is through the use of technology, especially web-based systems. In a very thought-provoking article by Steve Foster, with the title '*Creating HR value through technology*', the author provides a framework – the so called E-HRM Value Model – for HRM professionals, which will help them move their E-HRM practices beyond that of administrative processing.⁷⁷ This section will

reflect the work done by the author and published in the aforementioned article. According to the author, value can be created in one of only three ways (see Table 1.2).⁷⁸ Keeping these aspects in mind, at the heart of the proposed model (see Figure 1.3) is the principle that the ultimate outcome of E-HRM is to support the company's competitive advantage.⁷⁹ The model, which is similar in structure to a balanced scorecard, highlights how value flows upward to support the company's competitive advantage.⁸⁰ As indicated in the model the potential to create value supports value creation, which in turn supports the three core value outcomes

discussed in Table 1.2. Each of which is linked to an aspect of competitive advantage. Thus, the E-HRM Value Model is intended to provide a structure through which to develop an outcome-based approach linking value potential to value-outcomes such as productivity, performance and strategic capability, as well as HR operational cost reduction.⁸¹ Thus, by focusing on a company's competitive advantage rather than HR operational cost reductions, E-HRM can be repositioned as an organisational enabler rather than an HR function administrative tool making the function a winning stakeholder.⁸²

Figure 1.3 The E-HRM Value Model



SOURCE: FOSTER, S. 2010. Creating value through technology, *Strategic Direction*, 26(8):4.

Table 1.2 Creating value through HRM

HR operational cost reduction	People management/ productivity	Strategic capability
Reducing the cost of day-to-day HR service delivery either through direct HR headcount reduction or indirect cost reduction (or cost avoidance) such as lower reliance on third party suppliers and technology integration.	Using technology to support people management by improving managerial accountability, freeing up HR time to support managers and providing management information that supports decision making. Technology tools can also be pivotal in supporting a restructuring of the HR function, enabling alternative organisational structures and new ways of working.	Providing the organisation with capabilities that can only be accessed through technology, e.g. reinforcing the external brand of the organisation through web-recruitment, improving employee satisfaction with HR processes, providing long-term strategic information and in some cases enabling a shift in the relationship between the employees and the organisation.

SOURCE: FOSTER, S. 2010. Creating HR value through technology. *Strategic Direction*, 26(8):3-4.

1.4.4 Talent management

A concept only emerging in the 2000s, and closely related to the innovative HRM approaches already discussed above, is that of talent management.⁸³ In the knowledge economy of the twenty-first century, talent will always be the scarcest of scarce resources – it is what companies compete for, depend on, and succeed with in today's highly competitive business environment.

Insofar as talent is the greatest competitive instrument, skills, competencies, and aspirations are its building blocks.⁸⁴ If competencies are to talent as investments are to wealth, why then can most investors list their holdings in detail, while HR departments usually do not even have a basic concept of the competencies at their organisations' disposal? Analysts attribute this to numerous reasons, but the fact is that excellence in the management of talent is complex, the data collection and management elements are enormous, and the proper analysis of the data is even more challenging.⁸⁵ However,

as the literature indicates, to be successful, companies have no choice but to acquire and use modern types of HR technology, as mentioned in the previous section, to manage their talent pools effectively.⁸⁶

But what then does talent management entail and what role does the HRM department and HR professional play in this process?

According to Schweyer⁸⁷ talent management can be defined as follows:

- ... the sourcing (finding talent);
- screening (sorting of qualified and unqualified applicants);
- selection (assessment/testing, interviewing, reference/background checking etc. of applicants);
- on-boarding (offer generation/acceptance, badging/security, payroll, facilities etc.);
- retention (measures to keep the

talent that contributes to the success of the organisation); development (training, growth, assignments, etc.); deployment (optimal assignment of staff to projects, lateral opportunities, promotions, etc.) and renewal of the workforce with analysis and planning as the adhesive, overarching ingredient.

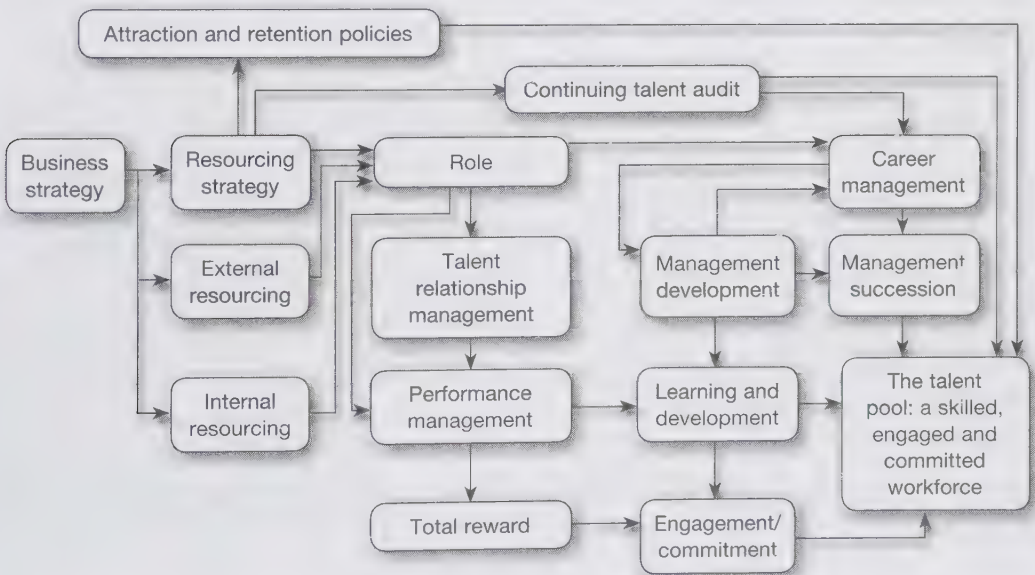
SOURCE: SCHWEYER, A. 2004. *Talent management systems*. Canada: John Wiley & Sons Ltd:38–39.

Thus, one can see talent management as the use of an integrated set of HRM activities to ensure that an organisation attracts, retains, motivates, and develops the talented people it needs now and in the future. It is important to note that the concept not only enhances the value of outsiders, but also

looks at the talent an organisation already possesses.⁸⁸ Although the HRM activities to manage talent within organisations are not new, the approach used – bundling together the activities to produce a more coherent whole that can be a vehicle for obtaining, developing, and retaining talent the organisation needs – is new.⁸⁹ In Figure 1.4 the elements of talent management and their inter-relationships are shown.

From Figure 1.4 it is clear that proper planning is essential to ensure the availability of the right talent for the job at the right time. The most innovative approaches to managing talent use four particular principles drawn from operations and supply chain management. Two of them address uncertainty on the demand side: how to balance make-versus-buy decisions and how to reduce the risks in forecasting the demand for talent.⁹⁰ The other two address uncertainty on the supply side: how to improve the return on investment in development efforts and how to protect that investment

Figure 1.4 The elements of talent management



SOURCE: ARMSTRONG, M. 2006. *A handbook of human resource management practice*, 10th ed. London, Kogan Page:391. Reprinted by permission of Kogan Page Ltd.

by generating internal opportunities that encourage newly trained managers to stay with the company (see Table 1.3).⁹¹

According to a recent benchmarking study on talent management, conducted by the American Productivity and Quality Centre and the Centre for Creative Leadership, as reported by McCauley and Wakefield,⁹² organisations that excel in talent management follow eight best practices, namely:

- Define talent management broadly

- Integrate the various elements of talent management into a comprehensive system
- Focus talent management on the most highly valued talent
- Get CEOs and senior executives committed to talent-management work
- Build competency models to create a shared understanding of the skills and types of behaviour the organisation needs and values in employees

Table 1.3 Operations principles applied to talent management

A supply chain perspective on talent management relies on four principles, two that address the risks in estimating demand and two that address the uncertainty of supply

PRINCIPLE 1

Make and buy to manage risk

A deep bench of talent is expensive, so companies should undershoot their estimates of what will be needed and plan to hire from outside to make up for any shortfall. Some positions may be easier to fill from outside than others, so firms should be thoughtful about where they put precious resources in development: Talent management is an investment, not an entitlement.

PRINCIPLE 2

Adapt to the uncertainty in talent demand

Uncertainty in demand is a given, and smart companies find ways to adapt to it. One approach is to break up development programmes into shorter units: Rather than put management trainees through a three-year functional programme, for instance, bring employees from all the functions together in an 18-month course that teaches general management skills, and then send them back to their functions to specialise. Another option is to create an organisation-wide talent pool that can be allocated among business units as the need arises.

PRINCIPLE 3

Improve the return on investment in developing employees

One way to improve the payoff is to get employees to share in the cost of development. That might mean asking them to take on additional stretch assignments on a volunteer basis. Another approach is to maintain relationships with former employees in the hope that they may return someday, bringing back your investment in their skills.

PRINCIPLE 4

Preserve the investment by balancing employee-employer interests

Arguably, the main reason good employees leave an organisation is that they find better opportunities elsewhere. This makes talent development a perishable commodity. The key to preserving your investment in development efforts as long as possible is to balance the interests of employees and employer by having them share in advancement decisions.

SOURCE: MELLO, J.A. 2011. *Strategic management of human resources*, 3rd ed. © 2011 South-Western, a part of Cengage Learning, Inc: 218. Reproduced by permission. www.cengage.com/permissions <<http://www.cengage.com/permissions>>

- Monitor talent needs within the organisation to identify potential gaps
- Excel at recruiting, identifying, and developing talent, as well as at performance management and retention
- Regularly evaluate the results of the talent-management system.

Thus, for talent management initiatives to be effective, organisations need formal processes (see Figure 1.4) with many people involved and with strong links between leadership and talent to translate into specific organisational value-based behaviour.⁹³ To tie all these activities together successfully, the leaders in HRM (normally the person known as the chief learning officer (CLO) within the HRM department) should actively pursue a number of activities.⁹⁴ These activities can include informing management and employees about why talent management is important, how it works, and what the benefits to the organisation are. Therefore regular and effective communication is essential. Besides this, the HRM

department also needs to manage a number of risks to the business. These risks include:⁹⁵

- *A vacancy risk.* To safeguard key business capabilities, focus on scarce skills, and fit to position.
- *A readiness risk.* To accelerate leadership development, provide full business exposure to rising stars.
- *A transaction risk.* To avoid loss of key talent, select successors with leadership ability, and hire for organisation capability.
- *A portfolio risk.* To maximise strategic talent leverage, focus on senior management's commitment to development and performance standards.

Consequently, effective talent-management policies and practices that demonstrate commitment to human resources will ultimately lead to more engaged employees and lower turnover of staff. See Chapter 6 for more details regarding the management of talent within organisations.

SUMMARY

This chapter describes an evolution within both the management of organisations and the role played by HR professionals. The old way of doing business has gone forever, and a new flexible, fluid, and ever-changing environment is a reality. Changes are taking place not only within organisations but also in the people working in them. Gone are the days of job security and numerous fringe benefits. Companies are prepared to employ only individuals who can add value, and individuals are interested only in selling their labour to the highest bidder. Thus the challenges facing HRM are multiple. HR professionals have responded with innovative ideas to address challenges such as self-managed work teams, creating virtual teams with available technology, implementing alternative-workplace programmes, and talent management, all of which offer profound opportunities to benefit both the individual and the company. HRM has also moved into the area of the World Wide Web to deliver its own services.

KEY CONCEPTS

▪ Alternative workplace ▪ Global virtual teams ▪ High-performance teams ▪ HR technologies ▪ Incongruence ▪ Information and communication technology (ICT) ▪ Interorganisational virtual organisation ▪ Intranet ▪ Knowledge economy ▪ Legalistic ▪ Mechanistic ▪ Multiple role model for HRM ▪ New economy ▪ Organistic ▪ Paradigm ▪ Portfolio risk	▪ Psychological contract ▪ Readiness risk ▪ Reneging ▪ Self-directed work teams (SDWT) ▪ Self-leading work teams ▪ Self-maintaining work teams ▪ Self-managed work teams (SMWT) ▪ Self-regulating work teams ▪ Strategic ▪ Talent management ▪ Transaction risk ▪ Vacancy risk ▪ Value-adding partnership (VAP) ▪ Virtual HRM ▪ Virtual offices ▪ Virtual teams
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CASE STUDY

Objective: To understand the role of HRM in a changing environment.

Just putting you on hold ... Protea Bank

Protea Bank was founded in Cape Town during the late nineteenth century and by 2005 had become a traditional bank with branches in most South African towns and cities. Its main business is in personal banking and financial services for individual customers and small businesses. It has subsidiary business units which handle personal insurance, mortgages and share-dealing, but these are managed separately from the banking concern.

The development of Procall

By mid-2005 all traditional banks were feeling the pressure of fierce competition in financial services, intensified by the arrival of new entrants such as supermarkets and other well-known brands. With an eye to the growing commercial success of direct-line banking organisations, Protea Bank decided to enter the telephone-banking sector, and was recently able to improve shareholder value by switching a significant proportion of its general account management and enquiry activity to a dedicated call centre named Procall. This resulted in the closure of many smaller, unprofitable branches and a consequent need for redundancies. Protea Bank attempted to redeploy existing employees where possible, but also needed to recruit new staff to work in the national call centre. True to its origins, and mindful of the relatively high unemployment rates in Cape Town,

Protea Bank decided to locate Procall just outside Cape Town. However, none of this was achieved easily, since the press and public expressed concern and dismay at the closure of so many small local branches, and there was strong trade-union resistance to the job losses. Thus, it is true to say that, currently, staff morale is low, there is considerable anxiety and discontent with the new arrangements, and the staff at Procall itself are beginning to feel somewhat exposed as the debate about branch closures rages in the media.

The work at Procall

At present, Procall employs 150 staff and operates 24 hours a day, 7 days a week on a 4-shift system. The majority of staff work on the daytime shifts. Staff work at sets of four desks, wear headsets with microphones to take the calls and operate terminals with access to all the required account and product information. Supervisors are responsible for each shift and there are two call-centre managers and a deputy manager, one of whom is always either available at the centre or can be contacted by telephone. Pay scales are standardised; there is a starting rate of R40 000 per year, which applies to newly recruited staff during their six-month probationary period, after which they are placed at the bottom of a four-point scale that rises by increments to R50 000. Employees proceed up the scale by annual increments until they reach the top point, after which further increases are dependent on promotion to supervisory or managerial work. Supervisory grades start at R60 000 and rise similarly to R70 000. There is no performance-management system in place, and as yet the idea of an appraisal system has not been developed. Procall is located in pleasant, airy open-plan offices, which are nicely decorated and have good basic facilities, including a snack and sandwich service, a rest room, a separate smoking room, and a kitchenette for the preparation of hot drinks and snacks; thus the 'hygiene' factors are fairly good.

Problems with Procall

The history of Procall has been mixed. After a patchy first six months, it seems to be picking up business very rapidly as customers begin to see the advantages of this service. While this is encouraging, it has led to a new range of problems. The existing number of Procall staff is now clearly inadequate for the growing demands for the telephone-banking service. Recruitment is under way, but this is likely to place existing induction programmes and initial training programmes under strain. Complaints are beginning to be heard from customers who are being 'put on hold' for anything from 30 seconds to 5 minutes during busy periods (especially early in the evenings and at weekends).

There are also problems associated with the use of the computer system itself; these centre on the apparent inability of some staff to extract accurate information about relatively simple enquiries, or on the length of time that such interrogations take. Monitoring systems, which measure the number and duration of different types of call, add weight to these complaints, with enquiries relating to standing orders and direct-debit arrangements appearing to take up to 50% longer than they should, according to the authors of the software. There have been customer complaints about rudeness, staff's apparent inflexibility when dealing with complex account problems, and the fact that different operators seem to give different answers to the same questions. There are additional knock-on effects for customers who prefer to visit their local branch. Here

the problem seems to be that branch staff themselves have to telephone the call centre in order to deal with certain very simple transactions such as opening new accounts, and that they too are often kept 'on hold', to the annoyance of clients and their own considerable frustration.

The call-centre staff are also beginning to complain about aspects of the work. Protea Bank carried out a staff survey six months after the start of the operation and again after a further three months. The findings of the second survey reflect the increased pressures by revealing a higher degree of discontent than was noted in the first survey. Workers say that they often feel very isolated from their colleagues, which leads to a certain unhealthy rivalry both within and between shifts. Many feel that they are 'like battery hens', working in an intensive manner, with little control over the number and type of calls they receive and with limited opportunity to recover from one call before receiving the next. They are also under constant surveillance, with calls being monitored both to determine the productivity of the operators and to check the accuracy of the information given and general quality of their work. This causes some resentment, and it appears that the operators often find informal ways to control the number of calls they receive and the time between calls. Some groups have worked out a method by which calls can be redirected to one of their numbers, thus allowing them all to appear busy while only one is actively taking calls. This way they take it in turns to give themselves an informal break from calls while still giving the appearance of working. On occasion this technique has been used to 'soak' new or unpopular members of staff, who find themselves the victims of such redirection, not realising that they are the only person on their team who is actually busy and appears to have a backlog. Supervisors are aware that this is happening, but they find it very difficult to detect.

Some of the redeployed staff remain unhappy with the type of service they are being asked to give and find it too impersonal. Some of the new recruits, especially in the younger age groups, believe that they work better and more effectively than other staff, and are beginning to feel that the standardised pay structure does not recognise or reward their individual skills and efficiency. Some are concerned about their employability and want formal recognition for their skills, which would be transferable to other similar employers, of which there is an increasing number in the region. Indeed, Procall has already lost a number of its staff to other local call centres that have a more varied clientele and better career prospects.

Procall and Proline, the future strategy

Protea Bank remains aware of the way in which the banking and personal-finance sector is likely to develop and management recently decided to expand the service at Procall to include the provision of mortgages and insurance, thus providing more of an integrated 'one-stop shop' service. Furthermore, work has already started on the development of an online banking system, Proline, in parallel with the telephone service. Protea Bank has been somewhat late in appreciating the importance of online banking, and thus finds itself at something of a disadvantage here. The new operation, Proline, is located in the same set of buildings as Procall, and urgently needs both programming staff and others, with knowledge of banking and financial services, who can help to both develop and run the initial trials of Proline. It is also clear that if the local labour market is unable to supply this type of expertise at a competitive rate, then Protea Bank will have to consider alternative approaches.

Questions and activities

1. Identify the key HRM issues at Procall.
2. Recommend and justify HRM interventions that will improve business performance.

(Contributed by Gill Christy, University of Portsmouth)

SOURCE: Adapted from: Call centres in the financial services sector – just putting you on hold by Gill Christy (*In* PILBEAM, S. & CORBRIDGE, M. 2006. *People resourcing: Contemporary HRM in practice*, 3rd ed. Harlow: Pearson Education:23–26.). Reprinted by permission of Gill Christy.

REVIEW QUESTIONS AND ACTIVITIES

1. Describe the issues that will play a major role in the future in McKee's catalytic period.
2. Describe the present ways in which HR professionals can be successful.
3. Give a definition of the new psychological contract.
4. Give four reasons why virtual teams have become important.
5. Give some examples of the training needs of self-managed work teams.
6. Give a brief explanation of the evolving role of HRM during the four periods of organisational change as described by McKee.
7. Explain Ulrich's multiple role model for HRM.
8. Discuss the employee–employer relationship in the new work environment.
9. According to Mahlon Apgar IV, a number of options are available for the alternative workplace in order to tailor work arrangements to one's own needs. Discuss these options.
10. Briefly describe what you understand by talent management.

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Appendix 1A

Teleworking – organisational, societal, and individual advantages and challenges

Table 1A.1 Organisational advantages and challenges of teleworking

	Advantages	Challenges
Home-based telecommuting	■ Greater productivity ■ Lower absenteeism ■ Better morale ■ Greater openness ■ Fewer interruptions at office ■ Reduced overhead ■ Wider pool of talent ■ Lower turnover ■ Regulation compliance	■ Performance monitoring ■ Performance measurement ■ Managerial control ■ Mentoring ■ Jealous colleagues ■ Synergy ■ Informal interaction ■ Organisational culture ■ Virtual culture ■ Organisation loyalty ■ Interpersonal skills ■ Availability ■ Schedule maintenance ■ Work coordination ■ Internal customers ■ Communication ■ Guidelines (e.g. expenses) ■ Technology
Satellite office	■ Greater productivity ■ Better morale ■ Wider pool of talent ■ Lower turnover ■ Customer proximity ■ Regulation compliance ■ Corporate culture intact	■ Performance monitoring ■ Performance measurement ■ Managerial control ■ Jealous colleagues ■ Virtual culture ■ Internal customers
Neighbourhood work centre	■ Greater productivity ■ Better morale ■ Wider pool of talent ■ Lower turnover ■ Customer proximity ■ Regulation compliance	■ Performance monitoring ■ Performance measurement ■ Managerial control ■ Mentoring ■ Jealous colleagues ■ Synergy ■ Informal interaction ■ Organisation culture ■ Virtual culture ■ Organisational loyalty ■ Schedule maintenance ■ Work coordination ■ Internal customers
Mobile work	■ Greater productivity ■ Lower absenteeism ■ Customer proximity	■ Performance monitoring ■ Performance measurement ■ Managerial control ■ Synergy ■ Informal interaction ■ Organisational culture ■ Virtual culture ■ Organisational loyalty ■ Availability ■ Schedule maintenance ■ Work coordination ■ Communication ■ Guidelines (e.g. expenses) ■ Technology

Table 1A.2 Individual advantages and challenges of teleworking

	Advantages	Challenges
Home-based telecommuting	■ Less time commuting ■ Cost savings ■ Less stress ■ No need for relocation ■ More autonomy ■ Schedule flexibility ■ Comfortable work environment ■ Fewer distractions ■ Absence of office politics ■ Work/family balance ■ Workplace fairness ■ More job satisfaction	■ Social isolation ■ Professional isolation ■ Organisation culture ■ Reduced office influence ■ Work/family balance ■ Informal interaction ■ Conducive home environment ■ Focusing on work ■ Longer hours ■ Access to resources ■ Technical savvy
Satellite office	■ Less time commuting ■ Cost savings ■ Less stress ■ No need for relocation ■ Work/family balance ■ More job satisfaction	■ Professional isolation ■ Reduced office influence ■ Access to resources
Neighbourhood work centre	■ Less time commuting ■ Cost savings ■ Less stress ■ No need for relocation ■ More autonomy ■ Absence of office politics ■ Work/family balance ■ More job satisfaction	■ Social isolation ■ Professional isolation ■ Organisation culture ■ Reduced office influence ■ Access to resources
Mobile work	■ More autonomy ■ Schedule flexibility ■ Absence of office politics	■ Social isolation ■ Professional isolation ■ Organisation culture ■ Reduced office influence ■ Longer hours ■ Access to resources ■ Technical savvy

Table 1A.3 Societal advantages and challenges of teleworking

	Advantages	Challenges
Home-based telecommuting	■ Less traffic congestion ■ Less pollution ■ Less neighbourhood crime ■ Greater community involvement	■ Telework culture ■ Loss of ability to interact with others
Satellite office	■ Less traffic congestion ■ Less pollution ■ Greater community involvement	
Neighbourhood work centre	■ Less traffic congestion ■ Less pollution ■ Greater community involvement	
Mobile work		■ Telework culture

SOURCE: KURLAND, N.B. & BAILEY, D.E. 1999. Telework: The advantages and challenges of working here, there, anywhere, and anytime. *Organizational Dynamics* 28, (2):56–58. Copyright © 1999 Elsevier, reprinted with permission.

Appendix 1B

Addressing the risks of working at home

Cigna Corp has strict guidelines for its employees regarding the work-at-home environment. The firm’s Risk Management group publishes information on the company’s intranet about the workspace, productivity, health, personal safety, and information security. Table 1B.1 gives the highlights.

Table 1B.1 Guidelines for the workspace, productivity, health, personal safety, and information security

The workspace	Create a space where there is minimal traffic and distraction. Make it comfortable, with adequate room for computer, printer, fax machine, and storage. Keep it off-limits to family and friends (for security reasons). Use the proper furniture and equipment, some of which may be supplied by the company. Be sure to have proper lighting and telephone service.
Health	Be sure the workspace is ergonomically sound, if possible. Try to avoid eyestrain by having enough light and having the computer at a comfortable level. Use a headset or speakerphone with the telephone instead of propping it between your head and shoulder. Keep space well ventilated. In particular, place printers, fax machines, and copiers away from walls, because this type of equipment produces ozone.
Information security	Remember that the home office is an extension of the company office. Be vigilant about avoiding computer viruses and protecting information. Be sure to back up and store data and other information in a safe place, and also provide a copy to the office in case the home set is damaged.
Personal safety	Be cautious; 100 000 people are injured in their homes every year. Be careful of visitors. Don't hold meetings in your home. Have working smoke detectors and an adequate number of fire extinguishers. Know first aid. Use a post office box rather than giving out your home address.

SOURCE: Adapted from material by CIGNA Corp., based in Philadelphia, as it appeared in SOLOMON, C.M. 2000. Don't forget your telecommuters. *Workforce*, 79(5):58. www.workforce.com. Used by permission of the Copyright Clearance Center on behalf of the publisher.

Human resources and the competitive advantage

2

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Explain what a competitive advantage is
- Distinguish between the different sources of competitive advantage
- Discuss the role of human resources within the competitive-advantage paradigm
- Discuss the different paradigms regarding the contribution of human resources to company performance
- Discuss the role of the different mindsets in maintaining the competitive advantage in the new competitive landscape

PURPOSE

The purpose of this chapter is to introduce you to the role of human resources in gaining a competitive advantage for a company.

CHAPTER OVERVIEW

This chapter focuses on the competitive advantage of companies. It begins with a discussion on what the concept of competitive advantage entails. It then considers the different sources of competitive advantage and goes on to discuss the role of human resources in this regard. The chapter also contains a discussion of the various paradigms regarding the contribution of human resources to company performance. The chapter also looks at the importance of having different mindsets in gaining and maintaining the competitive advantage. The concluding case study illustrates how the theory in this chapter can be applied practically to companies.

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

Introduction

It is an accepted fact that governments do not make profits, but do create the environment in which organisations and employees can interact to the advantage and benefit of all concerned. Thus, the well-being of the citizens of any country is inextricably linked to the effectiveness of their organisations. However, for organisations to achieve their goals, they must constantly look for better ways to organise and manage their work.¹ Although this is not an easy task, a substantial body of evidence indicates that many organisations can obtain a competitive advantage by adopting a management style that involves employees in the business of their organisation.² Employee involvement and most of the management practices that are part of it have been shown to have significant positive effects on organisational effectiveness.³ There is thus a growing recognition that a primary source of competitive advantage derives from a company's human resources; also that this source of advantage may be more inimitable and enduring than a particular product is.

This was not always the case, as human resources – both as labour and as a business function – have traditionally been seen as a cost to be minimised. However, the new interest in HR as a strategic lever that can have economically significant effects on a company's bottom line appears to be shifting the focus more towards value creation.

In this chapter, we shall see what a competitive advantage is, what its sources are, and what HRM's role is in gaining a competitive advantage.

2.1 What is a 'competitive advantage'?

As observed in the literature, understanding the phrase 'competitive advantage' is an ongoing challenge for many decision makers.⁴ Historically, competitive advantage was

thought of as a matter of position; companies occupied a competitive space and built and defended their market share.⁵ With this strategy, the competitive advantage depended on the area in which the business was located and where it chose to provide its goods and services. This was known as the strategic model.

This strategy seemed to work well in a stable environment, especially for large and dominant organisations.⁶ However, with rapid competition appearing, it outlived its popularity and a new meaning of the phrase 'competitive advantage' emerged.

One of the earlier researchers in this area was Barney, who, besides defining the concept, provided some interesting insight into the total area of competitive advantage.⁷⁻⁸

Barney defined the term as follows:⁹

A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy.

SOURCE: BARNEY, J. 1991. Firm resources and sustained competitive advantage. *Journal of Management*, 17(1):101.

From the above description, it appears that company resources have a major role to play in obtaining a competitive advantage. Companies cannot create strategies if they do not utilise their resources in the process. This approach is known as the resource-based view (RBV), and is based on two assumptions:¹⁰ first, that companies within an industry or group may be heterogeneous with respect to the strategic resources they control; and second, that these resources

may not be perfectly mobile across the industry or group. If this is not the case, companies will be able to retain a competitive advantage only for a very short period; they will also have to be the first to utilise their resources in the marketplace to make this possible.

2.2 Sources of competitive advantage

As indicated in the previous section, the RBV plays a key role in achieving a competitive advantage. This view describes a company as a bundle of resources (see Figure 2.1) that enables it to conceive and implement strategies that will lead to above-average industry returns.¹¹⁻¹²

Thus the differences in company resources across an industry will be reflected in the variability in profits generated by them. No two companies are alike, because no two companies have had the same set of experiences, acquired the same assets and

skills or built the same organisational culture. Each company, therefore, is unique.¹³

It is also important to note that the RBV of competitive advantage differs from the traditional strategy paradigm mentioned earlier, in that the RBV is company focused, whereas the traditional strategic analysis has an industry-environment focus.¹⁴ The traditional strategy model also sees company resources as homogeneous and mobile across companies in an industry, i.e. companies can purchase or create resources held by a competing company, which is not the case with the RBV.¹⁵

Barney indicates that a company's resources can be classified into four groups, namely:¹⁶

- *Financial capital resources.* These include debt and equity-retained earnings.
- *Physical capital resources.* These include physical technology, machines, manufacturing facilities, and buildings.
- *Human capital resources.* These include knowledge, experience, insight, and

Figure 2.1 An example of a strategic specialised bundle*



* Note that numerous similar bundles can be found at any one time in the organisation

SOURCE: WINFREY, F.L., MICHALISIN, M.D. & ACAR, W. 1996. The paradox of competitive advantage. *Strategic Change*, 5:206. Copyright John Wiley & Sons Ltd. Used with permission.

wisdom of employees associated with a company.

- *Organisational capital resources.* These are the history, relationships, trust, and organisational culture that are attributes of groups of individuals associated with the company, as well as a company's formal reporting structure, explicit management-control systems, and compensation policies.

However, not all these resources can be classified as strategic resources (assets). For example, some might even prevent the company from implementing valuable strategies. To determine a resource's value, managers must address four questions¹⁷ concerning value, rarity, reproducibility, and organisation. We shall briefly discuss these.¹⁸

- *The question of value.* The first question to ask is: do a company's resources add value by enabling it to exploit the opportunities and/or neutralise the threats in the company's environment? By answering this question, managers link the analysis of internal resources with the analysis of environmental opportunities and threats. This is important as the resources of a company cannot be valuable in a vacuum; the company must be able to exploit opportunities and/or neutralise threats.¹⁹
- *The question of rarity.* The second question to ask is: how many other companies already possess the valuable resources? The valuable resources must be rare among the competing companies in order to be a source of competitive advantage. However, this does not mean that a common but valuable resource is not important; it might be essential for a company's survival.²⁰
- *The question of reproducibility.* The third question to ask is: do companies without a resource face a prohibitive cost disadvantage in obtaining the resources other companies already possess? Having a valuable and rare resource can at least provide a company with a temporary competitive advantage. However, if a competing company does not find it too expensive to imitate this resource, the competitive edge will soon disappear. If imitation is too expensive, the first company will retain its competitive advantage. According to Barney, imitation can occur in at least two ways: by duplication or by substitution. Duplication occurs when an imitating company builds the same kind of resources it knows the competitor possesses; with substitution an imitating company may find a similar resource that provides the same result. It is important to note that some competing companies might find the imitation of a company's resources difficult as a result of historical reasons. For example, many resources are built up over years through trial and error within companies, making them unique reflections of personalities, experiences, and relationships that can exist only in one company. Another obstacle might be the social integration of resources through trust, friendship, teamwork, and culture, which will make them virtually impossible to imitate.²¹
- *The question of organisation.* The fourth question that can be asked is: is a company organised to exploit the full competitive potential of its resources? As indicated thus far in this chapter, a company's competitive-advantage potential depends on the value, rarity, and reproducibility of its resources. However, to fully realise what it has, a company needs a proper organisational structure. Issues that are important in this regard are a formal reporting structure, explicit management-control systems, and compensation policies. These components are also referred to in the literature as complementary

resources, as they have – in isolation – only a limited ability to generate a competitive advantage. In combination with other resources, however, they are capable of releasing a company's full competitive advantage.²²

Before we conclude this section of the chapter, it is important to look at the aspect of flexibility, which has not been mentioned. By aligning its strategy and its resources with the environment, a company can achieve superior performance. In the literature this alignment is termed 'strategic fit'.^{23–27} However, with rapid external and internal changes taking place, this strategic fit becomes more challenging (see Chapter 4). The ability of a company to adjust to these changes is referred to as 'strategic flexibility'.^{28–34}

Winfrey, Michalisin, and Acar³⁵ make a number of suggestions that will help a company sustain strategic fit while simultaneously enjoying flexibility in a hypercompetitive environment. One of their proposals is to give a system flexibility within the company, which will allow it to create batches of unique products quickly, at a relatively low cost, as and when required. Galbraith,³⁶ as quoted by Winfrey et al., notes that a flexible system's transferability makes it a valuable resource. To enhance this system, companies must also strive to acquire flexible (knowledge) workers and organic structures which in a hypercompetitive environment will play a crucial role. The basis for this flexibility can be made possible by installing a company culture based on creativity and quick response.

2.3 HR's role in gaining a competitive advantage

The role that HR can play in gaining a competitive advantage for an organisation is empirically well documented.^{37–45} A number of paradigms in the literature describe the contribution of HR to company performance:

- The first paradigm assigns value to a company's stock of human intellectual capital as a way of measuring the contribution of HR to the company's performance (see Chapter 7).⁴⁶ The researchers into human intellectual capital attempt to formalise, capture, and leverage this asset (intellectual capital) to produce higher-value products. This approach can be captured in the RBV.
- The second paradigm attempts to identify HR's best practices. Researchers in this movement specify and measure the bundles of typologies of HR practices associated with the high performance of labour.^{47–48}
- The third paradigm is a new perspective, designed by Raphael Amit and Monica Belcourt,⁴⁹ which is anchored in both the RBV and the best-practices theory, and is known as the 'process' approach. This perspective integrates economic considerations with social-legitimacy aspects.

Before we look at these different perspectives on the role of HR in a competitive-advantage paradigm, it might be useful to evaluate the HR component against the measures of sources of competitive advantage. For this discussion we shall look at the important work done by Wright and McMahan and published in their article 'Theoretical perspectives for strategic human resource management'.⁵⁰

- *The value of HR.* For human resources to exist as a sustained competitive advantage they must provide value to the company. A heterogeneous demand for labour (i.e. companies have jobs that require different types of skills) and a heterogeneous supply of labour (i.e. individuals differ in their skills and level of skills) are assumed. Under these circumstances, human resources can add value to the company.⁵¹
- *The rarity of HR.* If it is to be a source of sustained competitive advantage,

a resource must be rare. Wright and McMahan note that, due to the normal distribution of ability, human resources with high levels of ability are, by definition, rare. For example, the basic premise of a selection process is to select only the individuals who possess the highest ability.⁵²

- *The inimitability of HR.* Human resources must be inimitable to be considered a source of sustained competitive advantage. Wright and McMahan use the concepts of unique historical conditions, causal ambiguity, and social complexity to demonstrate the inimitability of human resources:
 - ▷ Unique historical conditions are the historical events that shape the development of a company's practices, policies, and culture.
 - ▷ Causal ambiguity describes a situation where the causal source of the competitive advantage is not easily identified.
 - ▷ Social complexity recognises that in many situations (e.g. team projects) competitive advantage has its origins in unique social relationships that cannot be duplicated.

Thus, Wright and McMahan argue that, due to the fact that many competitive advantages that might be based on a company's human resources are characterised by unique historical conditions, causal ambiguity, and social complexity, it is highly unlikely that well-developed human resources could easily be imitated.⁵³

- *The substitutability of HR.* For a resource to be considered a source of sustained competitive advantage it must not have substitutes. For example, if a company has the highest-ability individuals, who constitute a source of competitive advantage, and a competitor develops new technology that provides vast increases in productivity – greater than

the productivity differences in the company's ability – it will only be a matter of time before the company obtains the same technology, and then its human resources will again exist as a source of competitive advantage.⁵⁴

From the foregoing discussion it is clear that human resources can serve as a source of competitive advantage for a company. As mentioned earlier in this section, a number of paradigms exist in the literature regarding the contribution of HR to company performance. We shall now discuss each of these paradigms in more detail.

2.3.1 The resource-based paradigm

This approach suggests that HR systems can contribute to a sustained competitive advantage by facilitating the development of competencies that are company specific.⁵⁵ However, one of the biggest problems facing the resource-based approach, especially its human resources, is the possibility of employee turnover.⁵⁶⁻⁵⁸ Building competencies that do not stay long can have a negative effect on the competitive advantage enjoyed by the company. To limit the damage that can occur as a result of losses, companies can design and implement turnover-management strategies. Other approaches that can be implemented include the allocation of a bigger portion of the profits to employees by means of gainsharing or share options. To further enhance this process, a culture of belonging can also be created within the company.⁵⁹

Performance implications from a HR perspective thus go much further than the knowledge/competencies the HR have; motivation also plays a part. Accordingly, an integral part of all the processes mentioned above is the motivation of employees within a company. In the resource-based literature this is called the 'level of interest alignment', i.e. the degree of alignment of individual interest with organisational goals.⁶⁰

Gottschalg and Zollo⁶¹ describe this as 'the improvement in organisational performance due to changes in employee behaviour obtained through increased interest alignment that accrues to the organisation'. Two aspects are important here, namely:

- The degree to which the behaviour helps individuals to meet their goals
- The relevance of each organisational goal to the individual (individual motivational preferences) – individual goals are not always in line with organisational goals.⁶²

It is thus helpful, especially in the RBVs of competitive advantage, to use the concept of interest alignment as a measure of the correspondence between individual and organisational goals. Gottschalg and Zollo⁶³ define organisational interest alignment, in contrast, as 'the degree to which the members of the organisation are motivated to behave in line with organisational goals'. According to Lindenberg,⁶⁴ as quoted in Gottschalg and Zollo,⁶⁵ a high level of interest alignment can be realised at three levels of motivation by three interest-alignment levers.

The three motivation levels are as follows:

1. *The extrinsic motivation level.* This is most directly influenced by the reward system that specifies rewards for a given behaviour. It also includes issues such as power and recognition.
2. *The hedonic intrinsic motivation level.* This is the enjoyment individuals experience in completing the task in the work environment. It can be influenced by changes in the design of individual tasks and the task context.
3. *The normative intrinsic motivation level.* This is driven by the goal of engaging in behaviour that is compliant with the norms and values of the organisation.⁶⁶ This can be influenced by the socialisation processes within the organisation.

Thus, organisations can influence interest alignment positively through adjustments of the three interest-alignment levers, namely: the reward system, the socialisation regime, and changes to job design.⁶⁷

Besides the motivational aspects discussed above, it is also important to note that scholars of the RBV have in the past envisioned companies only as independent entities.⁶⁸ This approach yielded only a partial account of company performance. The reason for this is that companies do not exist in isolation; they form alliances with other companies. According to empirical work undertaken by Das and Teng (2000), Afuah (2000), Stuart (2000), Lee, Lee and Pennings (2001), and Rothaermel (2001)⁶⁹ alliance partners can play a significant role in shaping the resource-based competitive advantage of the company through network resources. Lavie defines network resources as 'external resources embedded in the company's alliance network – that provide strategic opportunities and affect company behaviour and value'. Thus, the fundamental assumption of the RBV that companies must own, or at least fully control, the resources that confer competitive advantage is incorrect. Ownership or control of resources is not a necessary condition for competitive advantage.⁷⁰ It is the services that resources provide, not the resources themselves, that generate value for the company, according to Lavie. The proprietary assumption of the RBV prevents an accurate evaluation of a company's competitive advantage. Thus, when an alliance is formed, each participating company endows a subset of its resources to the alliance with the expectation of generating common benefits from shared resources of both companies. Therefore, each company possesses a subset of shared resources and a subset of non-shared resources that together form its complete set of resources.⁷¹ In view of this new development, it is clear that to gain and sustain the competitive advantage will

depend less on conditions of the traditional RBV and more on the relational capability, i.e. a company's capacity to form and maintain valuable interactive relationships with alliance partners.⁷² Alliances can take different forms, including joint ventures, franchising, long-term marketing and licensing contracts, reciprocal trade agreements, research-and-development (R&D) partnerships, and affiliation in research consortia. In its broadest sense, it can also include outsourcing partners.

2.3.2 The best-practices paradigm

This approach implies that there is a direct relationship between particular HR approaches and company performance.⁷³ The literature shows a fair amount of evidence that certain HR practices – such as compensation, selection, and training activities – can be related to company performance.⁷⁴ More recently, however, researchers have found that bundles or systems of HR practices have more influence on company performance than individual practices working in isolation.⁷⁵ Although support for a best-practices approach to HR exists, there are notable differences across studies as to what constitutes bundles of 'HR best practices'. Most studies focus on enhancing the skill base of employees through HR activities – selective staffing, comprehensive training, and broad developmental efforts like job rotation and cross-utilisation.⁷⁶ Other issues include the promotion of empowerment, participative problem solving, and teamwork.⁷⁷ An aspect closely linked to the use of best practices is that of creating role behaviours. Company strategies dictate certain unique attitude and role behaviours from employees, and HR practices are the primary means to make this happen. However, because role behaviours of employees are observable and also transferable from one organisational setting to another, they may be easily duplicated and may not be a source of an enduring competitive advantage.

Going beyond these direct HR-performance relationships however, other evidence suggests that the impact of HR practices on company performance may be further enhanced when practices are matched with the competitive requirements inherent in a company's strategic posture.⁷⁸ This new trend came about with the introduction of the strategic HR approach (see Chapter 4).

From the research undertaken in this area three primary perspectives emerged, namely a universal approach, a contingency approach, and a configurational approach.

Huselid's⁷⁹ work reflects what has become known as the universalistic approach to strategic HRM. According to the author, this perspective assumes that there are certain best HRM practices that will contribute to, for example, increasing the financial performance of a company, regardless of the strategic goals of the company. Unfortunately, as indicated earlier with the traditional HRM approach, relatively little work has been done to provide a definitive prescription as to which HRM practices should be included in a best-practices system. The work undertaken has either focused on single organisations like banks or on single jobs within organisations, without really considering some other internal or external influences.⁸⁰

In recent work, Delery and Doty⁸¹ identified seven practices consistently considered to be strategic in nature. The practices are internal career opportunities, formal training systems, appraisal measures, profit sharing, employment security, voice mechanisms, and job definition. It is interesting to note that these practices were utilised in several analyses to test the soundness of the three dominant theoretical perspectives mentioned earlier, namely the universal, contingency, and configurational perspectives. The results of the analyses provided some support for each of the three perspectives.

A number of theoreticians and researchers have argued, however, that a contingency

perspective is more appropriate to strategic HRM.⁸² The contingency approach differs from the universal approach in that research undertaken here attempts to link HRM systems and practices to specific organisational strategies.⁸³ A closely related body of research calls for a configurational approach to strategic HRM and argues that it is the pattern of HRM practices and systems that contributes to the attainment of organisational goals.⁸⁴ Similarly to the contingency approach, the configurational approach argues that the fit of HRM practices and systems with the company strategy is a vital factor; however, it goes on to argue that there are specific 'ideal types' of HRM systems and practices that provide both horizontal and vertical fit of HRM systems and practices to the organisational structure and strategic goals.

The configuration of practices and systems that provides the tightest horizontal and vertical fit with any given strategy is the ideal type for an organisation pursuing that particular strategy. (Horizontal fit refers to the internal consistency of the organisation's HR policies or practices. Vertical fit refers to the congruence of the HR system with other organisational characteristics, such as the company strategy.)

2.3.3 The process paradigm

This approach, as mentioned earlier, is anchored in both the RBV and the best-practices theory.⁸⁵ The creators of this approach, Amit and Belcourt, refer to HRM processes as the deeply embedded company-specific dynamic routines by which a company attracts, socialises, trains and motivates, evaluates, and compensates its HR.⁸⁶ Company-specific HRM processes are established by developing and exchanging information throughout the entire organisation. This process, sometimes called organisation learning, creates transfers and institutionalises knowledge throughout the organisation, which increases its adaptability.⁸⁷ From the

foregoing it can be deduced that HRM processes within a company are evolutionary. In other words, they are continuously evolving and adapting by drawing on past experiences to refine the effectiveness of processes and to meet the changing needs of the organisation. Indeed, the HRM processes can become one of the company's strategic assets if they are able to help it realise superior profitability.⁸⁸

Thus, to summarise, it is clear that the HRM process is an engine of renewal that can be used continually to adjust the way in which a company selects, trains, socialises, and evaluates its human capital, and that enables a company to execute its strategy effectively. The universal adoption of best practices leads to company homogeneity, as people come and go, but processes remain and improve the company. Thus, HRM processes are about how things are done, not what is produced.

2.4 The new competitive landscape: How can it be sustained?

There is no doubt that with increased globalisation, technological change and hyper-competition, the three approaches to gain the competitive advantage discussed thus far in this chapter, will be placed under severe pressure. Thus, some additional mechanism is needed to support these approaches. A new approach discussed in the article '*Will the new competitive landscape cause your firm's decline? It depends on your mindset*' authored by Somnath Lahiri, Liliana Pérez-Nordtvedt and Robert W. Renn (2008), will form the basis for the discussion in this section.⁸⁹

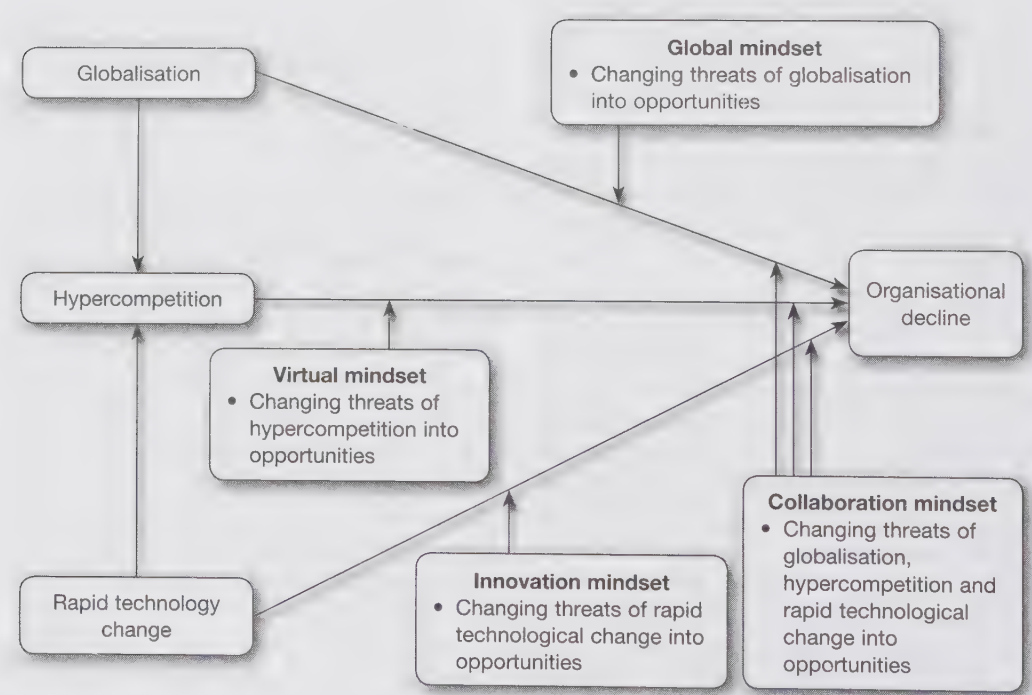
The authors are of the opinion that four mindsets are needed by managers – HR managers as well as general managers – to convert potential threats within the operational environment of companies to opportunities.

Figure 2.2 depicts the general view of how the four mindsets can intervene in the pathways of three possible threats, for example, globalisation, rapid technology and hypercompetition to avoid organisation decline and thus a lack of competitiveness. A brief discussion of the four mindsets follows.

Firstly, there is a global mindset needed to convert globalisation threats into growth opportunities. This can be achieved by thinking beyond geographic boundaries, valuing integration across borders and appreciating regional and cultural diversity. Secondly, there is an innovation mindset needed which fosters development and the implementation of new ideas, transforms rapid technological change threats into opportunities by valuing the constant generation

of new ideas and business models, realising sources of new ideas and stressing next practices rather than best practices. Thirdly, a virtual mindset is required, empowering managers to be able to hand over their companies' activities to external providers, which will turn hypercompetition into prospects for growth through flexibility and responsiveness. Fourthly, a collaboration mindset is needed, meaning a willingness to engage in business partnerships that can lead to synergy by combining business complementarities. Table 2.1 summarises the key attributes of the four mindsets which can convert globalisation, rapid technological change and hypercompetition into opportunities.

Figure 2.2 A framework showing the relationship between competitive challenges, top management mindsets and organisational decline



SOURCE: LAHIRI, S., PÉREZ-NORDTVEDT, L. & RENN, R.W. 2008. Will the new competitive landscape cause your firm's decline? It depends on your mindset. *Business Horizons*, 51:313.

Table 2.1 Attributes of the four different mindsets

Mindset	Attributes
Global mindset	■ Thinking beyond geographic boundaries ■ Viewing the firm as having a global identity ■ Comprehending the global business environment ■ Complementing global needs with local responsiveness ■ Valuing integration across borders ■ Possessing tolerance for unexpected business trends ■ Appreciating regional and cultural diversity
Innovation mindset	■ Realising pace of technology development in the industry ■ Recognising technology-related changes in advance ■ Appreciating response to technology changes ■ Valuing continuous development of new market offerings ■ Realising sources of new ideas/in-house or external ■ Valuing constant generation of new ideas and business models ■ Stressing next practices as opposed to best practices
Virtual mindset	■ Viewing the firm as a series of interlinked units ■ Thinking in terms of core competencies ■ Realising sources of unexpected competition ■ Appreciating the externalisation of non-core business functions ■ Valuing cost savings and flexibility ■ Stressing the continuous development of distinctive competencies
Collaboration mindset	■ Realising spatial, temporal, and cultural distances worldwide ■ Willingness to engage in business cooperation ■ Appreciating usefulness of business complementarity ■ Realising importance of stable partnership ■ Willingness to share knowledge between partners and units/divisions ■ Readiness to overcome communication, cultural, and temporal barriers ■ Appreciating sacrifices for mutual business gains ■ Willingness to learn through cooperating with partners

SOURCE: LAHIRI, S., PÉREZ-NORDTVEDT, L. & RENN, R.W. 2008. Will the new competitive landscape cause your firm's decline? It depends on your mindset. *Business Horizons*, 51:315.

To ensure that the different mindsets are understood and appreciated by all employees, top managers (HR managers included) need to develop an organisational culture that promotes the free downward and lateral flow of information regarding a company's

direction. However, those in the upper echelons should also remain open to the upward flow of ideas emanating from the bottom of the organisation if success is to be realised.

SUMMARY

In this chapter, we discussed the growing importance of HRM as a source of competitive advantage. We defined the phrase ‘competitive advantage’ and identified sources of competitive advantage. We also discussed measures used to identify sources of competitive advantage. We also considered the various paradigms – i.e. the RBV, the best-practices approach, and the process approach – in the literature regarding the contribution of HRM to company performance. Finally the issue of mindsets were discussed in dealing with maintaining competitiveness in the new competitive landscape.

KEY CONCEPTS

■ Alliances ■ Competitive advantage ■ Configurational approach ■ Contingency approach ■ Extrinsic motivation ■ Financial capital resources ■ Hedonic intrinsic motivation ■ Human capital resources ■ Imitability ■ Interest alignment ■ Network resources	■ Normative intrinsic motivation ■ Mindsets ■ Organisational capital resources ■ Physical capital resources ■ Rareness ■ Strategic fit ■ Strategic flexibility ■ Strategic specialised bundle ■ Substitutability ■ Universal approach ■ Value creation
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CASE STUDY

Objective: To understand the competitive advantage of interconnected companies from a human resources perspective.

Outsourcing: Can it work?

The people chase

So how are outsourcers equipped to compete in this planetary war for talent? Well, it turns out these organisations are generally far better able to attract, develop, and retain talent in their area of specialisation than their customers. ‘In fact’, says Joe Marciano, president and CEO of Océ Business Services, the New York-based document process management specialist, ‘clients today are rethinking outsourcing as a means to accelerate transformation and gain competitive advantage, and that means using outsourcing to gain access to the best people to provide non-core competencies such as document services’.

In Océ Business Services' case, that means having its specialists work with public and private organisations of all sizes to help them effectively manage their business processes through enhanced document management. The life cycle of a document begins with its creation, then evolves through distribution, printing, access, and archiving, and ends with its disposal. It's about technology – but even more importantly, it's about people who can find innovative ways of using it. To make sure its staff is the best at what they do, Océ has a consistent commitment to ongoing employee training and education at all levels of the organisation. Classroom instruction, on-the-job training, and more than 1 500 online courses are woven together into a comprehensive staff education programme – ranging from specialised print technologies to how to apply quality improvement methodologies like Six Sigma.

PNC Financial Services Group can attest to the efficiency of Océ's approach. The nation's twelfth-largest bank has been an Océ Business Services client for nine years, relying on its print and mail expertise to help it handle 65 million pieces of customer correspondence per year. According to Dough Lippert, vice president for operations, PNC's relationship with Océ has directly translated into millions of dollars of savings for the bank in reduced production, distribution, and postage costs. 'Océ is not simply an outsourcing vendor, they're another arm of the bank – constantly using its talented people and process knowledge to find ways to improve our operations.'

'Most importantly', notes Marciano, 'our focus on document process management enables us to attract the best people, because we can offer them a career path not available in most corporations.' In fact, most site managers – 67%, to be exact – placed at client locations have been promoted from within. 'This investment in our people, combined with operational excellence, providing innovative customer support tools, and constantly expanding our services to meet customer needs, is core to how we create value,' says Marciano.

British Airways' relationship with EMCOR – which has managed everything from the airline's energy systems, to security, to its industrial buildings, corporate offices, call centres, and hangars for 14 years – is another example of companies using outsourcing to gain access to the right talent and know-how. Overall, there has been a significant annual saving. But saving is actually the last thing BA considers when contemplating outsourcing. 'We consider EMCOR our strategic partner,' says Bryan Mitchell, manager of BA's global facilities operations at its Heathrow Airport headquarters. That is why in March it extended its contract for three years to include over 8.6 million square feet of facilities at the airport (including the new Terminal 5), and at its headquarters in London. As he explains, 'We describe ourselves as an intelligent client. Managing the contract and EMCOR adds real value. EMCOR is with us for the long haul.'

Leveraging the workforce

As the outsourcing industry matures, companies are realising that service providers are strategic partners that aim not to replace an organisation's in-house staff, but augment it. This allows corporations to focus their attention on the most valuable activities and not burden Grade-A players with back-office tasks. Gary Rappeport, CEO of Northbrook, Illinois-based Donlen Corp., clearly sees this trend in his industry, vehicle fleet management. There was a time when customers only saw companies like his as providers of leasing or financing for the cars, trucks, and other vehicles used in their

operations. 'Today companies use us for all aspects of fleet administration – everything from acquiring and maintaining their vehicles to being the first point of contact for their drivers,' he says. This frees their internal fleet departments to become business managers, linking their fleet operations to company strategy and goals.

In addition, outsourcing partners can provide access to proprietary know-how. Donlen, for example, offers clients access to its unique online fleet management software, FleetWeb. The business intelligence application lets users stay in control of their fleet's operations and analyse cost-effectiveness by monitoring many industry variables including fuel and maintenance costs. According to Rapoport, the technology has helped many customers make more-informed decisions about their fleets and reduce costs. Often they are surprised to learn that replacing a fleet of vehicles makes sense earlier in the vehicles' life than expected.

Champions of innovation

Sometimes outsourcing partners can help speed up innovation. Their expertise can help corporate clients redesign business functions so they become more efficient and leap-frog competitors. That was the experience of a major automobile manufacturer who began outsourcing about two years ago with Pitney Bowes Management Services (PBMS), a wholly-owned subsidiary of Pitney Bowes Inc., that designs and manages customised print, mail, and document management solutions. Within the first few weeks, PBMS helped streamline the automaker's entire process for producing marketing packages distributed directly to consumers. Where once it was a matter of pulling together and mailing a folder of preprinted brochures stored in a warehouse, prospects now receive totally personalised packages – right down to the model and colour of the automobile they expressed interest in – printed in real time using the latest digital variable print technology. The result: More prospects are becoming customers.

According to Vincent De Palma, executive vice president and president, PBMS, 'It really takes a combination of new technologies, new management techniques, and talented people to produce results like this.' Pitney Bowes, the mail and document management-industry giant based in Stamford, Connecticut, is probably less well-known for its ability to manage a client's entire 'mailstream'. This includes all aspects of inbound and outbound document design, production, processing, and distribution. 'There's actually been a dramatic shift over the past decade in the very nature of corporate mail,' points out De Palma. The focus has gone from correspondence mail to inbound transactional and direct mail, including items such as claim forms, mortgage applications, bills, and statements, that are tied right to a company's bottom line.

At the same time, the convergence of technology and globalisation is leading companies like PBMS to search the world for solutions and talent to meet changing customer needs. Even with 'physical' mail, much of the work is now done using digital technology, Six Sigma processes, and an on-site/off-site management strategy. A case in point: Through its global partner network, PBMS now handles imaging and records-management operations for many of its clients at locations all around the world, offering them lower costs and 24-hour-a-day processing capabilities.

'The real payoff for companies', says Joe Hogan, vice president of Global Outsourcing solutions for Unisys based in Blue Bell, Pennsylvania, 'is when great technology, talent, and know-how come together to create tremendous expertise in an industry segment.' As an example, he cites the vertical process knowledge that Unisys has

gained by processing, on behalf of its customers, more than \$10 billion of residential mortgage loans in Australia and 70% of the paper checks in Britain. 'It gives our people a level of understanding – not only about the process itself, but about the tools and technologies needed to make it work – that few others possess.'

For Unisys, all of these forces converged when it launched its 3D Visible enterprise in 2003, a proprietary approach to align IT to business goals with a comprehensive set of modelling tools and methods. The resulting 'blueprints' can be used to identify business process and IT infrastructure that can be effectively outsourced. Hogan says clients are amazed at what they uncover, and the model helps them work with Unisys to tailor an outsourcing programme.

So how will the outsourcing industry shake out in the months and years ahead? It will likely continue to morph into a transnational business spread across continents, transcending cultural and political barriers. For companies, the challenge will be managing their extended far-flung operations and workforce. Hogan sums it up best: 'In this environment only the best-of-breed will flourish.' Brain power will be the great equaliser.

Questions and activities

1. Based on the descriptions of the experiences of the various companies mentioned in the case study, what is the unifying theme of the role played by HRM from a competitive-advantage perspective?
2. What were the environmental influences stimulating the actions described for each of the companies?
3. What managerial trends are indicated in the experiences of these companies?

SOURCE: CORBETT, M.F. 2007. Winning the global talent war. *Fortune* (European edition), 155(7):S4–S8, April. Used with permission.

REVIEW QUESTIONS AND ACTIVITIES

1. Write a short paragraph on the rareness of HR.
2. According to Barney, imitation can occur in at least two ways. Explain briefly.
3. Explain the RBV paradigm and its application in interconnected firms (also refer to the motivation component of the HR assets as it relates to this paradigm).
4. Explain the best-practices paradigm.
5. Explain the process paradigm.
6. Give a brief explanation of the term 'competitive advantage'.
7. According to Barney, an organisation's resources can be classified into four groups. Name them.
8. Briefly discuss the four questions which determine a resource's value.
9. Write a short paragraph on the universal, contingency, and configurational approaches.
10. Write a brief essay on the attributes of the four mindsets needed to retain the competitive advantage in the new competitive landscape.

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Human resources and leadership

3

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Define the concept of leadership
- Discuss the ten leadership management roles
- Explain the difference between successful leadership and unsuccessful leadership
- Identify several individual models of leadership
- Identify several group models of leadership
- Identify several organisational models of leadership
- List the various leadership training and development techniques
- Describe the leadership role of human resources

PURPOSE

The purpose of this chapter is to introduce you to several leadership theories as well as to the leadership role of human resources.

CHAPTER OVERVIEW

This chapter focuses on the importance of leadership within organisations. It begins by discussing the definition of the concept of leadership. It then examines what leaders actually do in organisations. Thereafter it describes the three levels of leadership – namely individual, group, and organisational – and highlights the differences between successful leadership and unsuccessful leadership. The chapter concludes with a discussion of leadership training and development techniques and the leadership role of human resources. The concluding case study illustrates how the theory contained in this chapter can be applied in practice.

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

Introduction

Thus far we have examined the new role that HRM has to play to enable the company to gain and sustain its competitive advantage. Being a good manager in today's flexible, innovative, and dynamic environment is not enough; all managers (HR included) also need to play a leadership role.¹

In this chapter, we shall begin by defining the concept of leadership. We shall continue by discussing individual, group, and organisational models of leadership, leadership managerial roles, the difference between successful leadership and unsuccessful leadership, leadership training and development techniques, and the leadership role of HRM.

3.1 What is leadership?

The literature contains many definitions of leadership.² Bennis, for example, an authority on leadership, claims to have collected more than 300³ definitions. Nevertheless, they all say essentially the same thing – namely that leadership is:

- The activity of influencing people to strive willingly for group objectives⁴
- The process of influencing the activities of an individual or a group in efforts towards goal achievement in a given situation⁵
- The process of giving purpose (meaningful direction) to collective effort, and causing willing effort to be expended to achieve such a purpose⁶
- The activity of getting people to move in directions, make decisions, and support paths they would typically not have selected⁷
- The process of making sense of what people are doing together, so they will understand and be committed⁸
- The process of articulating visions, embodying values, and creating the environment within which things can be accomplished.⁹

These definitions highlight a number of important issues. The following is clear:

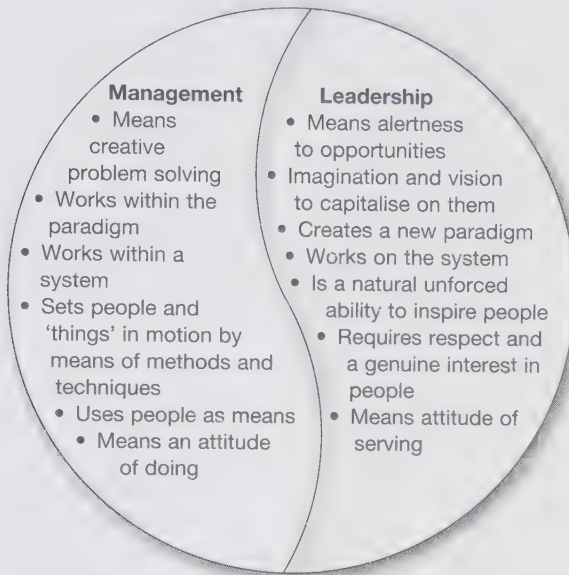
- Leadership is a process and not a position
- It involves a relationship between a leader and followers in a given situation
- It involves influencing people
- Leaders gain the commitment and enthusiasm of followers who are willing to be influenced
- Leadership influences followers to think not only of their own interest but the interest of their organisation
- It involves influencing followers to bring about change towards a desired future for their organisation.¹⁰

Thus, leadership can be seen as a complex phenomenon involving the leader, the followers, and the situation.

Considering these definitions, what is the difference between leadership and management? According to Hinterhuber and Krauthammer,¹¹ the sources of leadership are alertness to opportunity and the imagination and vision to exploit or capitalise on it, thereby creating value for all the stakeholders – people, society, customers, and shareholders. They see management, in contrast, as creative problem solving that works within the system and that is easier to learn than leadership. They also believe that, in a time of uncertainty, leadership is more important than management. Figure 3.1 illustrates their views on the complementarity of leadership and management.

This view is echoed by Hughes, Ginnett, and Curphy, who indicate that the term 'management' suggests words like 'procedures', 'control' and 'regulations', while the term 'leadership' is more associated with words like 'risk-taking', 'creativity', 'change' and 'vision'.¹² Hughes et al. come to the conclusion that leadership and management are closely related but distinguishable activities; these authors do not view leaders and

Figure 3.1 The complementarity of management and leadership



SOURCE: HINTERHUBER, H.H. & KRAUTHAMMER, E. 1998. The leadership wheel: The tasks entrepreneurs and senior executives cannot delegate. *Strategic Change*, 7(7):150. Copyright John Wiley & Sons. Reproduced with permission.

managers as different types of people. Thus, the same individual can fulfil both roles.¹³

Bennis¹⁴ also draws a distinction between the two concepts by stating, 'Managers administer and leaders innovate, managers control and leaders inspire, and managers accept the status quo, while leaders change it'

people to accept and work towards making those visions come true

- Leaders do not just formulate new programmes and policies, they initiate improvements that last by changing organisational culture
- Leaders do not just manage organisations, they seek ways to transform them.

SOURCE: LEONARD, B. 1999. From management to leadership. *HR Magazine*, 44(1):34.

Howard, as quoted by Leonard,¹⁵ expands on the concept of leadership when he remarks that:

- Leaders do not just develop visions of what an organisation is, they develop visions of what an organisation can be
- Leaders do not just inform people about new visions, they energise

It is clear from the discussion thus far that leadership and management complement each other and that both are vital to organisational success.

This view is shared by Kotler, as quoted by Nur,¹⁶ when he states:

A manager who does not have what it takes to be a leader would be bogged down with day-to-day managerial matters, and the leadership needs of the organisation would be neglected – to the eventual detriment of the organisation. Likewise, a manager with leadership qualities but no managerial skills will have an empty vision. Without the requisite power, vision cannot be turned into reality.'

SOURCE: NUR, Y.A. 1998. Charisma and managerial leadership: The gift that never was. *Business Horizons*, 41(4):20, July/August.

However, to be an effective leader, some critical competencies are required. Today there is a growing agreement on some of these competencies, which include, according to Ketterer and Chayes,¹⁷ vision, managing complexity, industry and business insight, a general management perspective, drive for success, personal integrity, flexibility, active learning, influencing without authority, extreme humility, developing talent, and teamwork. More recently, authors have seen the role of emotional intelligence as also important. They propose that emotional intelligence – the ability to understand and manage moods and emotions in the self and others – contributes to effective leadership in organisations.¹⁸ Emotional intelligence consists of four fundamental capabilities: self-awareness, self-management, social awareness, and social skills. Each capability is composed of a specific set of competencies (see Table 3.1).

Besides the competencies, practices, and commitment, a further ingredient is necessary for successful leadership – namely

effective communication.¹⁹ Knowing what to do, but not being able to communicate this to others, can be a major drawback for effective leadership. According to Platts and Southall,²⁰ organisations need complete, coherent, and efficient communication systems that channel essential information upwards, downwards, and sideways between employees. Sonnenschein²¹ defines communication as 'understanding each other as individuals and as members of larger groups'.

It is important that organisations should take note of a number of barriers to good communication. These barriers include poor communication skills, distortion or omission of information flowing through the various levels within the organisation, people hearing only what they expect to hear, and lack of trust between the sender and the recipient.²² In contrast, the literature identifies a number of common characteristics in organisations that do communicate well. The following keywords describe these characteristics:²³

- Top management commitment
- Open and honest
- Planned and deliberate
- Upwards, downwards, sideways
- Supported by training
- Agreed objectives
- Interesting, significant content
- Systematic
- Two-way
- Relevant
- Sufficient time and money
- Reliable
- Regular and well timed
- Right amount
- Support in preparation
- Flexible
- Think message then medium
- Supportive attitudes
- Within recipients' horizon
- Constantly reinforced.

Table 3.1 The four fundamental capabilities and competencies of emotional intelligence

Self-awareness	Self-management
■ Emotional self-awareness: the ability to read and understand your emotions as well as recognise their impact on work performance, relationships, and the like. ■ Accurate self-assessment: a realistic evaluation of your strengths and limitations. ■ Self-confidence: a strong and positive sense of self-worth.	■ Self-control: the ability to keep disruptive emotions and impulses under control. ■ Trustworthiness: a consistent display of honesty and integrity. ■ Conscientiousness: the ability to manage yourself and your responsibilities. ■ Adaptability: skill at adjusting to changing situations and overcoming obstacles. ■ Achievement orientation: the drive to meet an internal standard of excellence. ■ Initiative: a readiness to seize opportunities.
Social awareness	Social skill
■ Empathy: skill at sensing other people's emotions, understanding their perspective, and taking an active interest in their concerns. ■ Organisational awareness: the ability to read the currents of organisational life, build decision networks, and navigate politics. ■ Service orientation: the ability to recognise and meet customers' needs.	■ Visionary leadership: the ability to take charge and inspire with a compelling vision. ■ Influence: the ability to wield a range of persuasive tactics. ■ Developing others: the propensity to bolster the abilities of others through feedback and guidance. ■ Communication: skill at listening and at sending clear, convincing, and well-tuned messages. ■ Change catalyst: proficiency in initiating new ideas and leading people in a new direction. ■ Conflict management: the ability to de-escalate disagreements and orchestrate resolutions. ■ Building bonds: proficiency at cultivating and maintaining a web of relationships. ■ Teamwork and collaboration: competence at promoting cooperation and building teams.

SOURCE: Reprinted by *Harvard Business Review*, March/April, from GOLEMAN, D. 2000. p. 80. *Leadership that gets results*. © 2000 by Harvard Publishing; all rights reserved.

3.2 What leaders do on the job

It is important to also establish what leaders actually do on the job – the so-called leadership managerial roles. Mintzberg, as quoted in Lussier and Achua,²⁴ identified ten managerial roles that leaders perform to accomplish organisational objectives. He grouped these roles into three categories (see Table 3.2), namely:

- Interpersonal roles
- Informational roles
- Decision roles.

These roles have been widely supported by numerous research studies in the literature. As Table 3.2 is self-explanatory, we shall not discuss these roles further.

3.3 Successful and unsuccessful leadership²⁵

A great deal of knowledge has been generated about what contributes to successful and unsuccessful leadership. Due to the variety of approaches taken to better understand this phenomenon, it is difficult to integrate

Table 3.2 Mintzberg’s ten managerial roles of leaders

Interpersonal roles

Figurehead role	Leaders perform the figurehead role when they represent the organisation or department in legal, social, ceremonial, and symbolic activities
Leader role	The leader role is that of performing the management functions to operate the managers' organisation unit effectively
Liason role	Leaders perform the liason role when they interact with people outside their organisational unit, e.g. networking

Informational roles

Monitor role	Leaders perform the monitor role when they gather information
Disseminator role	Leaders perform the disseminator role when they send information to others in the organisational unit
Spokesperson role	Leaders perform the spokesperson role when they provide information to people outside the organisational unit

Decision roles

Entrepreneur role	Leaders perform the entrepreneur role when they innovate and initiate improvements
Disturbance-handler role	Leaders perform the disturbance-handler role when they take corrective action during a crisis or conflict situation
Resource-allocator role	Leaders perform the resource-allocator role when they schedule, request authorisation, and perform budgeting activities
Negotiator role	Leaders perform the negotiator role when they represent their organisational unit during routine and non-routine transactions that do not include set boundaries such as the pay of an employee

SOURCE: Adapted from LUSSIER, R.N. & ACHUA, C.F. 2004. *Leadership: Theory, application, skill development*. Minnesota: South Western/Thomson Corporation:9–12. © 2004 South-Western, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions.

findings across the many streams of research. However, several approaches in the literature do stand out as having been particularly fruitful. Each of these approaches reflects a unique combination of definition of success,

type of predictors of success, and setting for studying leadership. These issues are further illustrated in Table 3.3.

Table 3.3 Examples of successful and unsuccessful leadership as found in different research studies

Successful leadership	Unsuccessful leadership
Theme: Balance concern for task efficiency, human relations, and adaptive change	
■ When making decisions, takes into account the needs of the organisation and needs of employees ■ Gets things done without creating adversarial relationships ■ Coaches employees in how to meet expectations	■ Hires people with good technical skills but poor ability to work with others ■ In implementing a change, does not take the time to explain the rationale or listen to concerns ■ Is unable to deal firmly with loyal but incompetent employees
Theme: Develop intrapersonal and interpersonal competence	
■ When working with another group, gets things done by finding common ground ■ Does an honest self-assessment ■ Quickly gains trust and respect from customers	■ Is not adaptable to many different types of people ■ Is emotionally volatile and unpredictable ■ Overestimates own abilities
Theme: Engage in transformational and charismatic behaviours	
■ Is a visionary able to excite other people to work hard ■ Rewards hard work and dedication to excellence ■ Gains commitment of others before implementing changes	■ Does not help individuals understand how their work fits into the goals of the organisation ■ Orders people around rather than working to get them on board ■ Fails to encourage and involve team members
Theme: Think and act in more complex ways	
■ Once the more glaring problems in an assignment are solved, can see the underlying problems and patterns that were obscured before ■ Understands higher management values and how they see things ■ Recognises that every decision has conflicting interests and constituencies	■ Is overwhelmed by complex tasks ■ Cannot make the transition from technical manager to general manager ■ Prefers to work on day-to-day problems rather than long-range strategies

Successful leadership	Unsuccessful leadership
Theme: Overcome deficiencies that limit success	
■ Does not become hostile when things are not going his or her way ■ Does not blame others or situations for own mistakes ■ Does not become paralysed or overwhelmed when facing action	■ Does not use feedback to make necessary changes in behaviour ■ Selects people for a team who do not work well together ■ Is self-promoting without the results to support it
Theme: Seek a wide variety of leadership experiences	
■ Is prepared to seize opportunities when they arise ■ Is willing to make a lateral move to gain valuable experience ■ Accepts change as positive	■ Resists learning from bad decisions or mistakes ■ Chooses an overly narrow career path ■ Feels uncomfortable in situations that call for untested skills

SOURCE: ANTONAKIS, J., CIANCIOLO, A.T. & STERNBERG, R.J. 2004. *The nature of leadership*. Thousand Oaks, CA: Sage Publications:209. Used with permission.

3.4 Individual models of leadership

It is amazing that during the twentieth century more than 8000 studies on leadership emerged.²⁶⁻²⁸ However, when one takes a closer look at all the published work, three main streams of research emerge: the first looks at individual models of leadership, the second at group models of leadership, and the third at organisational models of leadership. We shall now briefly discuss a number of the individual models. In section 3.5 we shall discuss a number of models found in the ‘group’ category, and in section 3.6 we shall look at organisational models of leadership.

3.4.1 Traits-based approach

The early studies on leadership (during the 1930s and 1940s) looked at the various issues concerning the individual leader in the workplace.²⁹ These studies began with a focus on traits or characteristics (physical or mental), followed by a focus on skills (ability to carry out tasks), and then moved on to

behaviours (performing in specific ways).³⁰ A very extensive literature on leadership traits (so-called traits-based leadership) exists.³¹ Figure 3.2 summarises the traits into four categories, namely physical, social, personality, and intellectual. However, the trait theory was not very successful, as it was found that no particular set of personality characteristics had recurred in leaders.³² As Hunt correctly states, ‘The reverse is more likely to be true – leaders are noted for being different from each other in personality traits.’³³

3.4.2 Behavioural-based approach

The second major development was the behavioural approach popular in the 1950s. Here researchers tried to discover leadership styles that would be effective across all situations.³⁴ Most studies undertaken in this area used questionnaires measuring task-orientated and relations-orientated behaviour. Researchers conducted these studies to see how these behaviours correlated with criteria of leadership effectiveness, such as subordinate satisfaction and performance.

Figure 3.2 Leadership traits



SOURCE: SWIERCZEK, F.W. 1991. Leadership and culture: Comparing Asian managers. *Leadership & Organization Development Journal*, 12(7):7. Emerald Group Publishing Limited. Copyright © MCB UP Ltd. Reproduced by permission of Emerald Group Publishing Limited.

Unfortunately the results from the massive research efforts were mostly contradictory and inconclusive.³⁵ The two leading research projects associated with this theory are the Ohio State project and the University of Michigan research.³⁶

3.4.3 Situational-based approach

The third approach, developed during the 1960s and 1970s, expanded on trait theory to include tasks to be completed, the factors affecting the situation both leader and followers are in, and the personality traits of the followers.³⁷ This theory became known as the situational theory, but is also referred to in the literature as the contingency theory. Although it had some shortcomings, the situational theory was a useful way to get leaders to think about how leadership effectiveness may depend somewhat on being flexible with different subordinates, i.e. not acting the same way towards them all.³⁸ This approach was popularised by Hersey and

Blanchard and to a lesser extent by Fiedler, Vroom, and Yetton.

3.5 Group models of leadership

The leadership models discussed thus far in this chapter worked reasonably well within a fairly stable internal environment. However, as Chapters 1 and 2 indicated, this environment has undergone radical changes during the last few years. Issues that have had a major impact on a company's internal environment include downsizing, rightsizing, restructuring (implementing matrix structures and flatter organisations), the introduction of teams, and the empowerment of employees. The acceptance of the resource-based approach as a method to improve the organisation's competitive advantage has also refocused leadership researchers to look at new approaches in the field.³⁹

An important movement in this regard has been the implementation of group-leadership approaches and the movement away from the old power-control paradigm (using coercive, expert, referent, legitimate power) to the empowering of others.⁴⁰ This new leadership style will require the transformation of the role of managers at all levels within the company, with more time being spent on initiating problem solving among team members and absorbing internal and external information to ensure the best possible decision making.⁴¹

Thus formal authority, as the cornerstone of leadership, is nearly obsolete. Leadership should no longer be restricted to one individual who happens to be entrenched in a formal hierarchical position, but must be dispersed across a wide range of diverse individuals, some of whom will not even be within the organisation. This view is shared by McCrimmon in a thought-provoking article 'Bottom-up leadership'.⁴² According to McCrimmon, such dispersed leadership should not only be spread across more individuals, but should also be broken down into components that allow everyone to show some aspect of leadership, however small.⁴³ He thus suggests that one should stop characterising leadership solely in terms of personality or behavioural attributes and start thinking about leadership acts. McCrimmon defines such an act as 'any initiative which influences how an organisation does business'.⁴⁴ Thus, an individual may not be classified as a leader according to the old leadership paradigm, but his or her initiatives that lead to an improvement in the functioning of the organisation are definitely leadership acts. McCrimmon remarks as follows in this regard: 'In any given team, each member might exhibit technical leadership acts on different projects. If each team member has reasonably effective interpersonal skills he or she may also display people leadership acts from time to time'.⁴⁵

Besides considering the leadership acts to be performed by numerous individuals, McCrimmon argues that it is also useful to think of leadership functions. Most leadership acts will fall into one or more leadership categories, such as developing new products, enhancing quality, and convincing people to contribute to a new plan. According to McCrimmon, some of these categories should be formalised as leadership functions that would be seen as essential for competitive success. These functions could be fulfilled by a variety of senior executives who can exhibit leadership by ensuring that all critical leadership functions are fulfilled by as many people as possible.⁴⁶

As Chapter 1 indicated, a growing trend in organisations nowadays is to give more responsibility to teams rather than to individuals.⁴⁷ These teams have considerable discretion as to how to execute their duties and have a common purpose, interdependent roles, and complementary skills. Although various types of teams can be found, we shall concentrate on three of the more popular types: cross-functional, self-managed, and executive teams.

3.5.1 Cross-functional teams

Organisations are increasingly using cross-functional teams with a view to improving coordination of independent activities among specialised sub-units.⁴⁸ This type of team usually includes employees from each of the functional sub-units. These teams allow flexible, efficient deployment of personnel and resources to solve problems as these occur. As a result of the different backgrounds of the team members, cross-functional teams are normally creative in generating various ideas and also in providing interesting solutions to problems.⁴⁹ Although cross-functional teams are beneficial to organisations, they do have a number of negative aspects. For example, it is not always possible to get the members to

participate sufficiently, and time-consuming meetings may result. A further problem is the possibility of role conflicts as a result of the competing demands of team members.⁵⁰

Barry,⁵¹ as quoted by Yukl,⁵² identifies four leadership functions that appear to be essential for cross-functional teams that solve problems, manage projects or develop policy. These are:

- Envisioning – articulating strategic objectives or a vision and encouraging the team to consider innovative performance strategies
- Organising – planning and scheduling team activities
- Social integration – encouraging mutual trust and open communication among team members
- External spanning – monitoring the external environment to identify client needs and emerging problems, and promoting a favourable image of the team to outsiders.

3.5.2 Self-managed teams

As Chapter 1 indicated, much of the responsibility and authority for making important management decisions is turned over to self-managed teams (SMTs).⁵³ These teams are normally responsible for producing a distinct product or service. While the parent organisation usually determines the mission, scope of operations, and budget, SMTs are responsible for setting their own performance goals and quality standards.⁵⁴ The internal leadership role of these teams involves management responsibilities assigned to the team and shared by the group members. It is typical for SMTs to have an internal team leader who is responsible for coordinating the team activities. However, it is not unknown for self-managed teams to rotate this position among several team members.⁵⁵ According to Yukl, shared leadership in SMTs can take many different forms

besides the rotation of the team-leader position. For example, group decisions about important issues can be made at any time, and members may also assume responsibility for providing coordination and direction for specific activities of the team. Members may also collectively perform some supervisory functions and teams may distribute some administrative responsibilities to individual members.⁵⁶

3.5.3 Executive teams

The third group model we shall discuss is executive team leadership. Much early literature on leadership was mainly concerned with supervisors and middle managers in organisations. However, with the rapid changes taking place within organisations, and the intensifying competition between companies, attention has shifted towards the CEO and the top-management executive team.⁵⁷

Although the traditional top-management structure is still popular, there is a new approach in which the CEO shares power with the top-management team. The advantage of this approach is that team members can compensate for weaknesses in the skills of the CEO.⁵⁸ Thus, leadership is becoming a team sport. A set of executives now takes on the responsibility for providing leadership to the whole organisation.⁵⁹

The development of executive leadership teams has a number of advantages which include, according to Nadler and Spencer, the generation of more ideas, increased ownership of products, increased commitment and motivation, a wide range of views and perspectives, the sharing of risks, the transfer of expertise, and social support.⁶⁰

The quality of team performance at the executive level is critical, not just because of the obvious impact of the team's decisions on organisational performance, but also because of the team's leadership role as a model of appropriate behaviour.⁶¹

Table 3.4 Elements of executive team effectiveness

Element	Description
Team design	
Composition	Mix of skills and experiences, values, perspectives, and other characteristics
Structure	Includes the size of the team, the boundaries (who's in and out, the specific formal roles, the nature of team and individual roles)
Succession	Team members' perceptions and expectations of how their performance and behaviour affect their succession prospects
Core processes	
Work management	How the team organises and manages itself to perform work
Relationship management	How the team manages the nature and quality of relationships among its members
External boundary management	How the team deals with elements outside the team and beyond the organisation
Team performance	
Production of results	The team's ability to consistently meet the performance demands on it
Maintenance of effectiveness	The team's ability to meet members' needs and for members to work together over time

SOURCE: RIVERO, J.C. 1998. The role of feedback in executive team effectiveness. (*In* NADLER, D.A. & SPENCER, J.L. (Eds). *Executive teams*. San Francisco: Jossey Bass:182.) This material is reproduced with permission of John Wiley & Sons, Inc.

A model designed by Rivero, containing elements of executive-team effectiveness, appears in Table 3.4.

This model can be used to diagnose threats to the team's effectiveness, and also indicates the team's opportunities. It is important to note that the different elements of the model are linked with one another. For example, the skills and experience of the team have a great impact on core processes such as how to share information and how to make decisions.⁶² Another link is that between core processes and performance. The team's performance is directly influenced by, for example, the quality, effectiveness, and appropriate management of the team's work, relationship, and external boundaries.⁶³

For the executive team to lead the organisation successfully, it must, according to Nadler and Spencer, perform at least four leadership activities successfully. These activities are:⁶⁴

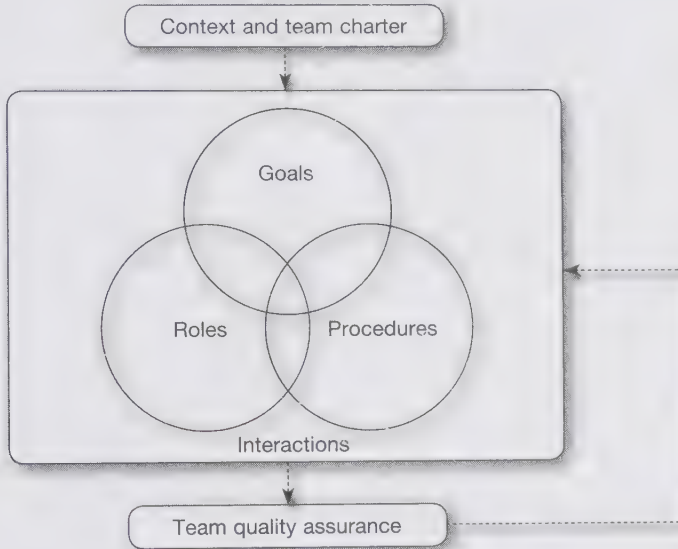
- **Governance.** This involves a number of activities such as determining and monitoring the company identity and mission; developing internal policies, processes, and rules; managing external and internal relationships; and ensuring future executive capability.
- **Developing strategy.** Developing strategies and choosing the best one are vital for the retention of the company's sustained competitive advantage.
- **Leading strategic-change teams (SCTs).** These teams, which are appointed by

the executive team, are responsible for driving critical business priorities and initiatives by means of generating innovative solutions for tough issues that strongly affect the organisation's future capabilities, performance, and competitive position in the marketplace.

Designing effective SCTs involves the following four important steps (Figure 3.3 gives more detail regarding these issues, which we shall not discuss further):

- ▷ Firstly, establishing the team charter
- ▷ Secondly, electing team members

Figure 3.3 Building framework for strategic change teams (SCTs)



1 Context and team charter

- What is the role of this team in the larger system?
- What are the team's performance requirements?
- What are key relationships with other teams?
- What are the team's rewards and consequences?

2 Goals

- What is the value-added work of the team?
- What is the core content of the team's agenda?
- What are the measures of team success?

3 Roles

- What is expected or required of team members?
- What are the special roles (e.g. leadership)?
- What do subgroups require of each other?

4 Procedures

- How are meetings structured?
- How is the team's agenda created and managed?
- How are decisions made?
- How is team output managed?

5 Interactions

- What behaviour is expected or required of members?
- Which operating principles will govern behaviour?

6 Team quality assurance

- How will the team be initiated or launched?
- How are work sessions started?
- How are work sessions process reviews conducted?
- How are periodic process reviews conducted?

SOURCE: Delta Consulting Group, 1991 as it appeared in KETTERER, R.F. & SPENCER, J.L. 1998. Leading strategic change teams. (In NADLER, D.A. & SPENCER, J.L. (Eds). *Executive teams*. San Francisco: Jossey Bass:254.) This material is reproduced with permission of John Wiley & Sons, Inc.

- ▷ Thirdly, agreeing on key work processes
- ▷ Fourthly, embedding a quality-assurance process into the work of the team.
- *Creating a high-performance operating environment.* To be successful, the executive team must also create a new operating environment that will support the successful implementation of the business strategy. Thus, just as organisations need operating plans to implement strategies, they also require appropriate operating environments to execute these plans. According to Thies and Wagner,⁶⁵ this process will involve changing how decisions are made; how people deal with each other; patterns of leadership behaviour; how people operate individually and collectively; how people think about customers, competitors, and employees; and how the organisation is perceived by the external environment.

3.6 Organisational models of leadership

From the discussions in sections 3.4 and 3.5, it is clear that the subject of leadership has received much attention over the years. However, as a result of various problems experienced with many of these approaches, newer models started to appear during the 1980s and 1990s. We can classify these models as organisational models. Some of the most popular were models of transactional, transformational, charismatic, and strategic leadership. As these models brought a newer perspective on the issue of leadership, a brief discussion of each model follows.

3.6.1 Transactional-based approach

In the transactional leadership approach, leaders are characterised by contingent-reward and management-by-exception styles of leadership.⁶⁶ Leaders develop exchanges

or agreements with followers. These exchanges or agreements point out what the followers will receive if they do something right (or wrong). The transactional leadership approach thus lasts only as long as the needs of both leader and follower are satisfied by the continuing exchange process. There is consequently not a relationship that binds the leader and follower together in a mutual and continuing pursuit of higher purpose. Thus, one could say that a purely transactional style of leadership may be counter-productive, in a sense.⁶⁷

3.6.2 Transformational-based approach

In direct contrast to the transactional approach, in which the status quo within the organisation is maintained, the transformational-based approach raises both leaders and followers to higher levels of motivation and morality, with a view to changing the present situation by focusing primarily on the external environment.⁶⁸ According to Bass, as quoted by Steers, Porter, and Bigley,⁶⁹ transformational leadership consists of four behavioural components, namely:

- Charisma, which is viewed as the process through which leaders arouse strong emotions in followers
- Inspiration, which refers to leader behaviours such as articulating an appealing vision
- Intellectual stimulation, which encourages followers to be creative in solving problems
- Individual consideration, which includes leader behaviours that provide special support to followers, such as expressing appreciation for a job well done.

3.6.3 Charismatic-based approach

Where transformational leadership seeks to empower and elevate followers, charismatic leadership seeks to keep followers weak and dependent and to instil personal loyalty

BOX 3.1**Charismatic leadership behaviour for developing countries****1. Assess the environment:**

- Identify factors that facilitate or hinder achievement of organisational goals
- Assess minimum conditions needed for implementing short and long-term goals
- Prepare a stakeholder transaction matrix (a matrix of the different groups with major cultural dimensions of each group).

2. Visioning and responding to environment:

- Establish dominant goal and direct efforts to achieve it
- Move from pilot testing to implementation on a larger scale
- Mobilise demand
- Develop support network.

3. Means to achieve:

- Establish affective reciprocity relationship
 - ▷ confidence in follower's ability for task accomplishment
 - ▷ nurturing follower self efficacy through coaching, modelling, encouraging and rewarding
 - ▷ idealising organisational and work values
- Discourage manipulative ingratiation relationships
 - ▷ avoid lording behaviour and 'pulling of ranks'
 - ▷ avoid negativism
 - ▷ avoid favouritism
- Promote a performance-based reward system
- Promote loyalty to organisation and work values rather than loyalty to people in a position of power
- Recognise dependence of subordinates for developing task competence versus dependence for materials gain. Be supportive of subordinates in the former case
- Use a family metaphor for organisations
 - ▷ be fair and firm to all members
 - ▷ be open, available and accessible
 - ▷ be sociable and collegial to members (use existing rites and rituals as occasions for relating to members)
 - ▷ show constant concern for improving quality of life of members as one would do for own self
 - ▷ groom second line in command
 - ▷ show respect and support for other's position and authority
 - ▷ promote information sharing, participation and communication.

SOURCE: MENDONCA, M. & KANUNGO, R.N. 2007. *Ethical Leadership*, Maidenhead, Berkshire: Open University Press, McGraw Hill Education:122.

rather than commitment to ideals. This is especially true in non-business organisations such as religious or political movements. The existence of charismatic leadership within a business organisation is rare,

as it occurs only when there is a collapse of formal authority to deal with a severe crisis.⁷⁰ In Box 3.1 a list of behaviours necessary for charismatic leadership effectiveness in developing countries is indicated.

3.6.4 Managerial-based approach

Another leadership model – a combination of both transactional and transformational leadership – which appeared in the literature, also deserves some attention. This model is known as managerial leadership.⁷¹ Flanagan and Thompson, who designed this model, found in their extensive research that the pendulum was clearly swinging back from the emphasis on transformational leadership.⁷² According to them, this swing could be the result of the exclusive emphasis on the creative component in the transformational leadership approach. It would appear that a combination of both these leadership styles (i.e. transactional and transformational) might be the answer. Empirical research has indicated that the same leader can display both transactional and transformational types of leadership behaviour in varying degrees and intensities, and also in a complementary way.^{73–78}

Besides encompassing transactional and transformational leadership components, the proposed model also includes a third major component, situational sensitivity. The managerial leadership model enables management to diagnose the organisational situation and deploy the appropriate leadership response – i.e. the right combination of transformational and transactional leadership. It is important to note that the precise mix will vary from one organisation to the next and also from one time to another. Working from the basic factors of transformation, transaction, and the situation, Flanagan and Thompson found it possible to derive a range of components from these factors. The following are examples:⁷⁹

- Transformational leadership skills
 - ▷ Create a vision
 - ▷ Communicate meaning
 - ▷ Inspire
 - ▷ Empower
 - ▷ Stir
 - ▷ Take risks.

- Transactional management skills
 - ▷ Agree on objectives
 - ▷ Communicate information
 - ▷ Motivate
 - ▷ Bargain
 - ▷ Promote security
 - ▷ Stabilise.
- Situational sensitivity
 - ▷ Scans organisation
 - ▷ Reads jobs
 - ▷ Understands self.

To be successful, managers need to have the three macro components listed above, by acquiring their underlying capabilities. Once managers have these skills, they need to exercise them holistically; and if their actions and behaviour are in harmony with the demands and expectations of the situation, they will be successful.⁸⁰

It is important to note that each of the components in the model builds progressively on the others. For example, once a vision has been created, it is important to agree on specific objectives that will build that vision. A further critical aspect is that, after this process has been completed, the vision and objectives must also be communicated to the employees. This will give meaning to their work.⁸¹ However, hard facts and information will also be required to set further individual objectives against which to measure performance. Also, if employees see meaning in what they do, this can inspire them to greater efforts. The empowerment of employees should accompany this process. Devolution of authority will enable employees to stir things up and be innovative, thereby resulting in employees taking risks in exploring new ways of managing new situations that will provide opportunities to adapt to change. If the activities mentioned are not in tune or harmony with the company's environment, they will not be successful.⁸²

BOX 3.2**Examples of a strategic leadership role**

The first example is the case of company X, a large multinational company specialising in power and automation technology based in Switzerland. Its growth was dramatic in the 1990s but suffered in the early 2000s. A new CEO took over in the second half of 2002 when the company was on the verge of bankruptcy.

Over the following two years, the CEO sent weekly e-mail messages to all employees around the world. He used these messages to manage the company's meaning and guide its employees through the crisis. The e-mails focused on explaining the threat facing the company (managing the meaning of the environment), the short-term goals and long-term vision he had to overcome the threats (managing the meaning of the goals), the practical steps that needed to be taken (managing the meaning of the means) and the company's ongoing performance (managing the meaning of the performance). Specifically, he presented a stark yet explicit picture of reality and highlighted the survival of the company as the only vision of the future. He did not present a sunny vision to try to motivate people. All of his early messages focused on cost cutting and re-establishing its core business. Only when results started to improve did he start to provide images of a brighter future.

The second example is the University of Michigan's Law School court case. During the late 1990s and early 2000s, the University of Michigan faced a continuing legal battle of its use of affirmative action as a basis for admission into its law school.

In 2002, when Mary-Sue Coleman became the president, the university learned that an earlier court victory stating that affirmative action was constitutional had been overturned and that an appeal to the next level was needed. President Coleman and the University of Michigan viewed affirmative action as an essential selection criterion for the Law School to achieve its goal of diversity. She championed the case, it was argued in front of the United States Supreme Court and the University of Michigan eventually won. President Coleman inherited the environment in which she had to make meaning and devise a response. She used this opportunity to link the court cases to the meaning and importance of diversity in life at the University of Michigan. This was a choice on her part. She could just as well have used the opportunity to go the other way and advocate the abolishment of affirmative action as a criterion in admission processes.

SOURCE: SHAMIR, B. & HOOIJBERG, R. 2008. Strategic leadership as management of meanings. *Perspectives for Managers*, (Jan), 154 (IMD):2-3.

3.6.5 Strategic-based approach

According to Ireland and Hitt,⁸³ strategic leadership can be defined as 'a person's ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organisation'. From this definition it is clear that this approach will enable an organisation to achieve superior

performance when competing in turbulent and unpredictable environments. CEOs who apply practices associated with strategic leadership of the twenty-first century can create sources of competitive advantage for their organisations.⁸⁴ However, the CEOs will have to cease viewing their leadership position as one with rank and title, but rather as a position of significant responsibility to a range of stakeholders.⁸⁵

In this process, the CEOs will also have to satisfy the requirements associated with six key leadership practices, namely:

- Determining the company's purpose or vision
- Exploiting and maintaining core competencies
- Developing human intellectual capital
- Sustaining an effective organisational culture
- Emphasising ethical practices
- Establishing balanced organisational controls⁸⁶ (see Box 3.2).

3.6.6 Institutional leadership

A model closely related to the strategic-based model is that of institutional leadership.

What has emerged is the application of a special kind of leadership that appears to be critical during periods of discontinuous organisational change. As a result of this new development, we find it appropriate to discuss this issue briefly. The focus for this discussion will be the work done by Nadler, Shaw, and Walton, and published in the book *Discontinuous change: Leading organisational transformation*.⁸⁷

Nadler et al. identify four different types of change that can occur within the organisation. These are:⁸⁸

- *Tuning*. Here organisations initiate incremental change in anticipation of environmental events. There is thus no immediate need for change. According to Nadler et al., this type of change maintains or enhances the fit between strategy and organisation.
- *Adaptation*. While tuning is initiated internally and is proactive in nature, adaptation takes place as a result of external conditions and is reactive in nature.
- *Reorientation*. Here the company initiates change as a result of an emerging environmental shift that is perceived.

This will involve redefining the company's identity, vision, and mission.

- *Recreation*. As companies do not always have visionary leaders, they are sometimes caught unawares regarding certain changes that are taking place. In this situation they must move quickly and change all the basic elements of the organisational system if they want to survive.

Focusing on the reorientation type of organisation change, Nadler et al. suggest that for success under these circumstances, two types of leadership are required, one 'heroic' and the other 'instrumental'.⁸⁹ A heroic leader will excite the employees, shape their aspirations, and direct their energy, while an instrumental leader will make sure that the individuals throughout the organisation do indeed behave in ways needed for the change to occur.⁹⁰ It thus appears that effective organisational change (reorientation change) requires both heroic and instrumental leadership.

Although there may be individuals who can fulfil both roles, organisations may be wise to involve other employees as well in the leadership roles. According to Nadler et al.,⁹¹ the best option is to extend the leadership role beyond the individual leader and create institutionalised leadership. They consequently suggest extending the leadership to at least three groups – namely the senior team, the broader senior-management group, and the entire organisation⁹² (see Figure 3.4). This makes even more exciting the challenge of leadership in an organisation.

3.6.7 E-leadership approach

The most recent, and what many consider the least traditional, form of leadership is e-leadership.⁹³ According to Hunt, as quoted in Antonakis, Cianciola, and Sternberg,⁹⁴ e-leadership can be defined as 'a social

influence process mediated by advanced information systems to produce a change in attitudes, feelings, thinking, behaviour, and/or performance with individuals, groups and/or organisations'. According to the author, it can occur at any hierarchical level and can involve both one-to-one and one-to-many interactions within and across large units and organisations. This leadership approach operates within the context of advanced information technology (AIT).⁹⁵

Systems which can be used for this purpose include e-mail systems, message boards, groupware, group-support systems, knowledge-management systems, and executive-information systems.⁹⁶ These technologies can help leaders scan, plan, decide, disseminate, and control information within the organisation.

3.7 Techniques for leadership training and development

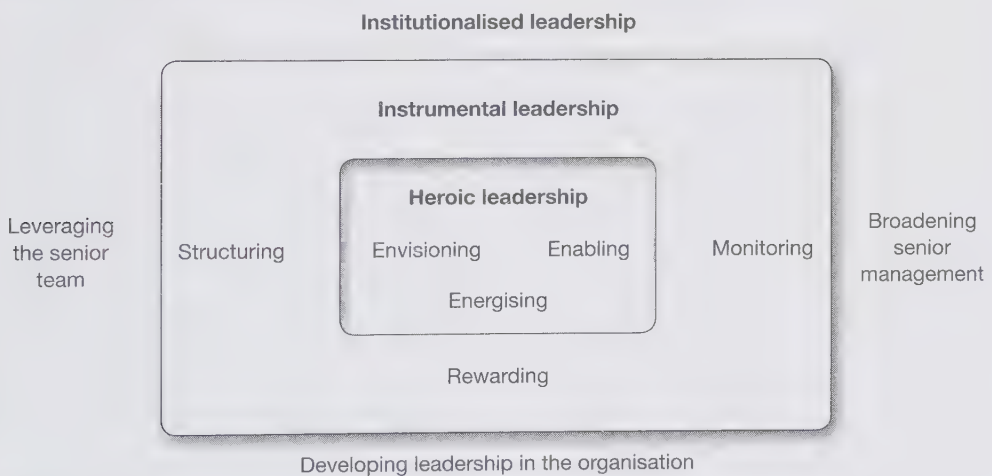
Creating an effective process for selection is a prerequisite to developing enduring capability for leadership within the organisation.⁹⁷ However, it is not sufficient to

identify managers with requisite skills; the organisation needs also to give them a chance to broaden and develop their skills through systematic job-related training and developmental experiences.⁹⁸ In actual fact it is important that all employees be equipped with leadership skills. Table 3.5 contains a typical set of questions that you can use to evaluate your own personal competencies in leadership.

According to Cacioppe,⁹⁹ there has been little research on establishing how much learning from leadership-development programmes has been transferred back into the workplace. Authors such as Cohen and Tichy¹⁰⁰ also question the value of many existing programmes when they remark: 'Most of what has been done in leadership development falls drastically short. It has been too rote, too backward looking and too theoretical. It has rarely been tied to a business's immediate needs, nor has it prepared leaders for the challenges of the future.'

The question thus is: what should companies do in this regard? Numerous studies quoted in the literature¹⁰¹⁻¹⁰⁴ place the involvement and commitment of the CEO

Figure 3.4 Institutionalised leadership



SOURCE: NADLER, D.A., SHAW, R.B. & WALTON, A.S. 1995. *Discontinuous change: Leading organizational transformation*. San Francisco, Jossey Bass:225. This material is reproduced with permission of John Wiley & Sons, Inc.

Table 3.5 How good a leader are you?

This quiz is based on the leadership studies of AchieveGlobal. The statements are grouped according to the five leadership strategies of the CLIMB™ leadership model.

To test yourself on these leadership skills, circle the number that best represents the extent to which you agree or disagree with each statement. Strongly disagree = 1 Somewhat agree = 3 Strongly agree = 5

Strategy 1 Create a compelling future	Agreement
1. I link my work efforts to the organisation's objectives	1 2 3 4 5
2. I use the organisation's core values to guide my decisions and actions	1 2 3 4 5
3. I help others understand their roles in the changing organisation	1 2 3 4 5
4. I help others develop positive approaches to emerging needs in the organisation	1 2 3 4 5
5. I help ensure that my work group or team undertakes appropriate planning activities	1 2 3 4 5
6. I challenge assumptions that may keep the organisation from moving forward	1 2 3 4 5
Your score	
Strategy 2 Let the customer drive the organisation	Agreement
7. I meet with customers or review customer feedback regularly	1 2 3 4 5
8. I help ensure that timely, accurate customer data are gathered and distributed	1 2 3 4 5
9. I make sure that people know how their work affects the customer	1 2 3 4 5
10. I am always watching for ways to make it easier for customers to deal with my company	1 2 3 4 5
11. I hold my work group or team accountable for considering the customer in decision-making	1 2 3 4 5
12. I keep informed about what the competition is doing to win customers	1 2 3 4 5
Your score	
Strategy 3 Involve every mind	Agreement
13. I seek ideas and opinions from individuals throughout the organisation	1 2 3 4 5
14. I help ensure that people are involved in decisions that affect their work	1 2 3 4 5
15. I encourage people to speak up when they disagree	1 2 3 4 5
16. I involve all relevant stakeholders when engaging in problem solving	1 2 3 4 5
17. I help others learn and grow by providing feedback, coaching and/or training	1 2 3 4 5
18. I seek opportunities to recognise others' contribution	1 2 3 4 5
Your score	
Strategy 4 Manage work horizontally	Agreement
19. I look for ways to build teamwork within and across work groups	1 2 3 4 5
20. I challenge unnecessary barriers (policies, procedures, etc.) to working across functions	1 2 3 4 5
21. I apply my technical expertise to help solve problems related to cross-functional work	1 2 3 4 5
22. I help track progress toward improvement of cross-functional work processes	1 2 3 4 5
23. I help plan and implement cross-functional projects	1 2 3 4 5
24. I help ensure that my work group or team meets deadlines that affect the work of other functions	1 2 3 4 5
Your score	

Strategy 5 Build personal credibility

	Agreement
25. I consistently treat others with honesty and respect	1 2 3 4 5
26. I admit when I've made a mistake	1 2 3 4 5
27. I confront issues with others directly rather than avoid problems or go around them	1 2 3 4 5
28. I actively seek feedback regarding my strengths and weaknesses	1 2 3 4 5
29. I model the behaviours that I expect others to practice	1 2 3 4 5
30. I seize opportunities for personal growth and learning	1 2 3 4 5
Your score	

Although your scores represent your evaluation of your own leadership, they are based on the criteria that others use to judge you. A low score on an item indicates that some additional effort needs to be made in that particular skill; a low score for a strategy suggests a larger area that needs work.

SOURCE: BERGMANN, H., HURSON, K., RUSS-EFT, D. 1999. *Everyone a Leader: A grass-roots model for a new workplace*. New York: Wiley, as it appeared in BERGMANN, H., HURSON, K. & RUSS-EFT, D. 1999. Introducing a grass-roots model for leadership. *Strategy & Leadership*, 27(6):15–20. Used with permission.

and senior executives of the company as the first priority in the successful design and execution of a leadership-development programme. This involvement can be by means of participating in the design of the programme, giving keynote talks, and serving on discussion panels. For example, the former CEO of General Electric, Jack Welch, participated in the General Electric Senior Leadership Programme for two weeks of every year of his term of office.¹⁰⁵ The CEOs of other successful companies, such as Intel, Hewlett-Packard, Shell and PepsiCo, have done similarly.¹⁰⁶ Mumford,¹⁰⁷ one of the leading authorities on leadership development, as quoted by Cacioppe, indicates that there are many reasons why leaders (CEOs and other senior executives) should develop other leaders. The following are some examples:

- It brings personal satisfaction by helping others grow
- The leaders' own skills, knowledge, and insight are developed as a result of sharing experiences with others
- Real business and personal problems can be resolved as the leaders are working on developing others
- By improving the performance of others, leaders are enhancing the others' ability to deal with tasks the leaders

currently do, which can allow the leaders to pursue larger responsibilities of leadership

- The involvement of senior leaders with middle-level managers helps integrate and link together the two groups.

It is also important that the group participating in such a programme should be small, for example around ten people. This will allow a great deal of interaction with the CEO and other senior executives, which is important.

Besides senior-executive involvement, leadership development should also address issues such as the following:^{108–120}

- It should be closely aligned with and used to support the corporate strategy; thus it should be future orientated
- Leadership competencies needed for a particular organisation should be clearly defined and kept up to date through internal and external research – there must be an awareness of changes taking place
- Real-time business issues should form the basis of the programme – it must be action orientated
- It must be linked to an organisation's succession planning

- It should also be linked to all HR systems (e.g. performance management, compensation, selection, etc.)
- The impact of the leadership-development programme should be assessed on a regular basis (e.g. by conducting follow-up research to determine whether staff could see a significant improvement in key performance areas after attending one of the programmes)
- It should be tied to specific development needs, otherwise it will not be effective
- Multiple approaches should be used as everyone does not learn in the same way.

A large variety of methods – including lectures, demonstrations, procedural manuals, audio-visual material, and equipment simulations – has been used for leadership training.^{121–124} Interactive computer tutorials are used to learn technical skills, while cases, exercises, business games, simulations, and audio-visual material are used to learn conceptual and administrative skills. Lectures, case discussions, role play, and group exercises are normally used to learn interpersonal skills. The literature also identifies techniques for leadership development. These techniques include special assignments, job rotation, action learning, mentoring, multi-source feedback workshops, the consortium approach, developmental assessment centres, outdoor challenges, and personal-growth programmes. A major goal of all leadership development programmes is to increase leadership effectiveness in guiding organisations through periods of uncertainty. Leader effectiveness can also be evaluated by reference to follower attitudes, behaviour satisfaction and the followers' acceptance of the leader.¹²⁵

An issue also becoming important in the leadership-development area is that of ethics. The ethics of leadership and leaders' degree of moral development are increasingly becoming essential elements of

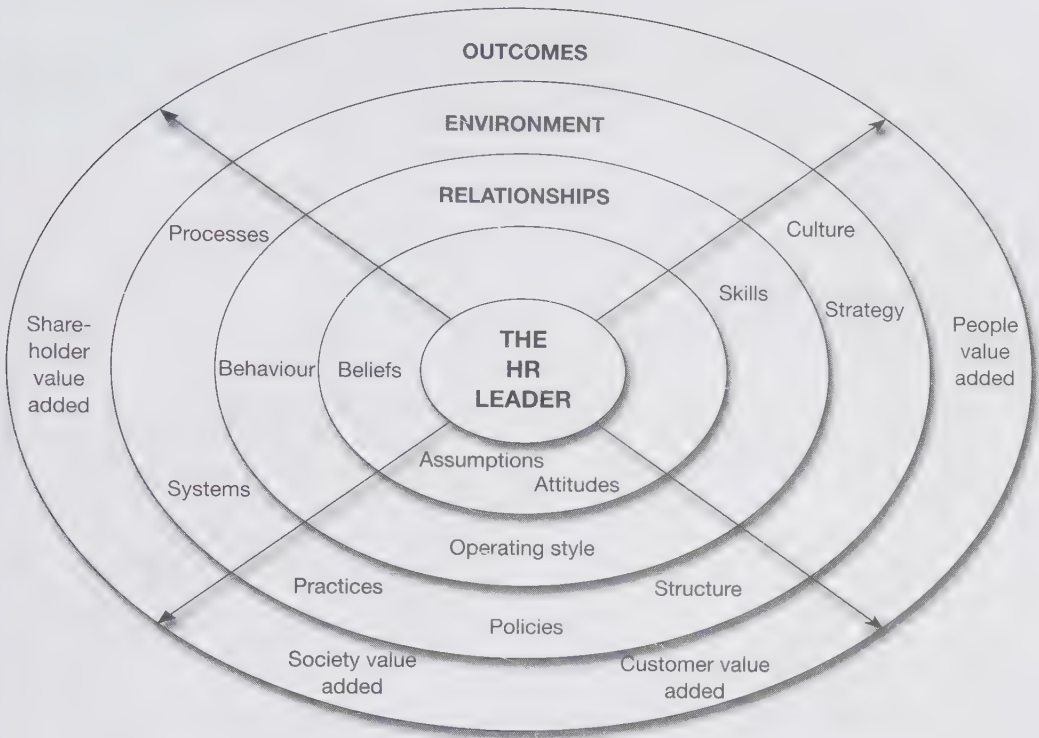
leadership research. We hope more attention will be paid to this aspect in the future.

3.8 The leadership role of HRM

Being a business partner, the HR professional plays a crucial role in unlocking the organisation's people potential to help it achieve world-class status.¹²⁶ However, this will not be possible if it does not shed its control and bureaucratic role and act like a true leader. Thus, instead of orientating employees to their current roles, HR leaders must disorientate them so that they can take on new roles, new relationships, new values, new types of behaviour, and new approaches to work.¹²⁷ To be successful in this regard, activities such as creating an HR vision, developing an overall corporate HR strategy, and instilling new values in employees are essential.¹²⁸

Within the work context, developing and maintaining the technology infrastructure to support the organisation's HR programmes and establishing and managing proper communications to and from managers and employees, to name but a few activities, are essential. These activities can all be seen as leadership activities. Thus, according to Alvares,¹²⁹ HR officers who play a leadership role are held accountable for the bottom line and are less control orientated.

Using a model designed by Rosen and Brown¹³⁰ (see Figure 3.5 on the next page), we suggest that HR leaders should start their own leadership orientation with some basic assumptions about human nature and organisational life. These assumptions will influence their values and beliefs about people and organisations. They should then continue to develop an operating style and build relationships that reflect these basic beliefs. From there, HR leaders should create a work environment of strategies, systems, and practices that grow naturally out of these philosophies. When this is done, all the stakeholders – whether employees, customers, shareholders, or society – will benefit.¹³¹

Figure 3.5 Reorientating HRM for its leadership role

SOURCE: From ROSEN, R. & BROWN, P.B. 1999 *Leading people*. Viking Penguin, a division of Penguin Group (USA) Inc. Copyright © 1996 by Robert HJ. Rosen. Used by permission of Viking Penguin, a division of Penguin Group (USA) Inc.

SUMMARY

This chapter makes it clear that business as usual will not generate a competitive edge, but that something significantly different – namely effective leadership – is needed. Leaders inspire the creation of a shared and compelling vision, and once they establish this, they articulate it, keep it current, and enrol others in its vigorous support. Various approaches to leadership are available to achieve this goal. In this chapter we looked at individual models of leadership as well as group models, and their contribution to company performance. We discussed training and development methods to enhance an organisation's leadership capability. We also addressed the leadership role of HRM and how to improve it.

KEY CONCEPTS

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- | | |
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| <ul style="list-style-type: none">■ Adaptation■ Advanced Information Technology (AIT)■ Attribution approach■ Behavioural-based approach■ Charisma-based approach■ Communication■ Competencies■ Consortium approach■ Cross-functional teams■ Decision roles■ E-leadership■ Emotional intelligence■ Empower■ Executive teams■ Follower■ Group models■ Heroic leadership■ Individual models■ Informational roles■ Institutionalised leadership■ Instrumental leadership | <ul style="list-style-type: none">■ Interpersonal roles■ Leadership■ Leadership managerial roles■ Leadership training techniques■ Management■ Managerial-based approach■ Organisational models■ Recreation■ Reorientation■ Risk-taking■ Self-managed teams■ Situation■ Situational-based approach■ Strategic-based approach■ Strategic leadership practices■ Traits-based approach■ Transactional-based approach■ Transformational-based approach■ Tuning■ Vision |
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CASE STUDY

Objective: To understand the role of leadership within organisations.

Sam Magubane – Sun Sporting Goods

The Sun Sporting Goods facility in Midrand, Gauteng, was considered one of the least-efficient plants in the corporation. The facility producing golf balls consistently lost money. Midrand's lack of profitability was caused by major problems in the following areas: productivity, quality, cost, safety, morale, and housekeeping. The management and employees displayed an 'us against them' mentality.

Sam Magubane, the plant manager, wanted to change the situation by solving these problems. He wanted Sun to make the best golf balls and have the most efficient production facilities in the world. To achieve that mission, Sam developed five guiding philosophies, or what he wanted to become shared values:

- Employee involvement
- Total-quality management
- Continuous improvement
- Lowest-total-cost manufacturing
- Just-in-time manufacturing.

Sam held meetings with groups of employees to tell them about the vision, mission, and values he wanted them to share. He asked everyone to change radically the facility's way of doing business. He stressed the need to change from the old dictatorial management style to the new employee-involvement style. As a result of those meetings, employees were called associates and empowered to find new solutions to old problems. Managers were trained in employee-involvement management, and through training they developed skills to include employees in decision making, to develop teams, to develop better human relations, to coach employees, to manage time better, and to manage total quality. The old attitude of 'we cannot do it, or we cannot afford to do it' was changed to 'we can do it, and we cannot afford not to do it'.

To solve Sun's problems, Sam instituted a voluntary employee-participation programme called Team Sun. Teams of associates were developed to participate in problem solving in the areas of productivity, quality, cost, safety, morale, and housekeeping. Teams focused on reducing operating expenses, increasing cash flow, reducing inventory, and improving safety and housekeeping. To ensure team success, at the beginning of the change in process, all associates on teams were given training similar to that given to managers.

Within a few years, 66% of employees had formed voluntary teams. Each team represents a specific area of the plant. Each team has created its own unique logo, T-shirt, and posters, which are displayed in the plant. Sun holds several picnics and parties each year to show its appreciation to all associates. To recognise team accomplishments, three Team Sun teams are chosen each quarter for awards that Sam presents at a meeting of the entire plant.

Its new vision, mission, and management style dramatically changed the Midrand facility. Sun at Midrand was named one of the 'Best Plants in South Africa' by a leading financial magazine. The following are some team accomplishments:

- Market share increased from 2% to 17%
- Inventory turns per year increased from 6.5 to 8.5
- Inventory was reduced by two-thirds
- Manufacturing losses caused by scrap and rework were reduced by 67%
- Productivity increased by 121%.

Questions and activities

1. Explain how each of the five elements of our definition of leadership applies to this case.
2. Identify leadership roles illustrated in this case. Which role was the most important?
3. Describe how each level of analysis of leadership theory is illustrated in this case. Which level is the primary focus?
4. Explain how each of the leadership-theory classifications applies to this case.
5. Describe how this case illustrates the management-to-leadership paradigm.

SOURCE: Adapted from Case: A Scott Wilson Sporting Goods. (In LUSSIER, R.N. & ACHUA, C.F. 2004. *Leadership: Theory, application, skill development*, 2nd ed. Minnesota: South Western, part of Thomson Corporation:22.) Used with permission.

REVIEW QUESTIONS AND ACTIVITIES

- | | |
|--|--|
| <ol style="list-style-type: none">1. Define the concept of leadership.2. Explain the difference between leadership and management.3. Provide five examples of successful leadership and five examples of unsuccessful leadership.4. Name some of the characteristics of organisations that communicate well.5. Write a short paragraph on leadership traits.6. List ten leadership managerial roles.7. Briefly discuss the advantages and disadvantages of cross-functional teams. | <ol style="list-style-type: none">8. Critically discuss the following individual models of leadership: transactional leadership and transformational leadership.9. Discuss strategic leadership practices of the past and of the future, according to Ireland and Hitt.10. Nadler identifies four different types of change that can occur within organisations: tuning, adaptation, reorientation, and recreation. Discuss these changes briefly. |
|--|--|

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The strategic role of human resource management

4

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Explain the basic principles of strategic HRM
- Discuss critically the relationship between strategic management and strategic HRM
- Describe the design of an HR strategy
- Describe the various models of strategic HRM

PURPOSE

The purpose of this chapter is to introduce you to the strategic role of human resource management within an organisation.

CHAPTER OVERVIEW

This chapter sets out to explain the major approaches and theories related to the study of strategic HRM (SHRM). It also seeks to explain the broad concepts underlying the theories and throws light on the issues that have led to the development of strategic HRM to its current status. The chapter also contains a discussion on the relationship between strategic management and SHRM and focuses on the different SHRM models developed over the years. The concluding case study illustrates how the theory contained in this chapter can be applied to a practical situation.

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

Introduction

There is no doubt that dramatic changes in both internal and external environments of companies during the past few decades have presented HR professionals with new and important challenges. To address these challenges, the HR function has evolved from playing a limited administrative role to entering into a business partnership with line managers.¹

As Chapter 1 indicated, HR professionals – in their capacity as business partners – must play a number of new roles to be successful, one being the strategic-partner role, which involves linking the HRM practices, systems, and policies with the strategic initiatives of the company² (see Figure 4.1). In the literature, this process is known as strategic human resource management (SHRM).³⁻⁴

A number of benefits can be derived from this process, including:⁵⁻⁶

- Contributing to the goal accomplishment and survival of the company
- Supporting and successfully implementing given corporate and business strategies of the company

- Creating and maintaining a competitive advantage for the company
- Improving the responsiveness and innovation potential of the company
- Increasing the number of feasible strategic options available to the company
- Participating in strategic planning and influencing the strategic direction of the company as an equally entitled member of top management
- Improving cooperation between the HRM department and line managers.

However, despite these benefits, the strategic use of human resources within companies frequently remains an afterthought.⁷ In Box 4.1 the differences between the traditional and strategic approach to HR are indicated.

In this chapter, we shall discuss a number of issues relating to how the HRM function can be linked to the company strategy to gain the desired competitive advantage. More specifically, we shall discuss the basic principles of SHRM, the relationship between strategic management and SHRM, the development of an HRM strategy, and the various models of SHRM.

Figure 4.1 Linking HR practices with the strategic initiatives of the company



SOURCE: SHARMA, A. & KHANDEKAR, A. 2006. *Strategic human resource management: An Indian perspective*. New Delhi: Response Books, a division of Sage Publications:42. Reprinted by permission of SAGE Publications India Pvt Ltd.

BOX 4.1

Traditional HR versus Strategic HR

FOCUS	TRADITIONAL HR	STRATEGIC HR
View of organisation	■ Micro ■ Narrow skill application	■ Macro ■ Broad skill application
Critical skills	■ Organisation ■ Administration ■ Compliance ■ Transactional ■ Tactical	■ Strategic ■ Planning ■ Diagnostic ■ Analytical (metrics) ■ Consultative
View of employees	■ Head count ■ Cost-based ■ Exploitable resource	■ Contributors ■ Asset-based ■ Critical resource
Planning outlook	■ Short term ■ Low-risk ■ Traditional: utilises tried-and-true approaches	■ Long term ■ High-risk ■ Experimental: tries novel approaches
HR systems and practices	■ Routine, traditional ■ Reactive ■ Responds to stated needs	■ Adaptive, innovative ■ Anticipatory, proactive ■ Recognises unstated needs
Education and training	■ Traditional HRM generalists and specialists ■ Other specialties	■ Business acumen ■ Comprehensive HRM body of knowledge ■ Organisational development

SOURCE: MATHIS, R.L. & JACKSON, J.H. 2011. *Human resource management*, 13th ed. Mason, Ohio, South-Western: Cengage Learning:40.

4.1 The basic principles of SHRM

Before we look at some of the basic principles of SHRM, it is necessary to provide a few brief definitions of the concept.

Tsui, in one of the early definitions, describes the concept as follows:⁸⁻⁹

The concept of strategic human resource management tends to

focus on organisation-wide human resource concerns and addresses issues that are related to the firm's business, both short-term and long-term. It is particularly useful for designing specific human resource programmes, policies, systems or management practices at the organisational or business level. It also suggests that the line executive is the most

important constituent for the human resource function.

SOURCE: TSUI, A.S. 1987. Defining the activities and effectiveness of the human resource department: A multiple constituency approach. *Human Resource Management*, 26(1):36.

What is interesting about this definition is that it supports the 'proactive' approach to be found within the literature. With this approach, HR professionals participate in the strategic-planning process and can, as a result of limitations in the company's HR situation, potentially influence the formulation of the company strategy.

In another definition, Dyer and Holder provide more substance to the concept when they remark:¹⁰

Strategic human resource management consists of three major tasks. The first task, which arises during the formulation of business strategies, is to assure that the HR issues and implications of various alternatives or proposals are fully considered (their desirability and feasibility). The next task involves establishing HR goals and action plans – that is HR strategies (at all levels) – to support the business strategies. And the final task requires working with line managers as principal clients to ensure that established action plans are indeed implemented.

SOURCE: DYER, L. & HOLDER, G.W. 1988. A strategic perspective of human resource management. (In DYER, L. (Ed.). *Human resource management: Evolving roles and responsibilities*. Washington: The Bureau of National Affairs.)

From the above definitions it is clear that two major issues or aspects need to be in place within the organisation before the SHRM process can function successfully. The first is the presence of a strategic management process; the second is the restructuring of the HRM function itself.¹¹⁻¹⁵

Thus, it is clear that if the organisation has no process by which to engage in strategic management at the corporate and business level, it will not be possible for the HR function to develop a strategic thrust, since the HR strategy flows from the corporate or business strategy. Also, as the HR function will be evolving from a reactive administrative focus, it will have to be reorganised to address its strategic responsibilities. Thus the HR system must have its operational house in order before it can afford the luxury of concentrating on the formulation and implementation of an HR strategy.¹⁶⁻¹⁷

There are numerous descriptions of the concept of strategic management. Briefly, however, it involves a process that deals with organisational renewal and growth, with the development of strategies, structures, and systems necessary to achieve renewal and growth, and with the organisational systems needed to manage effectively the strategy formulation and implementation processes.¹⁸

For the HR function to operate at the strategic level, it needs to reorganise the existing HR administrative function into three distinct levels, namely strategic, operational, and functional.¹⁹⁻²⁰ At the strategic level, HR professionals fulfil their role as strategic partners and are involved in corporate and HR planning. Casio identifies the following four features of this role:²¹

- Senior HR professionals meet regularly with their counterparts in line management to formulate and to review broad HR strategies (those designed to promote innovation, quality enhancement, or cost control)

- Senior HR professionals participate fully in all top-level sessions on business strategy; this permits early evaluation of proposals in terms of their feasibility and desirability from a HR perspective, as well as an early warning of upcoming HRM issues
- HR professionals at all levels work closely with line managers on an ongoing basis to assure that all components of the business strategy are implemented adequately
- The HRM function itself is managed strategically: it has its own departmental strategy that identifies priorities, directs the allocation of resources, and guides the work of various specialists (e.g. compensation, labour relations).

BOX 4.2***HR-business strategy human systems***

System	Purpose – to ensure:	Sample indicator
Communication system	Employees have understood instructions and objectives	Install a simple system that requires feedback, from a random sample of recipients of any communication, to check understanding
Employee development system	Employee develop their value potential	All employees should be able to articulate the value objectives of their own development
Employee engagement system	Employees are fully engaged	Engagement survey, but one that includes specific questions on connections with value
Knowledge (intellectual capital) management system	Ideas are captured and used effectively	A systematic way of collecting and assessing all ideas for value
Learning system	The individual and the organisation learn what they need to know	Double-loop feedback systems are in place
Performance management system	All employees are performing to the best of their ability	Regular appraisal of not just individual performance but how they contribute to the value chain
Reward and recognition system	Maximum individual contribution is continuously sought and encouraged	Incidents where conscious efforts are made to acknowledge extraordinary performance
Talent identification system	All relevant talents are used effectively	Formal assessment based on building track record data

SOURCE: KEARNS, P. 2010. *HR strategy: Creating business strategy with human capital*, 2nd ed. Jordan Hill, Oxford, Butterworth-Heinemann:48.

At the operational level, the HR team develops action plans to meet present labour needs, and at the functional level it carries out the many activities which ensure that employees are in the right place at the right time and cost. Consider, for example, the performance appraisal function. At the strategic level a decision will be made regarding what to value in the long term. At the operational level, appraisal systems that relate current conditions and future potential will be set up. At the functional level, the actual appraisal system will be implemented annually and day-to-day control systems will be put in place.

Once the new HR structure has been finalised, it is important that it establishes proper communication links with line management. This relationship can be enhanced by having regular meetings with line managers, circulating relevant HR reports to them, and establishing a computerised HR system that allows access by all stakeholders.²²

Besides a communication system, developing other human systems that should be regarded as the absolute minimum necessary for a true HR-business strategy must also receive attention (see Box 4.2).

4.2 The relationship between strategic management and SHRM

The discussion makes it clear that if an organisation is to function successfully, managers cannot ignore the relationship between strategic management and SHRM. In Box 4.3, Saatchi & Saatchi's case shows how the company's viability was restored through a strategy rooted in its staff's capabilities. However, in many cases, this relationship between the two processes within a company is non-existent for a number of reasons. Rothwell and Kazanas have named several:²³

- Top managers do not perceive a need for a relationship

- HR practitioners are perceived as 'personnel experts' not 'experts in business'
- HR information is sometimes incompatible with other information used in strategy formulation
- Conflicts may exist between short-term and long-term HR needs.

We shall now briefly discuss a model, designed by Tichy, that indicates the important relationship between strategic management and SHRM (see Figure 4.2).²⁴⁻²⁵ Although it was developed during the 1980s, we have selected this model, known as the 'human resource management cube', because it has several advantages:

- It has been shown to be a relatively powerful model of organisational effectiveness
- It has important implications for the strategic management of the HR function
- It has been commonly used in the SHRM literature.

According to Tichy, companies are continually confronted by three basic problems that must be managed: a technical problem, a political problem, and a cultural problem (see Figure 4.2).²⁶

As far as the technical problem is concerned, Tichy argues that, as a result of the external threats and opportunities and the internal strengths and weaknesses of companies, all companies continually face a production problem. In other words, companies must manage technical resources in such a way that they continuously deliver the required output. To solve problems in this area, management is regularly involved in strategy and goal formulation and the design of organisational and management systems.²⁷

As far as the political problem is concerned, companies continually have problems with the allocation of power and resources within the organisational

BOX 4.3***The Saatchi & Saatchi case***

Saatchi & Saatchi was one of the most famous businesses in the global advertising industry for over thirty years, but rapid expansion in the 1980s saw the company face disaster. The 1980s boom experienced by the agency was quickly followed by a bust that exposed the gaping debts at the agency, hitting the company's share price hard. This resulted in the organisation's founders – the Saatchi brothers – being sacked by the board, and, after several failed chief executive appointments, Kevin Roberts was brought in to lead the organisation in 1997.

The 'strategic problem(s)' Roberts faced was essentially one of firm viability. Although advised to make wholesale redundancies in order to reduce headcount costs, he refused to do so, instead he focused on restoring firm viability through a strategic orientation of Saatchi & Saatchi as an 'ideas company'. This involved moving away from its status as an 'advertising agency' to a company that transformed its clients' business model, brands, and reputation through the use of an ideas brief and brand navigation rather than relying upon a simple advertising campaign. This shift was demonstrated in the new ways Saatchi pitched for business. Instead of traditional pitches focusing on advertising campaigns, it broadened its focus to include the client's business strategy. The decision to reorient the company as an ideas company was not an original one, since the possibilities of developing this strategy were being generally mooted within the industry at the time when Saatchi & Saatchi was facing problems. However, the organisation was able to gain first-mover advantage through being the first to use it so extensively as a form of strategic leverage. This was critical in order for it to retain its status as a roster agency for global clients such as Proctor and Gamble, General Mills, and Toyota.

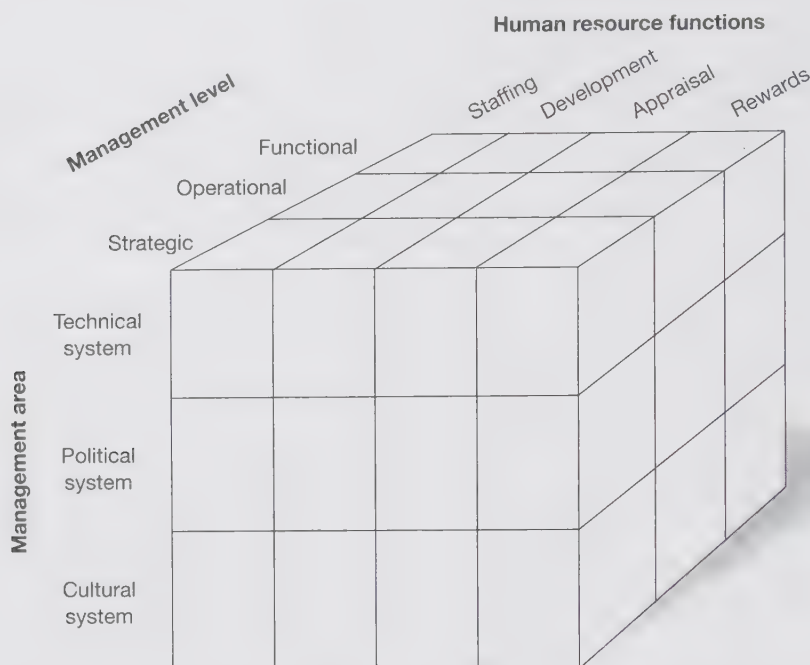
However, whilst it could be stated that viability was largely secured through this strategic change, it could also be argued that it also rested upon the ability of the existing staff to enact it. The Saatchi example, therefore, shows that an important relationship existed between strategy and staff competencies; whilst there is an important need to identify the 'right' strategy that will leverage the organisation against its competitors, this will be dependent upon the existence, maintenance, or acquisition (at the right price and right number) of staff capable of enacting it. In this case, Saatchi staff were not being asked to do something they could not do.

SOURCE: GILMORE, S. & WILLIAMS, S. 2009. *Human Resource Management*. New York: Oxford University Press:27.

structure. Aspects that are important here are the direction in which power and resources are moving, and who will share in the benefits. The following will reflect decisions in this regard: the compensation the organisation pays, the budget allocations it makes, and the allocation of decision-making power to the different levels within the organisational structure.²⁸

Regarding the cultural problem, it is important to remember that a company's 'culture' holds it together. Culture consists of values, beliefs, and views shared by the employees within the company. The organisation must thus continually decide which values, views, and beliefs its employees need to possess and also which sections within the company need to possess which values.²⁹

Figure 4.2 The HRM cube



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To solve these problems, Tichy suggests that companies design three systems, namely:

- *The technical system.* This will include all those aspects that are required to solve the production problem.
 - *The political system.* This will contain all the practices, activities, and elements involved in the allocation problem.
 - *The cultural system.* This will contain all the symbols, values, and elements necessary to address the ideology problem within the organisation.³⁰
- *The mission and strategy of the organisation.* 'Mission and strategy' refer to the setting of goals and the development of a strategy.
 - *The structure of the organisation.* The structure will include the tasks, the manner in which workers are grouped and coordinated to perform the tasks, and the management processes of control and information to enable the organisation to function properly.
 - *The HRM system of the organisation.* The HRM system will include all the activities such as recruitment, selection, performance appraisal, training and development, and compensation.

Tichy suggests that organisations require certain aids for these systems to be managed properly. He identifies the following three as necessary:³¹

Thus, for the organisation to be managed efficiently and effectively, organisations

need to manage these issues as an integrated whole (see Figure 4.2). We shall discuss this process briefly.³²

4.2.1 The technical system

- *Mission and strategy.* Here the traditional tasks of designing a mission and strategy must take place. Through this process the organisation identifies the types of products to manufacture or services to provide and allocates resources to make this possible.
- *Organisational structure.* The organisation designs its structure in such a way as to make the organisation function properly.
- *HRM.* This entails placing individuals properly in posts, determining performance levels and outputs, and developing career and development processes and criteria for filling present and future posts in the company.³³

4.2.2 The political system

- *Mission and strategy.* It is important to determine who will be responsible for the mission and strategy or who will play the most important role in influencing it, e.g. all the heads of departments, or only the vice-presidents of the company. After the mission and strategy have been accepted, the next step is their physical execution. The strategy might involve establishing new businesses, selling-off present ones or amalgamating two businesses. All these decisions can influence – either negatively or positively – the employees and their jobs. These decisions entail the allocation of resources and budgets and can even have an effect on the quality of relationships between employees.
- *Organisational structure.* The second issue in the management of the political system is the organisational structure. At the technical level, we looked at how

the organisation will be structured; here we shall consider how power will be distributed throughout this structure. In other words, we shall discuss how much power individual division or departmental heads will receive with regard to control over their budgets and their employees.

- *HRM.* The HR system must fit in with the political system within the organisation. Issues like the following will have to be addressed: who will be promoted or not, how the compensation system will be designed, what benefits will be available, and who will be evaluated, by whom and on what grounds.³⁴

4.2.3 The cultural system

- *Mission and strategy.* The organisation must address two issues here: the impact of the mission and strategy on the culture of the organisation and the type of culture management desires. This is vital for success.
- *Organisational structure.* The organisation structure must address a number of elements in the cultural system. The first is the development of a management style to fit the technical and political structure developed within the organisation. For example, a company moving from a functional structure to a matrix structure needs an open management style instead of a closed one. The second is the development of different subcultures within the organisation – for example the production division needs a cost-effective culture, while the research-and-development division needs an innovative and creative one. The important issue here is the management of the different cultures within the structure.
- *HRM.* The HRM system provides the final aid in the management of the cultural system, and must be used to develop work-orientated cultures within

the organisation. For example, the company's training and development processes can enhance these cultures, and compensation can nurture and develop them (for example by promoting those whose culture supports the goals of the organisation).³⁵

To summarise, the task of strategic management within an organisation involves more than the mere choice of a portfolio of businesses and the design of strategies; it entails the management of all the issues discussed above. To do this successfully, it must include the SHRM approach as well. Thus, without the effective and efficient management of the HRM system, strategic management will not be successful. The HRM practices, systems, and policies must be in line with the strategic initiatives of the company. For example, each of the HRM activities (recruitment, training, compensation, performance appraisal, etc.) must be viewed from a technical, political, and cultural perspective, on a strategic, operational, and functional level.

We have indicated the important and vital role to be played by the HRM function within the organisation. The next question to ask is: how can we design the individual HRM strategies to make this success possible?

4.3 The design of an HR strategy

To implement the SHRM process, an organisation needs HR strategies, about which Dyer and Holder make the following remarks:^{36 37}

While a wide variety of issues are addressed in such strategies, at a minimum they include four components:

- Mission statement or a set of prioritised goals for the function

and the major subfunctions (e.g. training, compensation)

- A proposed organisation structure
- A programme portfolio to outline priorities and policies
- A budget to address the issue of resource allocation.

SOURCE: DYER, L. & HOLDER, G.W. 1988. A strategic perspective of human resource management. In DYER, L. (Ed.). *Human resource management: Evolving roles and responsibilities*. Washington: The Bureau of National Affairs:32.

An HR strategy is described by Labelle as 'a set of important decisions an organisation makes about the management of human resources that define an adaptation to both internal and external environments in the pursuit of its objectives'.³⁸ Hax expands on this with the remark that 'a human resource strategy is a critical component of the firm's corporate and business strategies comprising a set of well coordinated objectives and action programmes aimed at securing a long-term sustainable competitive advantage over the firm's competitors'.³⁹

In other words, in view of the above, we can see a strategy as a plan of action which includes both means and ends. HR goals can include, for example, quality of performance (productivity goals), quantity of employees (HR quantity goals), and costs goals.⁴⁰ The means, in contrast, can include, for example, HR practices and HR policies. As far as the use of HR practices is concerned, Schuler has provided a practice menu from which a company can make a selection to support a particular strategy (see Table 4.1).⁴¹ However, the use of these HR practices can be successful only if the management, in its mission statement, makes a commitment to its employees.

According to Nininger, this component could be compiled as follows:⁴²

The people in the organisation will be managed in such a manner as to generate a climate of opportunity and challenge for each employee within which the individual can most effectively contribute to the fulfilment of his or her goals and those of the organisation. This will be accomplished by:

- Having a clear understanding of all the qualities of each employee, such as skills, knowledge, potential, aspirations and limitations
- Setting standards of performance that challenge each employee and by ensuring that this performance is attained
- Rewarding excellent employee performance in both material and non-material terms
- Planning properly for human resource needs
- Providing employees throughout the organisation with opportunities for promotion and for developing their job knowledge, skills and satisfaction
- Practising a form of management that allows decision-making authority to be as decentralised as is practical
- Being alert and receptive to new and productive developments in the field of human resources management.

SOURCE: NININGER, J.R., 1982. *Managing human resources: A strategic perspective*. The Conference Board of Canada, Study 71:113.

intentions provide the basis for plans, developments, and programmes for managing change. Typical questions the HR professional would ask when participating in the strategy process would be:

- What sort of people do we need in the business to achieve our mission?
- How can the required changes to our culture and value system be achieved?
- What are the implications of those plans for the future structure, HR systems, and resource requirements?

It is important to note that a number of issues besides the company strategy can influence the formulation of an HR strategy. As we indicated earlier in the chapter, an HR strategy does not take place in isolation but is influenced by both external and internal issues. Externally we think of issues in the economic, technological, social, political, legal, geographic, cultural, and labour-market environments. Internally, issues such as employee demographics, employee skills, productivity, organisational structure, potential of employees, organisational culture, and turnover can all play important roles.

From the above it is clear that many issues need to be considered in the design of a HR strategy. A key aspect in this regard is to understand the strategic imperatives behind important decisions taken either within the HR department or the company.⁴³ According to Swamy,⁴⁴ strategic imperatives are 'priority issues that must be addressed to meet long-term objectives'. These imperatives, when properly understood, are used to guide the behaviour of, for example, the HR department or company. Thus, major undertakings within the company or HR department demand a properly evaluated strategic imperative. In other words, when an HR department or company starts a new initiative or addresses a critical or urgent concern that will affect its long-term future, it is very important that management understands the rationale, sets goals, tests the

Thus, an HR strategy will express the intentions of an organisation about how it should manage its human resources. These

Table 4.1 HRM practice menu

Informal Short term Explicit job analysis Job simplification Low employee involvement	Planning choices	Formal Long term Implicit job analysis Job enrichment High employee involvement
Internal sources Narrow paths Single ladder Explicit criteria Limited socialisation Closed procedures	Staffing choices	External sources Broad paths Multiple ladders Implicit criteria Extensive socialisation Open procedures
Behavioural criteria	Appraising choices	Results criteria
Purposes: development, remedial, maintenance		
Low employee participation Short-term criteria Individual criteria		High employee participation Long-term criteria Group criteria
Low base salaries Internal equity Few perks Standard, fixed package Low participation No incentives Short-term incentives No employment security Hierarchical	Compensating choices	High base salaries External equity Many perks Flexible package High participation Many incentives Long-term incentives High employment security High participation
Short term Narrow application Productivity emphasis Spontaneous, unplanned Individual orientation Low participation	Training and development choices	Long term Broad application Quality of work life emphasis Planned, systematic Group orientation High participation

SOURCE: From JACKSON, S.E. & SCHULER, R.S. 2000. *Managing human resources*, 7th ed. 128. © 2000 South-Western, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions.

goals with independent and objective reliable tools or systems, considers alternative options, and plans a roadmap for execution.⁴⁵ Swamy⁴⁶ indicates that organisations can categorise strategic imperatives into two broad categories:

- *An aspiration-driven imperative.* This consists of two components, namely a growth imperative (e.g. a merger or acquisition) and an efficiency-imperative (e.g. informal restructuring). The aspiration imperative comes thus from within.
- *A situation-driven imperative.* This comes from external forces, e.g. a government-facilitated imperative (e.g. regulatory change) or a market-led imperative (e.g. cost cutting to remain competitive).⁴⁷

The question thus is: how can an HR department or company better understand its strategic imperatives? It is clear that the HR department or company needs to identify a priority to address and understand why this is a priority. Depending on whether it is aspiration driven or situation driven, there are different considerations to take into account (see Figure 4.3).

We shall briefly describe the steps this figure contains. (Please note that the discussion in this part of the chapter is based on the work done by Swamy and published in his article 'Strategic Imperatives'.⁴⁸)

- *Step 1.* This step examines the goals management is formulating for a particular setting. In the case of an aspiration-driven imperative it may be necessary to interview key stakeholders to determine their aspirations, institutional biases, and operational preferences. In the case of a situation-driven imperative, adequate documentation needs to be analysed.
- *Step 2.* For aspiration-driven imperatives, testing management's assumptions using objective, fact-based analysis is important. In the case of a

situation-driven imperative, management must develop an exhaustive set of potential strategic options that could meet the same desired outcome.

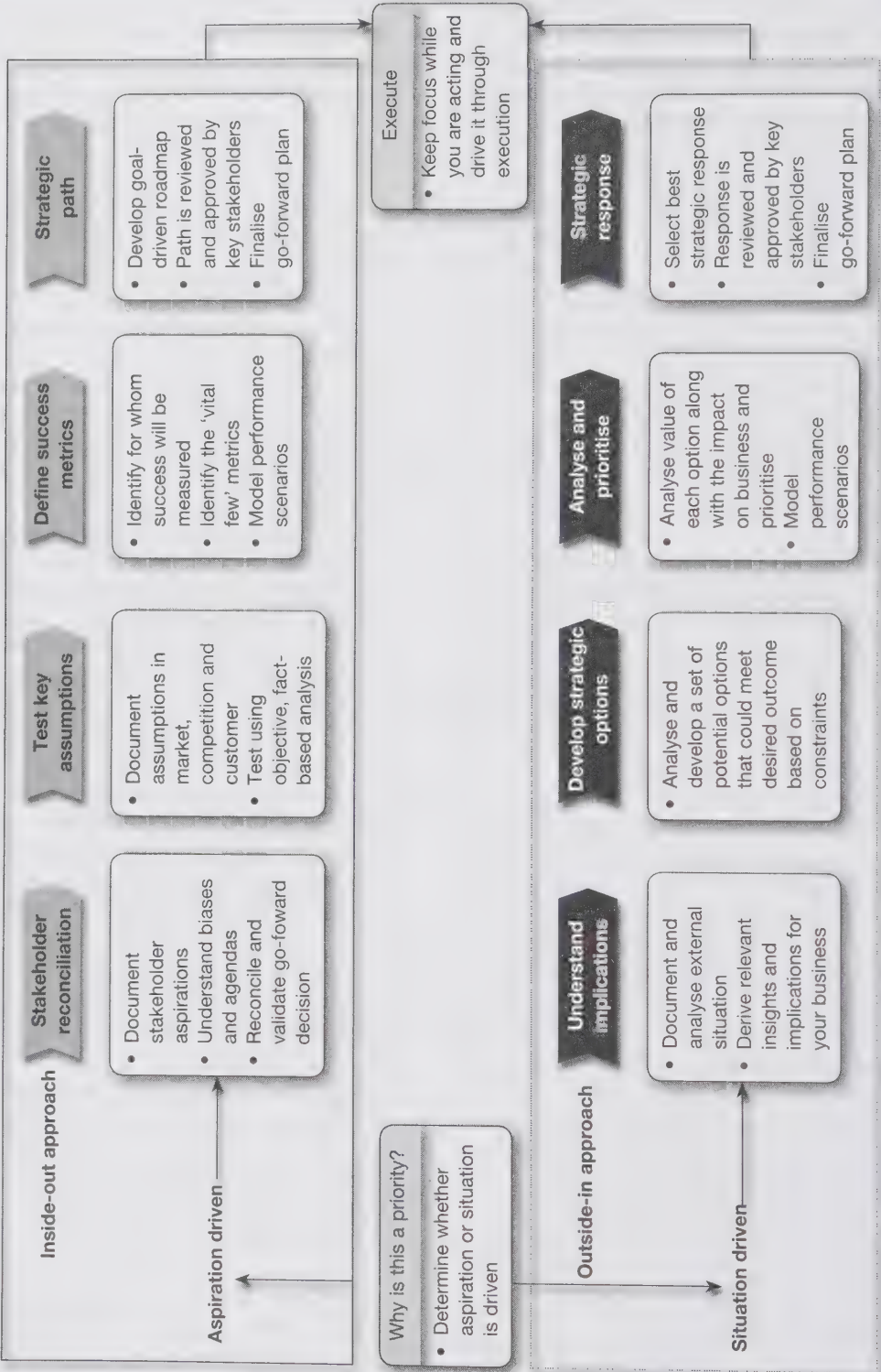
- *Step 3.* For a strategic path to be successful on the aspiration-driven side, it is necessary to identify for whom and by whom to measure success. The company should identify a few measurements that will satisfy its stakeholders and should model a number of performance scenarios against these measurements. On the situation-driven side, the company should identify performance scenarios, as they will allow the company to analyse the value of each option it identified in step 2. From this exercise it can then prioritise correctly.
- *Step 4.* This step represents the 'strategy' component of strategic imperatives. In the case of the aspiration-driven imperatives, management needs to develop a goal-driven roadmap – an executable strategy for the imperative – and ensure key stakeholders review and approve the path. In the case of a situation-driven imperative, management needs to decide on the best strategic response and finalise a plan for moving forward. Appendix 4A at the end of this chapter indicates an example of how this process can actually take place in practice.

In conclusion, note that we can distinguish two types of HR strategy, namely:

- *Organisational strategies.* We can see these as part of the organisational or company strategy. They have a major impact throughout the organisation.
- *Functional strategies.* We can see these as more narrowly focused and involved only with the strategic management of HR divisions or departments.⁴⁹

It is inevitable that with the emergence of SHRM as a field of study and practice, 'how to' models have also emerged. In the next

Figure 4.3 High-level framework for understanding strategic imperatives



SOURCE: SWAMY, R. 2007. Strategic Imperatives. *CMA Management*, 81(1) March:18–21. Reprinted by permission of the author.

section we shall give a brief overview of the major types of models developed over a period of two decades.

4.4 Models of SHRM

Several SHRM models, which describe how to link the company strategy and HRM, have been developed over the years.^{50–58} However, there are two dominant approaches to integration:

- A reactive role of HRM, in which strategy dictates HR policies
- A proactive role, in which the strategy-formulation process itself involves HRM.

In order to understand the SHRM models found in the literature, we shall apply a classification method designed by Dyer. Dyer suggests, in his four-quadrant model, that two dichotomies are important to consider:

- Separating the organisational-level HR concerns from the functional-level HR concerns
- Differentiating between content and process elements.⁵⁹

According to Lengnick-Hall and Lengnick-Hall, content concerns specific choices such as policies and practices in SHRM, whereas process focuses on the means by which to derive and implement these policies and practices.⁶⁰ In the literature, it is clear that content versus process distinctions have prevailed throughout. Consequently, we shall discuss the various models according to their specific classification.

4.4.1 Organisational SHRM content models

There are two important models – namely those of Labelle and Wils. In his investigation, Labelle⁶¹ found that company strategy was the determining factor for the content of the organisational HR strategy. He also found that both the content of the organisational HR strategy and the company strategy

were influenced by internal and external environmental factors. Labelle identified various types of HRM practices and goals to fit company strategies. Unfortunately, however, the investigation was limited to only 11 companies from diverse sectors.

A similar investigation was carried out by Wils⁶² in the USA. He identified a strong correlation between the content of the company strategy and the content of the organisational HR strategy. However, his investigation was limited to only one company consisting of 22 business units.

Although both studies made an important contribution to the content theory of organisational HR strategy, they did not explore the relationship between companies with stable strategies and those with unstable strategies, to determine whether company strategy is a stronger contributing factor in the content of organisational HR strategy in turbulent times or normal times. There is also a need to investigate companies with the same company strategy but different organisational HR strategies.

4.4.2 Functional SHRM content models

A number of diverse models are found in this group. As the purpose of this chapter is not to discuss each model in detail, we shall evaluate only a representative number.

In their model, Baird and Meshoulam⁶³ argue that two strategic fits must be managed:

- An external fit, whereby HRM practices fit the development stage of the organisation
- An internal fit, whereby the components of HRM complement and support each other.

The content of the HRM practices is thus determined by the developmental stage of the organisation. Two shortcomings of Baird and Meshoulam's approach are that they see the classification of an organisation into a

Table 4.2 The composition of three functional HR strategies

HRM system	Type A (Defender)	Type B (Prospector)	Type AB (Analyser)
Basic strategy	Building human resources	Acquiring human resources	Allocating human resources
Recruitment, selection and placement	Emphasis: 'make' Little recruiting above entry level Selection based on weeding out undesirable employees	Emphasis: 'buy' Sophisticated recruiting at all levels Selection may involve pre-employment psychological testing	Emphasis: 'make' and 'buy' Mixed recruiting and selection approaches
Staff planning Training and development	Formal, extensive Skill-building Extensive training programmes	Informal, limited Skill identification and acquisition Limited training programmes	Formal, extensive Skill-building and acquisition Extensive training programmes Limited outside recruitment
Performance appraisal	Process-orientated procedure (e.g. based on critical incidents or production targets) Identification of training needs Individual/group performance evaluations Time-series comparisons (e.g. previous years' performance)	Result-orientated procedure (e.g. management by objectives or profit targets) Identification of staffing needs Division/corporate performance evaluations Cross-sectional comparisons (e.g. other companies during same period)	Mostly process-oriented procedure Identification of training and staffing needs Individual/group/division performance evaluations Mostly time-series, some cross-sectional comparisons
Compensation	Oriented towards position in organisation hierarchy Internal consistency Total compensation heavily orientated towards cash and driven by superior/subordinate differentials	Orientated towards performance External competitiveness Total compensation heavily orientated towards incentives and driven by recruitment needs	Mostly orientated towards hierarchy, some performance considerations Internal consistency and external competitiveness Cash and incentive compensation

SOURCE: MILES, R.E. & SNOW, C.C. 1984. Designing strategic human resources systems. *Organisational Dynamics*, 13(1):49, Summer. (Originally adapted from Canadian Pacific Ltd.) Copyright Elsevier. Used with permission.

Table 4.3 Characteristics of HR programmes by maturity stages

HR programmes		Development stages			
		Embryonic	High growth	Mature	Ageing
Compensation	Fixed versus variable	High variable; low fixed; non-predictable	High variable; low fixed; big carrot	Less variable relative to fixed; predictable	High fixed; lower variable; security
	Central versus local control of compensation	Local control; immediate response	Policy centralised; administration local	Policy centralised; consistent administration	All control centralised
	Policy line versus market	High pay for high risk	High pay for excellence	Median pay; high security	Higher pay; higher risk
	Basis of variable compensation	Sales growth; risk; innovation; survival	Growth of sales and profits; new products; share	Control systems; consistency; cost reduction; hold share	Cash generation; cost control; consistency
	Time focus	Short-term rapidly changing goals	Short term for operations; longer for strategy	Stronger focus on long-term optimisation	Short term
Manpower planning	Forecasting of organisational needs	Not used; future totally unpredictable	Forecasting critical to adequate staffing	Forecasting limited to retirements; major reorganisation	Forecasts only to identify excess
	Individual career planning	Not used	Directional use only; opportunities outnumber qualified people	Need employee retention; optimisation of human resources	Needed; optimise fewer opportunities
Management style (selection)	Entrepreneurial versus bureaucratic	Entrepreneurial rapid response; directive	Entrepreneurial for growth, but building systems to preserve gains	Bureaucratic; economy of scale; repetitious quality	Entrepreneurial directive; cuts, reorganises; survives
Employee development	Hiring versus training	All skills hired; no training	Much hiring needed but training becomes important	Emphasis on internal development and promotion; little hiring	No hiring, no training
Benefits	Profit-sharing pension	Profit-sharing or nothing; cash or deferred cash	Profit-sharing; some guaranteed benefit like savings	Defined benefit pension; also savings	Pension; security

SOURCE: SMITH, E.C. 1982. Strategic business planning and human resources: Part I. *Personnel Journal*, 61(8):606–610. Copyright © August 1982. Used with permission of ACC Communications/*Personnel Journal* (now known as *Workforce*), Costa Mesa, CA. All rights reserved.

specific phase as too simplistic, and the fact that the determination of a specific phase is also largely based on subjectivity.

Miles and Snow,⁶⁴ in their model, identify three company strategies which, in their view, can be found in every company – namely defender, prospector, and analyser. By using these strategies, Miles and Snow identify various types of HRM practices that could support them (see Table 4.2). These practices were based on information gathered throughout various types of companies in Canada. One of the biggest drawbacks of this approach is the idea that strategies are rigid and that the only flexible aspect is human resources.

The last group of models found in this category contains those based on the life-cycle concept. Here development occurs in relatively predictable discrete building blocks of birth, maturity, decline, and death. Authors like Smith⁶⁵ and Stybel⁶⁶ have used these building blocks to identify the content of various HRM practices (see Table 4.3).

One of the drawbacks of these models is the fact that organisations do not follow a cycle which includes death, but constantly reform and renew themselves to fit the environment.

4.4.3 Organisational SHRM process models

There are a very large number of models in this category.^{67–77} However, a noticeable limitation of work in this area has been the failure to take a more comprehensive view, matching the HRM function to strategic or organisational conditions.

Nininger's⁷⁸ model, for example, provided a framework to enhance organisational effectiveness by integrating the strategic planning and management function with human resources. Golden and Ramanuyum⁷⁹ adopted a similar view. Apart from these and a few other studies (an example of Nkomo's⁸⁰ model appears in Figure 4.4), little work has been done that takes a

comprehensive view of the HRM function at the strategic level. Although these authors provide steps for the integration and implementation of HRM in an organisation, one of the major drawbacks of these models is that they do little to overcome the problems of identifying and analysing the appropriate information, either to characterise the strategic situation or to clarify the HR manager's role under a specific set of conditions. Nor do they consider the inevitable need for change as new products and technologies enter the marketplace.

4.4.4 Functional SHRM process models

While the research regarding the organisational SHRM process models concentrated on the wider organisation, the emphasis in this category is narrowed down specifically to the HR function. Odiorne's⁸¹ model is the only one in this category. It seems that no large-scale systematic attempts have thus far been made to study ways in which HR functions determine their strategies, the factors to which they respond during this process or the quality of results obtained. In his model, Odiorne recommends a process which can evaluate the company's human resources and classify them into four different groups: 'stars', 'problem children', 'cash cows', and 'dogs'. To classify the workforce, Odiorne uses a matrix whose vertical axis indicates performance and horizontal axis indicates potential.

A management-by-objectives (MBO) approach determines the performance capability of an individual, and assessment centres determine the potential.⁸² The matrix is then used as a basis for developing various HRM practices. One of the drawbacks of this approach is that it is not easy to classify an average individual into one of the categories. Subjectivity also plays an important role in the process, and the impression is created that it is a very static and rigid short-term model, one that is not very future orientated.⁸³

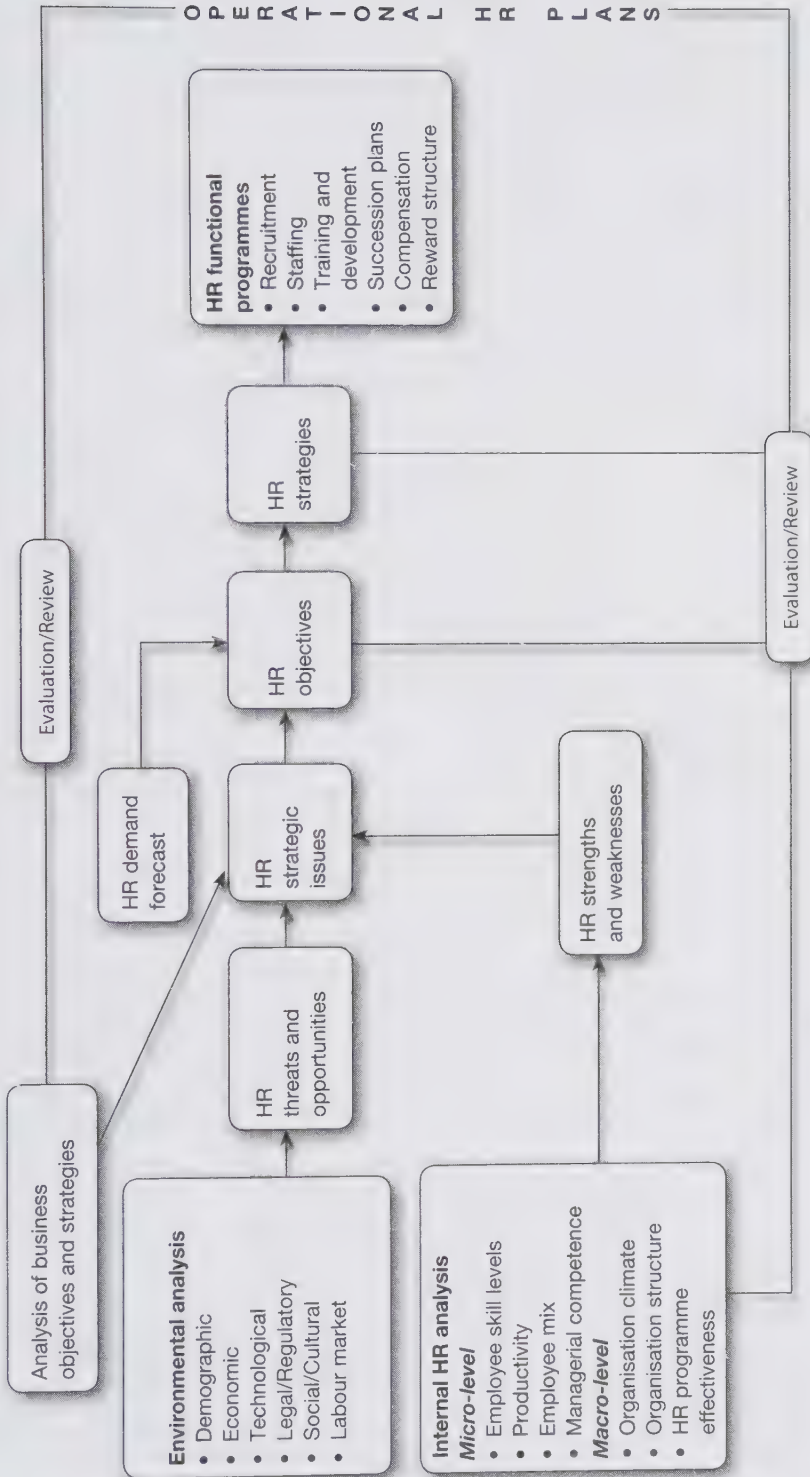
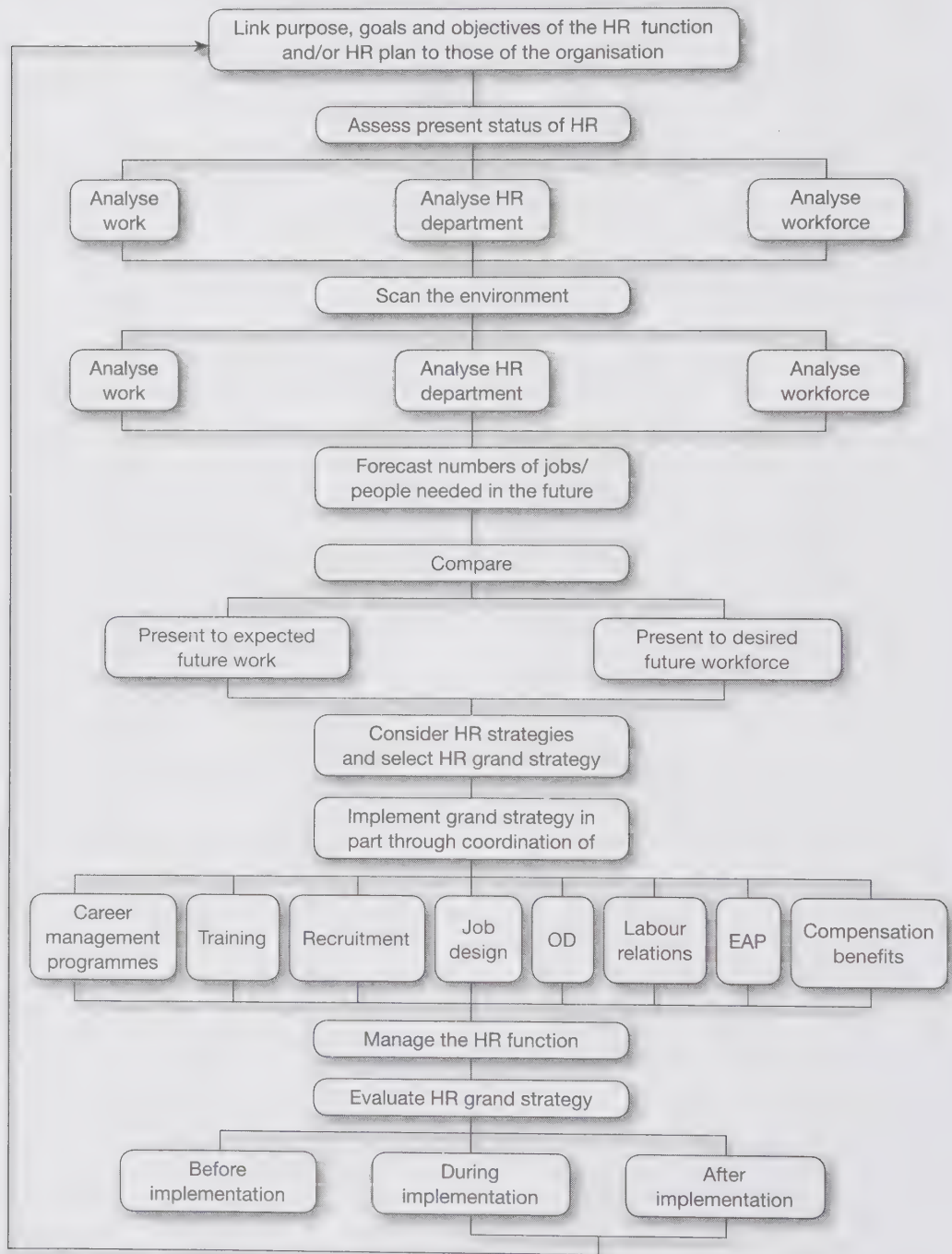


Figure 4.4 A conceptual model of strategic HR planning

SOURCE: Reprinted from Nkomo, S.M. 1988. Strategic planning for human resources - let's get started. *Long Range Planning* 21(1):67. Copyright © 1988, with permission from Elsevier Science.

Figure 4.5 The SHRM model of Rothwell and Kazanas



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An examination of the various groups of models, as classified according to Dyer's framework, appears to show that not much attention is given to content models. In contrast, process models – especially the organisational SHRM models – have reached a more advanced stage of development. This is a logical development, as the process of any system must first be implemented before the content can be identified.

4.4.5 General SHRM models

Besides the different types of models already discussed, the literature contains a number of general models that contain elements of the four different categories of models. The models of authors such as Dyer and Holder,⁸⁴ Rothwell and Kazanas,⁸⁵ and Lengnick-Hall and Lengnick-Hall,⁸⁶ as well as Schuler's 5 P model,⁸⁷ are of importance here. An example of the model of Rothwell and Kazanas – one of the most comprehensive in the field of SHRM – appears in Figure 4.5.

4.4.6 Models of 'fit' versus 'flexibility'

The traditional SHRM models that we have discussed thus far in this chapter have focused on two types of congruence or fit, namely a vertical fit and a horizontal fit.⁸⁸⁻⁸⁹

- *A vertical fit.* This involves the alignment of HRM practices and the strategic management process. It involves directing human resources towards the main initiatives of the organisation.
- *A horizontal fit.* This implies a congruence or fit among the various HRM practices. The horizontal fit is viewed as being instrumental in efficiently allocating the resources needed by the horizontal fit.

In addition to the so-called 'fit' approach, a number of articles in the literature emphasise the so-called 'flexibility' in SHRM.⁹⁰⁻⁹¹ The authors in this area argue that organisations face a complex and dynamic

environment which requires them to be sufficiently flexible to adapt to changing requirements. Thus these authors see 'fit' as a snapshot of a particular short period of time.

The question that arises is: can the two types of models co-exist, or are they in conflict with one another? Nadler and Tushman,⁹² as quoted by Wright and Snell, define congruence or fit as 'the degree to which the needs, demands, goals, objectives and/or structure of one component are consistent with the needs, demands, goals, objectives and/or structure of another component'. Thus, we can deduce that organisations should be more effective when they achieve fit than when they do not.

In contrast to this, Sanchez,⁹³ as quoted by Wright and Snell, defines flexibility as 'a firm's abilities to respond to various demands from dynamic competitive environments'. Thus flexibility provides an organisation with the ability to modify current practices in response to changes in the environment. By consistently scanning the environment and detecting changes, organisations will have to have a pool of alternatives available to accommodate these changes.

Wright and Snell⁹⁴ indicate that, as a result of the existence of 'fit versus flexibility', there are two opposing groups of researchers, namely:

- *The so-called 'orthogonal' group.* This group sees the two alternatives as opposites.
- *The so-called 'complementary' group.* This group argues that the two approaches are independent of one another. The complementary group views both concepts as essential for organisational effectiveness, since the challenge of strategic management is to cope with change (requiring flexibility) by continually adapting to achieve fit between the firm and its external environment.

We find that the orthogonal group is thus concerned with companies at only one point in time, while the complementary group sees ‘fit’ over a longer time frame, while exploring adaptation processes. The orthogonal group sees what firms actually do, while the complementary group sees what firms ought to do.⁹⁵

Wright and Snell designed a SHRM model in which they included both views (see Figure 4.6).⁹⁶ These authors see ‘fit’ as an interface between an external and an internal variable, while ‘flexibility’ is seen as only focusing internally. According to Wright, a company is required increasingly to promote organisational flexibility, in order to achieve a dynamic fit.

A brief discussion of the HR model as it appears in Figure 4.6 follows. In the model, the top half depicts the ‘fit’ component and the lower half the ‘flexibility’ part.

Like other SHRM models, this model starts with the mission and goals of the organisation, followed by an examination of internal resources (strengths and weaknesses) and external developments (opportunities and threats). These make up the basic components of the model that lead to the choice of a given strategy. At the same time, the HRM function also gives input regarding the strengths and weaknesses, and opportunities and threats, as seen from the point of view of the company’s human resources.⁹⁷ As in previous models, this model also uses the company’s strategy to dictate the skills and types of behaviour required from employees to implement the strategy successfully. This subsequently drives the HRM practices. These desired HRM practices are then operationalised into actual HRM practices which influence the actual skills and types of behaviour of human resources impacting on the company’s performance. Finally, the company’s performance is fed back into the process of strategy formulation that will affect future strategies. This concludes the

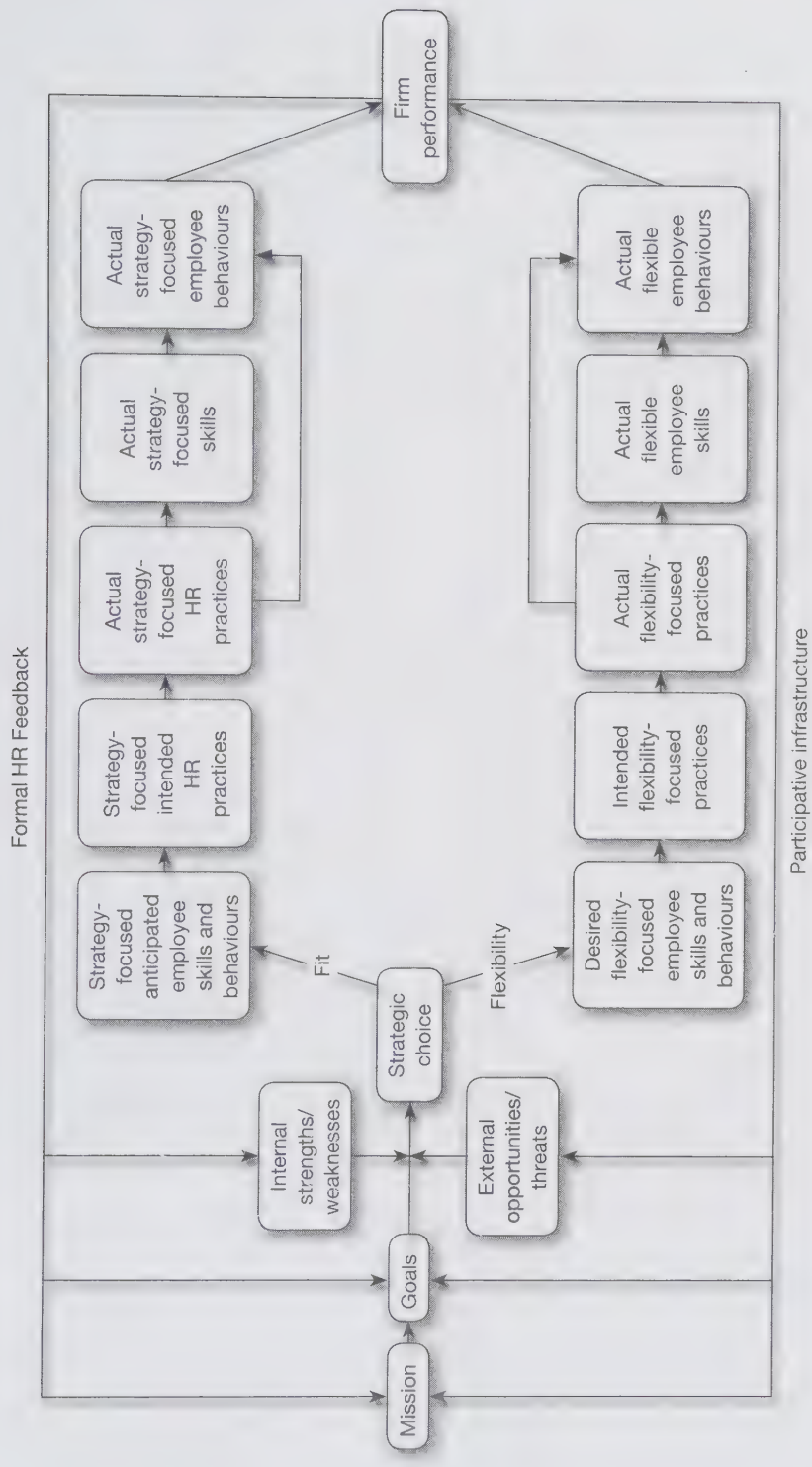
‘fit’ process of the model. It is interesting to note that the model makes a number of assumptions, namely that decision-makers are able to identify all the skills and types of behaviour a specific strategy requires, that decision-makers can specify and control all HRM practices, and that the environment stays stable enough to achieve fit.⁹⁸

However, these assumptions cannot always be accepted in an ever-changing environment. Hence the lower part of the model, where flexibility plays an important role. The authors view this part as important in that achieving fit over time may depend upon the extent to which flexibility exists in the system. The flexibility component expands upon the fit component in a number of ways: that it accepts that HR practices can focus on more than just fit; that there is a broader range of skills than those needed to implement the current strategy; and that the employees possess a broader repertoire of behaviour than simply those relevant to the strategy.⁹⁹ These various skills and types of behaviour make it possible to implement various strategies that can respond to a variety of different competitive demands. Finally, the model also highlights the role of the participative infrastructure in developing, identifying, and exploiting emergent strategies.¹⁰⁰ This model is an interesting development within SHRM theory and reflects the future trend in the flexible firm.

4.5 Where do we go from here?

The authors of this text would like to conclude this chapter with a very thought provoking quote from an article written by two leading experts (Brian, E. Becker and Mark, A. Huselid) in the field of Strategic Human Resource Management and published in their article ‘Strategic Human Resources Management: Where do we go from here?’¹⁰¹

Figure 4.6 A fit/flexibility model of SHRM



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'In the past 15 years, the field of HR strategy has had a remarkable influence on both the academic literature and management practice. One of the purposes for writing this article is to highlight this important relationship between SHRM scholarship and management practice. In our view, it is what makes this line of inquiry both interesting and influential. By comparison, consider earlier efforts to link HR decisions and firm financial performance, such as utility analysis that have largely disappeared from the literature. Despite this remarkable progress, the field of SHRM may be at a crossroads. The empirical literature demonstrating that HR could influence meaningful financial outcomes was once a novel and exciting result for managers. But that time has passed. To a substantial degree, managers now "get it" and do not have to be persuaded that the quality with which they manage the workforce has strategic impact. What they now need is help in understanding how to generate and sustain those potential returns.

Although academic research continues to replicate and refine these empirical results, the practice of HR strategy has moved beyond whether or not there is a significant return to better workforce management. Managers are asking questions like, "What are the key strategic positions in our organisation, and how should they be managed?" and "How can we design and implement a workforce management system that helps us to execute strategy and create wealth?" This signals an evolution in the research problems confronting SHRM, as well as the foundation for an equally exciting 15 years going forward. Although

the directions for future theoretical and empirical work discussed previously are rooted in an evolving academic literature, they are fundamentally influenced by the experience of managers who are attempting to implement these ideas. The most fundamental lesson from that experience is that although SHRM was initially an HR-centric paradigm, it is rapidly moving out of the hands of HR professionals into the hands of line managers and senior executives. HR professionals will play a role, but they may not be taking the lead.

The role of strategy implementation in the "black box" between the HR architecture and firm performance reflects this centrality of the line manager and the associated broader focus on workforce management. This shift in the SHRM axis within the firm needs to be reflected in SHRM research as well. Recent calls for evidenced-based management have emphasised the importance of incorporating the *logic* of academic research into managerial decision making as much as the empirical results. In our view, the logic of the HR-firm performance relationship has evolved during the past 15 years, and both scholarship and practice need to reflect that shift.'

SUMMARY

From the discussion it is clear that SHRM plays a critical role in the superior achievement of the company's strategic goals. This, however, is only possible with the availability of a strategic-management process and the restructuring of the traditional HRM function into strategic, operational, and functional levels. There is a strong relationship between strategic management and SHRM, and there is also an important link between HR professionals and line management.

To operationalise the process, HR strategies need to be designed to support company strategies. These consist of means (e.g. HR practices and policies) and ends (e.g. productivity goals). Many models help with the implementation process, but only a few present a total integrated process. The existence of firm flexibility has supplemented the rigid, tight-fit approach with a flexible arrangement that generates numerous alternatives to address the challenges from an ever-changing environment.

KEY CONCEPTS

■ Aspiration-driven imperative	■ Mission statement
■ Cultural system	■ Organisational strategies
■ Efficiency imperative	■ Political system
■ Ends	■ Proactive approach
■ Fit	■ Reactive approach
■ Flexibility	■ Situation imperative
■ Functional strategies	■ Strategic HR planning
■ Growth imperative	■ Strategic human resource management (SHRM)
■ HR strategy	■ Strategic imperatives
■ HRM cube	■ Technical system

CASE STUDY

Objective: To understand the importance of aligning the HR activities with the corporate strategy of the company.

Happy Sky Company: Aligning human resource functions with strategic objectives

John Flack founded Happy Sky and has managed the company's operations from its inception. Happy Sky designs and produces communications software that is sold to customers, ranging from the computer industry to independent businesses. Although Happy Sky has been profitable over the decade of its existence, its productivity has recently declined. Specifically, in the past several years, the workers have displayed diminished innovation, higher turnover and absenteeism, and overall sluggish performance.

Based on these trends, John called a meeting of all the managers to discuss potential courses of action to correct the problems. After a series of discussions, John and the other managers agreed that they needed to hire a full-time manager to assume sole responsibility for human resource management. In the past, the department managers had assumed basic responsibilities for managing their employees. However, the growth of the company – there are now over 300 employees – coupled with recent increases in absenteeism and turnover, suggest that the human resource responsibilities are substantial enough to warrant hiring a full-time manager.

After careful consideration John decided to hire Judith Thompson, in line with the company's new employment equity policy, to assume the primary responsibilities of developing a systematic HRM function for Happy Sky. When Thompson arrived at Happy Sky, she and John met to discuss the strategic objectives of the company. John stated that Happy Sky must achieve two primary objectives to be successful in the future. First, the company must continue its growth strategy to respond to the expanding demands for its services. Second, it must enhance the innovative nature of its workforce to ensure that it remains up-to-date with competitors and market changes. At the end of their meeting, John gave Thompson the task of developing an HRM function that could tackle the absenteeism and turnover problems while helping Happy Sky attain the two goals he had outlined.

As a first step to achieve this, Thompson began to review the human resource practices used at Happy Sky. It became clear that the company relies primarily upon two practices to meet employment needs. First, it recruits at the local university located just ten kilometres away. If graduating students are uninterested or unsuitable candidates for a certain job, Happy Sky places advertisements in regional newspapers to seek job candidates with the relevant skills who are willing to relocate. Although this hiring process is not comprehensive, Happy Sky, because of its potential growth opportunities, has not typically experienced much difficulty in recruiting employees.

Second, Happy Sky has relied upon an established compensation system that applies to all employees throughout the company. Workers are paid on a salaried basis, with their compensation levels based on the going rate in the market for similar positions. By linking employee compensation to the market average, Happy Sky has been able to ensure that there is a reasonably high degree of equity between the company's pay levels and the pay levels at other firms. Annual salary increases are calculated by considering inflation and each employee's performance. The average salary increase is between three and seven per cent of employees' base salary.

Thompson realises that besides these recruitment and compensation practices, there is really no consistent use of other human resource practices at Happy Sky. Instead, managers use different methods of managing the workers in their respective units. For example, there are no consistent performance appraisal standards used throughout the organisation. The criteria used to evaluate employees range from counting days absent to measuring innovation and creativity. Similarly, each manager uses somewhat different tactics for training employees. Some units assign new employees to shadow more experienced employees, who serve as the new employees' mentors. Other managers do not offer any training and assume that the employees come to the job with all the knowledge they need to succeed.

In light of the organisation's goals of growth and innovation, Thompson has become quite certain that significant changes need to be made at Happy Sky. The productivity of employees and the success of the company depend on effectively realigning the HR function.

Questions and activities

1. Identify the causes that led to high absenteeism and turnover at Happy Sky.
2. Suggest specific HRM practices that could facilitate the company's strategic objectives of growth and innovation.
3. Happy Sky employs ten sales associates to sell its software products. List and describe various criteria that can be used to evaluate the performance of sales associates.

SOURCE: Adapted from SHERMAN, A., BOHLANDER, G. & SNELL, S. 1998. Case 5: ConnetPlus: Aligning human resources function with strategic objectives. *Managing human resources*, 11th ed. © 1998 South-Western, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions.

REVIEW QUESTIONS AND ACTIVITIES

1. Write a short paragraph on the benefits organisations can derive from the SHRM process.
2. One of the early definitions in the SHRM literature is Tsui's. Discuss briefly.
3. At a strategic level, HR professionals fulfil their strategic-partner role and are involved in corporate and HR planning. Identify the four features of this role, according to Casio.
4. Give four reasons (according to Rothwell and Kazanas) why there is no relationship between strategic management and SHRM.
5. What are the four essential components of HR strategies, according to Dyer and Holder?
6. Explain Tichy's HRM-cube model, which indicates the important relationship between strategic management and SHRM. In your discussion focus on:
 - (a) The basic problems that confront organisations
 - (b) The design of three systems to solve these problems
 - (c) Aids required to manage these systems
 - (d) The process of integration of all the issues.
7. Discuss the design of an HR strategy by referring to the issue of strategic imperatives.
8. Explain the two dominant approaches of two models of SHRM and describe Dyer's classification method of these models.
9. Briefly explain Rothwell and Kazanas's model of SHRM.
10. Explain the fit/flexibility model of Wright and Snell.

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Appendix 4A

SHRM in the city of Clearwater, Florida (USA)

The city of Clearwater is located on the west coast of Florida, USA. Its population has remained relatively constant between 101 000 and 108 000 residents for the past ten years. Clearwater's market consists of a large tourism-based economy, but it has been able to attract some high-technology companies. The city has no open land, so its strategy has been to improve its infrastructure and aesthetics and try to attract companies to redevelop existing properties.

Clearwater provides a full range of municipal services: police and fire protection; city-operated marina; a business airpark; convention centre and exhibition hall; planning, zoning, subdivision and building code regulation and enforcement; park and recreation programmes; a public library system with four branch locations; solid waste collection and recycling; water supply and distribution, wastewater treatment and disposal, and reclaimed water treatment and distribution; and a citywide parking system.

The members of the city commission decided that a formal strategic vision would articulate their motivating beliefs and intent for the city, serving as a framework for the city's future and for the everyday operations of city government. With the help of the city manager, and after a series of consensus-building steps, new mission and vision statements were drafted. These are geared toward helping achieve a high quality of life today and in the next twenty years. The ultimate goal is to shape a liveable city that eliminates barriers and provides opportunities for all citizens to succeed. Though Clearwater will change over the years, the vision must stay the same to ensure that policy decisions of future commissions, and the resulting progress the city makes, remain consistent and beneficial to all.

Eleven goals were identified in five priority areas. The goals were as follows:

- A safe, clean, green environment
- Diverse, high-paying jobs
- High-quality education
- A variety of cultural and recreational offerings
- Efficient, responsive city services
- Safe, comfortable, walkable neighbourhoods
- Well-maintained housing stock in all markets
- A vibrant downtown that is mindful of its heritage
- Well-maintained infrastructure
- Efficient transportation systems
- A quality beach environment

The city integrated these goals into five strategic priorities:

1. *Public safety.* All public safety services must concentrate on continual personnel training to be prepared for any emergency on a moment's notice, including large-scale calamities such as terrorist threats or natural disasters.
2. *Economic development.* Strategic public investment in the downtown area and partnerships with private investors and nonprofit entities will spur redevelopment. Preservation of local history and character will be mirrored in all new projects. With public support of local businesses, property values will increase and aesthetics will improve. Clearwater's beaches will continue to remain open to the public. They will be redeveloped through city and county incentives that will address residential, commercial, and transportation issues.
3. *Infrastructure maintenance.* Assessment of the current infrastructure will determine needs for the future. Existing infrastructure assets will be maintained through the repair and replacement of worn parts, and future projects will implement new technologies that

improve function and durability and reduce operating costs.

4. *Quality of life.* The high quality of life we enjoy here is why we live, learn, work, and play in Clearwater. It can be reinforced by encouraging diversity in cultural and recreational programmes and by supporting neighbourhoods. Beautification programmes and expansion of our nationally known brownfield programme will promote a safe, clean, green environment. We must also continue to provide and improve on the excellent customer service our residents and visitors have come to expect.
5. *Human resources issues.* None of the vision can become reality without the people to achieve it. Therefore, the city must provide and support a healthy working environment and a competent workforce and must plan for future employment trends.

Human Resources Strategic Plan

As one of the five defined priority levels, the city's Human Resources Management Department developed its own strategic business plan consistent with the city's strategic plan.

The mission of the HRM Department is as follows:

To help the city of Clearwater provide premier service to our customers by recruiting, selecting, training, developing, and retaining a diverse, highly qualified, satisfied, motivated, and productive workforce.

Its core HR values are to be strategic, responsive, professional, flexible, and caring, and its HR vision is to deliver results that add value and help our customers achieve their goals.

Included in the strategic business plan are five specific goals that are linked with the city's mission statement, key intended outcomes, and measurable objectives, as follows:

Goal 1

Create a high-performance organisational climate that encourages superior customer service and continuous quality improvement through effective recruitment, selection, and retention programmes, development and training initiatives and reward and recognition programmes.

Key intended outcomes

- Improve customer satisfaction.
- Increase customer trust and confidence in government.
- Develop employees who have the skill and commitment to deliver quality service.

HR initiatives for 2003–2004

- Strategic Planning and Management System
- Performance Management System
- HRIS Strategic Implementation System
- New Employee Mentoring Programme
- Employee and Team Reward and Recognition Programme
- Long-Range Training Assessment Plan
- SAMP^a Incentive Pay system
- SAMP Paid time-Off System
- Labour-Management Partnerships
- Leadership Development and Succession Planning Programme.

Measurable objectives

- Increase the percentage of employees who agree with the statement 'HR staff help recruit and retain high-quality employees.'

(a) SAMP refers to supervisory, administrative, managerial and professional employees who are exempt from belonging to a union under Florida law or are in middle or upper management positions.

- Increase the percentage of employees who agree with the statement 'HR staff provide quality and timely service.'
- Increase the percentage of employees who agree with the statement 'I am able to apply the skills and knowledge learned through city-sponsored educational, training, and development programmes to improve my personal and organisational effectiveness.'
- Increase the percentage of employees who agree with the statement 'I am motivated by the city's reward and recognition programmes.'

Goal 2

Improve communication, interaction, and cooperation between HR and its customers.

Key intended outcomes

- Improve customer satisfaction
- Increase customer trust and confidence in government
- Strive for overall effective communication
- Initiate capital projects needed to improve the levels of service.

HR initiatives for 2003–2004

- HR Liaison Programme
- Supervisory Leadership Certification Programme
- HR Customer Communication Plan (Newsletter, internet, intranet)
- Revised SAMP Manuals
- HR Policy Handbook.

Measurable objectives

- Increase the percentage of employees who agree with the statement 'HR seeks and listens to employee input on issues and policies affecting employees.'
- Increase the percentage of employees who agree with the statement 'I am satisfied with HR communication and liaison services.'

Goal 3

Help foster an organisational climate that makes the city of Clearwater a 'premier place to work.'

Key intended outcome

- Recognition of Clearwater as a preferred place to live, work, and play.

HR initiatives for 2003–2004

- Employee Salary and Benefits Survey
- Revised and Modified Light-Duty Programme
- Employee Benefit Analysis
- Employee Wellness Programme
- Job Evaluation System.

Measurable objectives

- Increase the percentage of employees who agree with the statement 'I enjoy working for the city of Clearwater.'
- Increase the percentage of employees who agree with the statement 'I am proud to be a city employee and would recommend city employment to a friend.'
- Increase the percentage of employees who agree with the statement 'The city cares about my well-being.'
- Increase the percentage of employees who agree with the statement 'I am satisfied with my salary or wage range.'
- Increase the percentage of employees who agree with the statement 'I am satisfied with my benefits package.'

Goal 4

Promote programmes and activities that expose the city's workforce to community organisations.

Key intended outcome

- Proactive promotion of community well-being.

HR initiatives for 2003–2004

- City-Community Education, Training, and Development Partnership Programmes
- City Student Internship Programme.

Measurable objectives

- Increase the percentage of employees who participate in city-sponsored community programmes and activities.
- Increase the percentage of employees who agree with the statement ‘The city and community benefit from employees who participate in city-sponsored community programmes and activities.’

Goal 5

Promote an organisational workforce that reflects the city’s demographics.

Key intended outcome

- A city that values diversity.

HR initiatives for 2003–2004

- Support city Diversity Plan
- ESL and Bilingual Language Training Programmes
- Business Case for diversity.

Measurable objectives

- Increase the percentage of minorities and protected-class members in the workforce to more closely reflect city demographics.
- Increase the percentage of bilingual employees.
- Increase the percentage of employees who agree with the statement ‘The city promotes a work environment in which diversity is valued.’

SOURCE: PYNES, J.E. 2004. *Human resources management for public and nonprofit organisations*, 2nd ed. San Francisco: Jossey Bass, a John Wiley Imprint:36–41. This material is reproduced with permission of John Wiley & Sons, Inc.

Managing flexible patterns of work for competitive advantage

5

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Define the concept of flexibility
- Distinguish between the different types of flexibility
- List ten organisational/management practices organisations can use to determine whether they are ready for flex work
- Discuss the flexible-firm model
- Discuss the changing dynamics of the workplace and their impact on new forms of flexibility

PURPOSE

The purpose of this chapter is to introduce you to the concept of flexibility within the work environment.

CHAPTER OVERVIEW

This chapter focuses on the issue of flexible patterns of work. It begins with a discussion of what flexibility is. It considers different types of flexible patterns of work and also lists their advantages and disadvantages. It further describes how organisations can determine whether they are ready to introduce such practices. The chapter also contains a discussion of a flexible-firm model and looks at the changing dynamics of the workplace and their impact on new forms of flexibility. The concluding case study illustrates how the theory contained in this chapter can be applied to a practical situation.

Introduction

In recent years a variety of factors – such as increasing economic volatility, competitiveness, new technology, and, more recently, intensifying shortages of skills – have led many organisations to actively seek more efficient and effective ways of utilising their resources.¹⁻³ A key aspect in the development of a competitive advantage through human resources is management's ability to manipulate flexibly the available internal and external labour-market resources in line with the supply and demand of the market, with minimal disruption to the production process.⁴⁻¹²

As Ursell¹³ notes:

A major goal implicit in the idea of flexible labour is to render HRM as a strategic, rather than merely a tactical, activity. ... By this is meant a multifold process involving one or many of the following: (i) for any individual worker, a wider range of tasks and abilities and a willingness to employ them on behalf of the organisation which purchases them; (ii) a greater variety in the time periods of employment; (iii) a greater ability by the employer to dispense with certain workers when not strictly essential to the production process (an ability which may be grounded in the replacement of traditional contracts of employment by franchise and subcontractor relations, and/or the greater use of part-time and temporary employees); and (iv) a greater capacity among workers (in both internal and external labour markets) to be so deployed, necessitating

changed attitudes for all, and skill and time-management change for some.

SOURCE: URSELL, G.D. 1991. Human resource management and labour flexibility: Some reflections based on cross-national and sectoral studies in Canada and the UK. (In BLYTON, P. & MORRIS, J. 1991. *A flexible future? Prospects for employment and organization*. Berlin: De Gruyter:311-327:312.)

The inference from the development of these work patterns and practices is a new-found strategic focus by management, integrating both the 'hard' (or quantitative) approach to human resources, which emphasises the link to organisational strategy, and the 'soft' (or qualitative) approach, which focuses on the developmental aspects of managing human resources.¹⁴⁻¹⁵ In this chapter we shall find out what the term 'flexibility' means. Then we shall consider flexibility and organisational design, look at the advantages and disadvantages of flexible patterns of work, and, lastly, discuss the changing dynamics of the workplace and its impact on new forms of flexibility.

5.1 What is flexibility?

The term 'flexibility' is difficult to define as it has been applied to a wide range of issues and levels of analysis.¹⁶⁻¹⁷ At a national level the debate focuses on rigidities in the regulation of the labour markets.¹⁸ At an organisational level flexibility is concerned with the integrative use of employment practices and organisational structures to create a capacity to adapt and manage innovation.¹⁹⁻²² However, one such definition in the literature, which describes the term broadly, is that of Pilbeam and Corbridge: 'The ability of the organisation to adapt the size, composition, responsiveness and cost of the people

inputs required to achieve organisational objectives.²³ In the context of these dimensions a number of forms of flexibility have been identified. We shall discuss these next. The categorisation should not suggest that the forms of flexibility are mutually exclusive. Many forms of overlapping flexibility exist, and managers need to distinguish between these forms of flexibility in order to be able to seize opportunities for increasing organisational flexibility. However, managers should also be aware of the problems.

5.1.1 Functional flexibility

Functional flexibility refers to management's ability to deploy and redeploy particular sections of the workforce on a wide range of tasks, in response to market demand, as and when required. To ensure that managers achieve this efficiently, the organisation trains employees in a wide range of skills.

As Atkinson notes:²⁴

This might mean the deployment of multi-skilled craftsmen from mechanical, electrical and pneumatic jobs; it might mean moving workers between indirect and direct production jobs or it might mean a complete change of career. ... As products and production methods change, functional flexibility implies that the same labour force changes with them, in both short and medium term.

SOURCE: ATKINSON, J. 1984. Manpower strategies for flexible organisations. *Personnel Management*, 28-31 (August):28.

The volatility of product markets and the blurring of skill boundaries through technological change provide the environment for the development of this form of flexibility.

Central to the development of functional flexibility is the reversal of the Taylorist (or scientific management) practices of fragmentation and de-skilling.²⁵ Working practices which incorporate elements of functional flexibility include team working, empowerment, multi-skilling, re-skilling, and project-working.

5.1.2 Numerical flexibility

Numerical flexibility is a quantitative approach to the utilisation of the workforce. It is based on the principle of relating the size of the workforce to the levels of economic activity easily and at short notice.²⁶ As the workload fluctuates, management has the option to adjust or redeploy its human resources accordingly.²⁷⁻²⁸ The use of seasonal, casual, part-time, and subcontracted workers typically provides this form of flexibility. The pressures of unpredictable short-term fluctuations in demand, combined with increased competitiveness, make these work patterns efficient and effective to sustain, as organisations are relieved of the cost of a fixed labour force.²⁹ While these patterns of work organisation have been traditional aspects of some segments of the labour market (e.g. the service and retail sectors), the use of these work practices to externalise traditional core organisational activities is the major factor in increasing enterprise efficiency through numerical flexibility.³⁰⁻³¹

5.1.3 Work-time flexibility

Work-time flexibility (or internal numerical flexibility) is a further process of adjusting the 'quantity and timing of labour input without modifying the number of employees.'³² This has been part of the traditional patterns of work organisation (e.g. overtime, shift working, and now, also flexi-time arrangements), although it has traditionally incurred financial penalties. The incorporation of these patterns of work into contract hours per week, month or year³³ provides the

organisation with the flexibility to arrange and adjust work patterns, and leads to a closer correlation between labour utilisation and production demands, without financial penalty or the additional costs of hiring labour.³⁴

Typically job sharing refers to a situation where one job (often full-time) is split between two (or more) employees. The employees may work a variety of combinations, including split day or split week or alternating weeks. These work patterns can provide both functional and numerical flexibility. Increasingly this is also being seen as a way to enhance work-life balance.

Distancing relates to the outsourcing of activities that may include core and non-core activities. The outsourcing of non-core activities (e.g. cleaning, catering, and security) and the increased outsourcing of traditional core activities, particularly in the human resources area (for example call-centre, customer-service work),³⁵ facilitates the reduction of the core or permanent workforce.

5.1.4 Financial flexibility

Financial flexibility is a compensation system designed to facilitate the development of flexible patterns of work, in particular numerical and functional flexibility.

As Atkinson outlines:³⁶

Financial flexibility is sought for two reasons; first, so that pay and other employment costs reflect the state of supply and demand in the external labour market. ... Secondly, and probably of greater importance in the long term, pay flexibility means a shift to new pay and remuneration systems that facilitate numerical or functional flexibility, such as

assessment-based pay systems in place of rate-for-the-job systems.

SOURCE: ATKINSON, J. 1984. Manpower strategies for flexible organisations. *Personnel Management*, 28–31 (August):29.

Financial flexibility therefore provides the duality of:

- Allowing market forces to dictate relative wage rates, providing cost-efficient numerical flexibility to the organisation
- Providing the incentive for the core workforce to increase its skill base by relating pay to skill levels.

5.1.5 Procedural flexibility

Procedural flexibility is the central principle in the development of flexible patterns of work.

Procedural flexibility is concerned with the establishment of consultative mechanisms for introducing changes or negotiating variations in work practices, primarily through changes in both legal and traditional practices covering employment.³⁷

As Woods notes:³⁸

In most industrialised countries the 'flexibility debate' concerned with changing rigidities in labour and employment patterns, has been an important element in industrial policy making and industrial relations...

SOURCE: WOODS, S. 1989. *The transformation of work: Skill, flexibility and the labour process*. London: Unwin-Hyman:1.

At the level of the organisation, the process can range from directive through to a participative framework of negotiation. The

substantive aspects of the traditional 'Taylorist' relationship between employer and employee and the employee's representative (trade unions) are fundamentally recast for flexible patterns of work to be fully utilised.^{39–40} Central to procedural flexibility is the acceptance of, and a role in managing, the new relationship for the employees and their representatives.⁴¹ Such procedures are indicative of commitment to joint administration of labour flexibility within the workplace.⁴² Procedural flexibility facilitates the combination of work patterns and practices that increase the utilisation of the enterprise's human resources.^{43–46}

5.1.6 Regulatory flexibility

Regulatory flexibility is a process to encourage and facilitate the establishment, development or relocation of enterprises through the relaxation, amendment or exemption of public policy. This may include changes in labour law restrictions or issues of occupational health and safety.⁴⁷

5.1.7 Mobility flexibility

Mobility (or location) flexibility involves a change in the nature of work, or a career change with the same employer.⁴⁸ It may also mean a relocation of the work location through telecommuting and virtual teams (see Chapter 1), where the location is incidental to the work. This can be seen in the development of the offshore call centre sector.

5.1.8 Cognitive flexibility

Cognitive flexibility is the mental frame of reference required to perform effectively in the job and the level of cognitive skill required.⁴⁹ The development of new forms of flexibility has significantly changed the psychological contract between the employer and the employee, as we indicated earlier in the book. From the development of less secure forms of employment – even to the extent of zero-based contracts where no

hours are actually guaranteed – through to the implementation of multi-skilling requiring the development of new skills, knowledge, and competencies, employees have had to accept and adjust to the differing demands and expectations organisations have placed on them.^{50–52}

5.1.9 Organisational flexibility

Organisational flexibility is a structural response to the development of the flexible patterns of work described above. Despite increased interest in the development of flexible work practices, little is actually new in any of these patterns of work. What is new, however, is management's explicit desire to seek to develop integrative or multiple forms of flexibility.⁵³ In this context, the pursuit of multiple forms of flexibility requires a parallel development in organisational forms to accommodate these changes.⁵⁴ The contention is that the traditional hierarchical or bureaucratic organisation cannot adequately handle these changes in work patterns, and that organisational structures with the capacity to adapt and manage change and innovation must therefore replace it.^{55–56}

5.2 HR checklist – Organisation readiness for flex work⁵⁷

The use of flexible work arrangements as discussed above can entail many levels of change, e.g. operational, managerial, organisational, and even, cultural. The big question is: is the organisation ready to implement any of these techniques? Dychtwald, Erickson and Morison identified ten organisational and management practices which can assist organisations, to determine organisations' readiness to establish or expand their flexible work arrangements. We shall briefly look at these:

- *Policy.* Are there specific policy and strategy statements approved and communicated by top management that

endorse flex work as a component of the employment relationship?

- *Employee commitment.* How deeply are employees committed to the success of the organisation's mission and to high achievement in their own jobs?
- *Management commitment.* Do the actions of management as well as its communications to employees reinforce management's support for flex work?
- *Workforce planning.* How good is the organisation at forecasting projects, deadlines, production quotas, and workloads? How good is it at scheduling workforce needs; and at allocating resources?
- *Technology.* Are information-technology and communication systems in place to support flex work in smooth, efficient, consistent ways?
- *Training and orientation.* How effective are training content and delivery mechanisms for meeting the ongoing needs of flex workers?
- *Teamwork.* To what extent is work done in teams, and is there sufficient coordination to ensure coverage and to compensate for having team members on different schedules?
- *Performance management.* Are there methods for performance measurement, employee appraisal, and staff development that are equivalent, if not identical, for flex workers and others?
- *Decision making.* Who holds decision rights and makes key decisions in the course of everyday work?
- *Communication and information dissemination.* How effective are the means, media, and frequency of communication of everyday business information and are those processes robust enough to keep flex workers in the loop?

5.3 Flexibility and organisational design

What has emerged from the extensive debate on flexibility is the increasing use of multiple forms of flexible patterns of work, to facilitate more timely responses to the competitive forces of the market.⁵⁸⁻⁶⁰ This has required the parallel development of organisational structures to facilitate these changes.⁶¹⁻⁶² Organisational flexibility therefore provides management with the template to adjust and utilise the available human resources in a flexible manner in response to changing demands.⁶³⁻⁶⁴ The model which has attracted particular attention is the flexible-firm model or core-periphery model.

5.3.1 The flexible-firm model or core-periphery model

Research by the Institute for Employment Studies (IES), formerly the Institute of Manpower Studies (IMS), in the UK identified the development of a distinct organisational structure – the flexible-firm model – to accommodate the development of multiple forms of flexibility, in particular functional, numerical, and financial flexibility.⁶⁵⁻⁶⁷ Thompson and McHugh note that the flexible-firm model or core-periphery model provides competitive advantage through the restructuring of the employment relationship:⁶⁸ 'The flexible firm model is based on a break with unitary and hierarchical labour markets and organisation of internal means of allocating labour, in order to create a core workforce and a cluster of peripheral employment relations.'

In place of the traditional hierarchical structures, the flexible-firm model redefines the organisation into two broad segments – the core and the periphery. The make-up of the two segments reflects the different types of flexibility the organisation requires. The core is made up of a permanent, highly-skilled group of employees with

internal career paths.⁶⁹⁻⁷¹ As a result, 'core' employees experience a high degree of job security, with resources provided for training in firm-specific skills not readily bought in. This segment of the organisation is characterised by functional forms of flexibility.⁷²⁻⁷⁴ In contrast, the peripheral workforce is associated with the organisation's development of qualitative or numerical flexibility. The key function of this sector for the organisation is the undertaking of day-to-day activities that are important but not vital to the organisation.

As Atkinson points out:⁷⁵

In effect they are offered a job not a career. For example, they might be clerical, supervisory, component assembly and testing occupations. The key point is that their jobs are 'plug-in' ones, not firm-specific. As a result the firm looks to the external market to fill these jobs, and seeks to achieve numerical flexibility and financial flexibility through more direct and immediate links to the external labour market than is sought for the core group.

SOURCE: ATKINSON, J. 1984. Manpower strategies for flexible organisations. *Personnel Management*, 28-31 (August):20.

Where either the core or peripheral workforce needs supplementing, the secondary peripheral workforce accommodates this through part-time temporary or subcontracting work.⁷⁶ This provides increased numerical and functional flexibility with minimal organisational commitment or disruption.

The new organisation therefore takes the form of a core with a variety of peripheral activities to serve its changing requirements,

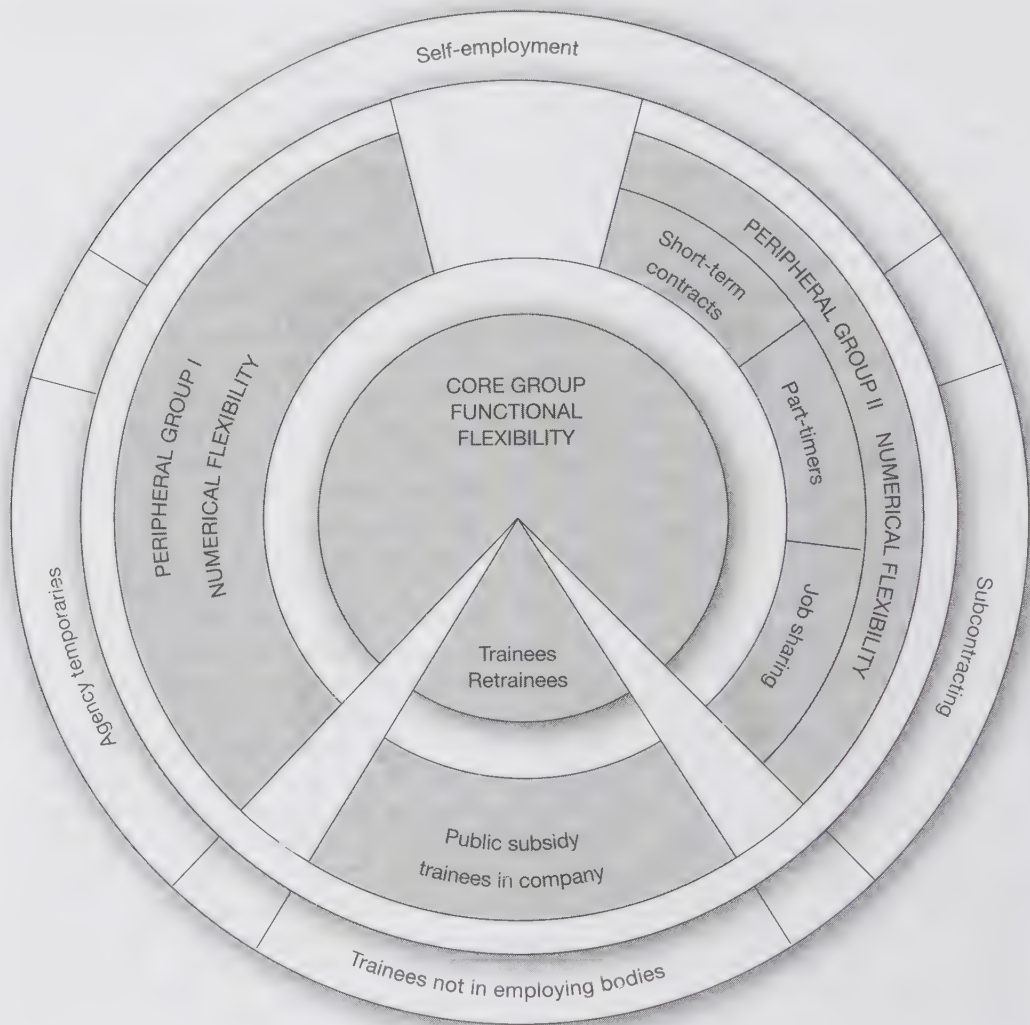
as Figure 5.1 illustrates. The focus of the flexible-firm model is closely to match organisational (labour) resources with work demand, increasing the efficiency of human resource utilisation while dampening the effects of market volatility and uncertainty, thereby increasing organisational effectiveness.⁷⁷⁻⁷⁹

Research on the development of the flexible-firm model is less well developed. In the UK, results of the implementation of these strategies remain mixed. In Australia, Burgess found a growth in non-standard employment, including part-time and casual work, although these changes tended to be ad hoc and reactive. Research has generally found the development of the flexible-firm model to be reactive to the demands of the market, rather than a new-found strategic view of management towards the organisation of its human resources.⁸⁰

Despite the mixed evidence relating to the development of the flexible firm, the model has generated significant debate.⁸¹⁻⁹⁰ What is distinctive about the flexible-firm model and its approach to the organisation and management of human resources is the extent to which it implies a distinctive strategy on the part of management in developing more efficient and effective utilisation of labour.⁹¹⁻⁹³ Critics of the flexible-firm model contend that this is simplistic and argue that change is far more uneven and complex: they contend that the model is too abstract to represent reality.⁹⁴⁻⁹⁹

The flexible-firm model is also criticised for its promotion of variation in terms and conditions of employment within organisations.¹⁰⁰⁻¹⁰¹ The outcome of this variation is the creation of a (skill) polarised workforce with an elite core workforce and a disenfranchised low-skilled, low-wage peripheral workforce.¹⁰²⁻¹⁰⁴ From a management perspective, it can be argued that the flexible-firm model incorrectly assumes that organisations have uniformly moved from ad hoc to explicit labour strategies in

Figure 5.1 The flexible-firm model



SOURCE: ATKINSON, J. 1985. *Flexibility, uncertainty and manpower management*. Brighton, England:Institute for Employment Studies (formerly the Institute of Manpower Strategies). Reprinted by permission of the Institute For Employment Studies.

both the short and the long terms.¹⁰⁵⁻¹⁰⁹ In addition, many researchers note the lack of empirical evidence to support the uniform development of the flexible firm.¹¹⁰⁻¹¹⁶

Despite these criticisms, the flexible-firm model does provide a framework for analysis, insight, and explanation with respect to the development of new patterns of work.¹¹⁷⁻¹²²

5.4 The changing dynamics of flexibility

5.4.1 New workers – the changing dynamics of the flexible core worker

At the beginning of the twenty-first century there is a renewed recognition of the key role of flexible work patterns in generating

sustainable competitive advantage (see High-Involvement Work Systems). At the centre of this is the need to attract, retain, and develop key employees for the core activities and develop a stable supply of workers for the periphery. Consequently, flexibility has become a key platform of the new organisational environment. What is significant about the new core workers in the emerging knowledge economy is that they increasingly own the means of production – knowledge – which attract large rewards. The Australian Centre for Industrial Relations Research and Training (ACIRRT)¹²³ notes that the changing labour market has also changed the nature of the psychological contract, which has significantly transformed the employer–employee relationship.¹²⁴

As the ACIRRT research report states:

Sometimes known as 'gold-collar workers' this latter group of workers has benefited considerably from technological change and economic deregulation. Often found in the cutting edge of computer technology in banking or in publishing, 'gold collar workers' have found high paying jobs which stimulate and challenge them. They often spend extremely long hours at their job, they are young, ambitious and very well paid. Their loyalty, however, is owed less to their employer than it is to their career. As a result, they are highly mobile, lured by new jobs, which offer technical challenges or opportunities for self-development.

SOURCE: ACIRRT. 1999. *Australia at work: just managing*. Sydney: Prentice Hall.

The management of these strategic resources therefore assumes greater significance. As Newell, Robertson, Scarbrough, and Swan¹²⁵ note, these 'gold-collar workers' require organisations to manage them carefully and provide them with excellent working conditions. It is this group that is at the core of a firm's unique strategic advantage. It is not possible to develop a competitive advantage without the consideration of the people that form the core of a firm's knowledge base. Therefore, the management of these human resources throws out particular challenges to organisations that base their advantage on these 'free thinking' workers and 'managed' resources. Organisations need to focus their employment systems, practices, and organisational structure to ensure they capture this unique resource.^{126–127}

The key to developing strategies that attract, develop, and retain these employees is to understand what motivates them. As Barnes¹²⁸ points out, these workers think differently and behave differently to the traditional employee and have different needs. Typically, these workers are self-focused and less interested in the traditional benefits of employment such as job security and working conditions. This view is supported by Storey and Quintas,¹²⁹ who argue that the fundamental issue for organisations to identify is 'employability'. There is an expectation therefore that an organisation will play a part in not only securing employment, but in upgrading employees' knowledge, skills, and abilities, so that they remain in demand in the wider market for employment. Whilst the concept of job-hopping may become the norm, this approach or characteristic of employment paradoxically may be a factor in, at least, reducing turnover. It can even make the organisation an 'employer of choice' to which these increasingly discerning workers will return.¹³⁰

These fundamental changes to the nature of the employment relationship will further accelerate the move away from the

traditional employment relationship as exemplified in the traditional psychological contract based on loyalty and stability of employment. The onus, for gold-collar workers, will be to manage their own careers, which will mean constantly upgrading skills and employment. This will require them to direct their own training and development for a broader range of skills, and accept greater role ambiguity and responsibility.¹³¹ Organisations will have to adapt to this new paradigm in a variety of ways (see Box 5.1). In particular, terms and conditions of employment and the way work is organised will need to be conducive to these workers. Management must therefore pay careful attention to both structural and cultural conditions within the firm. In other words, organisations will need to organise along very different lines compared to more

traditional aspects of the employment relationship, which, typically, did not consider workers as the key productive force of the organisation and, in relative terms, found them easy to replace.¹³²

5.4.2 New organisations – the changing dynamics of the flexible organisation

In dealing with these issues of a labour force that is increasingly dynamic, new ways of organising work to access knowledge across traditional boundaries is vital. This brings organisational design into the frame. Because of the lack of loyalty to the organisation relative to their profession and career, the new generation of workers needs an organisational structure to reflect this. Metaphorically, we need to view organisations more as open systems that do not aim to

BOX 5.1

Tips for flexible workplace practices that attract and keep good staff

Long working hours, long commuting times, pressing deadlines, the stress of heavy workloads, and less time with the family can result in poor work-life balance for your staff. If you can negotiate amicable working arrangements with your staff it's a win/win situation. Consider these tips:

- Create a workplace where flexibility is available to everyone in the organisation from the receptionist to the CEO.
- Ensure any changes to working patterns are pre-approved by the Executive or Senior management.
- Establish ground rules and have transparency in all working arrangements.
- Develop guidelines to ensure that jobs being carried out away from the office meet company ethics and strategies e.g. where staff will be on a given day, consistency with how staff answer their phones, their expected work outputs and the like.
- Adopt a creative flexi-time policy. Depending on the position, an employee doesn't have to work the traditional 9-to-5 schedule. Allow staff who have long distances to commute to come in as early as 6 a.m. or as late as 10 a.m.
- Provide those staff who work from home with their 'tools of the trade' – mobile phones, laptop computers with access to the office network and files, wireless headsets, and the like.
- Provide communal hot-desks, for when these staff want or need to come into the office.

SOURCE: [Online] Available: http://203.47.48.16/?content=/channels/workplace_relations/performance_management/workplace_culture/20080122-tips-flexible-workplace-practices.xml, 4 July 2012.

own the human capital but to manage it. This means accepting and accommodating the movement of human resources into and out of the firm, often via capricious mechanisms such as informal networks, which are largely beyond the firm's control.¹³³ The trade-off for the loss of employees is the gain through knowledge flow that results from exchanges through opportunities to create new networks beyond the firm. Also there is evidence to suggest that people who are only weakly associated with the organisation can be the providers of new information.¹³⁴ Such weak associations could include peripheral organisational structures. These may range from sub-contracts or fixed-term appointments for specific projects, to encouraging 'core' staff actually to leave to develop themselves and allow new talent into the core organisation, thus developing a hybrid of the core-periphery model.

Increasingly the key issue for organisations is the management of these flexible

'distributed knowledge systems' or networks.¹³⁵ The ability to manage distributed systems of knowledge has become a major factor of production as well as a source of competitive advantage for firms in advanced economies (see Box 5.2).

What differentiates these practices from previous approaches is that competitive management practices depend upon generating relationships and knowledge through interactions with others outside the firm. Strategic advantage comes not just from the firm's internal flow of knowledge but in how the firm is able to tap into and use this internal flow of knowledge in conjunction with knowledge flows that occur outside the organisation (see Chapter 2 in this regard).¹³⁶⁻¹³⁷ This can result in a workplace that is team based, where (core) employees are varied and transient in both organisational status and time relationships and management engages more in leveraging their resource than in managing

BOX 5.2

Cisco study finds telecommuting significantly increases employee productivity, work-life flexibility and job satisfaction

SAN JOSE, CA. (Marketwire – June 26, 2009) – Today, Cisco (NASDAQ: CSCO) announced the findings of its Teleworker Survey, an in-depth study of almost 2 000 company employees. The study, conducted to evaluate the social, economic and environmental impacts associated with telecommuting at Cisco, revealed that a majority of respondents experienced a significant increase in work-life flexibility, productivity and overall satisfaction as a result of their ability to work remotely.

As the modern workforce continues to evolve and globalise, more companies are evaluating a telecommuting strategy to save costs and lower carbon emissions as well as to retain top talent. For these companies, Cisco's survey highlights the gains that a sound telecommuting strategy provides for employees and employers alike.

Cisco is achieving new levels of efficiency and effectiveness by enabling people to work together no matter where they are located. In fact, according to Cisco's Internet Business Services Group, the company's global strategic consulting arm, the company has generated an estimated annual savings of \$277 million in productivity by allowing employees to telecommute and telework. Cisco anticipates that employees and employers will continue to see a rise in the benefits associated with telecommuting.

SOURCE: [Online] Available: http://newsroom.cisco.com/dlls/2009/prod_062609.html

them.¹³⁸ These patterns are increasing by being described as High-Involvement Work Systems.

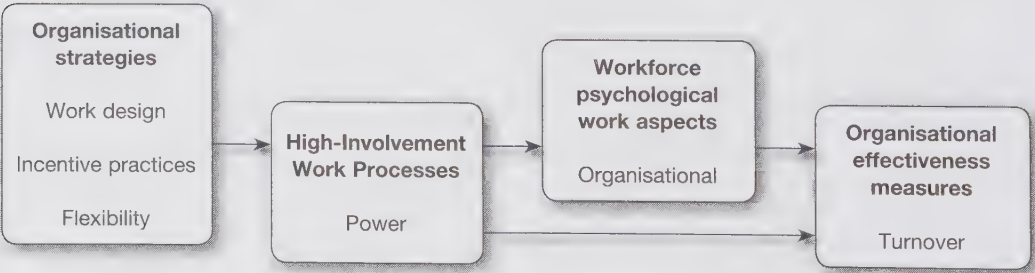
5.4.3 Contemporary flexibility – High-Involvement Work Systems

Reflecting the underlying philosophy of functional flexibility ‘High-Involvement Work Systems’ (HIWSs), facilitate the on-going development of the skills and flexibility of team members. At the leading edge of these HIWSs are ‘self-designing’ or ‘self-leading’ teams.¹³⁹⁻¹⁴⁰ The significant feature of these self-managed teams is that they are increasingly taking on work tasks that would traditionally be seen as supervisory and middle management in nature.¹⁴¹ Increasingly these teams are having influence over strategic decisions in terms of what the group actually does and why, rather than just how they undertake work.¹⁴² Within the team, work is allocated to the multi-skilled team members as whole tasks. These team members have substantial discretion over how the work is organised. The components of HIWSs have been articulated by Vandenberg, Richardson and Eastman¹⁴³ – see Figure 5.2 – their work builds on Lawer’s (1986) model of High Involvement, which is underpinned by issues associated with the dissemination of power, information, reward and knowledge in the workplace.¹⁴⁴

Whilst evidence of the success of HIWSs has been found in studies of the steelmaking, electronics and automobile industries, the development of these work patterns and practices bring with them their own demands. For example, research identifies that the HR implications of these initiatives, are also a critical dimension for success. HR systems need to reflect a high-commitment philosophy, in an environment characterised by continuous change and increased competition, where downsizing and off-shoring are always options, there needs to be a fit between human resource policies and practices to ensure the development of a relationship of high trust and commitment between employees and management.¹⁴⁵

As noted, management needs to recognise that the ability of a firm to acquire, integrate, and release resources is critical for a constant flow of knowledge from diverse sources within and beyond the boundaries of the organisation. The challenge for managers is to ensure alignment of the goals of these employees and the goals of the firm; this alignment may result in organisations allowing key employees to go wherever they can be most productive and even helping them depart for a better job. The rationale behind this somewhat counter-intuitive view is that in the age of information-intensive industries, no organisation can compete

Figure 5.2 Conceptual model of High-Involvement Work Systems



SOURCE: Adapted from VANDENBERG, R.J, RICHARDSON, H.A. & EASTMAN, L.J. (1999:307). The impact of high involvement work process on organizational effectiveness: A second-order talent variable approach. *Group and Organizational Management*, 24(3):300-339. Copyright © 1999 by SAGE Publications. Reprinted by permission of SAGE Publications.

BOX 5.3***Flexibility – key in employee retention strategy*****There's more to keeping good workers than just cash**

By Sharon Adams – *Business Edge*

Published: 07/20/2006 – Vol 6, No. 15

With pay packets expanding due to worker and talent shortages, businesses of every size are wondering how they'll keep their employees without breaking the corporate bank. 'Money talks', says John Tompkins, principal and senior benefits consultant with Toronto's Hewitt Associates, a global human resources services company. But it's only one of many factors that attracts employees and builds loyalty, he adds

'Most people move for reasons other than money', says Michael Stern of Michael Stern Associates Inc., an executive search firm in Toronto. Often employees leave because they feel underappreciated, their contributions unrecognised.

There are many ways to show appreciation and recognise contributions other than with huge wage increases.

That's good news for small and medium businesses, which employ 80% of Canadian workers and create 85% of new jobs. And also for big businesses that often have less salary elasticity than perceived.

But before rushing in to make changes, it's a good idea to take stock first, say these two experts, then tailor benefits to fit your workforce.

Stern advises identifying the keepers – 'employees you'd be devastated to lose'.

Then determine the risk of losing them. Every company has 'an employee who will move at the drop of a hat, the very loyal employee you've got for life and the influenceable employee', Stern notes.

Smart employers know they won't have much long-term success with employees in the first category and concentrate their efforts and resources on the keepers who might be influenced. What you can do to influence them to stay depends on the stage of their career, says Tompkins.

'There is no one-size-fits all solution', he says, adding what may be seen as a wonderful benefit to one group will just be a burden to another.

The notion of treating all employees equally is old hat. The new buzz is about flexible benefits – a tailored menu of choices covering everything from work weeks to working hours, paid and unpaid sabbaticals and time for charitable work, fitness facilities or memberships or credits and even office concierge service.

Even once-universal dental plans and extended health-care benefits are moving to the optional column.

Three-quarters of Canadian employers are having trouble attracting or retaining employees, according to the results of Attracting and Retaining the New Workforce, a new Hewitt Associates online survey of 232 Canadian employers of all sizes and many sectors representing 582 717 workers.

Nearly 45% 'fess up to having problems with both. Tailoring benefits to meet employees' needs and desires is the latest strategy for competing for a dwindling resource – enthusiastic employees. Now 38% of employers offer flexible benefits, but 64% of them expect to be offering such benefits in just three years.

Flex work and work-life balance were identified as having the most impact on attracting and retaining employees by 23% of employers responding to the Hewitt survey. Flex hours and a compressed workweek were cited by 17%; pension and retirement savings by 12%; and health-care benefits by 11%.

Only six per cent of employers said money or additional time off would have the most effect.

Offering flexible benefits means all employees are not going to be treated equally, says Stern. 'You want to make sure the rewards are rewarding for the people you're giving them to.'

To tailor benefits, says Tompkins, consider the needs of the various generations of employees.

'Employers were spoiled by the huge pool of Baby Boomers who already had work experience', said Tompkins.

'But the pool is starting to dry up and the next generation does not have the same work ethic'.

Succeeding generations won't put as much value on current benefits menus.

'Boomers may appreciate dental coverage and health benefits', says Tompkins. 'But Gen-Xers may value cash more highly – so long as there's flexibility for them to opt into the health plans later'.

Consider the whole range of employees – from those just coming in the door to those about to go out.

'Veterans, aged 60 and over, work hard, pay their dues and have a lot of institutional knowledge. The challenge is how to get them to continue past retirement, or how to bring them back after they retire', says Tompkins. Phased retirement, post-retirement contracts and mentoring programmes might appeal.

Baby Boomers, aged 40 to 60, are at or nearing the peak of their careers, says Tompkins. 'They're asking where they're going to be in 10 to 15 years', he notes.

Giving back to the community is also becoming more important to them. Benefits that might attract this group are paid or unpaid sabbaticals, paid and unpaid time for community work, matching charitable contributions or a shortened work week.

'Employers may initially think this is costly', says Tompkins, but employees of this generation have a strong work ethic and are likely to make up the time elsewhere.

Offering the time 'sends a message to the employee – but also sends out a message that the employer cares and has community values'.

Gen-Xers aged 26 to 40 'are starting to build their careers now and they want stuff fast. They have a short attention span', says Tompkins.

Employers will retain these employees by appealing to their need for variety and different opportunities. They might appreciate opportunities to job-share, to work from home or help buying a home computer.

Employees who are 25 and under, Gen Y, are just starting out and have many competing opportunities.

'The challenge is to attract them', notes Tompkins, Increasing on-campus recruitment is one means. And talking about the whole package – compensation, and paid benefits, lifestyle benefits and company values, is also important.

Appreciating employees begins with communicating with them. Loyalty is affected when people feel out of the loop, says Stern.

He cites examples of an employee who learns about a management grooming plan only after giving notice, and a senior management team criticised by a new CEO for lacking commitment to company goals, when they were never told what the goals were.

'When approached with other opportunities, they'll jump if they don't feel appreciated, recognised or believe they have a future with the organisation', says Stern.

And don't forget the value of informal bonuses, such as recognising when someone has gone the extra mile and needs a day off – with pay.

'Managers who say they can't really do things like that because it will affect productivity don't understand perks like the occasional extra day off result in an employee coming back pumped and more productive', Stern adds.

'If you want individuals who are loyal and supportive and go the extra mile, they have to know what they're supporting. They need to know that their job is important to the overall product and success of the company. Then they'll support the company in good and bad times'.

And won't be tempted when someone else offers them a little extra money.

without access to information from other organisations.¹⁴⁶ Ex-employees join other information networks in their new employment, but still retain links with their former networks and can channel new information into those networks.¹⁴⁷ Increasingly the challenge for managing flexible patterns of work will be to strike a balance between maintaining the stock of intellectual capital and absorbing and exchanging new knowledge and employees through external networks.¹⁴⁸ This will continually affect the structure of organisations and, as a consequence, the way in which organisations manage the employment relationship. This draws attention to the impact of management's ability to derive competitive advantage from continually developing and exploiting both its knowledge stock and knowledge flows (see Box 5.3).

5.4.4 New perspectives – flexible workers need flexible managers

One of the most overlooked aspects of flexible patterns of work in this 'new' environment is the role and development of management. As Davenport and Prusak¹⁴⁹ have noted, the most dramatic improvements in knowledge-management capability will be

human and managerial. The development of fluid organisations through informal and intuitive patterns of work needs a management base that has the skill to acquire, transform, and exploit knowledge. Management must have the leadership skills to harness new practices; shed old habits such as hierarchy, culture, and power; and empower continual change.^{150–151}

These new capabilities can be developed only where management understands this and has the skills and knowledge to create such an environment. Addressing these issues requires the skill to make decisions about skill gaps and inform training and development requirements. It can also be linked to career management, which may facilitate and encourage staff to leave to gain more experience, whilst maintaining ties with the organisation or returning to the organisation in the future, with increased knowledge. As Kamoche and Mueller¹⁵² have argued, this may make the organisation an attractive place to work – or in contemporary language, an employer of choice – that can attract high-quality knowledge workers because of its positive reputation, underpinned by sophisticated policies on employment.

Research by MacDonald¹⁵³ on head-hunting practices for knowledge workers in the USA found that organisations that had developed a culture which encouraged employees to see their organisation as a supportive platform for advancing elsewhere, and for returning when opportunities become available, were likely to facilitate the growth of knowledge stocks within the firm. More recent Australian research has supported this, with Holland, Hecker, and Steen¹⁵⁴ finding that a medium-sized firm was able to attract employees by adopting such policies as employee mobility, training, development, and career management.

As Scarbrough, Swan, and Preston¹⁵⁵ note:

It is significant, for example, that consultancies and other knowledge-intensive organisations do not strive for maximum levels of staff retention. Such firms might see a turnover level around 15–18% as desirable, to be achieved if necessary by ‘counselling out.’ This allows a reasonable number of career opportunities and a continuous influx of fresh talent.

SOURCE: SCARBROUGH, H., SWAN, J. & PRESTON, J. 1999. *Knowledge management: A review of the literature*. London: Institute of Personnel and Development:18.

Thus it is management that acts as the catalyst in the through-flow of staff to enable the organisation continually to regenerate its knowledge base.¹⁵⁶

Therefore, management skills and appreciation are central to understanding the unique and critical issues these new flexible patterns of work raise. This being

so, it is important that organisations invest resources in these employees; this investment is necessary to ensure that they continue to develop their knowledge, skill, and ability, so as to make certain that the organisation develops sustained competitive advantage through their human resources.

5.5 Advantages and disadvantages of flexible patterns of work

Much research and debate has surrounded the development of flexible patterns of work; however, less attention has been paid to the outcomes of these work patterns and practices. Emmott and Hutchinson^{157–160} have attempted to address this omission by identifying the advantages and disadvantages (both real and potential) of flexible patterns of work.

5.5.1 The employer perspective on flexible patterns of work

The perceived advantages for employers in developing flexible patterns of work are that they:

- Enable employers to match organisational resources more closely with customer demand and product demand
- Reduce fixed costs (e.g. homeworkers do not require office space)
- Aid recruitment and retention
- Increase productivity – those working for a reduced period of time are likely to be less tired and stressed
- Reduce absence and turnover.

The most important factor for management in the adoption of flexible patterns of work is the ability to respond quickly to market demands with minimum disruption. This may take the form of moving employees from one job to another, or adjusting the level of human resources in response to fluctuation or changes in demand, as the market

dictates. The use of homeworkers or telecommuters, and outsourcing or offshoring (see Chapter 1), where the place of work is incidental to the requirements of the job or where office space is at a premium, can provide substantial cost savings.

Flexible work patterns also allow the employer to cover changes in work requirements, as and when required, by integrating the various types of flexibility. Again, the ability to change the structure of the workforce or work patterns with minimal disruption is a key to efficient and effective utilisation of the available human resources. These work patterns can aid recruitment and retention by providing employees with employment opportunities that suit their requirements. These opportunities may have otherwise been unavailable because of other commitments (we shall discuss this later). In terms of productivity, the obvious problems of fatigue associated with working for long periods have been well documented in the literature on occupational health and safety.¹⁶⁰⁻¹⁶¹ Therefore, the attraction of reduced periods of work is an overall increase in productivity and shorter recovery time. In jobs that are repetitive or require high levels of mental alertness, the advantages are clear.¹⁶²

For employers, the main disadvantages of flexible patterns of work include:

- Increased costs of training
- Higher direct costs (e.g. part-timers who receive pro-rata benefits)
- Administration that is more complex
- Communication difficulties
- The required management of the flexible workforce.

Development of these work patterns requires significant and long-term investment on the part of the organisation in ongoing training and development, in order to create and maintain the required skills, knowledge, and expertise.¹⁶³ These increased costs, combined with the more complex

administration associated with managing these work patterns and the new (tenuous) psychological contract of gold-collar workers with the organisation, may diminish the perceived competitive advantage in developing flexibility to the extent that it is no longer a viable option. Multiple patterns of work and shifts may result in managers and employees not necessarily working at the same time for extended periods. This creates the potential for communication breakdowns.¹⁶⁴ Equally, the increased use of telecommuting and the use of virtual teams provide their own difficulties.

Finally, management of the flexible workforce requires a significant increase in planning and coordination and the support of senior management, if these patterns of work are to provide the organisation with a competitive advantage. Management also needs to develop a peripheral labour supply which can be 'plugged-in' with minimal disruption to the production process, or provide specialist skills. Management also needs to manage the variable nature of the employment relationship and the changing demands on internal and external labour, so as to retain and maintain these resources. For example, temporary employment could be used as an opportunity or prerequisite for a permanent position.¹⁶⁵ For the multi-skilled workforce there must be opportunities to use the skills developed to ensure they are maintained at a satisfactory level.

Where the task requires the bringing together of workers of differing backgrounds and terms and conditions, there is the potential for tension and commitment problems to develop. As Geary identified, using both permanent and temporary staff working closely together led to frequent problems and animosity between the groups.

He elaborated:¹⁶⁶

In one instance, the tension between temporary and permanent employees was of such a degree that it compelled the supervisor to stop production for an afternoon so that she could take employees off the shop floor to resolve the differences.

SOURCE: GEARY, J. 1992. Employment flexibility and human resource management. *Work, employment and society*, 6(2):251–270:259.

Geary¹⁶⁷ also noted that similar conflict elsewhere in the plant required the supervisors to spend increasing amounts of time in a close supervisory role, distracting them from their other roles and creating an atmosphere of mistrust. In addition, the ad hoc nature of the recruitment of temporary workers caused problems for supervisors, who complained of the quality and attitude of these employees, also citing an increasing sense of diminished control over the workforce. This case illustrates some of the potential difficulties in managing flexibility.

5.5.2 The employee perspective on flexible patterns of work

The main advantages for employees associated with flexible work patterns include:

- The ability to combine work with outside interests (e.g. career responsibilities or hobbies)
- Greater satisfaction with the job
- Improved motivation
- Less tiredness.

Flexibility can provide the opportunity to combine work with outside activities (which typically implies family commitments). This allows employees to maintain a presence in the workforce, which may not have otherwise been possible.¹⁶⁸ In addition, the increase in part-time work and flexible

career paths, and the development of portfolio careers, allows employees to develop the right balance of work, career development, and outside commitments.

Greater satisfaction with the job and improved motivation are associated with employees who have the opportunity to develop their skill range (multi-skilling). The intrinsic opportunity to develop skills by undertaking a wider range of tasks and responsibilities fits in with the theories that underpin the motivational aspects of job design. It may also provide satisfaction for peripheral employees, as it provides them with the appropriate mix of work commitments and outside interests.

The major negative implications of flexible patterns of work for employees include:

- Unequal treatment in terms of pay and benefits
- Reduced opportunities in terms of careers
- Limited opportunities for training
- The challenge to the 'psychological contract'
- Increased insecurity of jobs
- Increased stress.

To facilitate the development and the advantages of flexible patterns of work, the employment relationship is likely to be based upon a variation in terms and conditions, as the workforce becomes less uniform. The minimal obligation that the organisation has to the peripheral workforce may mean that their terms, conditions, and employment opportunities are significantly less favourable than those of the full-time, core workforce, despite the fact that they may do work demanding similar skills. These employees provide qualitative flexibility, therefore the very nature of this relationship places less obligation on the employer to invest in their training or development. They are therefore likely to be caught in a permanent pool of low-skilled workers with little opportunity to acquire new skills. For those employees on fixed-term contracts, casual or part-time

work, the lack of entitlements, job insecurity, and increased stress go hand in hand with almost non-existent career prospects.

For multi-skilled employees, flexibility is generally interpreted as a skill formation and enhancement process, which provides the employee with relevant and up-to-date skills and therefore increased opportunity to progress within the organisation.¹⁶⁹ Critics point to the de-skilling and work-intensification aspects of the downward enlargement of job profiles which fall within the umbrella term of multi-skilling.¹⁷⁰⁻¹⁷⁴ Employees in this context provide efficiencies through cost-cutting rather than skill development. In an era of increasing shortages of skills, this approach may cause significant recruitment and retention problems.

The development of multi-skilling, which by its nature requires employees to increase their range of tasks, combined with the elimination of work restrictions, offers the employer the opportunity to do more with fewer employees, thereby increasing the potential for job insecurity. In addition, the constant change in work demands requires a continual reassessment and renegotiation of the employment relationship. This redefining of role or position of an employee with the organisation can undermine the relationship between the employee and employer. Combined with the increase in stress and potential for job insecurity, these patterns of work can threaten the security of the very employees for whom flexibility was intended as an enhancement.¹⁷⁵

SUMMARY

This chapter discusses how the development of flexible work patterns requires a shift in approach in the management of human resources to ensure that organisations use and maintain these work patterns to their full potential. The variable nature of the employment relationship with regard to terms and conditions, and the changing demands in an era of skill shortages, requires HR managers to have the prerequisite skills and understanding to balance the changing requirements quickly and with minimal disruption. For example, where an organisation is seeking to develop internal flexibility it must ensure that it provides the training and development required to facilitate such changes. Where it brings a team together from the internal and external environment, management should ensure that terms and conditions are not so different that they create tension or motivation problems and commitment problems. However, these concerns also have to be considered and balanced within the context of attracting and retaining core employees who are highly skilled, in labour markets of skill shortages and strong competition (see *The War for Talent* – Chapter 6).

The development of these various forms of flexibility requires management to plan and be able to use these different work patterns on demand – this requires management to develop a strategic approach to labour requirements and to have the requisite skills to undertake this task. This may mean the development of a pool of subcontractors or part-time employees, who are available as and when required to maximise the utilisation of organisational resources. In addition, the development of such work practices requires the development of a participative and consensual style of management to support, rather than direct, an increasingly skilled workforce in a complex and dynamic environment.

From a senior-management perspective, Pettinger has identified several key themes to ensure the successful implementation, development, and maintenance of flexible patterns of work.¹⁷⁶

- A long-term commitment to creating the necessary environment and conditions supported and resourced by top management
- A long-term view of the results desired; these do not happen overnight, and the benefits may not be apparent for months or, even, years
- A long-term commitment to creating the required skills, knowledge, attitudes, behaviour, and expertise, including training programmes.

The key model that has been developed to assist in the development of flexible patterns of work is the Institute for Employment Studies's core-periphery model or flexible-firm model. This model has attracted wide attention and criticism; however the core-periphery model has been acknowledged as a framework and a benchmark upon which organisations can draw to develop their own particular 'flexible firm', suited to localised products, markets, and workforces. To facilitate this approach to labour utilisation, there is a need for procedural changes in work practices, in particular the restrictions associated with lines of demarcation, a (re)combination of jobs, and the provision of mechanisms to support and encourage these changes, such as training and development.

Despite the controversy and criticism that surround the area of flexibility, the growing literature on the subject cannot be dismissed. In the same vein, Harvey notes¹⁷⁷ the following: 'The evidence for increased flexibility throughout the capitalist world is simply overwhelming. ... The argument that there is an acute danger of underestimating the significance of any trend towards flexibility ... stares most workers in the face.'

This chapter has explained that the emerging patterns of flexibility are wide and varied. It has noted that, despite this, research suggests that organisations are increasingly adopting the integrative development of multiple forms of flexible patterns of work. Organisations do this to enhance their effectiveness through more efficient utilisation of resources in response to an increasingly turbulent and competitive environment.

KEY CONCEPTS

- | | |
|--|--|
| <ul style="list-style-type: none"> ■ Cognitive flexibility ■ Contractual flexibility ■ Distancing ■ Financial flexibility ■ Flex zones ■ Flexibility ■ Flexible firm ■ Flexible patterns of work ■ Flexible specialisation ■ Functional flexibility ■ Gold-collar workers ■ High-Involvement Work System | <ul style="list-style-type: none"> ■ Internal numerical flexibility ■ Job sharing ■ Location flexibility ■ Mobility flexibility ■ Multi-skilling ■ Numerical flexibility ■ Organisational flexibility ■ Procedural flexibility ■ Regulatory flexibility ■ Virtual flexibility ■ Work-time flexibility |
|--|--|

CASE STUDY

Objective: To understand the important role flexible work practices can play within an organisation.

Flexibility at ComputerCo

The rapid development of the information technology industry has resulted in significant skill shortages in many AMEs. The ability to develop and retain key IT staff is a major human resource management issue. The alternate for many organisations is the loss of key staff, intellectual capital and market share. The following case study examines flexible work patterns and policies developed as a strategy of innovative work organisation and job design to firstly retain and secondly attract key IT staff.

ComputerCo is a leading supplier of networking IT, providing support applications for the development of e-business, employing over 200 staff. ComputerCo identified the issue of attracting and retaining its IT staff as a major problem. Whilst the average turnover was high in this sector, around 10%, ComputerCo was experiencing turnover of over 15%. After surveying their staff, the major finding linked to developing and retaining its key core talent, was the understanding that they required a challenging and stimulating work environment in which to develop their skills.

A clear division emerged from the survey of the requirements of ComputerCo's IT staff. They were either looking to develop their skills as (internal) project managers or (external) self-employed contractors. The key challenge for ComputerCo was that as a small to medium sized company it was not able to provide a continuous range of project management roles in-house and could not afford to lose employees who wanted to move into contracting. The key paradigm shift for ComputerCo to address the critical issue was to see itself as the core of a network with its customers and suppliers. In doing so it increased the opportunities it could provide its workforce with a variety of work patterns opportunities.

In response to the project management problem, ComputerCo developed a partnering programme with its network of distributors and customers. This approach had the dual effect of providing partners with the appropriate skilled staff to project manage on-site while at the same time providing these staff with ongoing (higher order) career and skill development. From an organisational perspective it also allowed for growth and retention of knowledge of these core knowledge workers, whilst enhancing the skills and ability of this critical human resource.

For those employees wanting to become independent contractors, ComputerCo embraced this by helping them set up autonomously as contractors and then contracting their services back to the organisation. The employee is guaranteed work and ComputerCo, enables these employees to remain working for the organisation without the on-costs associated with full-time employees. As noted, to facilitate the development of these new work patterns and practices the organisation restructured its approach to the organisation of work. The success of these work design strategies is reflected in the turnover of IT staff – around 5%, down from 15%.

The achievements of this programme have resulted in the organisation including it as a strategy in its recruitment and selection process. In particular ComputerCo has identified a series of high performance competencies that can deliver success at entry-level positions. These include customer service, problem solving, communication skills, team working and project management. In terms of the developmental side of this approach, ComputerCo has initiated management learning and development programmes that provide more senior IT staff with the skills to advance their career paths into middle and senior level management. As one manager noted:

'IT professionals need to have business, communication and leadership skills in order to fully understand their clients' mission statements and the role technology plays in meeting corporate goals and objectives. As an industry, we need to do a better job of teaching our people these skills because they are the fundamental building blocks for successful organisations. Those who ignore them are likely to fail'.

Questions and activities

1. Critically analyse the above case identifying the key features that makes this approach to job and work organisation so successful.
2. Does this approach reflect the flexible firm model? Why/why not?

SOURCE: BOHLANDER, G. 1996. Firm's diversity efforts even the playing field. *Personnel Journal*. January:56 (In SHERMAN, A., BOHLANDER, G. & SNELL, S. 1996. *Managing human resources*, 11th ed. Cincinnati, Ohio: South-Western Publishing (An ITP Company):35-36). Used with permission.

REVIEW QUESTIONS AND ACTIVITIES

1. A major goal implicit in the idea of flexible labour is to render HRM as a strategic activity. By this is meant a multifold process involving a number of issues. Discuss briefly.
2. Explain the major differences between numerical flexibility and functional flexibility.
3. Explain the major differences between financial flexibility and procedural flexibility.
4. What are the key advantages and disadvantages of flexible patterns of work from the employer's perspective?
5. What are the key advantages and disadvantages of flexible patterns of work from an employee's perspective?
6. Briefly discuss why is it important to develop and manage flexible patterns of work.
7. List ten organisational and management practices organisations can use to determine whether they are ready for flex work.
8. Briefly outline the flexible-firm model, including a discussion of its merits and criticisms.
9. List the characteristics of the gold-collar worker and discuss how this new type of employee affects organisational flexibility.
10. Write a short essay on flexibility.

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WEBSITES

- <http://ccs.mit.edu/21C/WP004.html>
 – If flexible working arrangements of various sorts become even more common the final answer to the challenges raised by flexible employment patterns

- www.net-aspect.com/Flexi-time-product.aspx
 – A flexible work pattern within a company allows employees the freedom of an alternate work schedule that better fits their lives
- www.hse.gov.uk/horizons/precwkrreport.pdf
 – Flexible working patterns offer benefits to both employers and employees. ... adoption of flexible work and employment patterns may also pose potential
- www.callcentrehelper.com/top-tips-on-flexible-shift-patterns.10958.htm
 – Flexible shift patterns should work well for any call centre. The easiest to manage should be for early and late starters
- www.washington.edu/admin/hr/roles/mgr/flexwork/flexschedindex.html
 – Flexible work arrangements at the University of Washington
- www.hr.upenn.edu/quality/worklife/flexoptions/training.asp
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Talent management - An HR challenge

6

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Define the concept 'talent'
- Discuss the changing dynamics of the workplace in the twenty-first century facilitating an increased emphasis on talent management
- List the five key areas to make talent a source of competitive advantage
- Discuss the reasons for the perceived increasing shortages of skills
- Discuss strategies for dealing with the 'war for talent'

PURPOSE

The purpose of this chapter is to introduce you to the concept of talent management.

CHAPTER OVERVIEW

This chapter begins by exploring the changing dynamics of the workplace in the twenty-first century. It then looks at two issues, namely human capital theory and the resource-based view (RBV) of the company (we first discussed the RBV in Chapter 2). Thereafter it explores talent management and the reasons for the increasing worldwide shortages of skills. It finally takes a look at the building of a new paradigm to make talent a source of competitive advantage and discusses strategies for dealing with the 'war for talent'. The concluding case study illustrates how the theory contained in this chapter can be applied to a practical situation.

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

Introduction

In the first decade of the twenty-first century there is a growing recognition of the changing nature of the employment relationship.¹ The production base of advanced economies is evolving from having an industrial focus to having a focus on service and knowledge. This has contributed to a shift in the nature of work, and an increasing recognition of the individual employee as the primary source of competitiveness² (see Chapter 2). As a result of this focus on the employee, the HR function has the potential to assume an increasingly critical and dynamic role in generating a sustainable competitive advantage through people by focusing on the development of diverse policies, practices, and systems to attract, retain, and develop these key resources.³

The recognition of the role of HR has come at a time of major change in the nature of the labour market. Increasing shortages of skills in many advanced economies, combined with a generation of workers focused on employability rather than employment, have been the catalyst for a shift away from the traditional employer–employee relationship, and created a major change in the balance of power in this relationship even with the advent of the global financial crisis (GFC).⁴ In addition, declining birth rates in most countries over the last two decades have increased, and will continue to affect, the growing shortage in labour and skills – a shortage which is only now starting to become apparent.⁵ Although, as both Cappelli⁶ and Critchley⁷ argue, this may be more to do with contemporary employment and retirement trends than demographic issues associated with growing shortages in labour and skills. Despite the differing perspective, it is clear that in this emerging world of work, if organisations are to remain competitive, the management of talented employees will be a key focus and fundamentally different to the latter half of the

twentieth century.⁸ This chapter explores the HRM trends and issues arising from the new perspective associated with acquiring and retaining human resources to build a sustained competitive advantage – also known as talent management.

6.1 Attraction and retention – a theoretical perspective

In recent years, the attraction and retention of employees have become increasingly significant aspects of contemporary HRM. A review of the literature reveals two theoretical perspectives which provide a framework for analysing the strategic approach associated with the long-term development of the organisation's human resources.⁹ The first is human capital theory, which links investment in the organisation's key asset, its employees, to increased productivity and sustained competitive advantage.¹⁰ The strategic aspect is the long-term enhancement of the firm's resource base by linking employees' skill development with retention through training and development, career management, and progression.¹¹ This is also consistent with the second theoretical perspective, the RBV of the firm¹² (see Chapter 2). The focus of the RBV is on an organisation retaining and developing these human resources through investments such as human resource development (HRD) strategies. This retention and development will ensure that these assets become valuable, rare, and difficult to imitate, enhancing further the organisation's competitive advantage.¹³ Many scholars have adopted these theoretical approaches in interpreting the essential elements in building a sustained competitive advantage.¹⁴

It is possible to link the strategic focus on the management and development of human resources to the deliberate promotion of HRD strategies as a catalyst for the attraction and retention of talented employees. This has led to an increased focus on HRM as a platform for building a

competitive advantage. A critical element is the strategic development of diverse strategies for staff enhancement and development as important tools for both attraction and retention. Organisations taking the strategic course will seek a long-term and diverse approach to managing and investing in their human resources, to ensure that appropriate training and development are available to all employees.

The management of learning and knowledge within organisations is an ever more complex role for HRM in the creation of a competitive advantage – a theme which is increasingly reflected in the literature.¹⁵ In a dynamic environment, this means that the organisations must commit resources to develop a diverse and adaptive approach, to ensure that each area within the organisation has access to appropriate levels of training and development to meet diverse organisational objectives.

6.2 Talent management and the demographic time-bomb

Talent management, which involves the cooperation and communication of managers at all levels, has become an imperative in the face of today's business challenges. In addition, talent-management processes must be more strategic, connected, and broad-based than ever before. Talent-management processes include workforce planning, talent-gap analysis, recruitment, selection, education and development, retention, talent reviews, succession planning, and evaluation (see Figure 1.4 in Chapter 1 as well as Figure 6.1 below). To drive performance, deal with an increasingly rapid pace of change, and create sustainable success, a company must integrate and align these processes with its business strategies. By assessing available talent and placing the right people in the right place at the right time,

Figure 6.1 Talent-management system



SOURCE: ELKELES, T. & PHILLIPS, J. 2007. *The chief learning officer: Driving value within a changing organisation through learning and development*. Oxford: Butterworth-Heinemann, an imprint of Taylor & Francis:234.

companies can survive and thrive in today's increasingly competitive environment.¹⁶

In attempting to quantify talent, Michaels, Handfield-Jones, and Axelrod¹⁷ have argued in its broadest sense that, 'Talent is the sum of the person's abilities – his or her intrinsic gifts, skills, knowledge, experience, intelligence, judgement, attitude, character and drive. It also includes his or her ability to learn and grow.'

Talent management has become increasingly important in the more industrialised economies over the last two decades for a variety of reasons. Over the second half of the twentieth century, population trends across most industrialised countries revealed almost static populations and declining birth rates.¹⁸ This has generated growing concern for the long-term supply of labour in the market as the first wave of baby boomers reaches retirement age. For the foreseeable future, under current strategies for employment, more people will be leaving the workforce than joining it.¹⁹

A global study by the Boston Consulting Group (BCG)²⁰ in 2003 estimated a shortfall in skilled labour worldwide of the order of 60 million by 2020. The USA will face a labour shortage of 17 million; Japan, 9 million; China, 10 million; Russia, 6 million; Germany, 3 million; France, 3 million; Spain, 3 million; and the UK, 2 million.

Research by McKinsey & Co. – entitled *The war for talent* and involving 77 companies and almost 6 000 managers and executives in the USA – highlighted the importance of the coming skill-shortage crisis. The report identified that the principal corporate resource over the next 20 years will be talent, which, due to identified demographic changes, will become increasingly difficult to find.¹ The research recommended a fundamental change in organisations' HR practices, including finding more imaginative ways to attract and retain this talent. The report also identified that 75% of organisations in the survey either did not have enough talent or

were chronically short of talent. This shortage was highlighted by another survey undertaken in 2006, by staffing service provider Manpower Inc. The *Talent Shortage Survey* of nearly 33 000 employers across 23 countries and territories found major shortages in:²²

1. Sales representatives
2. Engineers
3. Technicians (primarily production and operations, engineering, and maintenance)
4. Production operators
5. Skilled manual trades (primarily carpenters, welders, and plumbers)
6. IT staff (primarily programmers and developers)
7. Administrative and personal assistants
8. Drivers
9. Accountants
10. Management and executives.

These scenarios, however, have been challenged. Both Cappelli²³ and Critchley,²⁴ for example, have acknowledged the changing demographics but argue that the critical flaws in the scenarios suggested above are that they assume employment strategies and relationships will not adapt accordingly.

As Cappelli argues:²⁵

Many of the studies that foresee labour shortages in the future assume retirement patterns will be unchanged, and that people will retire at the same age even as life expectancy and the ability to work longer go up ... Surely this is unrealistic for no other reason than financial resources for retirement may not allow it.

SOURCE: CAPPELLI, P. 2005. Will there really be a labor shortage? (In LOSEY, M., MEISINGER, S. & ULRICH, D. *The future of human resource management*, Virginia: Wiley & Sons:5–14.)

This is also supported by Critchley,²⁶ who argues for a fundamental rethink in the nature of employment. He argues that:

- Firstly, the retirement concept in advanced economies and re-engagement of the post-50 age group or sector of the workforce needs to be re-examined.
- Secondly, policies need to be developed to attract and retain a multi-generational workforce.

What the McKinsey report and others, including Cappelli and Critchley, do agree

upon is the need for more creative HR practices to attract and retain talented employees. In this context, the McKinsey report highlighted the changing psychological contract within the employment relationship, noting that employees will look for employability not employment, as we mentioned earlier, and will want to change jobs often. Critchley²⁷ also argues that psychological contracts and engagement profiles will be substantially different for older workers. These trends indicate that organisations that are prepared to focus on attracting and

Table 6.1 The old and new business realities

The old reality	The new reality
People need companies	Companies need people
Machines, capital and geography are the competitive advantage	Talented people are the competitive advantage
Better talent makes some difference	Better talent makes a huge difference
Jobs are scarce	Talented people are scarce
Employees are loyal and jobs are secure	People are mobile and their commitment is short term
People accept the standard package they are offered	People demand much more

SOURCE: MICHAELS, E., HANDFIELD-JONES, H. & AXELROD, E. 2001. *The war for talent*. Boston, Mass.: Harvard Business Review Press:6. Copyright © 2001 by the Harvard Business Publishing Corporation.

Table 6.2 The old and the new ways of doing things

The old way	The new way
HR is responsible for people management	All managers, starting with the CEO, are accountable for strengthening their talent pool
We provide good pay and benefits	We shape our company, our jobs, even our strategy to appeal to talented people
Recruiting is like purchasing	Recruiting is like marketing
We think development happens in training	We fuel development primarily through stretch jobs, coaching and mentoring
We treat everyone the same and like to think that everyone is equally capable	We affirm all our people but invest differently in our A, B and C players

SOURCE: MICHAELS, E., HANDFIELD-JONES, H. & AXELROD, E. 2001. *The war for talent*. Boston, Mass.: Harvard Business Review Press:16. Copyright © 2001 by the Harvard Business Publishing Corporation.

developing talent will be in a stronger position to retain key human resources as the so-called war for talent intensifies. It is also clear that the way organisations seek to retain these highly skilled resources will have to change. This places human resources at the centre of policy and systems development to achieve outcomes that promote the organisation as an employer of choice for increasingly discerning (potential) employees. The structural changes driving the 'war for talent' are widespread across many of the more industrialised market economies. This creates what Michaels, Handfield-Jones, and Axelrod²⁸ describe as a 'new' business reality, in which management skills and ability to embrace a new mindset are critical (see Tables 6.1 and 6.2).

6.3 Building a new paradigm

Michaels, Handfield-Jones, and Axelrod²⁹ identified five key areas for organisations to act upon if they were going to make talent a source of competitive advantage. These were:

- Embrace a talent mindset
- Craft a winning employee value proposition
- Rebuild your recruitment strategy
- Weave development into your organisation
- Differentiate and affirm your people.

The following section discusses these key areas more fully.

6.3.1 Embrace a talent mindset

The McKinsey Group defines a talent mindset in holistic terms as follows:³⁰

A talent mindset is a deep-seated belief that having better talent at all levels is how you out-perform your competition. It's the belief

that better talent is a critical source of competitive advantage. It's the recognition that it is better talent that pulls all the other performance levers.

SOURCE: MICHAELS, E., HANDFIELD-JONES, H. & AXELROD, E. 2001. *The war for talent*. Boston, Mass.: Harvard Business Review Press:xi.

Whilst most organisations would like to see themselves in this context, many tend to adopt the old style of talent management, as indicated in Table 6.3.

A key element in the McKinsey report is that talent management is increasingly becoming an important role (if not the critical role) for the CEO – a role that cannot be delegated. In this context, the report's authors propose several key actions that leaders must take:³¹

- Get involved in people decisions
- Develop probing talent reviews
- Instil a talent-focused mindset within the organisation
- Invest real money in talent
- Be accountable for talent management.

As the issue of skill shortages intensifies, is this message starting to reach the top-management level of organisations?

6.3.2 Craft a winning employee value proposition (EVP)

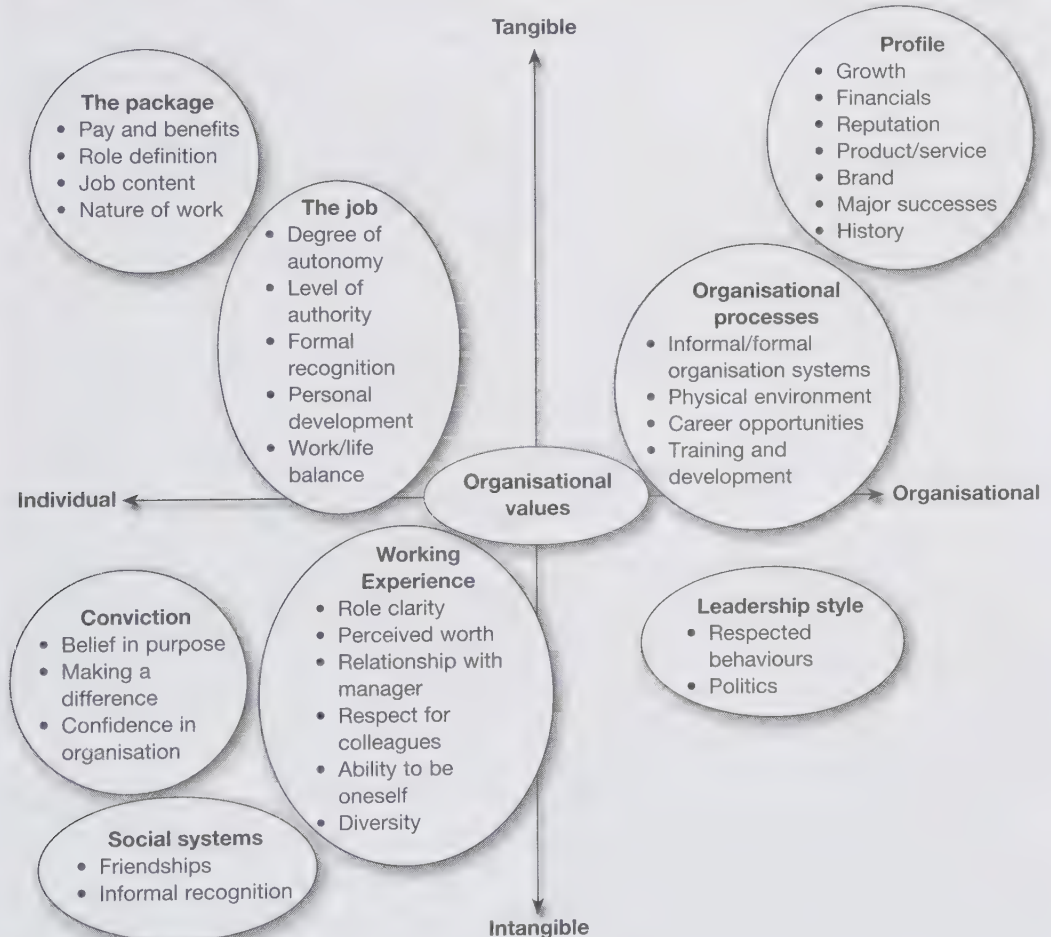
An EVP is everything an employee experiences within an organisation, including intrinsic and extrinsic satisfaction, values, ethics, and culture. It is also about how well the organisation fulfils the employees' needs, expectations and aspirations³² (see Figure 6.2).

Table 6.3 The old talent mindset versus the new talent mindset

Old talent mindset	New talent mindset
A vague notion that 'people are our most important asset'	A deep conviction that better talent leads to better corporate performance
HR is responsible for people management	All managers are accountable for strengthening their talent pool
We do a two-day succession planning exercise once a year	Talent management is a central part of how we run the company
I work with people I inherit	I take bold actions to build the talent pool I need

SOURCE: MICHAELS, E., HANDFIELD-JONES, H. & AXELROD, E. 2001. *The war for talent*. Boston: Mass.: Harvard Business Review Press:22. Copyright © 2001 by the Harvard Business Publishing Corporation.

Figure 6.2 The employee value proposition (EVP)



SOURCE: INGHAM, J. 2006. Closing the talent management gap. *Strategic HR Review*, 5(3):20. Copyright © 2006, Emerald Group Publishing Limited.

In their study, the McKinsey Group set out to determine what employees look for when making a decision on which company to join. As Table 6.4 illustrates, the items with a strong causal relationship with satisfaction were exciting work, development, great company, and wealth and rewards.

It is evident from the results in Table 6.4 that intrinsic factors such as having interesting, challenging work that one is passionate about are rated highly by employees when they consider the place of employment. These factors are followed closely by good culture, commitment, support, and career advancement. It is interesting to note that pay and wealth creation were in the bottom quartile, suggesting that extrinsic factors are not the main drivers in attracting and retaining talent.

6.3.3 Rebuild your recruitment strategy

When managers restructure a recruitment strategy, a critical issue is being able to

understand the new workforce. This means that even in downturns in the market, as we have just seen with the GFC, it is imperative that managers maintain a creative recruitment and selection strategy as the skill shortage is a long-term proposition. Only in this way will organisations continue to absorb new talent. In this context, McKinsey differentiates the new from old approaches to recruitment, as Table 6.5 shows.

In terms of attraction, along with the primary areas of recruitment and selection, values and ethics act as important sources of attraction as employees become increasingly discerning about their employers. Macken,³³ for example, notes the sophisticated use of blogs and websites by potential employees to find out about real organisational culture and values and points out that even organisations as large as Microsoft have expressed concern about internal bloggers and their effect on the future workforce and clients.

Table 6.4 What employees are looking for

Exciting work		Great company	
Interesting, challenging work	59%*	Company is well managed	48%
Work I feel passionate about	45%	Good relations with my boss	43%
Development		I like the culture and values	39%
Career advancement opportunities	37%	I trust senior management	39%
Long-term commitment to me	35%	Wealth and rewards	
Build skills to boost career	35%	Recognised, rewarded for my individual contribution	39%
Senior management commitment to me	30%	Substantial wealth creation opportunity	36%
High performance promoted	28%	High performers paid more	31%

*% of respondents who rate the item critical in their decision of which company to join or stay with

SOURCE: MICHAELS, E., HANDFIELD-JONES, H. & AXELROD, E. 2001. *The war for talent*. Boston, Mass.: Harvard Business Review Press:45. Copyright © 2001 by the Harvard Business Publishing Corporation. *What Managers are looking for in:* McKinsey & Company's War For Talent 2000 Survey, middle and senior managers. Reprinted by permission of Harvard Business Review Press.

Table 6.5 The old recruiting strategies versus the new recruiting strategies

Old recruiting strategies	New recruiting strategies
Grow your own talent	Pump talent in at all levels
Recruit for vacant positions	Hunt for talent all the time
Go to a few traditional sources	Tap many diverse pools of talent
Advertise to job hunters	Find ways to reach passive candidates
Specify a compensation range and stay within it	Break the compensation rules to get the candidates you want
Recruiting is about screening	Recruiting is about selling as well as screening
Hire as needed with no overall plan	Develop a recruiting strategy for each type of talent

SOURCE: MICHAELS, E., HANDFIELD-JONES, H. & AXELROD, E. 2001. *The war for talent*. Boston, Mass.: Harvard Business Review Press:70. Copyright © 2001 by the Harvard Business Publishing Corporation.

Sheahan³⁴ observes on this issue:

Increased 'consciousness' and 'awareness' ... have a serious effect on the way organisations are perceived in the talent marketplace. If you have questionable business practices, do serious damage to the environment, and create negative social consequences through the operation of your business, you will be black-marked by talented people. They will not only boycott the products of such companies, they won't want to work for them either.

SOURCE: SHEAHAN, P. 2005. *Generation Y: Thriving and surviving with Generation Y at work*. Prahran: Hardie Grant Books:28.

Research undertaken by the recruitment agency Talent2 reinforces this point. A survey of 527 people on web-related employment revealed that:

- Most job hunters (73%) always use an internet search engine to find

information about the boss and the company

- Most job hunters (72%) stated that the information obtained from searches has a bearing on the interview and a bearing on whether they decide to take the job
- A high proportion (86%) of respondents indicated that this investigation allowed them to ask more job-related questions before accepting the position.³⁵

In fact, some of these features have been noted in articles appearing in the business press.

For example:³⁶

The advertisement shows a young man with long hair, hippie beads and casual pants at the edge of a beach. He looks ecstatic as he embraces the sea breeze under the heading 'Are you looking for a lifestyle change?' Coke's new campaign? A shot from *Survivor*? Or is Hugh Jackman enjoying a break back in Australia? Try a recruitment advertisement for a bank. Evidently being sales

development manager for a northern Australian bank is as good as a sea change. Forget work stations, pinstriped suits and teller boxes. This bank wants you to think that a day at the office feels like a day at the beach. Is this what it takes to attract good staff today?

SOURCE: MACKEN, D. 2004. A sense of entitlement: The new worker wants it all. *Weekend Financial Review*, November 27–28. Melbourne: The Fairfax Group:17–18.

An understanding of how potential employees view or obtain information about the organisation can enhance the match between the person and the organisation, increasing organisation fit and retention.

As Dale, quoted in Keen,³⁷ notes:
The smart organisations are defining what type of person will fit with the organisation's culture. A lot of that is value-driven – not just what they are capable of doing, but what satisfies them. If someone is unmotivated, their skill set will walk out the door.

SOURCE: KEEN, S. 2005. Interview with M. Dale – Hudson Consulting – National Practice Manager for Talent Management – Australia. *HR Monthly*, February:18–24. Used with permission.

6.3.4 Weave development into your organisation

In this new era, employees are looking for work that provides opportunities and is challenging. However, this is often given lip service in many organisations, in particular those in the Anglo-American region. As Michaels, Handfield-Jones, and Axelrod³⁸

note, ‘Talent rarely arrives fully developed ... People possess vast amounts of potential that, when nurtured and challenged, can be brought to full bloom.’ In other words, organisations must develop their talent at all levels and weave it into the culture (see Table 6.6). This requirement is closely linked to areas such as job design, job analysis, and team building, which contribute to the day-to-day experience on the job, determining what people actually do at work, and how effectively they do it. Boxall, Macky, and Rasmussen,³⁹ in a review of the labour turnover and retention in New Zealand, identified that one of the main reasons why respondents left their employers was to pursue more interesting work elsewhere. In an environment characterised by skill shortages and an increasingly discerning workforce, it is imperative for employers to review how they construct jobs and connect jobs.

Another critical factor in the retention of skilled workers is the provision of training and development. Edgar and Geare’s⁴⁰ study of aspects of HRM that are important to employees identified training and development to be of ‘paramount’ importance. Boxall, Macky, and Rasmussen⁴¹ also identified training opportunities as a determining issue in the decision employees made to leave their employers. This identification reinforces the point that HRM and human resource development assume an increasingly significant role in the retention of key employees. Resistance to investment in human resources may reflect the traditional approach of many organisations and industries, particularly those reliant on immigration and poaching to solve skill shortages. In addition, organisational resistance to heavy investment in career development may reflect the changing psychological contract between employers and employees. Employees are choosing to manage their own careers by moving between organisations. Employers may therefore be questioning the value of investing heavily in training and development opportunities for

Table 6.6 The old development strategies versus the new development strategies

Old approaches to development	New approaches to development
Development just happens	Development is woven into the fabric of the organisation
Development means training	Development primarily means challenging experiences, coaching, feedback and mentoring
The unit owns the talent	The company owns the talent; people move easily around the company
Only poor performers have development needs	Everyone has development needs, and receives coaching
A few lucky people find mentors	Mentors are assigned to every high-potential person

SOURCE: MICHAELS, E., HANDFIELD-JONES, H. & AXELROD, E. 2001. *The war for talent*. Boston, Mass.: Harvard Business Review Press:98. Copyright © 2001 by the Harvard Business Publishing Corporation.

employees who may not stay.⁴² Nevertheless, as Edgar and Geare⁴³ point out, training and development are still considered to be critical issues in employee retention and organisations would recognise them as important lures in the ‘war for talent.’

6.3.5 Differentiate and affirm your people

We can link approaching the workforce as a diverse set of resources to what are called the ‘hard’ and ‘soft’ approaches to HRM. In terms of soft HRM, organisations:

- Invest heavily in star performers (the A team)
- Develop solid employees (the B team) to contribute their best to retain them
- Help poor performers (the C team) to improve their performance.

If the technique of soft HRM fails to change the performance of the C team, the organisation will use an exit strategy – hard HRM. Note that this approach can be seen as producing a potential star-focused culture that undermines a team culture. Michaels, Handfield-Jones, and Axelrod, however, disagree, arguing that it simply involves recognition of an individual’s achievement

– as long as it is not overt it will not affect the performance of the organisation. Despite this, organisations should carefully consider the issue if they are considering embarking on such policies.

An important factor in differentiating and affirming employees is awareness of their diverse lifestyles and needs. Initially, the areas of work-life balance, family-friendly benefits, and diversity may be seen only as attraction strategies. Allowing employees the flexibility to meet personal needs also becomes an important retention factor by adding to an organisation’s ‘employer of choice’ standing.⁴⁴

Pocock⁴⁵ also makes the business case for a link between work-life balance and the attraction and retention of workers, and the ultimate competitive survival of a company. The increase in the number of women in the workforce, coupled with an ageing population base that requires part-time work or carers, elevates the need for organisations to support valued employees who have family responsibilities.

The focus on work-life balance has also been highlighted with regard to child-care problems and some parents’ decision to return to work. Research by employers such

as Toshiba and others has addressed this issue with their development of the Flexible Workplace Special Interest Group Research.⁴⁶

Evidence of change in traditional professions such as law (noted for its long hours) highlights the sea change mentioned in the advertisement we discussed earlier in this chapter. Brown⁴⁷ mentions that Henry Davis York – a law firm based in Sydney Australia – reported that the development of flexible patterns of work, stemming from its internal survey on work-life balance in 2001, has been a key factor in improving retention. Indicators included an increase in return from maternity leave, low turnover, and employee feedback as identifiable criteria (see Chapter 5). Another key issue in building diversity is the opportunity to attract a wider range of talent. Writers such as Murray and Syed⁴⁸ and Orland⁴⁹ have highlighted the negative effect of not capitalising on workers from a wide range of backgrounds. Companies employing diversely experienced employees are likely to be more creative and thus better able to meet the expectations of a diverse market. Given that organisations are operating in tight markets for labour, such capacities would be highly advantageous.

Thorne and Pellant⁵⁰ provide the following typical set of questions an organisation could use to rate its process for talent management:

1. Have we developed a definable organisation brand?
2. Do we actively demonstrate our values and brand in the way that we conduct our business?
3. Does this equally apply in the way we handle our people?
4. Are we committed to identifying and recognising talent at all levels in the organisation?
5. Do we have an infrastructure that allows individuals freedom to

innovate, generate ideas and receive feedback?

6. Are we sure that our management structure is developing new talent and creating a coaching and learning culture?
7. Have we created an environment that attracts potential employees to want to come and work for us?
8. Do we welcome previous employees back?
9. Do we recognise the need for some employees to go?
10. Do we give honest, open and supportive feedback on performance?
11. Have we created internal forums that allow for healthy debate and discussion?
12. Do we undertake effective benchmarking with other organisations?
13. Do we know our retention rates?
14. Do we conduct exit interviews with all employees?
15. Do we encourage all our employees at all levels to identify other potentially talented people to join our organisation?
16. Do we actively share our experiences and demonstrate best practice to other organisations?
17. Do we have a diverse and multi-talented workforce?
18. Do we share our expectations of each other?
19. Do we actively champion talent?
20. Do we see talent management as one of the core pillars of our organisation development?

SOURCE: THORNE, K. & PELLANT, A. 2007. *The essential guide to managing talent: How top companies recruit, train and retain the best employees*. London: Kogan Page:137–138. Reprinted by permission of the authors.

6.4 Workforce advisory: Superior talent = tomorrow's competitive advantage

Comment by Craig McCallum

It is no surprise that one of the hottest topics in business today is 'talent management', in attraction, retention and sourcing strategies. Our recent research suggests – and is duly supported by a multitude of studies conducted over the last ten or more years – that it is increasingly common in organisations today to experience a shortage of capability at a range of levels. This is driven by a number of factors including rapid growth and change, a rise in retrenchments due to changing role requirements, key people being 'poached' by the competition and a difficulty in retaining talented people. The rise of the economy out of the global financial crisis (GFC) is a further factor that continues to accelerate these challenges.

With these external realities in the employment market, organisations need to carefully examine their choices on how best to respond. Our experience dictates that the most desirable option is for organisations to tap into the quality people already in the organisation and develop this talent so they can confidently compete in an increasingly difficult business environment. Establishing the right mindset, crafting a powerful employee value proposition (EVP), sourcing, developing and retaining talent all makes for an enormous challenge.

Companies that managed their physical and financial assets with rigour during the GFC have generally not made their people a priority in the same way. There are three main arguments in support of effective talent management (the better an organisation is at talent management, the better its return for shareholders):

1. Recurring costs are reduced
2. Economic outputs improve
3. Enterprise value is maximised.

6.4.1 Acquiring new talent

Instilling a new talent mindset and developing a powerful EVP will operate as a compelling advertisement for your company, but on their own, they are simply not enough of an attraction. A robust sourcing strategy is crucial. Attracting, sourcing and selecting the right talent addresses part of the talent imperative.

Clearly this application has greatest impact where two conditions are met:

1. Talent required does not exist internally; and
2. Talent required could be acquired at a reasonable premium.

The difficulty in finding IT professionals at the peak of the technology boom well illustrates this. Provided these conditions can be met, focusing on talent attraction, sourcing and selection can result in the best outcomes.

6.4.2 Leveraging existing talent

Leveraging talent is a priority throughout the company; developing a sound EVP, and ensuring your sourcing strategy is a powerful one, will do much of what is needed to make your position in the talent market compelling.

There are also a number of specific steps to do with development that companies should implement to complete their talent programme. We find when we start working with organisations, there is often little clarity about who should be developed, let alone how; senior people more often than not believe that moving people around is not worth the disruption; divisions hoard their best staff; and HR executives are often pre-occupied with training and other auditable initiatives. The reality is that people learn by being put in situations that require skills they don't have – a truth poorly served when 'who can do this job best right now?' often dominates staffing decisions. Rebuilding talent banks via natural attrition and

replacement is not only likely to cost a lot of money, but it is also going to take a long time – between five and 20 years. The reality for most organisations is that they need to leverage the talent they already have.

6.4.3 Retaining talent

We find that companies generally recognise they could improve recruitment and development; few realise, however, that they have a retention problem. Paradoxically, it is the companies that have done the best job of recruitment and development that may be

most at risk from poaching. But every company needs to understand why its high performers are leaving before they can engage in retention strategies. Keeping hold of your talent is not always easy where there are many employment opportunities for high performers.

Organisations’ efforts to effectively retain talent need to be explored across a number of characteristics.

Craig McCallum is general manager marketing; specialist recruitment and consulting services at Chandler Maclead Group.

SUMMARY

There is a clear indication that the negotiating position of employees in the workplace is increasing for the first time in a generation. This is beginning to have an impact on the employment relationship and subsequently, employment policies and practices as the ‘war for talent’ becomes increasingly intense. It is clear that the new workforce is discerning and skilled. Potential employees are exploring whether the organisation pays enough attention to them in terms of both opportunities and resources. Despite the rhetoric, it appears that organisations are still coming to terms with the management of talent as a source of competitive advantage. Over the next decade, it will be interesting to see whether there is any change in focus as labour markets tighten and workers become increasingly discerning.

KEY CONCEPTS

■ Attraction	■ Strategy
■ Development	■ Sustainable competitive advantage
■ Employee value proposition (EVP)	■ Talent
■ Recruitment	■ Talent management
■ Resource-based view (RBV)	■ Talent mindset
■ Retention	

CASE STUDY

Objective: To understand the role and value of talent management within an organisation.

AgencyCo

AgencyCo is the leading supplier of labour-hire work also known as 'on-hire', 'temp' or 'agency' work. Their labour-hire staff can be employees who are then on-hire to a client firm (but are not employees of that firm) or self-employed contractors. Initially providing supplementary trades, AgencyCo developed a white-collar sector providing customer contact services, health-care and general office placement staff in a diverse range of industries.

AgencyCo argues that to attract and keep talented workers the work needs to be not only about opportunity and variety but also about quality training, development and career progression. They provide human resource development opportunities as a means of increasing employee labour-hire employees through developing each employee's skills base. The variety of jobs with different client firms is also an important learning feature of working for AgencyCo. Management at AgencyCo identifies working with different clients as a training and development opportunity.

AgencyCo aims to become an employer of choice by giving employees and potential employees 'a sense of belonging but not a sense of being owned' by providing a range of benefits and doing all the things a normal employer would do. AgencyCo treats both their temporary and permanent staff as if they are committed to the organisation. This has led to turnover in employees being significantly lower than the industry average because of the way they manage people.

Becoming an employer of choice in the labour-hire industry does raise the issue of talented staff being poached by client organisations. AgencyCo claims to be able to compete with any permanent employer. This is supported by the fact that they do not see themselves as a provider of peripheral workers but rather as working within a partnership to manage these key employees. AgencyCo sees their competitive advantage as working in areas where they have acknowledged expertise that also corresponds with areas of labour shortage. Since labour-hire workers may be subject to conflicting policies and procedures on clients' sites, in many cases there will be an AgencyCo supervisor on site who looks after the AgencyCo employee under every circumstance even if there is a client supervisor present.

Questions and activities

1. What characteristics does AgencyCo exhibit with regard to being successful at talent management?
2. Why do you think this approach will or won't work in the long term?

SOURCE: Written by Rob Hecker and Peter Holland.

REVIEW QUESTIONS AND ACTIVITIES

1. Discuss the changing dynamics of the workplace in the twenty-first century facilitating an increased emphasis on talent management.
2. How has the psychological contract between employees and employers been affected by the new era of HRM? Discuss.
3. Discuss the reasons for the perceived increasing shortages of skills.
4. Define the concept of 'talent'.
5. Discuss strategies for dealing with the potential 'war for talent' from a human capital perspective and resource-based perspective.
6. (a) List the key findings from the McKinsey report and its recommendations.
(b) How has the scenario depicted in this report been criticised?
7. (a) Outline the critical characteristics of a talent mindset.
(b) Outline how a talent mindset differs from the old view of management.
8. (a) Define an employee value proposition.
(b) Outline the items McKinsey found to be strongly and causally related to employee satisfaction.
9. As Michaels, Handfield-Jones, and Axelrod have noted, in this new era of HRM, employees look for challenges and opportunities. Discuss how organisations can approach this through employee development.
10. (a) What are the key factors in making AgencyCo an employer of choice?
(b) Are these factors transferable to other organisations?

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Measuring human resource management within organisations

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Identify the key forces driving the use of scorecards within organisations
- List the three different scorecards available for measuring a company's performance
- Identify the components of the Balanced Scorecard, the HR Scorecard, and the Workforce Scorecard
- List the stakeholders needed to implement the scorecards successfully within organisations

PURPOSE

The purpose of this chapter is to introduce you to a number of instruments for measuring performance within organisations.

CHAPTER OVERVIEW

This chapter starts by identifying three new performance-measurement instruments, known as scorecards, in the business environment today, namely the Balanced Scorecard, the HR Scorecard, and the Workforce Scorecard. The chapter then considers each of these instruments in detail by looking at their composition and implementation, as well as at the stakeholders involved in each. The concluding case study illustrates how the theory contained in this chapter can be applied practically to companies.

Introduction

There is no doubt, as can be seen from Chapter 6, that knowledge workers have had a tremendous impact on the changing role of HR. Observers, both internal and external to organisations, have come to view a company's workforce as far more valuable than ever before. This situation has placed the HR function directly in the spotlight. Thus, HRM

can no longer be an observer that can be removed or outsourced by the company, but must become a player on the field, in the game, with the ability to score.¹ The ability to score, according to Beatty, Huselid, and Schneider,² necessitates a new understanding of the rules of the game, and a new perspective on what HR is to contribute, how its systems enable it to contribute, and how to measure its ultimate deliverables. In this

BOX 7.1

Essential attributes of human capital measurement systems

1. **Descriptive.** At a minimum, a measurement system should produce summary statistics that provide a clear and concise summary for each issue of interest. Descriptive data tend to focus on the occurrence of a phenomenon, its frequency, or its intensity. For example, descriptive statistics can help an organisation monitor the degree to which an important best practice is (or is not) actually being implemented throughout the organisation. While necessary, in and of itself descriptive data is insufficient since it typically measures only 'inputs' or 'process', but provides no information on outcomes or results.
2. **Credible.** A measurement system must be designed to provide the credible and unbiased insights needed to improve business results. Typically, a system designed primarily for the purpose of self-justification is quickly seen as suspect and is given little attention by senior executives. Many ROI (Return on Investment) initiatives, for example, fall into this category. Similarly, measurement systems designed by consulting firms can suffer from credibility issues if there is the perception (or the reality) that the system is designed to justify the sale of the consulting firm's products or services.
3. **Predictive.** A measurement system must produce statistics that help an organisation predict where it is headed. Predictive measures are those that have been linked to the organisation's desired business results. If the descriptive data generated by a measurement system have not been (or cannot be) linked to business results, then the usefulness of the underlying data is of questionable value. In short, 'input' or 'process' data that have no known impact on organisational success will be of little value to senior executives who need insights that will help them to improve organisational performance.
4. **Detailed.** The information produced by a measurement system must be sufficiently detailed and disaggregated to provide the insight needed on where action should be taken. For example, many types of information must be available across departments or business units in order to allow for a possible intervention to be targeted on those areas where it might be most successful. Consequently, data on an organisation that is gathered from a single individual or function will not be sufficiently detailed to provide a basis for action. HR Scorecards typically suffer from this shortcoming.
5. **Actionable.** A measurement system should focus on those issues over which an organisation can exert influence; other items (however interesting they may be) are

unhelpful in enabling action to drive business results. The best example here is a counter-example; one well-known measurement system (the Gallup Q12) measures whether or not employees 'have a best friend at work.' While this is indeed an interesting descriptive statistic (and might even be predictive and detailed), it is not an actionable piece of information and hence should not be an area of focus within a measurement system.

6. **Cost-effective.** As important as a powerful measurement system is to a well-managed business, it must be cost effective if it is to be sustainable.

SOURCE: *The 2006 Pfeiffer Annual: Human Resource Management*. Copyright©2006 by John Wiley & Sons, Inc. Reproduced by permission of Pfeiffer, an imprint of Wiley, www.pfeiffer.com:5-6.

chapter we shall explore how to measure the workforce, the HR function, and the company's leadership with respect to their impact on the workforce and, ultimately, the company's strategic success. Over the years, a number of measures have become available for this purpose. We shall examine three of the most popular measures, namely the Balanced Scorecard, the HR Scorecard, and the Workforce Scorecard.

However, please note that these measuring instruments are not without criticism. In Box 7.1 some six key attributes are provided which a human capital measurement system needs to possess if it is to be of maximum use to executives in managing and deploying people effectively within an organisation.

7.1 The Balanced Scorecard

This approach, which is used by companies like Sears and American Express, was developed by Robert S. Kaplan and David P. Norton in the early 1990s.³ In their Balanced Scorecard approach (see Figure 7.1), Kaplan and Norton allow managers to look at the business from four important perspectives, namely:⁴

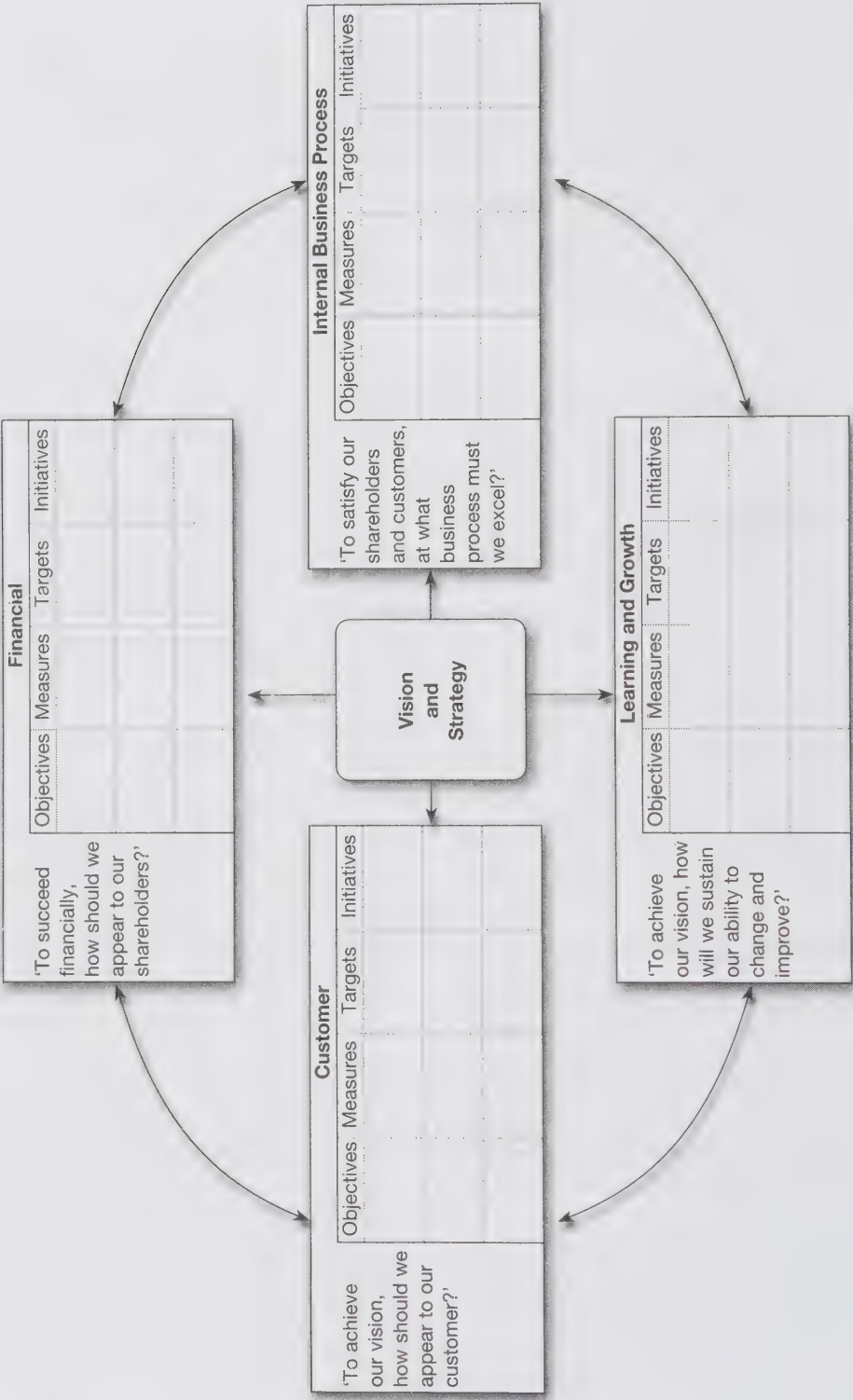
1. A customer perspective
2. An internal perspective
3. An innovation and learning perspective
4. A financial perspective.

From the above it is clear that the Balanced Scorecard forces managers to focus on only a handful of measures that are most critical.

To activate the scorecard, managers translate the company goals relating to the four perspectives (these are normally generic issues which form part of any mission statement) into specific measures that reflect the factors that really matter. We shall briefly discuss this approach by referring to Figure 7.1:⁵

- *A customer perspective.* The question pertaining to the customer perspective is: how do customers see us? Managers can obtain the answer by measuring lead times (for example lead time measured from the time the company receives an order to the time it actually delivers the product or service to the customers), quality (the defect level), performance, service, and cost.⁶ To do this, companies articulate goals for the components of time, quality, performance, service, and cost. They then translate these into specific measures. Goals for customer performance, for example, can include the following (in order to track the performance on any of these goals, the company can obtain the information either internally or externally from customers):
 - ▷ To get standard products to the market sooner

Figure 7.1 The Balanced Scorecard



SOURCE: NIVEN, P.R. 2005. Driving focus and alignment with the balanced scorecard: Why organisations need a balanced scorecard. *The Journal for Quality and Participation*, 28(4):3, Winter. Reprinted with permission from *Journal For Quality and Participation* © 2005 American Society For Quality. No further distribution allowed without permission.

- ▷ To improve customers' time to the market
- ▷ To become the customers' supplier of choice through partnerships with them
- ▷ To develop innovative products tailored to the customers' needs.
- *An internal perspective.* The question pertaining to the issue of an internal perspective is: what must we excel at? Thus, what must the company do internally to meet its customers' expectations? Managers can obtain the answer by determining the processes and competencies that are most critical for the company, and specifying measures for components such as cycle times, quality, employee skills, and productivity.⁷ As was the case with the previous component, companies also here articulate goals for the following: cycle times, quality, employee skills, and productivity. They then translate these goals into specific measures for each. Goals for this component can include, for example:
 - ▷ To obtain a capability in submicron technology
 - ▷ To obtain excellence in manufacturing
 - ▷ To obtain productivity in design
 - ▷ To introduce new products.

As much of the activity to achieve these goals takes place at the lower levels of the organisation, the company must bring the measures for these goals to the attention of the employees at these levels. By doing this, the company will ensure that the employees at these levels have clear targets for actions, decisions, and improvement activities that will enable the company to achieve its overall mission. The availability of information systems within an organisation can play an important role in monitoring progress in this regard.

- *An innovation and learning perspective.* The question pertaining to the innovation and learning perspective is: can we continue to improve and create value? Managers can obtain the answer by monitoring the company's ability to launch new products, create more value for customers, and improve operating efficiencies.⁸ The previous two components of the Balanced Scorecard identified the parameters that the company should consider most important for competitive success. However, in this ever-changing world, continual improvements need to be made to existing products and processes, and companies have to have the ability to introduce entirely new products. One of a company's measures in this area could be, for example, the percentage of sales from new products. If sales go down, the company can establish whether this fall is due to the design of the product. (Note that some organisations replace the innovation and learning perspective with a broader human-capital or people perspective.)
- *A financial perspective.* The question pertaining to the financial perspective is: how do we look to shareholders? Managers can obtain the answer by measuring cash flow, quarterly sales, growth, operating income by division, increased market share by segment, and return on equity.⁹ To achieve this, companies articulate goals for these components. Typical financial goals have to do with profitability, growth, and shareholder value. They then translate these goals into specific measures. Financial-performance measures indicate whether the company's strategy, implementation, and execution are contributing to bottom-line improvement.

Having looked at the different components of the Balanced Scorecard, we shall now

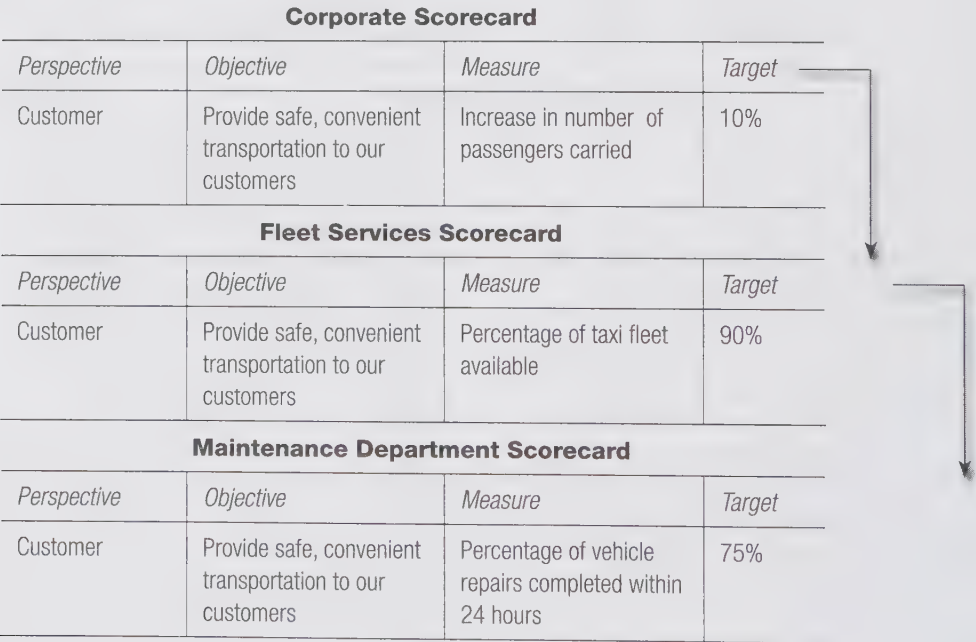
briefly discuss some operational aspects of this process.

7.1.1 Compiling the Balanced Scorecard – who is responsible?

As the discussion of the individual components of the Balanced Scorecard earlier suggests, this process cannot be the responsibility of one person only. At least a Balanced Scorecard team should be responsible.¹⁰ The question thus is: what will this team look like? Some of the important stakeholders in the team will undoubtedly be members of top management. This group is vital as it can influence change brought about by this process at the very top of the organisation. The literature also indicates that, besides this group, the higher the level of people an organisation can assemble from across the business units within it, the better. The advantages of this approach are

obvious: with rank comes experience, knowledge, credibility, and the ability to interact with the most senior executives at regular intervals.¹¹ Besides senior representatives from the business units within an organisation, senior members from support groups such as Human Resources, Finance, and Information Technology (IT) will also be necessary. According to Niven,¹² conflict is at the heart of Balanced Scorecard development. Thus one trait all team members must possess is the ability to work comfortably in an atmosphere of conflict. Every team needs a leader. The Balanced Scorecard process is no exception; the leader can be called the Balanced Scorecard champion.¹³ The responsibilities of this person will include scheduling meetings, tracking results, ensuring the distribution of materials, interacting with top management, and providing guidance on tough issues.¹⁴ Thus, the compilation

Figure 7.2 Cascading the Balanced Scorecard



SOURCE: NIVEN, P.R. 2005. *Balanced Scorecard Diagnostics: Maintaining maximum performance*. Hoboken, NJ.:John Wiley & Sons:134. This material is reproduced with permission John Wiley & Sons, Inc.

of the Balanced Scorecard team is a very important part of the execution of the Balanced Scorecard approach.

7.1.2 Implementing the Balanced Scorecard within an organisation

Once the process of compiling the Balanced Scorecard has been completed, the organisation needs to implement the Balanced Scorecard, i.e. cascade it down the organisation to all levels.¹⁵ (See Figure 7.2 in respect of the customer-perspective component of the scorecard.) However, this process is not simple; often, not only have employees never heard of the term 'Balanced Scorecard', but they also do not have a working knowledge of it. Thus, for successful implementation, organisations need to undertake some staff training.

One way of doing this is by making some articles on the topic available to the staff.¹⁶ Then the employees can attend an information session. These sessions can address issues such as the origins of the scorecard, the four perspectives, and the implementation principles. Proper communication between everybody is absolutely essential. No scorecard can work unless managers link it to the budget of the company.¹⁷ The linkage of the employees' pay to performance will also play an important role.¹⁸ Once the organisation has implemented a Balanced Scorecard, it is important that the organisation holds the first review of results of the Balanced Scorecard within 60 days. Thereafter, the organisation should review and frequently discuss scorecard results throughout the organisation to achieve long-term success.

From the above discussion, it is clear that use of the Balanced Scorecard has a number of advantages, namely:¹⁹

- It brings together many of the competitive elements – e.g. becoming customer oriented, improving quality, and emphasising teamwork

- It guards against the underutilisation of assets by allowing management to see whether improvement in one area takes place at the expense of another area.

The literature shows that the Balanced Scorecard has grown in popularity in recent years. This is due to the fact that it meets the demands of a modern business world characterised by value creation stemming from intangible assets such as employee know-how, deep relationships with customers, and cultures capable of innovation and change.²⁰ However, even an excellent set of Balanced Scorecard measures cannot guarantee a winning strategy. According to Kaplan and Norton,²¹ the Balanced Scorecard can only translate a company's strategy into specific measurable objectives; a failure to convert improved operational performance, as measured in the scorecard, into improved financial performance should send management back to the drawing board to rethink the company's strategy or its implementation plans.

The foregoing makes it clear that the Balanced Scorecard places the strategy of the company – and not control efforts – at the centre of the process.²² The measures are thus designed to pull employees towards the overall mission of the company.

The strength of the scorecard is that it provides a simple conceptual and diagnostic tool to ensure that companies utilise the right processes and people to drive customer and business performance – the goal of any company striving towards gaining a sustained competitive advantage.²³ Appendix 7A includes an assessment tool to assist a company to determine whether the time is right to implement a Balanced Scorecard.

7.2 The HR Scorecard

A recent development in the measurement area, which takes the Balanced Scorecard to the next level of sophistication, has been the arrival of the HR Scorecard. The HR

Scorecard seeks to strengthen an aspect of the Balanced Scorecard approach which Norton and Kaplan acknowledge to be its weakest feature: the question of how best to integrate HR's role into the company's measurement of business performance.²⁴ The HR Scorecard is based on more than a decade of academic research on the relationship between HR and company performance. The HR Scorecard is grounded in the consulting work undertaken in a wide range of companies by Becker, Huselid, and Ulrich.²⁵ According to the authors, the HR Scorecard offers the following benefits:²⁶

- It reinforces the distinction between HR doables and HR deliverables
- It enables control of costs and creation of value
- It measures leading indicators

- It assesses HR's contribution to strategy implementation and, ultimately, to the 'bottom line'
- It lets HR professionals effectively manage their strategic responsibilities
- It encourages flexibility and change.

7.2.1 Building an HR Scorecard

Organisations should not consider building an HR Scorecard as a one-time, or even an annual, event. To manage by measurement, human resource leaders must stay attuned to changes in the performance drivers that HR is supporting within the company. If these drivers change, or if the key HR deliverables that support them change, the scorecard must shift accordingly.²⁷ Table 7.1 provides the seven steps needed to implement an HR Scorecard.

Table 7.1 Guidelines for implementing an HR Scorecard

Change checklist item	Guiding questions for change sponsors	Suggested guidelines for implementation
1. Leading change	Who is in charge of the effort? Who sponsors? Who champions?	1. Need two sponsors (line manager, head of HR). 2. Require measurement champion: someone specialising in HR measurement. 3. Need advisory team to supervise work.
2. Creating a shared need	Why do the HR Scorecard? How does it fit with our business?	1. Create business case for HR and for HR measurement. 2. Share this case with line management and HR. 3. Allocate 3 to 5% of HR budget to measurement.
3. Shaping a vision	What is the desired outcome of the Scorecard?	1. Define desired outcomes of the HR Scorecard. 2. Prepare the key measures that will be tracked and monitored, and clarify how they will be tracked. 3. Define decisions that will be made using these measures. 4. Create a mechanism to collect the data behind the measures.
4. Mobilising commitment	Who needs to support the project?	1. Identify key players whose support the project requires. 2. Figure out how to engage these key players so they will support it.

Change checklist item	Guiding questions for change sponsors	Suggested guidelines for implementation
5. Building enabling systems	How do we build systems to sustain the change?	1. Put the right people on the project. 2. Ensure that we have the right incentives to do it. 3. Make sure that the HR measurement group reports to the right people. 4. Create a communication plan for HR measurement. 5. Invest in technology requirements to execute the HR Scorecard. 6. Make the financial investments required.
6. Monitoring and demonstrating progress	What will we use to track the implementation process?	Develop a project plan for HR measurement.
7. Making it last	How will we sustain the effort?	1. Start with simple measures. 2. Make the measures visible and applicable. 3. Post the measures. 4. Change the measures over time if required.

SOURCE: BECKER, B.E., HUSELID, M.A. & ULRICH, D. 2001. *The HR Scorecard: Linking people, strategy and performance*. Boston, Massachusetts, Harvard Business Review Press:189. Copyright © 2001 by the Harvard Business Publishing Corporation.

7.2.2 How does the HR Scorecard work?

The HR Scorecard helps to integrate HR into the organisational performance management and measurement system by identifying the points of intersection between HR and the organisation's strategy – in other words, strategic HR deliverables.²⁸ These are strategic HR outcomes that enable the execution of the organisation's strategy. The deliverables come in two categories:

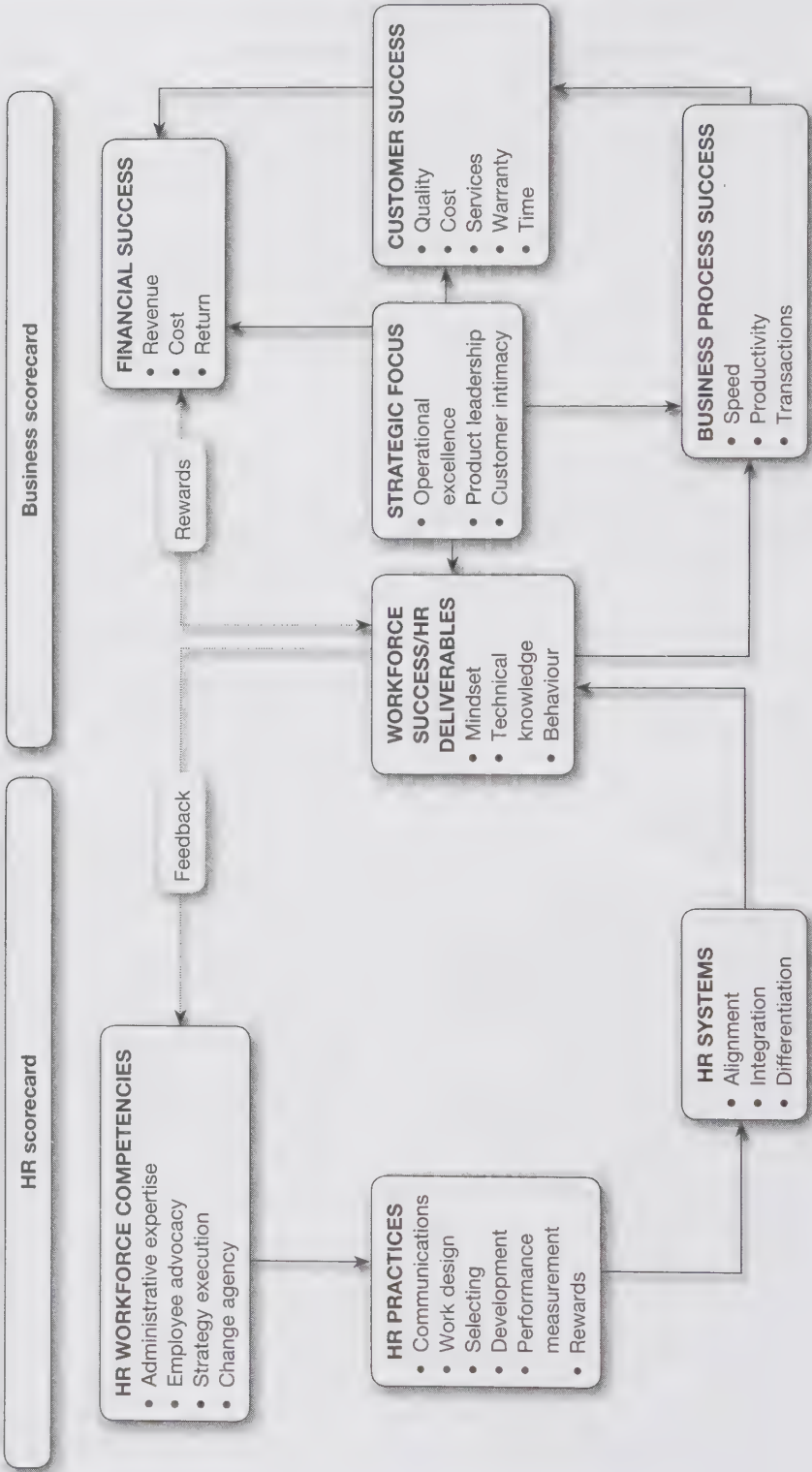
- **HR performance drivers.** These are core people-related capabilities or assets such as employee productivity or employee satisfaction. It is important to note that there is actually no single correct set of performance drivers.²⁹ Each company identifies its own set, based on its unique characteristics and the requirements of its strategy-implementation process.

- **Enablers.** These reinforce performance drivers. For example, if a company identifies employee productivity as a core performance driver, then re-skilling might be an enabler.³⁰ However, it is important not to think here only in terms of HR-focused enablers in a company (those that influence the more central HR performance drivers), but to consider also how specific HR enablers reinforce performance drivers in the operations, customer, and financial segments of the organisation (see Figure 7.3).³¹

Figure 7.3 makes it clear that there are four major dimensions in the HR Scorecard, namely:³²

- The key human resource deliverables that will leverage HR's role in a company's overall strategy (e.g. the extent to which employees' behaviour changes in

Figure 7.3 Linking the HR Scorecard to the Business Scorecard



SOURCE: BEATTY, R.W., HUSELID, M.A. & SCHNEIER, C.E. 2007. New HR metrics: Scoring on the business scorecard. (In SCHULER, R.S. & JACKSON, S.E. 2007. *Strategic human resource management*, 2nd ed. Oxford: Blackwell Publishers:362). Used with permission.

ways that make a real difference to the business)

- The high-performance work system (e.g. the key HR policies and practices that must be in place and implemented well to achieve the organisation's strategy)
- The extent to which that system is aligned with the company strategy (e.g. the extent to which the HR practices that a company deploys are internally consistent and not working at cross purposes and are really the right ones to drive organisational strategy)
- The efficiency with which the deliverables are generated (e.g. the extent to which managers are efficient in delivering HR services to the organisation).

To be successful, the HR Scorecard requires investment in HR systems, the hiring of HR employees with the required competencies, the communication of the scorecard throughout the organisation, and the weaving of the HR results into reward and recognition systems. According to Beatty, Huselid, and Ulrich,³³ the objective is to drive those types of workforce behaviour with substantial impact on business-process success that lead to customer success and, ultimately, result in financial success. Companies that are successful operationally and with their customers, according to the authors, should also experience financial success.³⁴ From the perspective of HR, it is a continuous feedback loop (see Figure 7.3). Financial success fuels the next new employee rewards. Customer success provides the feedback that enables the HR function to understand what needs to be done to build better (or different) HR workforce competencies, enhance HR practices, and determine the necessary steps to improve the alignment, integration, and differentiation of HR systems.³⁵ All of this can be achieved only with a significant partnership with line management, which will enable line management also to be

successful in delivering on its business model (e.g. the Balanced Scorecard).³⁶

7.3 The Workforce Scorecard

Having implemented the Balanced Scorecard as well as the HR Scorecard within numerous organisations around the world, Huselid, Becker, and Beatty soon noticed, in their dealings with these organisations, that something was missing in this process.³⁷ It became obvious to them that it was not the activity that counts, but the impact of the activity on organisational outcomes that meant the most to companies. For example, the number of days of training provided was not important; what was important was the impact the training had on individuals and the organisation. The authors believed that companies needed a business strategy, a strategy for the HR function, and a workforce strategy.³⁸ These strategies are operationalised in the Balanced Scorecard, the HR Scorecard, and the new proposed Workforce Scorecard respectively. Hence the Workforce Scorecard is a crucial lever in the strategy-execution process within companies. Figure 7.4 shows the integration of these scorecards.

7.3.1 The composition of the Workforce Scorecard

The Workforce Scorecard points out that workforce investments should help to execute strategy through the components of workforce mindset and culture, workforce competencies, and workforce behaviour.³⁹ These components become the link between strategy, HR investments, and the workforce, which leads to workforce success (see Figure 7.4).

We shall briefly look at the components of the Workforce Scorecard:

- *Workforce success.* This is the most important dimension of the Workforce Scorecard because it captures the 'bottom line' of the workforce performance.⁴⁰ These are the measures that

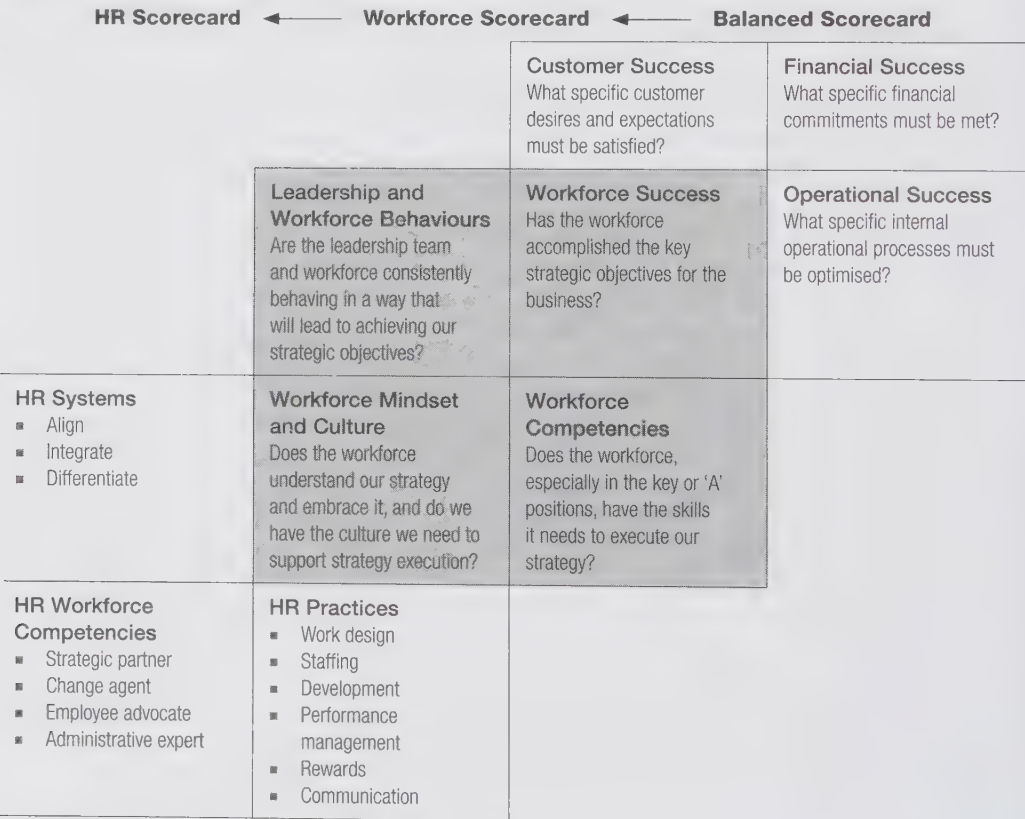
reflect how well the workforce has contributed to the execution of the company’s strategy. Typical measures here include the number and quality of customer complaints, the number of new distributors, and the response time for customer inquiries.⁴¹

- *Workforce mindset and culture.* The question in this area is two-fold: does the workforce understand the company strategy, and does the culture within the organisation support the execution of this strategy? Organisations create norms and expectations that the workforce needs to understand. This

creates the culture of the organisation, which ultimately shapes employees’ behaviour.⁴² Managers can consequently measure and assess this culture in terms of its impact on the company’s strategic success. Typical measures to use here include the extent to which the company strategy is clearly and widely understood, the extent to which the average employee can describe the company’s HR strategy, and the extent to which employees take pride in working for the company.⁴³

- *Workforce competencies.* The question in this area is: does the workforce have the

Figure 7.4 Managing human capital to execute strategy



SOURCE: HUSELID, M.A., BECKER, B.E. & BEATTY, R.W. 2005. *The Workforce Scorecard: Managing human capital to execute strategy*. Boston, Massachusetts, Harvard Business Review Press:4. Copyright © 2001 by the Harvard Business Publishing Corporation.

skills it needs to execute the strategy?

The competencies represent the knowledge, skills, and ability each employee possesses, and can also be measured and monitored.⁴⁴ Typical measures here include the effectiveness of information sharing among departments, the exposure of cross-functional job experiences, and the extent of organisation learning.⁴⁵

- *Leadership and workforce behaviour.* The question in this area is: are the employees consistently behaving in a way that will lead to the achievement of the company's strategic objectives? To execute the strategy, leaders and employees must behave in ways consistent with the strategy.⁴⁶ These types of behaviour can be defined and measured to ensure that leaders and employees do what the strategy suggests needs to be done. Typical measures here are effectiveness in dealing with poor performers, percentage of employees making suggestions, and percentage retention of core-competency workforces.⁴⁷

With these components in place, managers can answer the question of what measures to adopt and can now be held accountable not only for their words and actions relative to people but also by the workforce's success, and for the mindset, capabilities, and types of behaviour they create.⁴⁸ Thus, companies can identify, target and develop, or move out managers who do not create workforce success (see Figure 7.4). It is important to mention here that while HR professionals and the HRM system lay the foundation for building the workforce into a strategic asset, the responsibility for workforce success increasingly falls on line managers who perform most of the workforce-management activities in any company. In Box 7.2 the attributes of an effective Workforce Scorecard are indicated.

7.3.2 Implementing the Workforce Scorecard

The successful implementation of the Workforce Scorecard is based, according to Huselid, Becker, and Beatty,⁴⁹ on three challenges, namely:

- *The perspective challenge.* The question here is: do all our managers understand how workforce capabilities and behaviours drive strategy execution?
- *The metrics challenge.* The question here is: have we identified (and collected) the right measures of workforce success, leadership, workforce behaviour, workforce competencies, and workforce culture and mindset?
- *The execution challenge.* The question here is: do our managers have the access, capability, and motivation to use the data to communicate strategic intent and monitor progress towards strategy execution?

Bearing the above challenges in mind, we shall briefly look at the steps for practical implementation of the Workforce Scorecard within an organisation:

- *Step 1.* The first step in the process will be the development of a clear statement of the company's business strategies and the strategic capabilities needed to execute those strategies.
- *Step 2.* The next step will entail the identification of key jobs or 'A' positions as well as 'A' performance that will be required within these positions to execute the company's strategy successfully.⁵⁰ This could be, for example, jobs in R&D, Manufacturing, Marketing etc. By using the components in the scorecard, measures for these components for the different areas can be developed. (Note that it is possible that the measures for the workforce mindset, workforce competencies, and workforce behaviour for the individual areas, e.g. R&D, can

BOX 7.2

Attributes of an effective Workforce Scorecard

A Workforce Scorecard should *describe the process of strategy execution*. Effective workforce metrics are based on a model of workforce success that is comprehensive, mutually exclusive, and only minimally redundant. Organisations have the unfortunate tendency to measure the easy things many times and the more difficult things rarely, if at all. For example, many firms measure return on sales (ROS), return on assets (ROA), return on net assets (RONA), and return on invested capital (ROIC), and give them all equal weight when evaluating the performance of the firm. The problem with these measures is that they are so highly correlated that they all provide essentially the same information. For example, ROS, ROA, and RONA all have the same numerator (net income), so interpreting any differences in these ratios is essentially measuring the differences between sales (which can vary significantly from year to year) and assets (which usually don't vary significantly from year to year) and assets (which usually don't vary much from year to year). Similarly, ROIC (which also uses net income in the numerator) has as a denominator invested capital, which is very highly correlated with total assets (much like ROA). The implication of these results is that while there will be differences in the *levels* of these variables (e.g., 4.2% versus 6.8% versus 7.0% versus 7.6%) in the same firm in any given year, these measures are so highly correlated that they all contain roughly the same information. Managers could just choose one of them and come to the same conclusions about performance. Where is the harm in using all four? This is certainly an option, as long as the presence of redundant items doesn't confuse the audience and crowd out other measures.

A Workforce Scorecard should *help managers execute strategy more quickly by improving the quality of decisions about the workforce*. The primary objective of workforce measurement should be to provide the data and insight needed to improve workforce management. Such metrics should be based on a *strategy map* that describes 'what causes what', or the *causal logic* underlying the process of strategy execution through the workforce. The metrics should also be matched with a clear and compelling process to help managers understand how to use them. Most large organisations actually have many more measures than they should have. The problem is that without an overall integrated framework, managers lose focus and create ad hoc metrics and reporting frameworks. Because these frameworks are rarely widely accepted, they tend to not be actionable, even as they proliferate. Thus, developing an overall set of metrics can actually save a lot of expense, if it can help to crowd out such legacy metrics.

A Workforce Scorecard should have a *solid base in empirical research*. Managers should recognise that there is a negative correlation between the accessibility of a metric and its utility – if it were easy, metrics (and HR) wouldn't likely be such a source of competitive advantage. To help guide the selection of the metrics that really matter, managers should recognise that there is a substantial body of empirical research that has explored the determinants of firm success. Not surprisingly, this literature finds that some metrics matter more than others. Without a clear link to a research base, the easy becomes the enemy of the good.

A Workforce Scorecard should *contain a mix of leading and lagging indicators of firm success*. To effectively drive behaviour, measures need to help generate a clear 'line of sight' such that: (1) employees know what their role is in the organisation and how it contributes to firm success, and (2) success at each lower level in the firm helps to create success at the next higher level.

A Workforce Scorecard should *focus on the critical few elements that really drive success*. Managers should identify the minimum number of key measures that communicate and help to evaluate the firm's strategic intent – and focus on those measures – no more, but certainly no less.

A Workforce Scorecard should *differentiate – customers, jobs, and employees*. One of the key attributes of successful workforce management is differentiation. As a result, effective workforce measures should highlight the key or 'A' positions in an organisation, and provide a very clear description of 'A' performance in those roles as well. Average levels of culture, competence, or turnover aren't particularly helpful to managers – the measures of strategic relevance focus on those attributes in our most important positions, and for the high performers, not the lowest performers.

A Workforce Scorecard should serve as a teaching tool. You can't assume that employees understand their role in the firm's success – or even the firm's key mission and vision. For example, at Sears executives were dismayed to learn that employees held a much-distorted view of how the firm operated as well as what was expected of them. Senior executives asked hundreds of employees, 'What do you think is the primary thing that you get paid to do here every day?' Instead of an answer that highlighted this importance of 'delighting the customer,' more than half the workforce said, 'I get paid to protect the assets of the company' – that is, keep customers from stealing the merchandise! When they asked these same employees, 'How much profit do you suppose Sears keeps on every dollar of revenue?' the median response was forty-five cents! The actual answer was two cents. Measures and metrics can help employees come to understand the firm's goals and objectives and their own role in contributing to firm success. As a tool to teach the workforce about strategy, workforce metrics should help focus the workforce and drive alignment between strategy and behaviours.

A Workforce Scorecard should *show actionable and clear objectives for improvement*. World-class Workforce Scorecards highlight strategy-linked as well as actionable elements of the workforce, and provide managers with a clear sense of what to do next if the scores on the measures don't meet the objectives. One of the most robust findings in all of the social sciences literature is that employees and groups that set specific, challenging goals outperform those who set no goals or set unrealistic goals. An important part of the workforce measurement process is to facilitate goal setting, cascading of goals throughout the workforce, providing feedback on results (goal attainment), and finally, facilitating links to compensation.

A Workforce Scorecard should *identify specific initiatives that will drive improvement*. The elements of the Workforce Scorecard need to be actionable, not just informative. Measures not only need to include specific and challenging goals for improvement, but also should be matched with specific initiatives to drive workforce improvement.

A Workforce Scorecard should *encourage continuous learning and experimentation*. Measures reflect management's best hypothesis about how the workforce creates value in an organisation. As with all hypotheses, the goal is to validate these predictions with actual data. Some managers can be quite uncomfortable with uncertainty. We are reminded of the old story of the middle-aged person who resisted going back to college to get a degree, saying that in four years, she would be fifty. Of course, the key question in response has to be, How old would you be in four years if you didn't go back to school? Measurement of the workforce is a bit like this predicament – the key elements that drive your strategy will be in operation whether you choose to measure them or not. In the spirit of continuous improvement, we believe that the best time to start is now.

SOURCE: HUSELID, M.A., BECKER, B.E. & BEATTY, R.W. 2005. *The Workforce Scorecard*. Boston, Massachusetts: Harvard Business Review Press:95–97.

be largely the same, while measures for workforce success, for example, may differ considerably for these areas.)

- *Step 3.* The next step will involve the company's HRM system, which must elicit the needed competencies and types of behaviour from the workforce that ultimately drive the company's success. The tool that can be used here is the HR Scorecard. According to Huselid, Becker, and Beatty, the following are questions to ask here:

- ▷ Is our total investment in the workforce appropriate?
- ▷ Are our HR practices aligned with the business strategy, integrated with each other, and differentiated

across employee groups, where appropriate?

- ▷ Have we designed and implemented strategically aligned, world-class HRM policies and practices throughout the business?
- ▷ Do our HR professionals have the skills they need to design and implement a world-class HRM system?

From the above process, it is clear that a team of people will have to be involved in this process if it is to be successful. The team must include the CEO and the executive team, line managers, the workforce, and HRM. Without them, the whole process is doomed.

SUMMARY

This chapter considered the new and innovative performance-measurement instruments – known as scorecards – found in the business world today. It discussed in detail the Balanced Scorecard, the HR Scorecard, and the Workforce Scorecard, focusing respectively on the business strategy, a strategy for the HR function, and a workforce strategy. The development of these scorecards promises great rewards, but their implementation is no easy task. It is clear that the potential for future growth and development of these scorecards is dramatic and that the work in this area continues, with the most exciting breakthroughs still to come.

KEY CONCEPTS

- | | |
|--|---|
| <ul style="list-style-type: none"> ■ Balanced Scorecard ■ Balanced Scorecard champion ■ Bottom line ■ Competencies ■ Custom perspective ■ Deliverables ■ Financial perspective ■ High-performance work system ■ HR Scorecard ■ Human capital ■ Information systems ■ Innovation and learning perspective | <ul style="list-style-type: none"> ■ Internal perspective ■ Knowledge workers ■ Leadership and workforce behaviours ■ Operating efficiencies ■ Performance drivers ■ Performance enablers ■ Strategic success ■ Workforce competencies ■ Workforce mindset and culture ■ Workforce Scorecard ■ Workforce success |
|--|---|

CASE STUDY

Objective: To indicate how HR can become more accountable within organisations.

IBM's HR takes a risk

When Palmisano announced his signature Business Transformation initiative, he called for IBM to establish an 'on demand' global supply chain that provides customers with IBM products and services – software, hardware, business processing, consulting and more – wherever and whenever they need it. He then eliminated layers of management bureaucracy and moved the workforce closer to its global clients so that the company could compete on service delivery.

Today, under Palmisano, the IT giant generates more than \$90 billion in revenues. With 330 000 employees, it is among the 15 largest publicly traded companies in the world.

Central to its resurgence is IBM's recognition that human capital is its most distinctive and manageable asset. Companies that rely on technological or manufacturing innovation alone cannot expect to dominate their markets indefinitely. Competitors can and do catch up. The quality and strategic deployment of talent is what separates winners from the also-rans.

That's why Palmisano chose to centre IBM's business strategy on the belief that its people are, and will continue to be, IBM's key market differentiator. HR and talent management – not computers – are IBM's core business.

HR at centre stage

As a result of Palmisano's initiative, HR finds itself in the spotlight. No need to fight for a seat at the table. No struggle to convince line executives that HR should be their business partner. HR's job is to deliver the people, to establish a ready supply chain of

talent that will outperform the competition from top to bottom, from the executive suite to the factory floor. Palmisano has made it clear that if the company begins to lose revenue or market share, HR's piece of the responsibility will come from not delivering the right people to the right jobs at the right time.

The game is not for the faint of heart. When IBM wins, HR gets to share the champagne; if the company loses, HR's head is on the block.

In this case, the head belongs to Randy MacDonald, senior vice president of HR. A seasoned HR executive, MacDonald has Palmisano's ear and the respect of his fellow executives in the C-suite. His fingerprints are all over the key strategic and operational decisions of the corporation. 'They know Randy can cut costs, fire people, call a spade a spade. He has a history in the way he has stood up to union drives and he has taken criticism for IBM's cuts in pensions and other benefits for retirees,' says Fred Foulkes, professor and director of the Human Resources Policy Institute at Boston University School of Management.

His success has earned him the confidence at the top level. 'The more success you have, the more license you're granted,' Foulkes explains.

MacDonald has taken that license and run with it. Foulkes says IBM's HR operation and MacDonald's business orientation are cutting-edge. 'Clearly a leader like Randy has enormous impact,' he says. 'He is among this generation's top HR leaders.'

Now, MacDonald is taking a big risk. He's gambling on a radical HR restructuring that must pan out for IBM to continue as a market leader. 'I don't mean to be arrogant about it, but this is leading-edge,' he claims. 'My team is doing things in the twenty-first century that nobody else has done. It's the wave of the future.'

HR's strategic gamble

Keeping the human capital supply flowing wherever it's needed is a daunting undertaking, one that MacDonald says is discussed in general HR circles but until now has not been done. The challenge led him to rethink the way HR delivers services. He says typical HR organisations operate out of silos – talent, learning, employee relations, benefits, diversity – a structure that's ineffective and inefficient. 'Blow it all up is my attitude. Don't think about silos; think about end-to-end process.'

True to his word, in December, MacDonald announced a worldwide, \$100 million reorganisation of HR, the Workplace Management Initiative (WMI), which segmented the 330 000 employees into a layer cake of three customer sets. One layer consists of executive and technical resources, another holds managerial talent, and the third is rank-and-file employees.

Separate cross-functional HR teams serve each layer, by the end of this year, MacDonald says, 'We'll manage each person within each group as an asset and develop them accordingly. You'll have talent, learning and compensation people all managing people within their assigned levels.'

MacDonald says it's his responsibility to challenge the business plans of each unit in IBM. 'If I look at a three-year plan and it says we're going to enter new markets, I have to decide what skills we'll need three years from now to compete in these markets. I have to look at what existing skills I have that will become obsolete.'

Using metrics, MacDonald already knows his workforce breakdown. 'In three years, 22% of our workforce will have obsolete skills. Of the 22%, 85% have fundamental

competencies that we can build on to get them ready for skills we'll need years from now.' The remaining 15% will either self-select out of IBM or be let go.

Roles and skill sets

No one at IBM is safe from being in that obsolete category. Everyone from top to bottom will be assessed and reassessed on their competency levels and placed where IBM needs them – whether it be in the United States, India or anywhere else IBM expands in the future. Those who are lacking necessary competencies will have the opportunity to be trained if they can and want to be.

Under WMI, every role that workers, managers and executives play – 490 in all – has been identified and defined. All IBM employees play at least one role, sometimes two, maybe even three. (For example, Ted Hoff, vice president for learning, is a learning leader and a manager.) Internal analysts studied what people do in each role and determined the functional expertise or skill sets that the roles require in each job. There are 4 000 skill sets, all closely defined and measurable, and monitored by MacDonald and his HR team.

By the end of this year, each employee will have conducted a self-assessment and reviewed it with his or her manager to discuss the level of mastery the worker has achieved in each skill set. 'The manager will be sitting with a checklist of skills that you'll need for your job,' Hoff explains. 'This will provide precision about performance and also will offer a road map as to how we've developed each person. We're not measuring how well you perform on a written test. We're measuring how you've demonstrated mastery in each skill set through your performance.'

Ratings are made on a continuum from zero to three:

- Zero – You have not demonstrated a significant mastery of the skill set.
- One – You have demonstrated acquired knowledge, understand what's needed in the role and understand the bottom-line results that are being sought. But you have not yet applied it in a demonstrated way.
- Two – You have done something around the skill set that shows you have a level of mastery that has been applied.
- Three – You have achieved a mastery level demonstrated by the fact that you're not only proficient, but that you're developing others around it.

Assessments in hand, employees will be told where they stand. 'We'll tell you where we see your skill sets, which skills you have that will become obsolete and what jobs we anticipate will become available down the road,' MacDonald says. 'We'll direct you to training programs that will prepare you for the future.'

MacDonald says that the early warning system should be a morale booster. 'People will sit back and say, "I get this, you notified me. Now I've got time to do something about it."'

Yet some people won't. 'There's a segment that will choose to opt out; there's nothing I can do about it,' he says. 'There's a segment that can't get re-skilled; they don't have the intellectual capability or the drive to do it. But whatever happens, people will be able to decide for themselves. Three years from now, I can look people in the eye and say, "We told you, but you didn't do it."'

The purpose of the ratings is so that MacDonald can easily locate who at IBM has the skill set needed for an open position anywhere in the world and fill it quickly. It will mean employees will have less security about what their job will be and where it will be in the future. But, because the overall IBM business strategy is to meet customers' demands wherever they are, the HR strategy has to follow.

Assembling the team

To fulfil this strategy throughout the global company, MacDonald had to assemble an HR team that is truly business-oriented. Karen Calo, vice president for global talent in Armonk, N.Y., supervises team talent directors who are assigned to work with the managing directors of IBM's line units such as Global Technology Services (GTS) and Global Business Services.

'The talent directors report to me but work directly with the business leader they're assigned to support,' she says. 'They do a lot of similar activities, helping to develop strategic and operations plans but in different contexts. If you're a talent director in Hardware, you may deal with issues relative to product life cycle; in a service business, you may be working on integrating solutions.'

The tie that binds all talent directors is knowledge of the individual business sectors. 'If you are an HR person who doesn't understand the business you're supporting, you can't be successful,' says Calo. 'You don't necessarily need an HR degree; you can always learn HR. Deep subject-matter expertise is important in some areas like compensation. But from a generalist standpoint, some of our most interesting hires come from outside HR.'

In recruiting for HR, Calo says she's 'intrigued by the business professional who really has been out there on the line who really understands the business, has good judgement and good common sense.'

Kari Barbar, vice president of learning, is an example. An experienced hardware engineer, Barbar, who is based in Research Triangle Park, N.C., recently transferred into HR to work directly with Mike Daniels, senior vice president of GTS in Somers, N.Y. 'Five years ago, I would not have considered leaving hardware development to move to HR,' she says. 'But now, I see that our ability to develop expertise is what distinguishes IBM from its competitors. In HR, I'm involved in driving the transition of the company.'

Barbar's job is to determine the professional and technical skills that her client, Daniels, requires to grow GTS. She must provide both the selection of talent and training of existing talent and demonstrate to Daniels' satisfaction that she has delivered value.

To help develop those skill sets across the board, last year, IBM spent more than \$700 million training its workforce. Ninety-five per cent of the funding came not from HR's budget, but from line managers' budgets. Putting the training line item on managers' budgets ensures that the training is connected to their business goals. At the end of the day, HR and MacDonald will have to produce evidence to the line managers who funded the training that it has helped to keep the pipeline flowing.

The pipeline also includes senior-level positions. Succession planning is a standing agenda item at Palmisano's monthly executive team meetings. Calo, Palmisano and his direct reports discuss the merits of candidates for any open senior-level position. 'We present a diverse slate of candidates who can fill the role, describe the competencies

they have and those that are required for the position,' Calo says. 'After discussion and consensus within the Operating Team members, the position is filled.'

Going for broke

At this point, the rollout of WMI is just beginning and the jury is out on whether the new silo-less, integrated HR will make HR more effective. Even the usually confident MacDonald is uncertain. 'This is the first time in my life I'm afraid,' he says. 'The restructuring is so radical.' Still, he relishes his opportunity to run with the innovation. 'I'm here to lead, not follow,' he says.

And he urges other HR executives to follow his example and step up. 'I don't care if you're sitting on top at IBM or you're at a *Fortune* 1000 company. You are entrusted by the shareholders to protect the assets of the corporation that are human in nature. Don't worry about jargon like 'business partner'. You should be just like any other senior executive making a difference to your company.'

Questions and activities

1. It is not very clear from the information provided in the case study whether IBM is at present using any of the three scorecards – i.e. the Balanced Scorecard, the HR Scorecard, and the Workforce Scorecard – discussed in this chapter for performance-measurement purposes. Having evaluated the information in this case, would you say that IBM is ready to implement the three scorecards? Motivate your answer in detail.
2. If IBM does not use any of the scorecards, how would you advise the company to implement these scorecards? Write an essay on how you would suggest it goes about it.

SOURCE: GROSSMAN, R.J. 2007. IBM's HR takes a risk. *HR Magazine*, 52(4):56–59. Used with permission.

REVIEW QUESTIONS AND ACTIVITIES

1. Why has the role of HRM changed so dramatically over the past few years? Discuss briefly.
2. Briefly discuss the four perspectives of the Balanced Scorecard.
3. Write a short paragraph on who is responsible for compiling the Balanced Scorecard.
4. How would you go about implementing the Balanced Scorecard within your organisation?
5. What, in your view, is the strength of the Balanced Scorecard?
6. Briefly discuss the benefits of the HR Scorecard.
7. Write a short paragraph on how the HR Scorecard works by referring to the four dimensions of the scorecard.
8. What, in your view, are the attributes of a successful HR Scorecard? Briefly discuss.
9. Write a short paragraph on the rationale for the existence of a Workforce Scorecard within an organisation.
10. Briefly discuss the four components of the Workforce Scorecard.

FURTHER READING

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- OLVE, N-G., PETRI, E.J., ROY, J. & ROY, S. 2003. *Making scorecards actionable: Balancing strategy and control*. West Sussex: John Wiley & Sons.

WEBSITES

- www.balancedscorecard.org/
 – Balanced Scorecard Institute – devoted to the Balanced Scorecard approach
- www.business-intelligence.co.uk/reports/hr_score/summary.asp
 – Business Intelligence Report – step-by-step guide on how to create an HR scorecard
- www.slideshare.net/asavkin/hr-scorecard-4486660
 – Toolkit for HR
- www.oracle.com/us/products/applications/people-software/financial-management/064747.html
 – A web-based workforce analytics tool

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6. KAPLAN, R.S. & NORTON, D.P. 2005. The Balanced Scorecard: Measures that drive performance. *Harvard Business Review*, 8(7):175.
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8. KAPLAN, R.S. & NORTON, D.P. 2005. The Balanced Scorecard: Measures that drive performance. *Harvard Business Review*, 8(7):177.
9. Ibid.:178.
10. NIVEN, P.R. 2005. Driving focus and alignment with the Balanced Scorecard: Why organisations need a Balanced Scorecard. *The Journal for Quality and Participation*, 28(4):42.
11. Ibid.:43. See also NIVEN, P.R. 2006. *Balanced Scorecard: Step-by-step-maximising performance and maintaining results*. Hoboken, N.J.: John Wiley & Sons.
12. NIVEN, P.R. 2005. Driving focus and alignment with the Balanced Scorecard: Why organisations need a Balanced Scorecard. *The Journal for Quality and Participation*, 28(4):44.
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14. Ibid.
15. Ibid.:135.
16. Ibid.:48–49.
17. Ibid.:139–141.
18. Ibid.:147–148.
19. KAPLAN, R.S. & NORTON, D.P. 1992. The Balanced Scorecard: Measures that drive performance. *Harvard Business Review*, January/February:73.
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21. KAPLAN, R.S. & NORTON, D.P. 2005. The Balanced Scorecard: Measures that drive performance. *Harvard Business Review*, 8(7):179; RHODES, J., WALSH, P. & LOK, P. 2008. Convergence and divergence issues in strategic management – Indonesia's experience with Balanced Scorecard in HR management. *The International Journal of Human Resource Management*, 19(6):1170–1185; MCPHAIL, R., HERINGTON, C. & GUIDING, C. 2008. Human resource managers' perceptions of the applications and merit of the balanced scorecard in hotels. *International Journal of Hospitality Management*, 27:623–631.
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32. Ibid.:53. See also ELLIS, G. 2001. The HR Balanced Scorecard: Linking strategy to people performance. *Management Today*, 17(7):40–41.
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42. Ibid.:9.
43. Ibid.:79–80.
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45. Ibid.:76–77.

46. Ibid.:8.

47. Ibid.:74.

48. Ibid.:xi.

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BECKER, B.E. & BEATTY, R.W. 2005. *The Workforce*

Scorecard: Managing human capital to execute strategy. Boston, Massachusetts: Harvard Business School Press:14.

50. Ibid.:83–100.

Appendix 7A

Assessing the need for a
Balanced Scorecard

To complete the exercise, read each state-
ment in Table 7A.1 and determine how

much you agree with what is stated. The
more you agree, the higher the score you
assign. For example, if you fully agree, assign
a score of five points.

Table 7A.1 Assessing the need for a Balanced Scorecard

1 2 3 4 5	1.	Our organisation has invested in Total Quality Management (TQM) and other improvement initiatives but we have not seen a corresponding increase in financial or customer results.
1 2 3 4 5	2.	If we did not produce our current Performance Reports for a month, nobody would notice.
1 2 3 4 5	3.	We create significant value from the intangible assets such as employee knowledge and innovation, customer relationships, and a strong culture.
1 2 3 4 5	4.	We have a strategy (or have had strategies in the past) but have a hard time successfully implementing it.
1 2 3 4 5	5.	We rarely review our performance measures and make suggestions for new and innovative indicators.
1 2 3 4 5	6	Our senior management team spends the majority of its time together discussing variances from plan and other operational issues.
1 2 3 4 5	7.	Budgeting at our organisation is political and based largely on historical trends.
1 2 3 4 5	8.	Our employees do not have a solid understanding of our mission, vision, and strategy.
1 2 3 4 5	9.	Our employees do not know how their day-to-day actions contribute to the organisation's success.
1 2 3 4 5	10.	Nobody owns the performance measurement process at our organisation.
1 2 3 4 5	11.	We have numerous initiatives taking place at our organisation, and it's possible that not all are truly strategic in nature.
1 2 3 4 5	12.	There is little accountability in our organisation for the things we agree as a group to do.
1 2 3 4 5	13.	People tend to stay in their 'silos', and as a result we have little collaboration among departments.
1 2 3 4 5	14.	Our employees have difficulty accessing the critical information they need to serve customers.

1 2 3 4 5	15.	Priorities at our organisation are often dictated by current necessity or 'fire-fighting'.
1 2 3 4 5	16.	The environment in which we operate is changing, and in order to succeed, we too must change.
1 2 3 4 5	17.	We face increased pressure from stakeholders to demonstrate results.
1 2 3 4 5	18.	We do not have clearly defined performance targets for both financial and nonfinancial indicators.
1 2 3 4 5	19.	We cannot clearly articulate our strategy in a one-page document or 'map'.
1 2 3 4 5	20.	We sometimes make decisions that are beneficial in the short term but may harm long-term value-creation.

Scoring key:

20–30: If your score fell in this range you most likely have a strong performance measurement discipline in place. The programme has been cascaded throughout your organisation to ensure that all employees are contributing to your success, and it is linked to key management processes.

31–60: You may have a performance measurement system in place but are not experiencing the benefits you anticipated or need to succeed. Using the Balanced Scorecard as a Strategic Management System would be of benefit to you.

61–100: Scores in this range suggest difficulty in successfully implementing your strategy and meeting the needs of your customers and other stakeholders. A Balanced Scorecard system is strongly recommended to help you focus on the implementation of strategy and align your organisation with overall goals.

SOURCE: NIVEN, P.R. 2005. (26–27) *Balanced Scorecard diagnostics: Maintaining maximum performance*. Hoboken, N.J.: John Wiley & Sons. This material is reproduced with permission of John Wiley & Sons, Inc.

Ethical issues and challenges in human resource management

8

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Define the concepts 'ethics' and 'business ethics'
- Identify and discuss the ethical dimensions of a strategic HRM paradigm
- Explain the ethical decision-making frameworks of utilitarianism, Kantian deontology, justice, and rights and be able to apply them to the HR function and activities
- Identify and discuss issues that arise in the employment relationship from the perspective of utilitarianism, Kantian deontology, justice, and rights
- Discuss the role of HR professionals in the management of corporate ethics programmes and the benefits of such programmes from an organisational perspective
- Apply critical thinking skills and ethical imagination to resolve dilemmas and enhance decision making in the practice of HRM

PURPOSE

The purpose of this chapter is to explore the ethics issues and challenges that arise in the practice of HRM, and to develop critical thinking skills required for the successful practice of HRM within the framework of societal values.

CHAPTER OVERVIEW

The chapter begins with an explanation of the term 'ethics' and its relevance to enterprises in the South African business and social environment. It goes on to introduce ethical dimensions of a strategic HRM paradigm. These dimensions include the loyalties that HR professionals have to the enterprises that employ them and that may directly conflict with the interests of organisational members or be contrary to the values of their professional code of conduct. To help HR professionals resolve the problem of multiple loyalties, as well as to identify and resolve myriad ethics issues that arise in the

employment relationship, the chapter will explain and discuss four major ethical decision-making frameworks. Thereafter, it will explore the literature on the role of HR professionals in the management of corporate ethics programmes and how corporate ethics cultures support business performance. The concluding case study illustrates how

the theory contained in this chapter can be applied to critically evaluate management practices, to provide insights for managing with integrity, and to examine if the HR function is sufficiently robust to take responsibility for the ethical and value-driven behaviours of employers.

Introduction

Several chapters in this book have discussed how the HR function has evolved from an ancillary administrative service to a strategic partnership, and have considered the attendant changes in the role of the HR professional. One area which has not received attention is ethics. This chapter will address the ethical dimensions of the HR function and HR activities, and the ethical challenges associated with a strategic HR paradigm. It will also introduce ethical decision-making frameworks and discuss the role of HR in developing and implementing corporate ethics programmes. Chapter 9 will address such programmes in more detail and, in particular, the concepts of corporate responsibility, corporate citizenship and corporate governance. Before we address these issues, we shall clarify the meaning of the term 'ethics' and its relevance to the management of enterprises, both domestically and globally.

8.1 Ethics and the South African business environment

Most definitions characterise ethics as referring to standards of conduct or codes of conduct for specialised groups.¹ Thus, we refer to the ethics of accountants or the code of ethics for the HR profession. The term

'ethics' is also used to denote the field of moral philosophy. Moral philosophy or philosophical theories of ethics are concerned with principles of conduct that govern behaviour. These theories or principles provide the ultimate ground of justification for ethical beliefs about right and wrong behaviour.

Singer, a renowned moral philosopher, explains:²

Ethics deals with values, with good and bad, with right and wrong. We cannot avoid involvement in ethics for what we do and we don't do is always a possible subject of ethical evaluation. Anyone who thinks about what he or she ought to do is, consciously or unconsciously, involved in ethics.

SOURCE: SINGER, P. (Ed.). 1993. *A companion to ethics*. Oxford: Basil Blackwell.v.

Business ethics (or management ethics) focuses on moral standards as they apply to organisations and the behaviour of organisational members. Most decisions in business, particularly those relating to HR, have an ethical component. Business ethics thus requires an integrated approach to

decision making. An integrated approach recognises that managers must take the moral point of view as well as make economically sound decisions and act within applicable law.³

The moral point of view requires people to act impartially and in accordance with reason, rather than on the sole basis of self-interest or tradition. If ethics is about relationships between people, then business ethics is about relationships between stakeholders and the recognition that their divergent interests must be accommodated.

Decisions must also be understood as involving different levels of analysis, including the individual, the organisational, the professional, the business system, and societal levels.⁴⁻⁵ Employment equity is a case in point.

Business ethics has two important anchors in South African-based public and private enterprises. The first is the Constitution's founding values of human dignity, the achievement of equality, and the advancement of human rights and freedom.⁶ In the post-apartheid twenty-first century, these values are highly important to the practice of HRM. For example, the recognition that all people are of equal importance has implications for the deployment of human resources by HR professionals and other managers. The second anchor is the series of the *King reports on corporate governance*,⁷ King I, 1994, King II, 2002 and King III, 2009 which has been instrumental in moving ethics onto the agenda of corporate boards in South African-based enterprises. (For further information on the *King Reports* see Chapter 9.)

Table 8.1 Website resources for ethics and HRM

Website	Details
http://www.ssa.vic.gov.au/products/view-products/ethics-resource-kit.html	Leading the Way. An ethics resource kit and development guide for managers Taking the High Road. An ethics resource kit and development guide for employees
http://ethisphere.com/past-wme-honorees/wme2011/	World's most ethical companies ranking 2011
www.transparency.org www.tisa.org.za/	Transparency International. The global coalition against corruption (includes the annual corruption perception index Transparency International South Africa
www.ethics.org	Ethics Research Center (ERC) in Washington, D.C.: Access to National Business Ethics Survey, Ethics Toolkit and other valuable resources
http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html	The UN Global Compact's ten principles in the area of human rights, labour, the environment and anti-corruption
www.kpmg.co.za www.tisa.org.za	Ethics Survey – 2001 Ethics in Practice by KPMG and Transparency International, South Africa to measure the extent to which South Africa's public services, private corporation and civil society organisations succeeded in establishing ethical management practices

Website	Details
www.ethics.org.au	The St James Ethics Centre, Australia provides consultancy services to enterprises, the Corporate Social Responsibility Index, and papers on various business ethics topics
www.shm.org	Society of Human Resource Management, USA
www.siopsa.org.za	Society of Industrial and Organisational Psychology of South Africa
www.ahri.com.au	Australian HR institute
www.sabpp.co.za	South African Board for People Practices (professional Institute)
www.hrcosa.co.za	Human Resource Council of South Africa
www.apso.co.za	Association of Personnel Service Organisations of SA
www.ethicsa.org	The Ethics Institute of South Africa
http://web.up.ac.za/default.asp?ipkCategoryID=5232	Centre for Business and Professional Ethics (CBPE), University of Pretoria
www.acts.co.za	Acts Online
www.ibe.org.uk www.ibe.org.uk/userfiles/op4%20final.pdf	Institute of Business Ethics (IBE) in the UK Doing Business in South Africa: An overview of ethical aspects (Paper; additional websites included)
www.bsr.org	Business for Social Responsibility
www.web-miner.com/busethtics.htm	Various resources for business ethics theory and practice
www.humanresourcesmagazine.com.au	<i>Human Resources</i> magazine, an Australian bi-weekly publication for the HR profession
www.cauxroundtable.org/	Caux Round Table Principles for enterprises engaged in global business
http://moral.wjh.harvard.edu/	Test your ethics (Harvard University)
http://www.youtube.com/ http://athome.harvard.edu/programs/jmr/#	Professor Michael Sandel from Harvard on justice and ethics issues
www.utilitarianism.com/	Provides information, book chapters, and articles on utilitarianism
http://openculture.com/2009/10/Michael_sandel_on_justice_lecture_iii/html	Professor Michael Sandel from Harvard on utilitarianism justice and taxation
http://facultyfiles.frostburg.edu/phil/forum/Kant.htm http://academicearth.org/lectures/motives-and-morality http://www.youtube.com/	Provides information about Kant's theory of ethics Professor Michael Sandel from Harvard on Kant Professors Sandel and Peter Singer on utilitarianism, Kanttorture

Website	Details
www.sweatshops.org and www.sweatshopwatch.org	Provides information on sweatshops around the world
www.eben.org	Links to ethics organisations, university programmes, and research institutes
http://www.bbc.co.uk/ethics/	Various resources and activities on ethics

However, international surveys on business ethics consistently report that many enterprises face high levels of ethics risk due to poorly implemented ethics programmes and weak ethics cultures. For example, Vuuren and Eiselen's (2006) survey of South African organisations found that 83% of respondents reported cases of fraud or corruption occurred within their organisations, yet only 27% provided ethics training and less than 20% included managing ethics as a generic key performance area of the managers.⁸ Similarly, the *King Reports* recognised that many enterprises need to put in place training programmes to develop ethical competency and to develop organisational processes that embed ethics into organisational cultures and operations.

The HRM activities of recruitment, selection, training and development, compensation, and performance management are not only a means to gaining competitive advantage; they are also important vehicles for promulgating an ethical culture. This chapter will now focus on the ethical dimensions of the strategic HR paradigm and HR activities, the role of HR professionals in the operationalisation of corporate ethics programmes and the knowledge and competencies that are foundational for a leadership role in managing ethics. (Many institutes, professional bodies, and websites are dedicated to ethics in the workplace. If you would like to do further research on the topics this chapter raises, the websites listed in Table 8.1 are a useful starting point. The resources they provide will help you to

undertake further research on the topics covered in this chapter and to undertake ethics initiatives in your enterprises. Many of these websites provide multiple annotated links to other websites, as well as links to research articles and large amounts of other useful content.)

8.2 Ethical dimensions of a strategic HRM paradigm

Chapter 1 introduced the early paradigms of HRM and the evolution of the strategic HRM paradigm, while Chapter 4 explored the basic principles and various models of strategic HRM. Although some have questioned the extent to which the HR profession has practiced strategic HRM,⁹ there is some evidence that the transition from administrative functions to the strategic planning role is in progress. For example, the *2006 Strategic HR Management Survey*, conducted by the USA-based Society for Human Resource Management (SHRM),¹⁰ reported that more than 50% of HR professionals indicated that strategic planning is part of their function and SHRM's 2010 poll on HR representation on corporate boards, reported that 26% of HR professionals with a title of director and above sat on a board of directors, although of these, 22% were boards of non-profit organisations.

In this section our attention turns to the ethical dimensions of the changing paradigms of HRM. This involves two related, but distinct, problems. The first is the problem of dual loyalties and the second is the

role of the HR professional in an integrity-based approach to strategic business partnership. These problems arise because the transformation of the HR function has left unresolved tensions between the aims of the traditional welfare, administrative, and service roles and the aims of a new strategic role. In particular, the current emphasis on strategic HRM heightens the potential conflict of loyalties for HR professionals who have to balance their dual membership in the HR profession grounded in the values of 'fair and efficient' management of people and in the corporate environment focused on values which have more to do with economic rationalism.¹¹ The HR function has developed out of a concern for the individual, the enterprise, and society in response to relevant management and social problems of the day. HR practices have been driven by multiple values, including efficiency, competitiveness, care, respect for individuals, rights, and justice. As long as HR professionals are concerned with both the management of systems and the management of people, it is difficult to see how they will be able give up any one of these values. Operationalising the proper balance between conflicting values remains complex and goes to the heart of strategically managing human resources with integrity. For example, do the means employed by HR professionals condone corporate ends and can those ends be justified? Moreover, to be regarded as a profession, HR practitioners must have a degree of independence commensurate with their exercising critical analyses of corporate policies and practices in the service of the public good.

8.2.1 The problem of dual loyalties

HR executives who are expert in both financial and people skills are in a strong position to balance judgements of economic rationality with social responsibility. However, both anecdotal and research evidence suggest that some HR practitioners find this position

burdensome. They see conflict between the understanding of themselves as 'friends of the workers' and their new role as management's instruments of competitive advantage.¹² Three examples from the research literature serve to illustrate this point:

- Firstly, studies have consistently found that respondents cite pressure to meet unrealistic or overly aggressive business objectives and deadlines as the most likely factor to cause organisational members to compromise their companies' ethical standards. For example, this response was reported by 70% of respondents to the 2006 AMA/HRI survey,¹³ 46–50% of respondents to the 2005 and 2008 KPMG surveys,¹⁴ and 50% of respondents in a 2007 Australian study.¹⁵
- Secondly, Schwoerer, May, and Benson's study of 785 members of the Society for Human Resource Management in the USA found that 'many organisations report difficulty establishing a balanced and coherent strategy between employee and employer rights'.¹⁶
- Thirdly, Hendry suggests that in the UK it has been difficult for HR managers to act as a 'neutral go-between' and that the HR manager 'became more unequivocally the representative of management, counter-balancing the power of trade unions and individual rights enshrined in legislation'.¹⁷

Hendry's suggestion is congruent with many UK researchers who have been critical of the unitarist and managerialist views of HR, maintaining instead that workers and managers have different interests. The unitarist assumption that the interests of employees are the same as those of their employers gives rise to the view that the proper employee-employer relationship is one of partnership.^{18–20} This contrasts with the pluralist perspective that recognises the possibility of diverse interest groups and sources of loyalty or, even worse, inevitable

conflict between employers and employees. A paradigm shift from pluralism to unitarism is problematic. On the one hand, treating human resources as valued assets, integrating HR policies into the business strategy, and striving for employee commitment through the management of culture, rather than seeking compliance with rules and regulations, can be viewed as beneficial to both employees and employers. On the other hand, these practices may allow labour to be used as business needs dictate and can therefore be thought of as serving primarily the interests of employers.²¹ Moreover, when corporate ethics and corporate culture are seen solely as systems for controlling behaviour, they function at the lowest level of moral development. Not surprisingly, then, the nature and role of socialisation in the workplace raises numerous ethical issues for HR professionals charged with developing corporate cultures and embedding ethics into them. These issues arise because the process of socialisation or induction into an organisation's culture tends to move beyond fostering knowledge of cultural norms and values to promoting the internalisation of corporate values by individual members. As Hoffman²² has noted, it is moral autonomy that enables corporate cultures to be critiqued.

Developing strategies and policies that protect employees' interests, yet balance operational and human resource needs, is a difficult mandate because it requires HR professionals to quantify the contribution of human resources to organisational performance in ways that do not compromise respect for, and the dignity of, individual organisational members. It is not surprising, therefore, that HR professionals may experience some ambivalence about the pursuit of competitive advantage, particularly when one considers that HR activities such as staffing, compensation, and training have a direct impact upon organisational members in a way that other business functions – e.g. sales, marketing, finance, and production

– do not.²³ Not surprisingly then Van Vuuren and Eiselen (2006) question whether it is reasonable to expect HR to have the competencies and capacities needed to assume the complex and demanding role of corporate ethics management, especially in view of the breadth of the current HR function.²⁴

8.2.2 HR professional codes of conduct

When faced with conflicts of dual loyalties many professionals turn to their profession's code of ethics for guidance. Professional codes of conduct serve as 'moral anchors,' embody a profession's values, help it to establish an ethical climate, and provide a framework for evaluating alternative courses of action.²⁵ Professional codes of conduct can also reassure stakeholders (the public, employees, managers, and shareholders) that a profession's activities are underpinned by moral principles, and provide stakeholders with a benchmark by which to evaluate the ethical performance of a profession.

Traditionally, professional codes of ethics for professions such as accountancy, architecture, engineering, journalism, medicine, pastoral counselling, public administration, social work, and education have recognised that loyalty is owed to affected stakeholders in the following order of priority:

- The public (including employees and consumers)
- The profession
- The client and employer
- The individual professional.^{26–27}

However, this has not always been the case with HR professional bodies. Prior to 2006, the code of ethics for SHRM which at January 2012 had a global membership in excess of 250 000 across 146 countries, took a balanced approach to the multiple responsibilities its members have to internal and external stakeholders, but gave primacy to the fair and equal treatment of employees

and the public interest.²⁸ This was in contrast to the pre-2006 *Charter of Professional Standards* from the Australian Human Resources Institute (AHRI), which addressed the problem of primary responsibility by stating that the first responsibility of HR professionals was to their employer.²⁹ The South African Board for People Practices (SABPP) is a professional body for managers, practitioners, consultants, academics, and students in the field of HRM and has a membership of over 7 000. The pre-2006 *Code of Professional Conduct* from the SABPP somewhat ambiguously stated that, 'registered members of the human resources profession are obliged to uphold certain standards in their practice, both in the interests of the public and their calling'.³⁰

Recently, all three of these professional HR bodies, in consultation with their respective members, revised their codes of ethical and professional standards. Both SHRM and AHRI bypassed the issue of dual loyalties and instead now refer to standards and values such as advancing the profession, honesty, integrity, confidentiality, justice, competence, lawfulness, organisational capability and maintaining the trust of stakeholders. However, at its board meeting in August 2006, the SABPP approved a new *Code of Conduct* which appears to recognise directly the problem of conflicting or dual loyalties and gives a clear statement on them to its members (see Box 8.1).

In part, the SABPP code states:³¹

Our first responsibility is to meaningfully transform the lives of those men and women that are employed by the organisations we serve. We have a further responsibility to contribute to the success and sustainability of the organisations that employ us or that we render a service to. It is

our responsibility to comply with the expectations of our profession and fellow practitioners. We accept responsibility for the outcomes of our actions and interventions. In this we contribute to the greater goodness of society.

SOURCE: SOUTH AFRICAN BOARD FOR PEOPLE PRACTICES (SABPP). 2007. *Code of Conduct*. [Online]. Available: www.sabpp.co.za, 1 July 2007.

The code also emphasises the obligation of HR professionals to uphold respect for the dignity of all human persons and empowers them to be vigilant and aggressive in this pursuit.

For example, the code states:³²

*We are unwaveringly committed to tolerance, respect for human dignity and upholding the human rights as prescribed by the constitution of the country. We treat all our stakeholders with respect and protect them from harm. We stand in service of our profession and its membership, those organisations that remunerate us for our professional contributions and the communities we affect. We have an obligation to prevent breaches of principles of respect and to assertively object to such violations when they occur.*³³

SOURCE: SOUTH AFRICAN BOARD FOR PEOPLE PRACTICES (SABPP). 2007. *Code of Conduct*. [Online]. Available: www.sabpp.co.za, 1 July 2007.

The SABPP's revised *Code of Conduct* appears to hold in tension the plurality of values it has inherited from multiple traditions. These include not only HRM paradigms, but also South Africa's Constitution. In doing so the code is an important vehicle for providing direction and counsel to the HR profession in South Africa as it moves forward to meet local and global contemporary challenges, including the demands of a strategic HRM paradigm.

8.2.3 An integrity-oriented approach to strategic business partnership

The second ethical dimension of a strategic approach to HRM concerns the roles undertaken by HR professionals in regard to corporate ethics. A study conducted in the USA by SHRM and the Commerce Clearing House (CCH)³³ suggests that:

- The dominant role performed by HR professionals in workplace ethical issues is that of monitoring for policy and legal compliance
- The least dominant roles are those of employee advocate, educator, and questioning the ethical dimensions of managerial decisions.

The results of the survey are shown in Table 8.2. Whilst the role of monitoring for legal compliance is important, it is a narrow role and remains focused on a reactive administrative approach to both ethics and HR.

Although the 2006 SHRM survey cited above reported an increase in HR's involvement at the strategic level, it also reported that more than 80% of survey respondents felt their department's focus on administrative duties, rather than on strategy, limited their ability to contribute at the strategic level. In the HR literature it is argued that an emphasis on the administrative-service role frustrates a transformation of the HR function.³⁴⁻³⁵ The business-ethics literature generally recognises that the law specifies an ethical minimum and that ethics involves more than minimal legal compliance.³⁶

BOX 8.1

The South African Board for People Practices (SABPP) Code of Conduct

Preamble

We value what we can offer as a profession and recognise the stewardship role of the profession and its members. This role is embodied in the norms and principles we stand for. The purpose of this code is to entrench the obligation we have as professional HR practitioners to uphold the profession's norms and principles and to conduct our activities in a professional and ethical manner. To ensure the trust of all our stakeholders, we strive to build the reputation of the profession and its members through the values of responsibility, integrity, respect and competence.

Our ethical identity

As members of the profession of Human Resource Management in South Africa, we actively pursue the ideals of professionalism and are therefore ethically obliged to

- Bring meaning and quality of worklife to the people we serve in our professional capacities
- Ensure the sustainability of the organisations that we serve
- Make a difference to the communities we touch.

Our ethical values

Responsibility

Our first responsibility is to meaningfully transform the lives of those men and women that are employed by the organisations we serve. We have a further responsibility to contribute to the success and sustainability of the organisations that employ us or that we render a service to. It is our responsibility to comply with the expectations of our profession and fellow practitioners. We accept responsibility for the outcomes of our actions and interventions. In this we contribute to the greater goodness of society.

Integrity

As HR practitioners we are committed to exemplary ethical conduct that is characterised by honesty, objectivity, fairness of judgement, consistency of action and loyalty to our profession and the organisations and communities we engage with. We aim to grow the profession in a controlled and responsible manner. In that we strive to attract to the profession members with sound moral character and integrity.

Respect

We are unwaveringly committed to tolerance, respect for human dignity and upholding the human rights as prescribed by the constitution of the country. We treat all our stakeholders with respect and protect them from harm. We stand in service of our profession and its membership, those organisations that remunerate us for our professional contributions, and the communities we affect. We have an obligation to prevent breaches of principles of respect and to assertively object to such violations when they occur. We respect the confidentiality of information that is entrusted to us.

Competence

Professional registration of HR practitioners is a privilege afforded to individuals that have met the criteria for registration. We are committed to ensure professional credibility by actively evaluating and protecting the quality of professional education and training of those aspiring to enter the profession. We aspire to uphold the highest standards of continued professional development and improvement of competence of members of the profession. We enact this aspiration through role modelling and mentorship. It is our professional duty to integrate and apply sound human resource management principles, policies and practices in all aspects of people management and to assess the value that we add. We strive to formulate generally accepted HR practices that adhere to criteria of scientific and feasibility proportions. It is our quest to build the field of human resource management by promoting and supporting rigorous research.

SOURCE: SOUTH AFRICAN BOARD FOR PEOPLE PRACTICES (SABPP). 2007. *Code of Conduct*. [Online]. Available: www.sabpp.co.za, 6 January 2012. Used with permission.

One reason for the emphasis on legal compliance may be that the HR profession has left the business of ethics to external bodies – either the law or unions. As a result,

many HR policies and practices relating to workplace rights, bribery, global human rights, and the environment are designed to avoid lawsuits, union conflict, and consumer

Table 8.2 Ethics roles played by HR professionals – perceived frequency and effectiveness

HR role and function	Very frequent %	Very effective %
Monitoring: HR monitors organisational conduct for compliance with laws and policies	78	66
Modelling: HR attempts to increase ethical conduct by serving as an ethical role model	78	58
Advisory: HR advises organisational members on ethics standards and policies	67	58
Organisational: HR defends the organisation's actions when confronted by outside agencies	58	69
Investigative: HR investigates unethical/ethical situations and complaints	51	63
Advocacy: HR acts on behalf of employees; HR protects employees from reprisals from management	50	58
Educative: HR trains or disseminates information on ethics policy	42	35
Questioning: HR acts to question the ethical dimensions of management's decisions	41	42

SOURCE: Adapted from SOCIETY FOR HUMAN RESOURCE MANAGEMENT. 1991:4 (*In* CAREY, L.E. 1999. Ethical dimensions of a strategic approach to HRM: An Australian perspective. *Asia Pacific Journal of Human Resources*, 37(3):57.) Used with permission.

boycotts. The common misconception that ethics is primarily concerned with avoiding wrongdoing can obfuscate an important dimension of ethics; ethics is also guidelines for the constructive role that decision-makers can play in an organisation.³⁷

A second reason for an emphasis on legal compliance may be that the HR profession has not adequately addressed ethics in the training and professional development of HR practitioners. Without an understanding of ethical principles, the emerging role of ethics for the HR practitioner is likely to become locked into the administrative-supportive HR paradigm, rather than a strategic one.^{38–39} This point is similar to Beer's⁴⁰ observation that the most formidable obstacle to the transformation

of the HR function is the lack of high-level analytical and interpersonal skills in many HR professionals. Certainly it is easier to monitor behaviour for compliance with legal and organisational guidelines than to engage in complex philosophical debates germane to ethical issues. The issues of junior wage rates and employment-equity compliance illustrate this point. Monitors need only administer the policy according to a manual; they avoid the complexities of comparative worth, distributive justice, and hourly wage rates based on skill-level, regardless of personal characteristics such as age, gender, and race. Similarly, monitors may be more interested in a prescribed monetary figure to determine when legitimate entertainment becomes bribery than

in understanding the principles which censure bribery while condoning limited gift-giving. Monitoring and legal compliance have more to do with standardising behaviour than with ethical decision making. Ethical decision making requires three qualities which can be developed or enhanced through education:

1. The ability to perceive ethical issues in a situation
2. The ability to engage principled reasoning and problem-solving strategies
3. A personal resolve to act ethically.

Josephson⁴¹ refers to these qualities as ethical consciousness, ethical competency, and ethical commitment. In section 8.3 we shall discuss ethical principles or frameworks for decision making.

A strategic HRM paradigm calls for HR professionals to move beyond the roles of 'policy police and regulatory watchdog'⁴² to business partner. Whilst the concept of 'business partner' is an attractive one, it must be remembered that it may be associated with a unitarist perspective and the expectation that HR professionals should demonstrate their contribution to the bottom line could easily overshadow any commitment to balance competing interests. This is particularly problematic when codes of practice for HR professionals reflect a unitarist view. Likewise, recent empirical studies which have expressed interest in investigating the effectiveness of values-oriented ethics programmes over compliance-oriented ethics programmes tend to speak of shared values throughout the organisation, without due regard for the pluralist-unitarist debate.⁴³⁻⁴⁴ One way around this problem may be to adopt De George's⁴⁵ notion of integrity. The term is a useful one because it avoids some of the negative connotations that many attach to the terms 'ethics' and 'morality', while at the same time it suggests that acting ethically 'extends beyond satisfying the bare moral minimum.'⁴⁶

Paine also speaks about integrity as a governing ethic:⁴⁷

[F]rom the perspective of integrity, the task of ethics management is to define and give life to an organisation's guiding values, to create an environment that supports ethically sound behaviour, and to instill a sense of shared accountability among employees.

SOURCE: PAINE, L.S. 1994. Managing for organizational integrity. *Harvard Business Review*, March-April:111.

Extending the notion of 'business partner' to include integrity means that HR executives should integrate ethics into strategic decision making. Too often enterprises fail to make ethics a 'before-profit concern' and consequently fail to recognise the role ethics plays in achieving entrepreneurial success and avoiding costly errors.⁴⁸ As integrity-based business partners, senior HR executives would need to develop the presently underutilised roles of questioner and educator in ethical matters. The execution of these roles requires the high-level analytical skills referred to earlier, in particular Josephson's⁴⁹ ethical consciousness, competency, and commitment. It also requires confidence to introduce ethical considerations at the strategic management and board levels. Integrity-based business partners would question, for example, the exploitation of workers in any strategic plan that suggested the payment of below-subsistence wages or unsafe work practices, even in situations where it was legal to do so. A hallmark of value-based HR strategic leadership is a focus not only on what business opportunities organisations accept, but also how that business is conducted while concerned with measures of sales, profit, market share and return on investment, it will address how

companies manufacture their goods and services, how they manage their stakeholder relationships and how they impact their environment in sustainable ways. For example, in 2003 South Africa's 'Big Four' banks (ABSA, First National, Nedcor, and Standard Bank) developed the *Financial Sector Charter*, which is a voluntary initiative designed to address the issue of Black Economic Empowerment (BEE) in the financial-services industry and to reverse previous inequalities arising from apartheid. In particular, the charter aims to increase access to finance and banking services, including home-loan finance for poorer South Africans previously denied access, and to promote diversity within management ranks.⁵⁰

An HR approach to business partnership that is based on integrity would combine concern for the competitive use of human capital with managerial responsibility for the ethical dimensions of an enterprise's strategic operations. Without an integrity-oriented approach to business partnership, there is the danger that HR professionals may continue in the administrative-service role under the guise of being strategic players.

8.3 Ethical decision-making frameworks⁵¹

The integration of ethics into strategic HRM decision making requires HR executives to be fully capable of identifying the social and ethical issues and risks attached to alternative business strategies and to be fully capable of resolving them in HR practices.⁵² Earlier we noted the three qualities Josephson⁵³ identified as essential to ethical decision making: ethical consciousness, competency, and commitment. In this section we shall turn our attention to ethical competency, which is the ability to engage in ethical reasoning to explore and resolve ethics issues and dilemmas. To engage in ethical reasoning, HR practitioners can draw on two widely accepted normative theories of ethics, namely:

- *Teleology*. This theory is concerned with understanding the consequences of actions for the common good.
- *Deontology*. This theory is concerned with understanding duties, justice, and rights.

The essential elements of each theory are summarised in Table 8.3.

8.3.1 The consequences of actions: Teleological theory

Teleological theory stresses the consequences that result from an action or practice. For this reason it is also known as consequentialism. The most widely accepted form of consequentialist reasoning is utilitarianism (see Table 8.3.) The classical statements of utilitarianism are found in the writings of Bentham and Mill in the nineteenth century but elements of utilitarianism can also be found in ancient writings of other traditions such as the Chinese philosopher, Motzu (C470-391BCE). The utilitarian tradition remains influential today, especially in the areas of economics and business, public policy, and government regulation. Indeed, the concerns of utilitarian thinkers are similar to the concerns raised in an important South African document, *A Strategy for Broad-Based Black Economic Empowerment* (and the subsequent B-BBEE Act 2003) which addresses criticism of the earlier post-apartheid attempts to promote the economic, political and social participation of historically discriminated people as being elitist (particularly those who were politically connected).

For the utilitarian, the right thing to do is that which maximises the greatest good for the greatest number of people. The greatest good is determined by weighing all the consequences (good and bad) for all those affected by the action valued equally, in the short and long term. The means by which the greatest utility is achieved is only of importance insofar as it affects the

outcome. For this reason, it is often said that under utilitarianism, the end justifies the means. However, it must be appreciated that utilitarianism is morally demanding; it seeks to promote the common good and respects sentient (feeling) beings equally. Thus, it differs from the typical cost benefit analysis practiced by business and limits self interest to equal consideration of the interests of everyone. Nevertheless, as utilitarianism is primarily focused on the common good and not the good of any one individual (even though all are considered and considered equally), an individual's particular good could be overridden for the common good. For example, if psychometric testing results in the greatest good, utilitarianism will accept that the means to that end may involve breaching individual privacy rights.

Act utilitarianism and rule utilitarianism are refinements of the utilitarian theory,

nevertheless each decides right and wrong on the basis of the consequences of an action. The difference is over whether a utility analysis should be applied to every action whenever it occurs (act utilitarianism) or to classes of actions (rule utilitarianism). Faced with the choice of breaking a contract, every time the question of breaking a contract arises the act utilitarian would have to weigh up all the good and bad consequences for all those the action affects. The rule utilitarian, looking to past consequences of breaking contracts, might develop the rule that 'generally breaking contracts leads to more harm than good, therefore, in this case, breaking a contract is wrong'. Proponents of utilitarianism have also differed over what should count as good. For example, Bentham focused on pleasure and Mill on happiness. However, contemporary utilitarians argue for a many-sided interpretation of the good, including satisfaction of individual preferences.

Table 8.3 Summary of ethical frameworks for moral reasoning and decision making

Ethical framework and principle	Strengths	Limitations
Utilitarianism (teleology/ consequentialism) The greatest good for the greatest number (net utility)	1. Looks at all the consequences on all those affected by an action long/short term. 2. Is universalistic not egoistic. 3. Values all equally. 4. Values efficiency. 5. Consistent with profit maximisation and is easy for managers to understand.	1. Difficult to predict and quantify all the consequences although rule utilitarianism largely overcomes this criticism. 2. Can result in unfair distributions of the common good. 3. The end (net utility) can justify the means. 4. Individual rights can be overlooked for net outcomes.
Kantian duty (deontology/ nonconsequentialism) Universal respect for autonomous beings	1. Protects the individual from being used as a means to an end. 2. Protects autonomy. 3. Consistent with the golden rule, 'do unto others as you would have them do unto you'. 4. Firm standards that do not depend on results.	1. Can be difficult in practice to make the means/ends distinction. 2. The tests of universalisability and respect for autonomous beings may not be sufficient e.g. should consequences count? 3. Only rational beings have moral worth (not animals, etc.).

Ethical framework and principle	Strengths	Limitations
Justice Rawls's egalitarianism	1. Attempts to allocate resources and costs fairly and objectively. 2. Protects those who lack representation and provides basic welfare. 3. Is consistent with a democratic approach and Kant. 4. To be just, laws must benefit not only a majority, but everyone.	1. Can encourage a sense of entitlement that reduces risk, innovation and productivity. 2. Can result in reducing rights of some in order to accommodate rules of justice.
Nozick's entitlement theory	1. Upholds rights of liberty and property. 2. Not concerned with what people end up with, but the legitimacy of how they acquired wealth or property.	1. Emphasises freedom over other values. 2. Unjust treatment of disadvantaged.
Moral rights Individual entitlements which impose obligations on others	1. Protects the individual from harm. 2. Imposes obligations on others either not to interfere or to promote other's welfare. 3. Consistent with universal human rights. 4. Conflicts between the same rights of different people can be resolved through equity; conflicts between different rights of different people can be resolved through a hierarchy of rights.	1. Can be misinterpreted resulting in selfish behaviour. 2. Can promote personal liberties that impede productivity and efficiency. 3. Can be difficult to balance conflicting rights.

SOURCE: CAREY, L.E. 2007. *Profits and principles: The operationalisation of corporate ethics in Australian enterprises*. Canberra, Australia. University of Canberra. (Ph.D. thesis.) Used with permission.

Take care not to confuse the concept of the greatest good for the greatest number as the equivalent of the greatest good for the enterprise, or one's self interest. For this reason, it is important to differentiate utilitarianism from egoism. Although egoism is a form of consequentialism, it does not meet the criteria of logical coherence, impartiality, consistency with basic moral intuitions, explanatory adequacy, and concern for the facts – all of which are necessary for a good moral theory.⁵⁴ Under egoism, the

right action is that which maximises self-interest. To defend one's course of action by appealing to self-interest is hardly likely to be seen as publicly defensible. Yet individuals and enterprises frequently appeal to egoistic reasoning, either overtly or covertly. For example, an enterprise which justifies a breach of safety by appealing only to its need to cut costs would be employing reasoning typical of egoism. Utilitarianism requires HR practitioners to implement policies and practices which produce the greatest net

benefit for all relevant stakeholders and not those which produce only the greatest benefit to the enterprise. This does not, however, preclude management from taking actions which yield the largest profit.⁵⁵ For example, to meet the challenge of declining profits and market share, an enterprise might consider downsizing and an extensive retrenchment programme. Some good would result from the lower labour costs, which might also mean that more people could purchase lower-priced goods or the enterprise could become more attractive to investors. Thus while some people stand to lose, others stand to gain. The utilitarian (especially an act utilitarian) would condone labour cutbacks so long as net utility was maximised (the end justifies the means). It must be stressed however, that net utility must be the aggregate of consequences for all stakeholders involved in the labour cutbacks.

Utilitarianism is a useful decision-making tool for HR practitioners since it requires consideration of collective, as well as individual, interests, and the formulation of alternatives based on the greatest good for all parties affected by the decision, and it quantifies the costs and benefits of alternatives for the affected groups.⁵⁶ With its emphasis on the collective good, utilitarianism is compatible with traditional African values of communitarianism, consensus, and co-existence.⁵⁷ The ubuntu principle of reciprocity and interdependence reflects the communitarian nature of South Africa. Mbiti translates the term 'ubuntu' as 'I am, because we are; and since we are, therefore I am.'⁵⁸ Other values derived from utilitarianism include transparency, equity, integrity and high performance. However, the main weaknesses of utilitarianism are that the principles of justice and rights are secondary and therefore, in theory, could be overridden, and individual interests may be sacrificed for the greater good. Critics of utilitarianism would never justify abrogation of human rights and unequal access to education, employment, housing, and

health-care for a minority, even if doing so maximised overall utility. Because individuals live in a community and the community is made up of individuals, utilitarianism is best understood as complementary to deontology rather than as a rival theory.

8.3.2 The importance of duty to others: Deontological theory

Deontological theories of ethics stress the importance of an individual's duty toward others, rather than consequences. Deontological reasoning is therefore known as nonconsequentialist (see Table 8.3). It emphasises the concept of duties and challenges management to treat every stakeholder with respect and integrity rather than viewing them instrumentally for the collective good. The concepts of 'human rights' and 'justice' are based on deontology.

The most widely recognised statement of deontology is found in the writings of the eighteenth-century German philosopher Kant. Kant was a rationalist and believed that human reason could 'work out a consistent set of moral principles that cannot be overridden.'⁵⁹ Reason is central to Kantian ethics and has three key characteristics:

1. *Consistency*. This requires that moral actions must not be self-contradictory. Bribery, for example, is self-contradictory.
2. *Universality*. This requires that one treats others the way one wants to be treated and does not make an exception in matters relating to oneself. This is akin to the 'golden rule'. For example, one ought to respect the integrity of the tendering process and not attempt to gain an unfair advantage for oneself by offering a bribe.
3. *It is a priori*. Reason is *a priori* (not derived from experience).⁶⁰ Bribery is wrong regardless of whether or not one wins contracts.

Kant reasoned that a moral principle or law must follow a particular form. It must:

1. Be possible for it to be made consistently universal
2. Respect rational human beings as ends in themselves
3. Respect the autonomy of rational beings.

These three criteria make up Kant's categorical imperative or absolute principle from which second order principles or rules can be derived. For Kant, actions that fail to meet any one of these criteria cannot be regarded as moral. For example, when people bribe they seek an unfair advantage over others, but if everyone bribed, no one could be advantaged. Thus, bribery only works against a background of honest trading and cannot be universalised. Similarly, a person who lies manipulates others for their own ends by distorting the reasoning process and therefore the autonomy of the person lied to. Note, however, that Kant does not claim that one must never use people for a purpose; he states only that one never merely uses them as a means to an end. Kant is not opposed to the hiring of labour, for example, so long as employees autonomously agree to work and are paid a fair wage and are provided with safe working conditions. Typical deontological values include respect, honesty, equity and reliability. While there is commonality between values supported by deontology and values supported by utilitarianism the rationale for that support differs. The logic underlying Kant's categorical imperative is an important reminder to HR decision-makers that the humanity of individuals 'must be considered above the stakes, power or consequences of our actions'.⁶¹ In post-apartheid years, an age where technology and economic rationalism can dehumanise individuals in the guise of efficiency, this is an important reminder.

Ross⁶² later expanded Kant's single-rule theory to address the problem of conflicting duties. Ross's 'prima facie duties' require managers to choose between conflicting duties on the basis of which is the more

fundamental or obligatory. For example, an HR manager may have a duty to respect an individual employee's right to smoke, as well as to ensure that other employees have a safe working environment; however, the latter is the more obligatory duty.

8.3.3 Fairness: The idea of justice

The notion of justice is often expressed in terms of fairness, equality and impartiality, while issues involving questions of justice are divided into four categories: distributive, procedural, retributive, and compensatory. Understanding these different aspects of justice is important to HR practitioners responsible for enacting policies in relation to the conventional HR activities, as well as specific issues such as workplace surveillance, drug testing, affirmative action, workplace bullying or harassment, discipline, and change management. Enterprises perceived to be just are likely to be able to attract and retain the best employees, reduce stress and conflict in the workplace, and create organisational cultures that promote efficient and satisfying workplaces.

- *Distributive justice.* Distributive justice is of particular importance to HRM since it is concerned with the fair distribution of society's benefits and burdens through the major societal institutions, which include business and government enterprises. The following are all issues related to distributive justice: disparities between executive salaries and those of their subordinates; inequalities based on gender or race; profit-sharing schemes; pay for performance bonuses; redundancy packages; and the use of cheap labour. The effects of perceived inequity on attitudes and behaviour in the workplace have been the subject of a substantial body of research in the literature on management.⁶³⁻⁶⁶
- Philosophers have identified a number of relevant properties for a just distribution of society's benefits and burdens.

These properties include equality, individual need, individual rights, individual effort, societal contribution, and merit. Libertarian and egalitarian theories of distributive justice have been proposed in the face of these divergent appeals to justice. Libertarians identify justice with liberty and so emphasise free choice and freedom from interference. They denounce utilitarian concerns for aggregate social well-being and instead believe people should receive economic rewards directly in proportion to their free contributions to the production of those rewards.⁶⁷ Friedman⁶⁸ and his narrow view of corporate social responsibility are in the libertarian tradition.

- Nozick's defence of the libertarian understanding of justice is one of the most widely recognised.⁶⁹ Nozick's defence involves two important concepts: entitlement and liberty. Nozick's view of entitlement builds upon Locke's notion of negative property rights. It claims that a just distribution of property is one where people have acquired their property justly. This requires four conditions:
 - ▷ What is held in common (water, grain, fish, fruit, grass, etc.) becomes private property when one has mixed one's labour with it
 - ▷ One cannot claim that which is held as private property by another
 - ▷ One cannot claim more than one needs (no waste)
 - ▷ One must leave enough for others, i.e. one's possession of private property cannot leave others worse off.

The liberty principle allows for only minimal intervention by governments in the free market and does not support a taxation system that redistributes wealth to the poor.

Unlike libertarians, egalitarians support a broad socio-economic view

of corporate social responsibility and emphasise the concept of fairness. Egalitarians base their view of justice on the proposition that all human beings are equal in some fundamental aspect, and in virtue of this equality, each person has an equal claim to society's benefits and burdens. However, most egalitarians permit inequalities so long as everyone benefits by those inequalities (qualified egalitarianism rather than radical egalitarianism). One of the most influential proponents of qualified egalitarianism is Rawls.⁷⁰ Following the Kantian tradition, Rawls argued that under the conditions of rationality, desire to promote one's own interests and impartiality (people would not know their gender, race, personal talents, characteristics, and luck), all would agree on two fundamental principles of justice. The principles are:

- ▷ Each person is to have equal right to the most extensive basic liberty compatible with similar liberty for others.
- ▷ Social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone's advantage (especially the least advantaged) and (b) attached to positions and offices open to all.⁷¹

Furthermore, Rawls argued that the first principle (equal liberty) should take priority over the second and that part (b) of the second principle should take priority over part (a). Thus, egalitarians would not support the very large discrepancies that sometimes exist between the salaries of CEOs and their workers on the shop floor, unless those workers had an equal opportunity to reach positions such as a CEO, and unless the inequalities meant that the least well-off workers were better off than they would be under any other system.

Rawls's theory of justice has important implications in the South African context.

For example, people's basic liberties such as the right to vote, hold property, due process, and education, as well as freedom of speech, movement and other civil liberties, must be as extensive as equity allows and cannot be sacrificed for utilitarian ends. More specifically, Rawls's theory provides important principles for the development of the traditional HR activities of recruitment, selection, employee development, and performance management as well as for government initiatives aimed at redressing inequalities in the distribution of wealth that stem from the apartheid era.

- *Procedural justice.* Rather than focusing on outcomes, procedural justice is concerned with the processes used to make decisions and implement workplace controls, e.g. in relation to selection, compensation, promotion, dismissal, and dispute resolution.

Research suggests there are two aspects that employees see as particularly important to procedural justice. The first concerns clearly identified rules and standards that are applied consistently across time and other persons, for example written performance-appraisal standards and grounds for dismissal.

The second calls for a flexible approach, including employee participation in decision-making procedures, and processes that allow mistakes or poor decisions to be appealed.⁷²⁻⁷⁷

- *Retributive justice.* Retributive justice is concerned with the imposition of penalties and punishment upon individuals and enterprises who cause harm to others. An important criterion for applying this principle of justice is that the punishment must fit the crime.

For example, a bank teller who is found to have taken home a few office supplies for personal use ought to receive a lesser sanction than one found to have misappropriated bank funds.

- *Compensatory justice.* Compensatory justice involves compensating people for any harm or loss they have suffered.

The most controversial forms of compensation are the preferential treatment or affirmative-action programmes that attempt to remedy past injustices by giving groups that suffered past discrimination preference in hiring, training, and promotion policies. The controversy arises largely because the principle of compensatory justice generates demands which conflict with the demands made by the principle of equity. Some have argued that when the argument for compensatory justice is combined with the principle of equity in the long term and the principle of the greatest good for the greatest number, then there is sufficient justification for overriding the principle of equity for some in the short term.⁷⁸

The controversy over affirmative action is compounded when affirmative-action programmes are of the strong type, e.g. quota based, rather than the weaker form, which upholds the merit principle first and then applies affirmative action. In Australia, the weaker form of affirmative action is practised. In countries where the stronger version is practised, e.g. the USA, India, and South Africa, there has been some criticism that organisations may not appoint the best candidate, thereby limiting efficiency. Such criticism is a reminder that it is best to think of HR activities as an integrated suite. For example, employee-development programmes need to support affirmative-action programmes. In South Africa, many government and company policies are now based on the need to redress the wrongs of the past and correct systemically based imbalances that developed during the apartheid years. For example, the Employment Equity Act (No. 55 of 1998) states that the purpose of the act is not only to achieve equal opportunity

by eliminating discrimination, but also to implement 'affirmative action measures to redress the disadvantages in employment experienced by designated groups in order to ensure their equitable representation in all occupational categories and levels of the workforce'.⁷⁹ An understanding of rights theory will help to explain further why people are entitled to compensation when their rights have been violated.

8.3.4 Individual entitlements: Rights

Kant's emphasis on respect for autonomous rational human beings as ends in themselves provides a strong basis for a theory of rights. To claim a right is to claim that one is ethically entitled to something and this places a duty on other people to act (or refrain from acting) in a way which brings about the fulfilment of one's right. Rights can be classified as either negative or positive. Negative rights are liberty rights (e.g. the right to privacy); positive rights are claim or welfare rights (e.g. the right to employment at a living wage). Most specific rights are derived from the three major rights identified by the English philosopher Johan Locke of life, liberty and property.

One criticism of a rights approach is that it opens the way for people to claim a right to 'anything and everything'.⁸⁰ However, properly understood rights can be limited both by the concept of equality and the concept of a hierarchy of rights.⁸¹ An example of the former is that an employee is not entitled to individual supervision, only to his or her fair share of supervision. An example of the latter is that the right to life is more fundamental than the right to property and, hence, the rights of employees to a safe workplace can override an employer's right to liberty or an individual employee's right to smoke as he or she pleases.

Understanding, implementing, and protecting employee rights is essential to good HRM practice. In developed countries, many employee rights are enshrined in law and

some rights are institutionalised in international agreements such as those with the International Labour Organisation (ILO). Groups that monitor human rights are likely to report human-rights violations by multinational enterprises operating in less-developed countries, and, through the medium of the World Wide Web, these violations are reported widely – often to the detriment of the offending multinational. Table 8.4 presents the major types of employee rights in the workplace and the relevant HR activities. Although many of these rights must be balanced against the rights of employers, some rights of employees – such as the right to a living wage and a safe workplace – are non-negotiable.

8.3.5 Convergence across normative ethical theories

While significant differences exist between utilitarianism and deontology, these differences are often exaggerated, particularly when one considers that different theories often lead to similar views about the right action to take and share common values and required behaviours. Moreover, the strength of one theory often acts as a balance to the weakness of another and therefore, rather than affiliate with 'one best theory', managers stand to learn from them all.⁸²

Table 8.5 provides a summary of key corporate values and behaviours associated with ethical theories.

In summary, our discussion of ethical theory generates four key questions that HR managers can usefully employ to evaluate prospective responses to ethical challenges and dilemmas they may face:

1. Who is affected and how? Which action will result in the greatest good for the greatest number of people affected by it? (utilitarianism)
2. Is the action one that universally respects autonomous rational beings as ends in themselves? (Kantian deontology)
3. Is the action one that treats all stakeholders fairly? (justice)

Table 8.4 Employee rights and related HR activities

Employee rights	HR activities
Right to work Right not to be dismissed without just cause Right to equal employment opportunity Right to employability Right to due process Rights regarding plant closings	Fair treatment in recruitment and selection Employee development programmes Fair performance management programmes EED and affirmative-action programmes Sexual and racial harassment prevention Due processes in cases of dismissal or termination Grievance policies and hearings
Right to a fair wage	Management of compensation (developing pay and job structures, performance related pay, profit sharing, group incentives) based on concepts of equity and distributive justice
Right to healthy and safe working conditions Right to be informed of risks and harms	Occupational health and safety programmes to prevent harm and respect human life Safety audits Safety training Working conditions including work-life balance Management of sick leave Discipline for breaches
Right to privacy	Data protection procedures Due process in video surveillance practices Due process in drug testing and genetic screening practices Work-life balance E-mail access notification (based on concepts of respect, fairness, autonomy)
Right to free speech Right to organise and strike	Whistle-blowing policies (including anonymity and confidentiality and no retribution) Negotiation with unions and union members
Right to due process	Communication of policies Employee participation and representation Transparency in decision-making processes Grievance procedures
Right to meaningful work	Employee participation and engagement Employment empowerment New forms of work Job enrichment Employee development programmes Management of corporate culture Social programmes

SOURCE: CAREY, L.E. 2007. *Profits and Principles: The Operationalisation of Corporate Ethics in Australian Enterprises*. Canberra, Australia. University of Canberra (Ph.D. thesis). Used with permission.

4. Is the action one that upholds fundamental human rights? (rights)

To illustrate the way in which ethical theory can help to resolve workplace dilemmas, let us consider the case of an HR manager of a large retail department store, who has been asked to respond to significant amounts of employee theft, using high-tech multi-directional zoom cameras that can be hidden in ceilings and are so small they can film through a pinhole. Firstly, this scenario raises issues of privacy, dignity, working conditions, discrimination, due process, control over employees, property rights, and the common good. Secondly, the monitoring of employees by video surveillance or other means requires a delicate balance between the right of the employer to protect property, staff, and business interests, and the right of the employee to be free from invasions of privacy, in particular, to determine what, to whom, and how much information about themselves shall be available to others. It is also necessary to weigh considerations of harm caused to customers, who may have to bear some of the cost of theft in the form of higher prices, against the potential harm to employees.

A utilitarian analysis would have to weigh positive consequences that might come from surveillance against potential negative consequences, such as increasing stress, undermining morale, and creating distrust and suspicion between employees and management. A utilitarian focus might view the occasional adverse impact on an employee as regrettable, but acceptable, providing the surveillance resulted in net utility.

From a justice perspective, the HR manager, in consultation with management, could first consider factors in the workplace that might contribute to employee theft. Rather than use electronic surveillance, it may be possible to use conventional HR practices to reduce substantially the incidence of employee theft. For example, a

substantial body of research suggests that employee theft is often a reaction to perceived inequity of rewards and to feelings of injustice in the workplace.⁸³⁻⁸⁴ Ordinary and reasonable methods of supervision are preferable to extraordinary methods such as video surveillance, and especially hidden surveillance.

If the HR manager uses video surveillance, then it would be useful for him or her to organise a 'round table' discussion with other senior managers, representatives of employees and unions, and experts in surveillance and security, to draw up policies, procedures, and practices that protect the legitimate interests of all parties. A deontological perspective of justice and respect for the rights of autonomous beings, might focus on matters such as:

- The extent of employee consultation regarding the conduct, purposes, and uses of surveillance
- The manner in which managers collect information and the relevance of its uses
- The security of video recordings and the length of their retention
- Employee access to recordings
- The rights of employees to explain recorded behaviour
- Ensuring video surveillance is limited to its original purposes
- The release of video recordings to third parties.⁸⁵

A focus on these matters would help to ensure that surveillance, if used, is limited to the issue at hand – in this case employee theft – and that employees have the opportunity to give or withhold their informed consent.

The matter is more problematic if the surveillance is covert (hidden). One view is that if the surveillance is a response to a suspected illegal activity, then managers may justify it, provided areas such as staff rooms, bathrooms, and changing rooms are

Table 8.5 Values and typical associated behaviours

Values and typical associated behaviours	Utilitarianism	Kant, Justice, Rights
<i>Honesty (includes transparency)</i>	✓	✓
■ Communicate openly	✓	✓
■ Communicate with customers in plain language	✓	✓
■ Do not evade tax	✓	✓
■ Report gifts received to supervisor	✓	✓
<i>Fairness, equity</i>	✓	✓
■ Consistent in words, behaviours, actions and decisions	✓	✓
■ Effective procedures to resolve complaints and disputes	✓	✓
■ Raise realistic expectations through accurate and full representation of products	✓	✓
■ Treat people on merit	✓	✓
■ Compete with competitors fairly and without denigration	✓	✓
■ Do not engage in bribery or irregular payments	✓	✓
■ Apply high standards regardless of local legal standards	✓	✓
<i>Integrity</i>	✓	✓
■ Act lawfully and work by the company's Code of Conduct	✓	✓
■ Stand up and speak out for beliefs	✓	✓
<i>Respect</i>	✓	✓
■ Treat others as you would like to be treated	✓	✓
■ Work collaboratively in all working relationships	✓	✓
■ Fulfil employees' needs for job satisfaction, recognition, reward and balance between work and their personal lives	✓	✓
■ Respect diversity and cultural sensitivities	✓	✓
<i>Accountability (transparency, reliability)</i>	✓	✓
■ An equal opportunity employer committed to ensuring that unlawful discrimination or harassment does not occur	✓	✓
■ Safeguard company resources	✓	✓
■ Responsibility for actions globally to all stakeholders	✓	✓
<i>Trust</i>	✓	✓
■ Keeping promises	✓	✓
■ Protecting privacy	✓	✓
<i>Excellence</i>	✓	✓
■ Commitment to be excellent employer of excellent people	✓	✓
■ Continuous improvement and passion for achieving goals	✓	✓

Values and typical associated behaviours	Utilitarianism	Kant, Justice, Rights
<i>Responsible citizenship (community, consensus)</i> ■ Make work practices more respectful of the environment ■ Participate in community events and sponsorship ■ Contribute to new industry standards ■ Contribute to improved global standards of living	✓ ✓ ✓ ✓ ✓	✓ ✓ ✓ ✓ ✓
<i>Caring</i> ■ Support and help others ■ Contribute to enjoyable and safe work environment ■ Care for customers' needs in their times of financial crisis ■ Protect the environment	✓ ✓ ✓ ✓ ✓	✓ ✓ ✓ ✓ ✓
<i>Loyalty</i> ■ Proud to work for this company ■ Provide quality services that retain customers ■ Consider impact of changes on others ■ Confidential information not divulged inappropriately	✓ ✓ ✓ ✓ ✓	✓ ✓ ✓ ✓ ✓

SOURCE: CAREY, L.E. 2007. *Profits and principles: The operationalisation of corporate ethics in Australian enterprises*. Canberra, Australia. University of Canberra (Ph.D. thesis). Used with permission.

surveillance-free. Velasquez⁸⁶ suggests that extraordinary methods of investigation, such as covert surveillance, are permissible only when the following conditions have been met:

- The problem can be solved in no other manner
- The problem is serious and there is good reason to believe that the extraordinary method will put an end to the problem
- The method will be stopped after the wrongdoer has been identified or when it is clear that the method will not work
- All non-relevant data collected in the course of the surveillance is disregarded and destroyed
- The error rate of the device is taken into account and information collected from devices with known error rates are verified by reliable, independent means.

In reviewing this analysis, we emphasise that ethical theories do not provide formulae for correct decision making. Rather, they provide a means of analysis for arriving at a

reasoned judgement concerning the propriety of alternative courses of action. Managers could apply the same analysis to myriad issues in ethics, e.g. judging the ethicality of drug testing in the workplace, performance measurement and evaluation systems, training and development policies, diversity programmes, bonus schemes, retrenchment programmes, and disciplinary measures.

Judging with integrity requires careful reasoning by taking into account consequences, duties, justice, and rights and weighing them in cases of conflict. Only when managers act in accordance with this balanced and reasoned judgement do they act with integrity.⁸⁷

As we noted earlier, research shows that when employees perceive workplace practices to have integrity, there is a positive impact on employee morale, motivation, loyalty, trust, commitment, recruitment, and turnover as well as investor and customer loyalty, satisfaction and trust, all of which positively impact the bottom line of

enterprises.⁸⁸ However, managers should take care not to shift the rationale for ethical HR policies and procedures from one grounded in principles of justice and rights to one grounded solely in economic rationalism.

To complete our discussion of ethical decision-making frameworks we should briefly explain the claims of ethical relativism that challenge the universal applicability of utilitarianism and deontology. Ethical relativism claims there is no one universal standard or set of standards by which to judge the morality of an action. This means ethical relativists may hold that the same act may be morally right for one society or even one individual, and morally wrong for another. For the ethical relativist, what is right for the people of a particular society, depends on what they believe is right or socially approved practices. This may be summed up by the expression, 'when in Rome, do as the Romans do'. It is different from ethical pluralism which accepts different absolute principles (see Table 8.3) to guide ethical decision making and behaviour. Whilst relativism offers some useful insights such as tolerance of cultural differences, it is rejected by most philosophers because it does not meet the criteria specified in 8.3.2 above for an acceptable moral theory. Moreover, relativism can be debunked because ultimately it permits 'anything and everything'.⁸⁹

Ethical relativism is particularly problematic in international business. Given the lack of background institutions, including legal ones in many less developed countries, the relativist position may result in multinational enterprises adopting practices such as child labour, nepotism, below subsistence wage rates, pollution and resource depletion, unfair competitive advantage, including bribery and harm to employees, consumers and the general public. These practices, even if prevalent, are in conflict with principles and values derived from

normative theory, that is, those derived on rational grounds for contending that certain behaviours negate the common good, violate human rights, cause harm or contribute to social injustice. Since HRM decisions impact fundamental issues related to human rights and justice domestically and globally, HR has a key role to play at the strategic and operational levels for ensuring that personnel involved in transcultural business environments can identify moral principles that transcend cultural boundaries, yet without compromising those principles, recognise and respect diversity where it is ethically appropriate to do so.

HR activities have a direct impact on multiple stakeholders, not only employees and their families, but also suppliers, customers, shareholders and the general community. Since there is the potential for the impact to enhance or diminish the well-being of others (especially since the interests of different stakeholders may conflict), it is imperative that HR policies and practices are imbued with values based on a systematic framework of ethical principles. While some may argue that ethical theory, though valuable, is too abstract to be easily applied to HR practice, properly understood, ethics is about how we ought to live and relate to people and the environment around us. This is well illustrated in Box 8.2 on the next page featuring the Lonmin Group's way of doing business.

8.4 Ethical issues and challenges in the workplace

Traditionally, the primary responsibility of the employer to the employee was to pay a fair wage and, in return, employees were expected to give their employers a fair day's work. However, this model is too simple to address the many ethical issues and challenges that arise out of the interplay between employers and employees in contemporary workplaces. Many see the failure to

BOX 8.2

LONMIN Plc

Lonmin is one of the world's largest primary producers of Platinum Group Metals (PGMs). These metals are essential for many industrial applications and their widespread use in jewellery.

Our mission	We are successful when	Our values
To grow and build our portfolio of high quality assets.	Our employees live and work safely and experience the personal satisfaction that comes with high performance and recognition.	Zero harm: We are committed to do zero harm to people and the environment.
To deliver the requirements of the South African Broad-based Socioeconomic Mining Charter and we welcome the opportunity to transform our business.	Our shareholders are realising a superior total return on their investment and support our corporate sustainability values.	Integrity, honesty and trust: We are committed ethical people who do what we say we will do.
To build a value-based culture, which is founded on safe work, continuous improvement, common standards and procedures, community involvement and one that rewards employees for high performance.	The communities in which we operate value our relationships.	Transparency: Open, honest communication and free sharing of information.
SOURCE: [Online]. Available: http://www.lonmin.com/about_us , 4 January 2012.	We are meeting our commitments to all business partners and our suppliers, contractors, partners and customers support our Charter.	Respect for each other: Embracing our diversity by openness, sharing, trust, teamwork and involvement.
		High performance: Stretching our individual and team capabilities to achieve innovative and superior outcomes.
		Employee self-worth: To enhance the quality of life for our employees and their families and promote self-esteem.

On August 16, 2012 strike action at Lonmin's Marikana mine turned violent. It is alleged that police opened fire on a group of striking miners, killing 34 of them and wounding 78. Subsequently, 270 Lonmin mineworkers were charged with murder and imprisoned, but released in early September 2012. Suppose you are an HR practitioner at Lonmin Plc. Based on your reading thus far and in light of themes identified in this chapter, what advice would you offer senior management regarding the ethics issues surrounding the strike, the killings, Lonmin's responsibilities, if any, and how Lonmin should respond.

recognise ethics issues when they arise (ethical consciousness) as one of the main reasons why good people do bad things. For example, the SHRM survey of HR professionals reported that the most serious ethical problems for HR professionals, and the ones with which they dealt with the least success, came from decisions made by managers who used factors other than job performance as the basis for decisions in hiring, training, pay, promotion, and discipline.⁹⁰ Whereas the previous section concentrated on ethical reasoning for ethical competency in decision making, the following section will review the ethics issues and challenges that arise with respect to the HR activities of selection, compensation, and promotion of employees.⁹¹

8.4.1 Selection

Effective and fair selection practices for the strategic deployment of highly motivated and competent employees are an important vehicle for enterprises to gain competitive advantage. In making selection decisions, HR practitioners must ensure that they treat all job applicants fairly.⁹²⁻⁹⁴ A significant body of research in the HRM and ethics literature covers issues of fairness, equal opportunity, affirmative action, and discrimination – relating to gender, race, ethnicity, marital status, religion, disability, and age – in the selection process.⁹⁵⁻⁹⁶ These issues are particularly problematic for selection, although they also arise in the areas of compensation, career development, and discipline. Selection practices typically include screening, the employment interview, and psychometric testing, all of which can be viewed as strategic tools supporting business strategy.

- **Screening.** Screening begins with the following:

- ▷ *A job description.* This provides details about a job's duties, responsibilities, working conditions, and physical requirements.

- ▷ *A job specification.* This describes the qualifications, skills, educational experience, and physical attributes needed to successfully undertake the job.

To protect individuals against discrimination, employment legislation in most developed countries, including South Africa, does not allow gender, race, ethnicity, marital status, religion, or age to appear in job specifications or recruitment advertising (unless it is specifically related to the requirements of the job) on the basis that these items potentially exclude job candidates on grounds not related to the job. For example, the aim of the Employment Equity Act (No. 55 of 1998) in South Africa is to achieve equality in employment and, therefore, economic equality. HR professionals must also be careful not to screen out disabled applicants who are capable of carrying out the job. A successful screening process is one that ensures there is a pool of suitable candidates who have all been treated fairly with regard to their right to equal opportunity for employment. The screening out of unsuitable or less-suitable candidates must be done on the basis of job-relevant criteria for it to be considered fair.

- *The employment interview.* Despite possible shortcomings, the employment interview remains the most widely used tool for selection and is often the first point of formal contact between a potential employee and an enterprise.⁹⁷ Interviews can vary in structure from unstructured to semi-structured to structured, although since the early 1980s the structured interview has been the dominant form because it is more reliable and valid.⁹⁸ Structured interviews standardise questions and processes across interviews with different candidates. Therefore, they are

considered to be fair, since each candidate has the same opportunity and the process minimises interviewer bias.

The issue of fairness in job interviews has been widely discussed in the literature, although the emphasis has been on discrimination arising from non-relevant criteria for jobs. A number of authors have suggested ways in which the employment interview can avoid charges of discrimination. These include:

- ▷ Conduct the interview along professional lines
- ▷ A panel of interviewers who represent key organisational perspectives, including those of minority groups, should conduct interviews
- ▷ All interviewers should be trained in areas of perceptual bias, discrimination, relevance of criteria, intrusive questioning, abuse of power, and cultural differences
- ▷ Interviews should be consistent to allow comparison between candidates
- ▷ Interviews should not be used to assess abilities which can be more accurately assessed by other means.

A critical component of ethical interviewing for employment is the standardisation and objectification of the interview. Although these will not guarantee the elimination of discrimination and harmful practices, they are essential steps for HR practitioners who seek to interview ethically. Such practices may also benefit the enterprise through the acquisition of 'the right people in the right place at the right time' and the avoidance of high costs associated with litigation, absenteeism, turnover, and poor morale.⁹⁹

- *Psychometric testing.* This is another screening-and-selection tool enterprises, especially larger ones, often use. The most common types measure ability

(cognitive, mechanical or psychomotor) and personality, but may also include drug testing, health screening, and, more recently, genetic testing. Although genetic testing is still in its early stages of development and adoption, employers can now test an employee for about 50 genetic traits that indicate a potential to develop certain diseases such as breast cancer, colon cancer, and cystic fibrosis or be affected by certain occupational hazards, such as toxins.¹⁰⁰ The ethical implications of genetic testing are huge, mostly because there is a danger that 'the risk of disease will be treated as a disease.'¹⁰¹ However, in principle, genetic testing and drug testing raise the same questions as ability and personality tests:

- ▷ Are the tests valid and reliable?
- ▷ Is the test job-relevant?
- ▷ Are the tests culturally based?
- ▷ Has the tester gained informed consent?
- ▷ Are the interests of the enterprise and the general public sufficient to justify an encroachment upon individual privacy?¹⁰²

Ethical issues abound in the use of employment testing. In addition to the issues of fairness and discrimination discussed above, an individual's right to privacy is problematic. Included in the notion of privacy are psychological privacy (relating to one's inner life), physical privacy (relating to one's space and time), and autonomy to determine when, how, and what information is communicated about oneself to others.¹⁰³

When conducting psychometric testing, HR professionals must safeguard the interests of enterprises and candidates by upholding the rights of those they test to:

- ▷ Informed consent
- ▷ Not be harmed or unfairly disadvantaged by the process of assessment (or testing)

- ▷ Full information about the purpose and results of the assessment
- ▷ Suitable preparation for the process of assessment
- ▷ Not be subjected to assessment processes which have systematic bias, high rates of error, or unwarranted discrimination, or which are not relevant to the job
- ▷ Confidentiality
- ▷ Secure storage of test data and results
- ▷ Destruction of results when no longer needed
- ▷ Counselling, especially in the case of drug, health, and genetic testing.

The literature on organisational behaviour reports that very few studies have found significant correlations between personality-test scores and job performance. Not only is the concept of personality difficult to define and measure, but personality tests are also vulnerable to social desirability bias.

In the USA, these findings, as well as equal-employment legislation and judicial rulings against the use of personality tests, have greatly limited the use of personality tests as job predictors.

Commenting on the rights of job candidates in regard to employment testing, Anderson¹⁰⁴ notes that in Sweden:

- ▷ Employee representatives are present when psychologists' reports are considered, candidates are informed of their results before these results are made available to the hiring organisation
- ▷ Candidates can have their results destroyed should they wish to withdraw their application.

In South Africa, two streams of legislation control the use of psychological tests by employers. The first stream involves acts that deal with individual rights. These acts include the *Constitution of the Republic of South Africa* (1996), the *Labour Relations Act*

(No. 66 of 1995 (as amended)), and the *Employment Equity Act* (EEA) (No. 55 of 1998) (as amended). The second stream of legislation addresses the scope, responsibilities, and duties of professional psychologists. Under an early draft of the EEA, all psychological testing of employees was banned.

However, the final legislation states: [P]sychological testing and other similar assessments of an employee are prohibited unless the test or assessment being used –

- a) has been scientifically shown to be valid and reliable,
- b) can be applied fairly to all employees,
- c) is not biased against any employee or group

SOURCE: SOUTH AFRICA. 1998. *Employment Equity Act*, No. 55 of 1998. Section 8. Pretoria: Government Printer.

The issue of discrimination figures prominently in the selection process. Considerations of justice and rights play an important role in ensuring that managers treat all candidates fairly and assure them of equal opportunity for employment. In addition to the issue of discrimination, if jobs are to be truly fair, the selection process must also recognise that it provides an opportunity for a potential employee to select the organisation. Thus, employees have the right to know the conditions of their employment. These include compensation, career development, and possible termination. Only when the conditions of employment have been made clear is the selection process, and subsequent employment agreement, truly fair.¹⁰⁵

8.4.2 Compensation

The right to fair compensation, often referred to as the right to a living wage, is

derived from the right to life, the right to employment, and the right to respect.¹⁰⁶ For some, a just wage is simply whatever the market determines. Traditionally, however, a just wage has involved a mix of variables, including merit or contribution to the enterprise, need, effort, the nature of particular jobs (for example, some are more dangerous, socially undesirable, or lacking in security), bargaining power of unions, laws governing minimum wages, the capability and profitability of the enterprise, and, more recently, concern with equality, and conditions of the labour market.

In recent years, HR practices in the area of compensation have undergone a number of developments. These developments include the use of performance pay and other contingent systems of reward; the flattening of pay scales with fewer, but broader, pay grades; and flexible cafeteria-style benefit systems.¹⁰⁷ The HR literature generally recognises that the new approach to compensation, often referred to as 'new pay', is more suitable to today's changing organisational environments and structures than are the older methods of pay related to job-evaluated pay structures, time, and seniority. These older methods suited hierarchical organisations operating in predictable environments. In particular, it is advocated that new pay is 'strategic pay', i.e. it both flows from and implements an enterprise's business strategy.¹⁰⁸ Therefore, writers on new pay recommend:

- Significantly increasing the proportion of pay contingent on performance
- Making base salaries only moderately competitive in order to increase the potency of variable pay
- Broadening the range of incentive schemes to include linking pay to group and organisational performance as well as individual performance
- Identifying new performance measures of business success

- Introducing flexibility to compensation plans so that rewards extend beyond monetary ones to include prizes and recognition.¹⁰⁹⁻¹¹⁰

While there is much to commend in the new-pay model, Heery¹¹¹ argues that, from an ethical perspective, these developments in compensation practice are potentially flawed. He says they represent a 'movement towards greater risk in remuneration' (because from an employee perspective, salaries and benefits are less secure and predictable) and a 'movement away from employee representation' (in the setting of policies and practices relating to compensation systems). The increase in employee risk and a decrease in independent employee representation associated with the new pay are cause for ethical concern and are the focus of our discussion on compensation.

Firstly, the most basic moral principle in ethics is 'do no intentional harm'. Yet the new-pay model is a threat to both the economic and the psychological well-being of employees. This is because it increases the risk of financial instability, and an inability to predict one's income relative to one's financial commitments is likely to cause emotional anxiety. Secondly, the twin themes of procedural and distributive justice have a long history in both ethics and HR theory and practice in areas such as job evaluation, reward systems, and collective bargaining. As we noted earlier, procedural justice is concerned with fair processes and distributive justice is concerned with fair outcomes; both dimensions are essential for a compensation strategy to be considered ethical. From a procedural-justice viewpoint, a significant problem with the new-pay model is that it links rewards to performance measures valued by management and, yet, often these measures are not entirely under the control of an individual. For example, the measures may be tied to group performance or customer satisfaction.

The new-pay model is also open to perceived and real subjective judgements about performance on the part of management and provides 'little scope for independent representation of employee interests.'¹¹² From the viewpoint of distributive justice, there are problems not only with increased economic risks, but also with the transfer of risk from employers to employees.

The unitarist-pluralist debate is a complex one beyond the scope of this chapter. We can, however, state that whilst employer and employee interests are never likely to be completely identical, it may be that aspects of the new-pay model offer mutual benefits to both employers and employees. Indeed, some writers argue that employees have a right to share in the financial success of their enterprises.¹¹³ HR managers involved in formulating and implementing compensation programmes should consider the new-pay model not only as a strategic tool for furthering business strategy, but also as a tool which, used in conjunction with principles of ethical management of pay, can help to secure a balance between the interests of employers and those of employees. The pivotal point of such a balance is the notion of acceptable risk. Employees have an interest in stable and predictable incomes, as well as in the opportunity to benefit from profit sharing through contingency-based compensation programmes. Heery¹¹⁴ suggests that principles of acceptable risk include:

- The use of variable pay to supplement, not to replace, wages and salaries
- Commitment to the provision of employee benefits that provide economic security
- The use of rigorous measures of performance, which are under the control of employees, when implementing variable pay schemes
- Transparent systems for pay, which are widely communicated, regulated, and monitored throughout an enterprise

- The implementation of appeal processes
- The involvement of employee representatives in the formulation, implementation, and evaluation of variable pay schemes.

There is an additional ethics risk when high proportions of pay are contingent on performance. As reported above (8.2.1), ethics surveys consistently show that employees cite pressure as the principal cause of breaches in compliance to ethics standards. Pressures include meeting aggressive business objectives, fear of dismissal if targets are not achieved, desire to advance one's career and personal gain. These surveys also reveal that approximately 50% of respondents experienced workplace pressure and that pressure was strongly related to the observation of organisational misconduct.

Distributive justice also raises issues of fairness in regard to the growing gap between executive pay and average rates of pay. For example, Australian data show that for the period 1992–2002, executive remuneration rose from 22 times average weekly earnings to 74 times average weekly earnings.¹¹⁵ Analysis of the same data showed that this increase coincided with decreases in company performance measured against the criteria of return on equity, share price change and change in earnings. In many organisations throughout Europe, the USA and Australia, recent developments in corporate governance and accountability have led to higher standards of transparency regarding the ways in which the remuneration of senior executives is structured and related to performance. However, what those performance measures should be remains a contentious issue.

Procedural and distributive justice and the absence of economic and psychological harm are critical components of fair and equitable compensation strategies, and compensation strategies that are perceived to be fair and equitable are central to

employee motivation and self-esteem. When developing new compensation strategies to drive the business strategy, HR managers can discharge their responsibilities to both management and employees by balancing employer interest in contingent pay with employee interest in stable and predictable income. Principles of ethical management of pay help to identify acceptable levels of risk and the task of minimising harm while maximising benefits for all stakeholders.

8.4.3 Promotion and performance management

As with selection and compensation, the key ethical issue in managing the promotion of employees is fairness. The difficulty is in determining the criteria that should serve as the basis for fair promotion procedures. While there is debate over how much weight to give to the criteria of seniority and job qualifications, it is widely recognised that promotion should normally be on the basis of job-related criteria, especially performance, and that procedures should not discriminate against employees on the basis of inappropriate criteria such as gender, race, and religion. Employees may not have a right to promotion, but they do have a right to fair evaluations and consideration for promotion. They also have a right to be informed of the reasons for lack of promotion in those situations where they might reasonably expect it.¹¹⁶ Commenting on the debate over promotion based on loyalty to senior employees or on the basis of qualifications, Shaw notes: 'A policy that provides promotions strictly on the basis of qualifications seems heartless, whereas one that promotes seniority alone seems mindless.'¹¹⁷ Promotion is one more example where HR practitioners are challenged to 'merge dual responsibilities in a way that is beneficial to the firm and fair to all concerned.'¹¹⁸

Related to promotion is the issue of performance management. Typically, systems of performance management involve

the setting of performance objectives, the measurement of performance against these objectives, the identification of developmental support, and a review process to develop performance and subsequent objectives. Managers may use performance management as a decision-making tool for the distribution of performance-related pay and promotion. A common criticism of performance-management systems is that they raise issues of privacy, dignity, discrimination, and power and control over employees, particularly performance-management systems that use surveillance technology to gather data about workplace performance. To ensure that performance-management programmes are ethically sound, managers must ensure that these systems reflect the principles of respect for the individual, procedural fairness, and transparency of decision making. Legal obligations concerning issues of fairness and employee rights can be met by HR practices such as:

- The development of valid, reliable, and transparent performance-appraisal systems that include specified performance criteria, such as position descriptions and performance goals
- Formal and documented review processes
- Written advice to employees in the case of inadequate performance, including information about processes in place to assist with performance improvement and procedures and consequences for non-compliance.

Our discussion of the ethical issues and challenges in employee selection, compensation, and promotion, demonstrates the critical role that HRM plays in the effective and fair management of human capital. An understanding of the ethical dimensions of a strategic approach to HRM suggests that HRM cannot be strategic unless it is ethical.

The values of fairness and respect for persons are integral to effective job screening, interviews, and testing; salary and benefits determination; performance appraisals; and promotion policies that are accurate, honest, and relevant. It is through the fair implementation of these HR activities that enterprises are able to attract and retain a superior workforce for sustained competitive advantage.

8.5 The role of HR professionals in the operationalisation of corporate ethics programmes¹¹⁹

Over the past decade, corporate governance and the operationalisation of corporate ethics programmes have been in the spotlight of governments, corporate boards, and research by academics. The literature on responsibility for corporate ethics programmes reveals two broad themes:

- The first is that responsibility for corporate ethics programmes has been assigned to existing functional areas of management – primarily HR departments in Australia, Canada, South Africa, and the USA, and legal departments or corporate services in the UK.
- The second is that to be effective, corporate ethics programmes must have the support of top-level management.

The following section will provide an overview of research on the role of HR professionals in the operationalisation of corporate ethics programmes.

Despite the enormous growth in corporate ethics programmes, the ethics process does not yet seem to have evolved into a separate function, although in many large enterprises, ethics or compliance officers and executives with ethics responsibilities have been introduced. The ethics and HR literature contains research (not empirically

based) that suggests that the HR function ought to take on the role of ethical stewardship, with some writers suggesting that HRM has a special role to play in the formulation, communication, monitoring, and enforcement of an enterprise's ethics programme.¹²⁰ The USA-based literature on business ethics generally presents the view that the HR function, along with finance and law, is the appropriate locus of responsibility for an enterprise's ethics programme.¹²¹⁻¹²³ Donaldson¹²⁴ places HR at the top of this triangle, arguing that 'seventy per cent of the responsibility for values and ethics should fall to HR'. This is not surprising when one considers that ethical issues are people issues and HR activities are instrumental to the development and maintenance of corporate ethical cultures. For example, performance management and reward systems can hold employees accountable for ethics performance, as well as for their financial performance. Whether the role of the HR manager is that of strategist or conscience of the organisation is a contentious issue and influenced by the culture and structure of an organisation, as well as by the status and credibility of the HR function and its specialists.¹²⁵

Empirical studies have investigated whether ethics initiatives and strategies for ethics management should be HR driven. The 1997 SHRM/ERC¹²⁶ survey found that 70% of HR professionals are involved in formulating ethics policies for their enterprises and 69% are a primary resource for their enterprises' ethics initiatives. Focus groups of HR managers in the USA support the view that it is appropriate for HRM to take responsibility for workplace ethics.¹²⁷ However, the SHRM respondents did not regard ethics as the sole responsibility of HRM. When asked to indicate the degree to which they thought other units or positions should be responsible for ethical leadership, 96% of HR professionals said the CEO, 93% functional vice-presidents, 90% immediate supervisors,

77% the board of directors, and 65% legal counsel. When asked which functional areas should have responsibility for the administration of corporate codes of conduct, 37% of CEOs answered HR, 19% law, and 9% senior management. In assigning responsibility for revising corporate codes of conduct, 40% cited HR, 31% law and 10% the company director or president.

Canadian,¹²⁸⁻¹²⁹ Australian,¹³⁰ and South African¹³¹ surveys provide some support for these findings. The *2001 South African Ethics Survey* conducted by KPMG and Transparency South Africa found that 59% of the 166 respondents reported the appointment of a senior-level manager whose role specifically included responsibility for ethics initiatives. In 78% of these cases the responsibility was part of another position, and in most cases it was the additional responsibility of the HR manager. A 2007 study of the operationalisation of ethics in Australian enterprises found that the HR function currently has the primary responsibility for the formulation, communication (dissemination and training), and monitoring and enforcement phases of corporate ethics programmes, although other departments and different levels of management do share responsibility for corporate ethics programmes. The study also found that respondents indicated that:

- All functions and personnel should have more responsibility than they currently have for corporate ethics programmes
- The CEO should have primary responsibility for the formulation and communication phases
- Business-unit managers should have primary responsibility for the monitoring and enforcement phases.

Robertson and Schlegelmilch¹³² report that enterprises in the UK are more likely to communicate ethics policies through senior

executives than through HR departments. Their results show that the CEO and Managing Director have 'primary responsibility' for communicating ethics policies and codes in 69% of the UK enterprises and 42% of the USA enterprises. This compares to the HR function, which had 'primary responsibility' for communicating ethics policies in 15.7% of the UK enterprises and 33.2% of the USA enterprises. These findings are supported by Weaver, Trevino, and Cochran¹³³ in the USA and the IBE surveys in the UK.¹³⁴ Weaver, Trevino, and Cochran's study of *Fortune* 1000 enterprises found that CEOs in USA companies typically had very minimal responsibility for communicating with respondents about ethics-related issues and that responsibility for ethics education rested with ethics officers, HR staff, and legal counsel. The IBE surveys for 1998, 2001, and 2004 found that in 44-46% of the UK companies, the Company Secretary or legal department was responsible for administering a company's code of ethics. This is in contrast to the reported 16% in 2004, 20% in 2001, and 12% in 1998 for responsibility resting with HR departments.¹³⁵⁻¹³⁶

Overall, these empirical findings recognise that HRM is well positioned to make an important contribution to creating, implementing, and sustaining ethical organisational behaviour within a strategic HR paradigm. HR professionals have specialised expertise in the areas of organisational culture, communication, recruitment, training, performance management, leadership, motivation, group dynamics, organisational structure, and change management – all of which are key factors for integrating ethics into all aspects of organisational life and for developing positive corporate ethics cultures. Chapter 9 will consider key components of effective corporate governance and explore their relationship to a broad stakeholder approach to corporate responsibility.

SUMMARY

This chapter explains that in an era of increasing competitive pressures, the pursuit of strategic and fair HR practices inevitably raises many ethical dilemmas and conflicts of duties, which are often complex. Ethical dilemmas rarely resolve themselves and unexamined personal value systems lack the necessary rigour. It is therefore imperative that HR practitioners take steps to develop their competencies in identifying ethics issues and engaging in sound moral reasoning so that they can represent the interests of all organisational stakeholders, including employees, management, the community, and society. Beyond this, HR has a critical role to play in developing ethical competencies in organisational members and for taking a leadership role in a systemic approach to developing a strong corporate ethics environment.

This chapter has presented the view that HR practitioners, who are sensitive to ethics issues and who are well versed in the elements of ethical theory, will be able to respond creatively to the ethical challenges that confront them, as well as make a significant contribution to an enterprise's ethical infrastructure, thereby limiting the occurrence of costly (human and financial) ethical breaches and enhancing its relationships with employees and external stakeholders. In this way ethics has the potential to be an integral component to a strategic approach to the fair and effective management of an enterprise's human resources.

KEY CONCEPTS

- | | |
|--|--|
| <ul style="list-style-type: none"> ■ Apartheid ■ Autonomy ■ Categorical imperative ■ Compensatory, distributive, procedural, and retributive justice ■ Consequentialism ■ Deontology ■ Discrimination ■ Dual loyalties ■ Due process ■ Egalitarian ■ Egoism ■ Employment at will ■ Ethics ■ Ethical relativism ■ Human rights | <ul style="list-style-type: none"> ■ Integrity ■ Just cause ■ Justice ■ Kantian deontology ■ Libertarian ■ Non-consequentialism ■ Normative ethical theory ■ Pluralist ■ Prima facie duties ■ Professional codes of conduct ■ Psychometric testing ■ Teleology ■ Unitarist ■ Utilitarian |
|--|--|

CASE STUDY

Objective: To understand the importance of ethical issues in the execution of HRM practices and the role of HRM in developing corporate ethics cultures.

News of the World: What was it like on the inside?

The *News of the World* (NoW) has published its last edition after 168 years. It marks the end of a newspaper where the journalists would get the stories at any cost, writes Dan Arnold, an investigative reporter at the paper from 1994 to 1996.

'We want exclusives, not excuses' one of the many mantras at the *News of the World*.

Journalism is notoriously a high-pressure business, but the NoW was its own special pressure cooker of fear and rivalry.

'Get the story at any cost, we pay more than anyone else', that was the basic premise at the start of any story. I was authorised to offer a binman £25 000 in cash, a new car and a holiday for his story. But as I sat outside a south London terraced house, people back in the office simply would not believe that a refuse collector didn't want to talk to me.

Saying 'no' to the NoW simply wasn't an option.

'Feared and loathed'

I joined the NoW at 23, one of the youngest reporters in Fleet Street at the time. I had three years' experience under my belt of covering the general news in London – murders, suicides, courts trials and tribunals: the usual humdrum stream of interviews and note-taking. But the NoW was different. Journalists were both feared and loathed. People would rarely talk, so we had to get the story by other means. Was I asked to do anything illegal? No, but at the same time we were expected to cover our own backs. 'Any cost' means what it says. And remember, the NoW printed only what it could prove. You could collect all the hearsay 'evidence' you liked, but without an admission or rock-solid proof the story would get binned or left until you came up with the goods.

I was once called into Piers Morgan's office (the editor at the time) to hear an influential 'fat cat' businessman explain his relationship with a senior politician's female adviser. I knew that they had been meeting and communicating, but could not definitively prove they had an affair. But bingo, he spilled the beans.

'Fair game'

At the time, the NoW was selling 4.7 million copies per week, far outstripping its nearest rivals, the *Sunday Mirror* and the *People*. Having your byline read by so many readers was no mean feat. Those working at the NoW knew they had 'made it' – it was the biggest selling paper in the English-speaking world.

Moral qualms? Rarely. Celebrities, politicians and common-or-garden scumbags were the stock-in-trade and absolutely fair game. Who would care about the ethics if you exposed a dodgy politician or a paedophile? Certainly not me. You could put the fear of God into an MP just by phoning and saying: 'Hi, I'm a reporter from the *News of the World*.' Kind of 'ignore me at your peril'. Definitely a thrill.

To be honest, we were onto the next thing so quickly that we didn't have time to reflect on the stories and those involved.

All investigative reporters from any paper or TV channel have to cross boundaries to get the story. The end often justified the means. And the resources? At 10am on a Tuesday (the start of the working week for us), it was: 'Dan, go to Heathrow Airport. Pick up five grand in cash from the Amex desk. Get to Sardinia. Now.' Boring? No.

But you were only as good as your last story, and I've heard other former journos describe how your bylines were counted up over the year, to see who would get the sack. And remember, this was 1995. You might have the spiciest MP story of your career and be looking forward to a huge splash (front page story), but if Princess Di had bought a new dress then you were lucky to get a page-lead.

'Suspicion and paranoia'

It was absolutely dog-eat-dog in the office. Stories were compartmentalised. None of us knew what the other was doing unless we were specifically teamed-up. This was not just journalistic rivalry, we were told not to mention what we were doing to anyone, especially our colleagues. Suspicion and paranoia were how you survived. And it was so competitive. There simply wasn't room for all the stories produced to appear in the paper, so only the best ones made it. And there were even a couple of 'byline bandits' in the office, who would remove your name from a jointly written story.

It was a bubble too. Most journos were so focused on their stories and not getting fired that the 'real' world did not exist. We were on call 24 hours a day with our pagers, and often worked evenings and weekends. Not so strange in the world of news admittedly, but you had to add to that the atmosphere that the paper was all that mattered. The stress was visible on colleagues' faces and often led to huge drinking binges and troubles at home.

Ironically enough I lost my job when the *Today* newspaper was closed down, another News International title. They had to find 150 jobs in the building, and I was last-in, first-out. I worked in Fleet Street for a short while afterwards but it was in the middle of the 90s recession and papers were firing. I tried out local TV news for a while but it was amateurish in comparison and badly run. And there was hardly any competitive atmosphere, which made it seem incredibly tame. I still write now, but specialise in wine and music stories (much closer to my heart) and of course feel lucky that I got the boot when I did. I don't think that I would have hacked into Milly Dowler's phone, but people with stressful careers and huge mortgages can be driven to the maddest of choices. I left with my principles intact.

Questions and activities

1. Read the article, *News of the World: What was it like on the inside?* and use each of the five theories listed below to identify ethics issues in the article.
 - Utilitarianism
 - Kantian deontology
 - Justice (Rawls and Nozick)
 - Rights
 - Ethical relativism
2. Discuss *NoW*'s corporate culture and its ethical implications.

3. Discuss how the HRM function and HRM activities could be used to develop and maintain a strong positive ethics culture and prevent problems similar to those at NoW.
4. What conclusions can you draw about business ethics in theory and practice?
5. In response to the phone-hacking scandal that engulfed News Corp.'s NoW, founder Rupert Murdoch said his media empire would have a new code of ethics. Review the code at www.newscorp.com/corp_gov/sobc.html (or visit www.newscorp.com) and discuss if the code is likely to be sufficient to engender a new ethos at News Corp.
6. Follow up on recent developments regarding News Corp. via your favourite search engine.

SOURCE: [Online]. Available: <http://www.bbc.co.uk/news/magazine-14078182a> *BBC News Magazine* July 10, 2011.

REVIEW QUESTIONS AND ACTIVITIES

1. Identify the important concepts involved in a definition of business ethics. How are these concepts relevant in the context of South Africa?
2. What is the problem of dual loyalties and why does it arise? Provide an example of dual loyalties that an HR professional might encounter.
3. Evaluate the appropriateness of the professional code of conduct of the South African Board for People Practices (SABPP). How effective is the code in providing guidance to HR professionals who face the problem of dual loyalties? Why?
4. Outline the main features of an integrity-based approach to a strategic HR paradigm.
5. Explain and evaluate the utilitarian and deontological approaches (Kant, justice and rights) to ethics and discuss their relevance to HRM. Illustrate your discussion with reference to examples in South African workplaces and society.
6. Discuss the ethical issues that may arise within the traditional HR activities of employee selection, compensation, and promotion.
7. Discuss the issues that managers should address in formulating a company's policy on employee privacy.
8. The moral issues surrounding affirmative action are controversial. Discuss the pros and cons of affirmative-action programmes. In your view, are affirmative-action programmes morally justified or is employment-equity legislation sufficient to address the problem of discrimination? Why?
9. Identify and discuss the key justice and rights issues in contemporary South Africa. How would Mill, Kant, Rawls, and Nozick address them? How do South African enterprises deal with them?
10. In your view, what is the proper role of HR professionals in the operationalisation of corporate ethics programmes? Why?

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- <http://moral.with.harvard.edu/>
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- www.tisa.org.za
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Corporate responsibility and governance: Implications for HRM

9

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Distinguish between the concepts 'corporate responsibility', 'corporate ethics programmes' and 'corporate governance'
- Explain and discuss the shareholder and stakeholder models of corporate responsibility and how the two models reflect different theories of the corporation
- Identify the key components of an effective corporate ethics programme and explain how they impact upon the implementation of corporate responsibility and citizenship
- Discuss recent global initiatives in corporate governance
- Discuss the implications of ethics governance and the governance of ethics for the HR function

PURPOSE

The purpose of this chapter is to examine corporate responsibility and citizenship, corporate ethics programmes and governance, the inter-relationships between them and the implications for HRM.

CHAPTER OVERVIEW

This chapter begins with an overview of the arguments in the literature for diverse viewpoints on corporate responsibility (CR). These views range from a narrow classical economic view to varying degrees within the socio-economic view that include both negative and affirmative duties of corporations to stakeholders. These viewpoints can be characterised as the shareholder and stakeholder models of CR, respectively. The chapter indicates that the concepts of CR, corporate ethics programmes, and corporate governance are related, but different. The term 'corporate citizenship' is sometimes used interchangeably with the term 'CR' and is sometimes used to encapsulate all three concepts.

The chapter then explores research findings on corporate ethics programmes and considers the most effective elements of ethics programmes for corporations. It discusses recent initiatives in corporate governance, including those pertaining to South Africa in the wake of the third *King Report*. Finally, this chapter recognises how

the concept of corporate citizenship brings together the themes of CR, ethics, and governance and examines the implications for the HR function. The concluding case study illustrates how the theory contained in this chapter can be applied to a practical situation.

Introduction

The proper role of business in society and how that role should be regulated has been the subject of much debate in the literature on business ethics. One of the major developments in management thought in the latter part of the twentieth century was the recognition that enterprises have social responsibilities beyond those of profit maximisation and legal obligations. This development has required management to take into account the diverse needs of individuals and groups that have an interest in the operations of their enterprises, rather than focus solely on the interests of shareholders. To operationalise accountability to multiple stakeholders, enterprises in Australia, Canada, China, Europe, South Africa, the UK, the USA, and elsewhere, have embarked on corporate ethics programmes that include the introduction of written standards of ethical business conduct, compliance programmes, and board-level ethics committees.

Research on corporate ethics programmes has resulted in a substantial body of literature about the content of these programmes. Academics do not always agree, however, on how far corporate responsibilities to multiple stakeholders should extend, and corporations do not always succeed in fulfilling the obligations they acknowledge. When corporations fail to self-regulate, government regulation often

follows. For example, in the face of major failures in corporate ethics at the beginning of the new millennium – e.g. at Enron – the US government enacted the *Sarbanes-Oxley Act* of 2002. In the wake of other corporate failures globally and the global financial crisis (GFC), corporate governance programmes have evolved, both in structure and status. However, in both theory and practice, organisations and academics have given insufficient consideration to the philosophical foundations and assumptions that underpin corporate governance initiatives.² A theory of corporate social responsibility is a prerequisite to a well-articulated stance on corporate governance and is also the foundation of corporate ethics programmes.

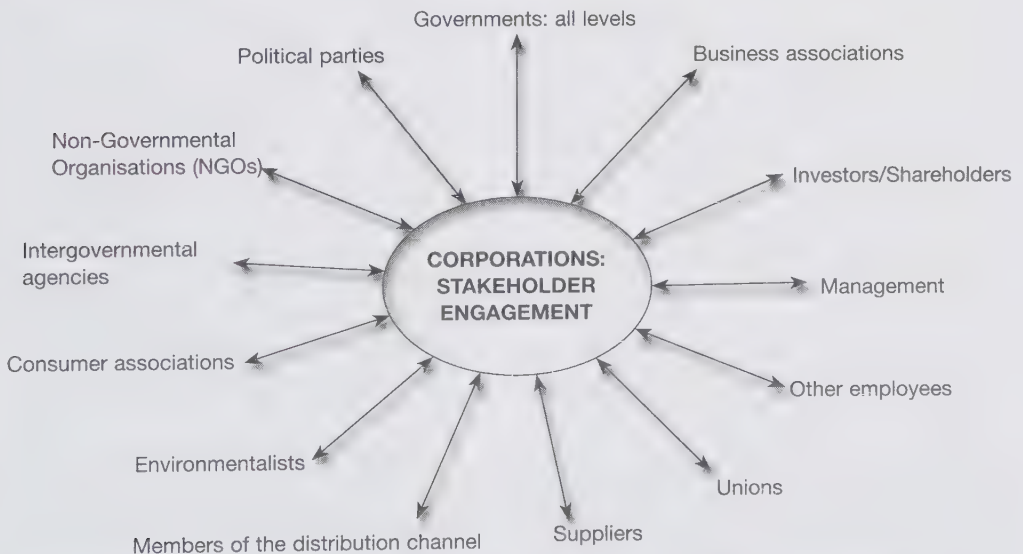
In recent years some have used the concept of corporate citizenship as an extension of the earlier work on corporate social responsibility and the role of business in society. Some writers suggest that corporate citizenship encompasses corporate social responsibility, corporate ethics programmes, and corporate governance.³ Other writers suggest business practitioners favour the term ‘corporate citizenship’ while ‘corporate social responsibility’ and ‘stakeholder theory’ have wider acceptance in the academic literature.⁴ A review of company documents shows that, indeed, many companies publicly refer to themselves as good corporate citizens. For example, ABN Amro’s corporate website states that ‘we are a responsible institution and a good corporate citizen’;

BHPBilliton's 2011 *Annual Report* declares that its strategy includes being valued as a good corporate citizen; and Boeing's website identifies good corporate citizenship as a key value at Boeing. ExxonMobil, Ford, Nike, Nokia, Toyota, and Unilever are further examples of companies that consider themselves to be good corporate citizens.^{4(a)} Cultural differences might also account for a preference for one term or another. For example, in South Africa, academics seem to favour 'corporate citizenship', whereas in the USA and Australia, writers use the term 'corporate social responsibility' although the term corporate responsibility is increasingly being favoured to underscore that responsibilities extend beyond philanthropic ones. Whatever term is used, the landscape is vast. Therefore, although the different aspects of corporate citizenship overlap, it is useful to distinguish the key domains both theory and practice attribute to them.

- **Corporate Social Responsibility (CSR).**
Definitions of CSR abound. Typically,

they refer to Carroll's 1999 definition, which identified the economic, legal, ethical, and philanthropic (discretionary) responsibilities that enterprises have towards their stakeholders.⁵ For example, the World Council for Sustainable Development states that CSR involves not only a commitment to behave ethically and to contribute to economic development, but also a commitment to improve the quality of life of the workforce and their families, the local community, and society at large.⁶ This definition plays a role in the Corporate Responsibility Index, an instrument initially developed in the UK, but now used globally, to provide detailed information to enterprises which volunteer to be indexed for the purpose of improving their actual performance in corporate responsibility.⁷ Similarly, the Commission of the European Communities on the responsibilities of corporations defined CSR as 'a concept

Figure 9.1 Diverse stakeholders with whom companies might engage



SOURCE: EUROPEAN FOUNDATION FOR MANAGEMENT DEVELOPMENT. 2005. *Globally responsible leadership: A call for engagement*. European Foundation for Management Development:29. Copyright © 2005 by the European Foundation for Management Development – EFMD aisbl\ All rights reserved.

whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.⁸ This definition reflects the essential difference in focus between CSR and corporate responsibility (CR). Often, debates about CSR are seen in terms of the proper balance between obligations to shareholders and obligations to stakeholders. Currently, many large enterprises have an office for corporate environmental and social responsibility and almost all multinational enterprises practise triple bottom line reporting (financial, social, and environmental) in their annual reports. Figure 9.1 illustrates a range of the diverse stakeholders with whom companies might engage. It is not exhaustive, but rather illustrates the broad range of interactions.

- **Corporate ethics programmes.** The programmes that enterprises institute to manage ethics, legal compliance, and social responsibilities are widely referred to as corporate ethics programmes. They provide an integrative function by defining boundaries of acceptable behaviour, stimulating and supporting organisational ethical behaviour, and providing early-warning mechanisms to identify and address potential problems. Written standards of ethical business conduct are the cornerstone⁹⁻¹⁰ and essential foundation of corporate ethics programmes. Purcell and Weber¹¹ were early exponents of corporate ethics programmes and in the late 1970s wrote about the importance of institutionalising ethics into business.

They define the institutionalisation of ethics as follows:

integrating ethics, formally and explicitly into daily business life

... into company policy formulation at the board and top management levels and through a formal code ... [and] into all daily decision making and work practices, down the line at all levels of employment

SOURCE: PURCELL, H. & WEBER, J. 1979. (Cited in SIMS, R.R. 1991. The institutionalization of organizational ethics. *Journal of Business Ethics*, 10:493.)

- **Corporate governance.** Corporate governance refers to the policies, practices, and mechanisms that shareholders, executive managers, and boards of directors use to manage themselves and fulfil their responsibilities to stakeholders, including investors.¹² Since the early 1990s, corporate governance has grown in importance and acceptance. Like CSR, people now expect enterprises to include a section on corporate governance in their annual reports. For example, Unilever's *2010 Annual Report* contains a 30 page section on corporate governance.^{12a} Transparency, compensation, accountability, independence, and board diversity are key dimensions of policies and practices regarding corporate governance. However, like CSR, corporate governance is also concerned with topics such as employment practices, environmental policies, and community involvement.
- **Corporate citizenship.** Most definitions of corporate citizenship utilise Carroll's work on CSR.¹³ For example, Maignan and Ferrell define corporate citizenship as 'the extent to which businesses meet the economic, legal, ethical and discretionary responsibilities imposed on them by their stakeholders.'¹⁴ Harned, President of the Ethics Resource Centre

based in Washington, DC, argues that organisational ethics (internal corporate ethics programmes) and CSR (ethical activities conducted outside the corporation for the benefit of society) are independent of each other, but corporate citizenship requires both.¹⁵ In a special edition of the *Journal of Corporate Citizenship* on Africa, the editors identify typical issues on the agenda of corporate citizenship.¹⁶ They include eradicating poverty, improving governance, tackling corruption, enforcing labour standards, protecting human rights, preventing resource depletion, controlling industrial pollution, ensuring environmental conservation, upholding business ethics, and creating supply-chain integrity. The editors then state that a major difference between corporate citizenship in developed countries and less-developed countries, such as those in Africa, is that in developing countries the issues are 'in-your-face' and 'a daily reality, an unavoidable part of doing business.'¹⁷

Having defined each of these terms, we shall now explore them in more detail. We shall begin with corporate responsibility and opt for the use of CR not CSR. An important focus of the CR debate is on distinguishing legitimate from illegitimate moral demands on corporate conduct by evaluating whether or not those demands are consistent with moral principles and values that underlie all moral institutions, including business.

9.1 Corporate responsibility

The concept of CR has evolved over time and is now considered to be a field of scholarship comprising 'a variety of perspectives disciplinary lenses and ideological positions.'^{17a} While there is evidence of concern by

business for social responsibility over centuries, the concept of CR as a core construct primarily developed in the literature over the last 60 years. In this body of literature, a number of different viewpoints offer intense debate about what properly constitutes the social responsibilities of corporations and whether those responsibilities should be codified in voluntary written standards or codified in law.¹⁸

Following Carroll's widely cited model of CR, referred to above, which identified economic, legal, ethical, and philanthropic (discretionary) responsibilities, and authors who have taken a similar approach, one can group the viewpoints on CR into three broad types,^{19–20} as follows (Table 9.1 summarises them):

- *The narrow classical economic view.* This view states that corporations ought to maximise profits in view of their sole responsibility to shareholders and that market forces and the law are the determinants of ethical conduct. We shall explain it in more detail below.
- *A socio-economic view.* This view argues that corporations are responsible for the consequences of their actions in a sphere beyond that of profit making. This sphere includes the responsibility to do what is right and fair as well as the moral minimum to do no harm and to prevent harm. For example, Davis refers to 'businessmen's [sic] decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest.'²¹ Camenisch²² goes further. While recognising that the essential elements of business are profit and the provision of goods and services, Camenisch argues that it is the responsibility of business to ensure that the products and services it provides do not negatively impact on human flourishing, nor irresponsibly use limited and non-renewable resources.

Table 9.1 Three viewpoints on corporate social responsibility

Corporate social responsibility viewpoints	Approaches	Key references
Narrow classical economic (Shareholder model)	Maximisation of shareholder value, uphold the law and ethical custom, enlightened long-term value maximisation	Friedman, 1970
Socio-economic (Stakeholder model)	Profitability and legal compliance Moral minimum of do no harm (negative duties) Moral minimum of prevent harm (affirmative duties) Uphold issues of justice and rights Respect for all stakeholders as ends in themselves Social contract	Simon, Powers & Gunnemann, 1972; Arrow, 1973; Stone, 1975; Evan & Freeman, 1988; Bowie and Duska, 1990; Goodpaster, 1991, 1996 in West 2006
Broad, maximal (Stakeholder model)	Profitability and legal compliance Moral minimum with affirmative duties Uphold justice and rights of all stakeholders Active role in social issues and contributing to the betterment of society through improving social conditions	Davis, 1973; Carroll, 1999, 2000; Mulligan, 1993; Wood, 1991; 2002; Porter & Kramer, 2002; Prahalad & Hammond, 2002

SOURCE: CAREY, L.E. 2007. *Profits and principles: The operationalisation of corporate ethics in Australian enterprises*. Canberra, Australia. University of Canberra:98. (Ph.D. thesis). Used with permission.

- *A broad or maximal view.* This view refers to the obligations of corporations to act in ways that enhance total socio-economic welfare and even solve social problems.

Carroll argues that the three viewpoints are non-sequential stages and that ‘each is to be fulfilled at all times.’²³ Sethi²⁴ and Wood,²⁵ however, recognise that social expectations about the responsibilities of corporations to society may vary across time and cultures. We shall discuss the three viewpoints in detail below.

The values that underlie these different viewpoints on CR derive from normative ethical theory (see Chapter 8) and

are therefore accepted beliefs for right and wrong. The ethical values include:

- Social utility through profit maximisation
- Nonmaleficence (cause no harm)
- Care for others
- Prevention of harm (accountability)
- Respect for individual rights, including life, property, and freedom rights
- Justice
- Responsible citizenship
- Beneficence (do good).

9.1.1 The narrow classical economic view of CR

The narrow classical economic view of CR is most often associated with free market

enthusiasts and is still influential today, especially among economists. The most well-known proponent of this view is the Nobel-winning economist Friedman.²⁶ The essence of Friedman's philosophy is that the sole responsibility of business is to maximise profits within the law and the 'rules of the game' (coercion and fraud are disallowed) and that governments ought not to interfere in the workings of the free market beyond providing a minimal state of order and securing public welfare. There are two premises underlying this philosophy. The first is a link between capitalism and freedom. The second is that corporations are not moral agents, but legal entities only and that whilst they can be held legally responsible for actions, they cannot be held morally responsible. Not surprisingly, the literature on business ethics is replete with critiques of the free market or narrow classical economic view generally, and Friedman's arguments specifically. Shaw²⁷ states that in the period 1970 to 1988, there were at least 1 000 attempts in the literature to discredit Friedman's position.

In support of his classical economic view, Friedman offered two arguments, which we shall discuss in detail. They are:

- The 'free society' argument
- The so-called 'agent-principal argument' and the associated 'taxation argument'.

Friedman's first argument in support of his classical economic view is the 'free society' argument. This argument states that any obligations placed on business to spend resources on concerns other than the pursuit of profit (within the law) are at odds with the principles of a free society. In his 1970 essay he asserted that 'the doctrine of "social responsibility" ... does not differ in philosophy from the most explicitly collectivist doctrine.'²⁸ Furthermore, Friedman claimed that businesspeople who defend the idea of

CR undermine the basis of a free society and are 'unwitting puppets' of socialism and that 'capitalism is a necessary condition for political freedom'.²⁹ The free society that Friedman is defending here is a free-market economic system, characterised by open and free competition for resources, numerous buyers and sellers who have perfect information and who are all rational utility maximisers, and the absence of external costs and market regulation.

Critics of the market approach argue that these characteristics are absent from the market and therefore the laws of supply and demand cannot reign supreme and ought not to define CR. For example, Arrow,³⁰ also an economist, rejects Friedman's conclusion on the basis that a mandate to maximise profits ignores the reality of imperfect competition and results in an unequal distribution of income, a decline in altruism, and social inefficiencies due to the problems of an imbalance of knowledge between buyers and sellers and of uncosted externalities such as pollution. A good example of imperfect competition is the ongoing price gouging by large supermarkets in the hope of closing down small grocery and liquor stores. These have become known as the bread, milk and beer wars. Other critics have argued that the classic defence of the free-market system is undermined because manufacturers create the demand for the products they make, thereby encouraging excessive and unsustainable levels of consumption.³¹

In recognition of market failures, critics recommend the use of government regulation, taxation, legal liability, and voluntary initiatives, including codes of ethics, to institutionalise the social responsibilities of corporations. Other writers³² point to the limits of relying on legal standards alone for determining CR. These limits include the degree of influence that corporations are able to exercise in both shaping regulatory law and influencing legal outcomes and the

reactive, rather than proactive, nature of the law. Moreover, while the law prescribes what cannot be done, it does not prescribe what ought to be done.

Attempts have been made to defend the free-market or classical economic view of business responsibilities by reference to utilitarianism and two rights-based arguments, as follows:

- *A utilitarian defence of the free-market system.* As we identified in Chapter 8, utilitarianism is the ethical theory that utility ought to be maximised in the long run. The utilitarian defence of the classical economic view of the responsibilities of business is that the free-market approach is the best means to achieve the goal of maximising net happiness or the well-being of society as a whole. The justification is Smith's well-known 'invisible hand' and its role in harmonising self-interested behaviour to secure an end (public interest) that is not part of anyone's intention.³³ However, there is evidence to suggest that commonly held views of Smith's understanding of ethics and economics misrepresent his work. For example, Werhane and others have argued that for Smith, self-interest is not the highest virtue and economic gain is not the highest goal; instead, justice is the crowning virtue.³⁴ These authors point out that while Smith showed how individuals pursuing their economic interests in the free marketplace would propel society towards wealth and greatness, he concluded in *The wealth of nations* that economic actors must exercise prudence, benevolence, and restraint; respect the rights of others; and operate according to principles of justice. Moreover, they suggest that an earlier and less well-known work by Smith, *The theory of moral sentiments*, provides the context for Smith's later work and that to read the

latter without the former misrepresents Smith's understanding of individualism and society. In *The theory of moral sentiments*, Smith sought to develop an ethical theory based on a theory of human nature. For Smith, the defining ethic or virtue is not self-interest, but 'sympathy' or compassion. Smith understood sympathy as 'the capacity for entering imaginatively into the feelings of others and allowing the sympathy to guide our own actions.'³⁵ Objectivity (Smith refers to the 'impartial spectator') and, indeed, conscience are established by one's ability to evaluate one's own actions as others would evaluate them. Friedman's emphasis on maximising one's own interests – in this context, those of shareholders – without regard for how this might harm others falls short of the utilitarian principle and Kant's test of universalisability and respect for autonomous human beings (we explored this issue in Chapter 8).

- *A rights-based defence of the free-market system.* The two rights-based arguments used as a defence for the narrow classical economic view of CR are liberty and property rights.
 - ▷ *The argument from liberty.* This argument is that individuals have the right not to be interfered with in their affairs, including with respect to their economic affairs, and that any interference by governments or others would infringe on their rights to property. This is essentially Nozick's argument for his libertarian approach to justice (see Chapter 8).
 - ▷ *The argument from property rights.* This argument is related to the argument from liberty. Proponents of this view argue that the owners of a corporation hold private property rights to use as they see fit (within the law and without committing

fraud or deception). According to this argument, if the owners wish to pursue the goal of profit maximisation, then any action or legislation that impedes this goal is an illegitimate restriction on the property rights of the owners of the corporation. Thus, proponents conclude that while managers have a duty to maximise profits for the shareholders of the corporation, governments and others have a duty not to interfere with the corporate pursuit of profit. For Friedman, the property rights of individual shareholders are inviolable. However, as we identified in Chapter 8, the principle of equality limits rights and when different rights of different people are in conflict, those rights most closely associated with the right to life have priority over those founded on rights to liberty and property.

Friedman's second argument in support of the classical economic view of CR is the so-called 'agent-principal argument and the associated 'taxation argument': 'The manager is the agent of the individuals who own the corporation ... and his [sic] primary responsibility is to them.'³⁶ Here he claims that corporate executives are the employees of shareholders and as such have a primary fiduciary responsibility to protect their interests, which, Friedman claims, is to maximise profits. At the same time, for Friedman, management's only responsibility is the protection of shareholders' interests: 'There is one and only one social responsibility of business ... to increase its profits so long as it stays within the rules of the game.'³⁷ The claim is that corporate executives who spend the corporation's resources on social concerns do not maximise profits for the corporation (shareholders). Friedman arrives at this claim by arguing that in cases

where an executive spends the corporation's resources on social concerns that do not maximise profits for the corporation, the executive 'is in effect imposing taxes, on the one hand [by reducing returns to owners], and deciding how the tax proceeds shall be spent, on the other [by lowering wages or adding costs to customers]'.³⁸ For Friedman this is akin to stealing from shareholders, unless contributions to charity are done as a public-relations exercise for the purpose of increasing profits. Moreover, for Friedman, imposing taxes and spending the revenue on social concerns is a governmental function, not a corporate function, and when corporate officers become involved in community activities and public policy, they are acting outside their area of competence. These matters, claims Friedman, are best handled through the political process and left to elected and trained civil servants.^{38(a)}

The literature reports that most people do not find Friedman's taxation argument against CR very compelling. This is partly because managers do not have a responsibility to earn the greatest amount of profit without regard for the means by which the profit is made, and partly because shareholders may be interested in the social dimensions of their portfolio investments, as well as in their financial returns. The success of ethical investment portfolios are testament to this. Moreover, there is a growing body of research evidence that suggests a positive correlation between CR and corporate financial performance.³⁹ Also, rather than viewing socially responsible behaviour as theft, one can view it as a kind of payment for the unpaid social costs of doing business.

In regard to the agent-principal argument, there are problems with Friedman's synonymous use of 'primary' and 'only', his emphasis on 'maximisation' of profits, and his failure to acknowledge that 'primary' implies that there might be other interests to consider. Such interests often require

management to forgo the goal of maximum profit, in favour of a good profit, as well as just wages, safe working conditions, and good environmental practices. Criticisms of Friedman's agent-principal and taxation arguments and his free-society argument have led not only to a broader view of CR, but also to the view that ethics should be institutionalised from within corporations. Whilst the literature is in agreement that corporations should be socially responsible, there is still much debate about what those responsibilities are. At a minimum, the broader socio-economic view acknowledges the interests and rights of multiple stakeholders who need to be protected from harm.

9.1.2 The socio-economic view of CR

The second viewpoint in the CR debate argues that stakeholder interests and expectations should be more explicitly incorporated in the organisation's purposes even when doing so results in reduced profitability.⁴⁰ The literature refers to it as the neo-classical view or socio-economic view of CR. Campbell's Soup Company provides a good example of this viewpoint. The website states that the company defines success as nourishing consumers, neighbours, employees and the planet.^{40(a)} Box 9.1 provides an extract of Campbell's *2011 Corporate Social Responsibility Report* which details the specific processes it uses to address the interests of its multiple stakeholders (consumers; employees; suppliers; customers; health, research and advocacy bodies; shareholders; communities and NGO; and governments and policy makers). Some formulations of the socio-economic view include only the moral minimum, described as the responsibility to make a profit without causing harm. However, Simon, Powers, and Gunnemann,⁴¹ in requiring the moral minimum from corporations, make the important distinction between negative injunctions and affirmative duties and argue that the standard

of a 'moral minimum' requires both. The moral minimum expressed as an affirmative duty requires corporations to not only *do no harm* – such as 'do not pollute' (duties of non-munificence) – but also that corporations act to prevent *harm* from occurring. Preventive measures include those typically associated with the HR function including hiring and training of employees, job design, OH&S, performance management and the establishment of a positive corporate culture.

BHPBilliton's environmental policy provides a good example of affirmative duties. It states that its policy is to ensure it has management systems to identify, control, and monitor environmental risks arising from its operations and to conduct research and establish programmes to conserve resources, minimise waste, improve processes, and protect the environment.⁴²

The obligation to prevent harm cannot be open ended. Simon, Powers, and Gunnemann present the view that it is limited by the criteria of need, proximity, capability, and last resort (called the *Kew Garden Principles*). These criteria serve to bring direction and coherence to the operationalisation of corporate responsibility and citizenship. For example, profitability and knowledge are a function of capability and proximity respectively. Many of the criticisms levied against British Petroleum (BP) in the wake of the oil spill in the Gulf of Mexico and fatalities from several refinery and drifting rig fires, centre on allegations that BP did not have the necessary measures in place to prevent harm to their employees, local communities and the environment, despite the need and BP's capability, knowledge and position to do so.^{42(a)}

Other formulations of the socio-economic view of CR recognise issues of rights and justice and how these may require corporations to forgo some profit in the interests of all who have a stake in a business's operations. The recognition of stakeholder

BOX 9.1

Stakeholder engagement at Campbell Soup Company

Stakeholder	Interactions	Types of Issues	Strategic benefits
Employees	■ Employee forums ■ Brand- and plant-based intranet sites ■ Business Resource Affinity Networks ■ Employee surveys ■ Anonymous channels ■ Labour negotiations ■ Innovation portal	■ Business trends, interests, and knowledge ■ New ideas for innovation	■ Open and reliable channels of communication across entire workforce ■ A sense of shared perspective with multiple touch points to support alignment
Health research and advocacy bodies	■ R&D relationships ■ Campbell memberships ■ Research results ■ Strategic issue partnerships	■ Nutrition and labelling standards ■ Clinical research ■ Industry partnerships	■ Cutting-edge science on nutrition ■ Accurate and understandable labelling ■ Cause marketing relationships aligned with Campbell brands
Consumers	■ Dedicated consumer affairs organisation, web portal, telephone, and written interaction ■ Consumer insights research ■ Campbell's Kitchen website ■ Nutrition and wellness website ■ Specific consumer studies, including CSR/ sustainability	■ Product ingredients ■ New product inputs ■ Labelling ■ Nutrition ■ Product use and recipes ■ Buying and use behaviour ■ Consumer priorities	■ Understanding and alignment with consumer interests and trends ■ Direct high-touch relationship with Campbell's consumers ■ Trust and ability to communicate rapidly
Customers	■ Direct customer relationship organisations ■ Top-to-top customer meetings (including CSR/ sustainability strategy) ■ 360° customer feedback vehicles	■ Business relationships ■ Customer service and support ■ Marketing support ■ Trade practices ■ Logistics and supply-chain capabilities	■ Tailored business strategies that meet our customers' needs and priorities

Stakeholder	Interactions	Types of Issues	Strategic benefits
Suppliers	■ Assessments and audits ■ Face-to-face meetings ■ Business continuity plans ■ Community partnerships ■ Supplier diversity initiatives ■ Product design ■ Sustainable packaging fairs	■ Product quality and safety ■ Sustainable packaging ■ Supply chain risk mitigation ■ Cost-saving opportunities ■ Partnership in local citizenship activities	■ Robust and reliable supply chain ■ Alignment on ethical, human rights and environmental expectations
Shareowners	■ Meetings with institutional investors and major shareowners to address business and CSR/sustainability issues ■ New expanded outreach to socially responsible investors	■ Business performance ■ Health and wellness product strategies ■ International expansion plans ■ Sustainability targets and results	■ Close and interactive relationship with shareowners from institutional to retail ■ Enhanced understanding of Campbell's seven business strategies
Communities and NGOs	■ Direct, on-the-ground relationships ■ Networking relationships across our community partners ■ Recognition events ■ Brainstorming discussions ■ Regional priority plans – Health, community revitalisation, youth ■ Signature partnerships	■ Critical local needs – hunger, youth, support services in our communities ■ Strategic partnership priorities – heart health, obesity, sustainable agriculture, diversity	■ Focused, tailored approach to community service that is aligned with the Campbell family of brands, our local communities and the most pressing priorities on which Campbell can have the greatest impact
Governments, policy makers	■ Campbell Public Policy Committee sets priorities ■ Direct engagement on issues important to Campbell business ■ Regulatory affairs employees at plant and international sites ■ Significant monitoring and communication activities	■ Food safety, quality, labelling ■ Regional priorities ■ Health, wellness and nutrition policy	■ Credible and authentic relationships with policy makers ■ Consistent policy positions globally ■ Building a reputation as a trusted source of industry perspective

SOURCE: [Online] Available: http://www.campbellsoupcompany.com/csr/success_engagement.asp, 10 February 2012.

rights is central to the concept of stakeholder theory, which has become popular with many writers on business ethics.⁴³

For example, Johnson identified a 'multiplicity of interests' when he stated:⁴⁴

[A] socially responsible firm is one whose managerial staff balances a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation.

SOURCE: JOHNSON, H.L. 1971. *Business in contemporary society: Framework and issues*. Washington, D.C.: Wadsworth:50.

Stakeholder theory has been justified by appeals to Kant, rights, justice, and utilitarianism (see Chapter 8). There is also wide support in the literature for the view that strategically managed firms can and ought to take into account broad stakeholder-based interests.⁴⁵ It is argued that by attending to such interests, corporations build intangible assets such as goodwill, reputation, trust, loyalty, and opportunities for innovation.

Taking account of the various themes within the socio-economic view of CR, Bowie and Duska offer a revision of the classical economic view, stating:⁴⁶

[B]usiness has a primary responsibility to make a profit, but in doing so cannot resort to coercion or fraud, and must respect the rights of all those who have a stake in the business, treating them justly and fairly,

compensating for past injuries, doing no harm, and, where required, preventing harm.

SOURCE: BOWIE, N.E. & DUSKA, R.F. 1990. *Business ethics*, 2nd ed. Englewood Cliffs, N.J.: Prentice Hall:41.

Missing from Bowie and Duska's reformulation is the obligation for corporations to contribute to solving social problems. To consider legitimate constraints on profit making, Bowie and Duska employ Frankena's four principles of duties of beneficence.⁴⁷ Frankena presented these duties in ascending order, with the implication that the more difficult the duty, the more likely it is to be understood as an ideal rather than a strict moral obligation. Frankena's duties in ascending order are:

1. Avoiding harm
2. Preventing harm
3. Removing harm
4. Promoting good.

Bowie and Duska's reformulated view is supported by advocates of the socio-economic view who argue that while companies are responsible for any wrongdoing they cause, they are not obliged to take responsibility for solving social problems, such as community health and education, although they may undertake such activities if they wish to do so. The main arguments put forth by these neo-classicists are that:

- Corporations do not have the resources to solve social problems
- In a competitive market, competitive pressure will prevent well-intentioned companies from involvement in solving social problems
- It is unrealistic to expect corporations to address systemic problems such as inflation, pollution, and unemployment.

However, even on Friedmanite grounds, one can defend philanthropic and social activities by corporations since, paradoxically, acting ethically and responsibly may end up being more profitable.⁴⁸ This is the view of enlightened self-interest through corporate investment in community involvement with a view to long-term profit maximisation. For example, drawing on the philosophy of its founders, Texas Instruments defines itself as a good corporate citizen that gives back to the communities in which it operates, making them better places in which to live and work and 'in turn making them better places to do business'.⁴⁹ This supports the recent work of Porter and others⁵⁰ in using Porter's earlier work on competitive advantage to argue that corporate activities aimed at improving society may result in creating contexts of competitive advantage. Nevertheless, there is an important difference between Friedman's view and the socio-economic view: 'The Friedmanite treats stakeholders well in order to make a profit, while the stakeholder theorist treats stakeholders well because it is the right thing to do.'⁵¹

9.1.3 The broad maximal view of CR

The third view of CR obliges corporations to take on maximal duties (duties of beneficence) of CR. According to this view, a corporation's responsibilities include shaping society and solving social problems caused wholly or in part by the corporation. The *Millennium Poll on Corporate Social Responsibility*⁵² interviewed over 25 000 people in 23 countries on six continents about their expectations of corporations. Two of the most significant findings of the global survey are that the majority of citizens, in all but three of the countries surveyed, thought companies should go beyond the Friedmanite view of profit making and obeying the law, and the majority thought that corporations, in addition to making a profit and obeying laws, should make a positive contribution to society.

The maximal account of social responsibility is based on the argument that corporations are powerful institutional members of society, which places an obligation on them to use their social power for good ends. For example the largest 100 companies in the world have annual revenues that exceed the gross domestic product of 50% of the world's nation states, 359 corporations account for 40% of world trade, and ten corporations control almost every aspect of the worldwide food chain.⁵³

A key assumption in this proposition is that society entrusts business with significant resources to accomplish its goals and expects business to manage these resources prudently. The question then arises as to whether competent trusteeship can be assured through compliance with voluntary codes of behaviour, rather than enforced through legal constraints. The maximal view is also based on an understanding that corporate citizenship, like individual citizenship, involves civic duties and responsibilities, duties of gratitude for the benefits corporations receive from society, and the responsibility to contribute positively to society. These views are captured by Blowfield and Murray's^{53(a)} statement that, business today has the competencies, resources, and infrastructure to help to meet societal challenges and, whether by its own devising or because of external events, finds itself having some responsibility to make these available for the public good.

However, as with the obligation to prevent harm, the obligation to assist society is not open ended and Simon, Powers and Gunnemann's criteria of need, proximity, capability and last resort provide meaningful criteria to consider the limitations of such a duty.

Similarly Wood suggests that while corporations are not responsible for solving all social problems, they are responsible for the consequences related to their primary and secondary areas of involvement

with society.⁵⁴ For example, while car manufacturers may not have a responsibility to become involved in literacy programmes, they do have a responsibility for helping to solve the problems of vehicle safety and the environment and, therefore, it is appropriate for them to become involved in programmes related to driver education, recycling, and pollution reduction. However, Wood also recognises that the inter-relationship of business and society may justify social responsibilities beyond a corporation's primary and secondary involvements. Thus, if the car manufacturer in the example above is dependent on migrant workers, then a literacy programme would be a relevant responsibility.

Unilever's campaigns on hand-washing, established in partnership with UNICEF and the London School of Hygiene and Tropical Medicine, provide a good example of obligations to solve social problems when they are within a corporation's primary area of business activity. The campaigns were established to help combat childhood deaths from diarrhoea. The United Nations estimates that more than 5 000 children die every day from diarrhoeal diseases. The hand-washing campaigns initially ran in India, but Unilever has extended them to Bangladesh, Sri Lanka, Pakistan, Indonesia, Vietnam, South Africa and East Africa. The so-called 'health awakening' campaigns involve a two-prong approach whereby Unilever funds hygiene-education programmes and makes its Lifebuoy soap affordable to local communities. Since 2002, the programmes have helped more than 133 million people in these countries become more aware of basic hygiene, stressing the importance of hand-washing with soap. Unilever is a founding partner of the annual Global Handwashing Day, launched in 2008. In 2009 120 million people from 80 countries participated and in 2010 Unilever used social media channels Facebook and Twitter to spread Lifebuoy's hand-washing messages to a worldwide mass audience.⁵⁵ Unilever states

that the Lifebuoy brand mission activities are built on three beliefs:

1. The world has moved on from philanthropy
2. Brands can be a positive force for good
3. The future lies with public and private sector partnerships.

On the later point, it states the following:

*The private sector is best placed to provide expertise on marketing behaviour-change to large audiences, working with non-governmental organisations and governments to help achieve the Millennium Development Goals. These goals are a set of internationally-agreed targets designed to alleviate poverty, hunger and ill-health around the world, and improve education, gender equity and environmental sustainability through global partnerships by 2015.*⁵⁶

Unilever is also involved in community activities outside its primary area of business. For example, in South Africa, Unilever factories have begun diverting food waste to make compost that people then use in community vegetable gardens. Local people can grow vegetables in the community garden and sell the produce. This provides a source of income for people and helps to feed local communities. It also helps to reduce waste sent to landfill and reduces the cost of waste disposal for Unilever.

9.1.4 Current developments in CR

In view of the evolution of CR to date, one can identify a number of trends likely to shape CR in the decade ahead, namely:

- First, there is a growing recognition that CR and business ethics are intertwined; thus, corporate ethics programmes are likely to focus on preventing harm as well as initiatives to do good, and to focus not only internally on primary stakeholders such as employees but also on external stakeholders such as suppliers, and local communities.
- Second, business ethics and CR initiatives will be strategically focused.
- Third, the rise of private governance at the national and global levels will continue. For example, corporations are likely to adopt international standards and to agree to be evaluated by private ratings agencies (e.g. the UN Global Compact, the Global Reporting Initiative, the OECD Guidelines for Multinational Enterprises and the Corporate Responsibility Index, all of which cover human rights, employment issues, consumer interests, environmental concerns, competition and taxation).
- Fourth, there is likely to be an increase in both mandatory and voluntary reporting and, perhaps, government regulation.
- Fifth, there is likely to be greater public expectation about corporate leadership in solving social problems and contributing to social development.
- Sixth, there is an increased focus on the effectiveness of corporate ethics initiatives and best-practice corporate ethics programmes; it is in this sense that CR programmes combine principles, processes, and outcomes.
- Seventh, the development of CR will continue, both as a field of study and in practice. This development will include contributions from diverse national perspectives (e.g. Africa, Asia and Latin America), multiple disciplines (e.g. management, economics, ethics, law,

political science and environmental sciences) and practitioners, thereby ensuring a more global and inclusive understanding of CR, as well as one that is conceptually rich and relevant to organisations.

This discussion of the multiple accounts of corporate responsibility has shown that despite the tensions and competing claims, there is consensus that the maximisation of profit is limited, yet whether those limits are bounded by legal requirements, market forces, customs and practices, ethics principles and values or the duties of good citizenship, remain contentious.

In the following two sections we shall discuss the processes within corporate ethics and governance programmes that corporations have adopted to help ensure high levels of CR and ethical business conduct.

9.2 Corporate ethics programmes

Chapter 8 established the basic elements of ethical principles and values that support the competing perspectives on CR and legitimate profit-making presented in the above sections of Chapter 9. The following sections will focus on the ways in which corporations operationalise their ethical and social responsibilities.

The programmes that corporations have instituted to manage ethics, legal compliance, and social responsibilities in order to be good corporate citizens are widely referred to as corporate ethics programmes, corporate values programmes, compliance programmes, and social responsibility programmes.⁵⁷ As the introduction identified, corporate ethics programmes – an umbrella term used in the literature – provide an integrative function by defining boundaries of acceptable behaviour, stimulating and supporting organisational ethical behaviour, and providing early-warning mechanisms

to identify and address potential problems. They are sometimes referred to as both formal and soft organisational control systems.⁵⁸

Written standards of ethical business conduct are regarded as the cornerstone and 'essential foundation' of corporate ethics programmes. An important function of written standards is that they make a company's values explicit. By doing so, they provide ethical justifications to guide the resolution of dilemmas at both the individual level and the organisational level.

Although written standards are central to a corporate ethics programme, the evidence shows that merely having written standards, such as a code of conduct, is insufficient.⁵⁹ Written standards of ethical business conduct must be aligned with and give direction to an enterprise's organisational structures, culture and leadership. Some argue that unethical managerial behaviour disclosed in large high-profile companies is not due to anomalies, but rather, is institutionalised through corporate planning systems, especially those resulting in pressures on individual managers.⁶⁰

Consequently, writers often emphasise the need to institutionalise ethical principles and values through an organisation's culture. They perceive ethical cultures to be vehicles for enabling and producing shared understandings among organisational members about proper behaviour.

9.2.1 Operationalising corporate ethics programmes

Over the past three decades there has been a dramatic increase in the number of enterprises that have embarked on corporate ethics programmes. These programmes have been the subject of numerous studies by the business ethics research community in the USA, the UK, Canada, Australia, Europe, and Asia.⁶¹ The more recent research has focused on the operationalisation of corporate ethics programmes and their effectiveness. The

operationalisation of corporate ethics programmes refers to the mechanisms and processes enterprises use to integrate ethics into organisational structures, organisational cultures, and decision-making practices of employees. An analysis of the current body of literature suggests there are three primary components of a corporate ethics programme: the formulation, communication, and monitoring and enforcement of written standards. The body of literature also enables the identification of particular factors associated with each component.

- *Formulation phase.* The formulation component of a corporate ethics programme can include the following:
 - ▷ Consideration of the types of written standards of ethical business conduct that a corporation will develop
 - ▷ How frequently the standards are revised
 - ▷ Whether they are developed in consultation with organisational members or external consultants, or both
 - ▷ The values reflected in the written standards
 - ▷ The issues they address
 - ▷ The organisational positions or units responsible for the formulation of the written standards.

The following points summarise the key findings in the literature in relation to the formulation phase:

- ▷ Written standards of ethical business conduct include codes of ethics, codes of conduct, codes of practice, value statements, corporate credos, and policy documents on specified issues.
- ▷ Currently, almost all large enterprises worldwide have at least one of these written standards and many have several.
- ▷ Typically, written standards include definitions of ethical and unethical conduct; professional standards and

directives; identification of stakeholders and their rights; commitments to fairness, equity, employee safety, the environment, and social responsibility; stipulations on the proper use of company resources, conflicts of interest, privacy, confidentiality, improper payments, gifts, and whistle-blowing; sanctions and other methods for the enforcement of standards; and advice on interpreting and implementing the standards.

- ▷ When designing and developing written standards, managers should consider the specific ethics issues that a company and its employees are likely to face. The written standards will then be relevant to the company's operating environment.
- ▷ Written documents are enhanced by the provision of examples about ethics issues and dilemmas that employees are likely to face in their daily work relationships and how those dilemmas can be resolved.
- ▷ It is best to develop written standards in a consultative and participatory manner with employee involvement in all stages of the process.
- ▷ Once formulated, written standards should not be stagnant. There should be ongoing and regular revision of ethics documents.
- ▷ Corporate ethics programmes can have different orientations, including values and compliance. Compliance programmes typically emphasise legal statutes and contracts, provide training in rule compliance, and set sanctions for non-compliance. Values-based corporate ethics programmes focus on core ideals and types of behaviour that reflect ideals, such as 'respect for all persons'. While a values orientation has a larger

unique impact on desired outcomes, the orientations are complementary.

- ▷ Values written standards typically include fairness, respect, integrity, honesty, trustworthiness, social responsibility, quality, equality, the keeping of promises, autonomy, care for the environment, and good citizenship.
- ▷ The involvement of senior-level management in the formulation phase is critical for the acceptance of written standards throughout an organisation. However, different organisational units share responsibility for the formulation phase, and most often it is delegated to the HR function.
- *Communication phase.* The communication phase of corporate ethics programmes is concerned with:
 - ▷ The distribution of written standards to stakeholders (internal and external)
 - ▷ Training programmes to educate employees about the nature, provisions, and requirements of the standards
 - ▷ Who receives ethics training and how frequently
 - ▷ Mechanisms for obtaining advice about implementing written standards at the individual and organisational levels
 - ▷ The organisational positions or units responsible for the dissemination of ethics programmes.

The literature suggests that the majority of enterprises taking specific steps to instil ethics into organisational decision making are focusing on the first component, the formulation of written standards, and in particular on codes of ethics. The implementation of the communication component of corporate ethics programmes is generally reported

to be incomplete.⁶² Particularly problematic is the issue of training.

Surveys consistently show that the number of corporations that provide training on company standards of ethical workplace conduct is less than the number that has written standards of ethical conduct. However, in the US the gap appears to be closing in response to amendments in the *Federal Sentencing Guidelines for Organisations* (FSGO; see 9.2.2 below) that require organisations to provide ethics training for board members, high-level personnel, employees, agents and contractors. Simply distributing the organisation's code of ethics does not meet the training requirement.^{62(a)} For example, data from the US Ethics Resource Center show that in the year 2000, 79% of companies had written standards of ethical conduct and 54% provided ethics training compared to 82% and 76% respectively, in 2011.^{62(b)} Surveys also reveal that the most common form of ethics training in corporations is that conducted as part of a standard employee induction or orientation programmes. The depth and breadth of such ethics training is questionable. While some aspects of an ethics training programme can be standardised, other aspects need to be customised for specific roles and responsibilities across different functional areas and management levels in an organisation, as well as for external contractors. When organisations do provide ethics training, the majority of employees report that they frequently use such training to guide their decisions and conduct at work and that the training prepares them to handle ethically sensitive situations. Studies have also found that while there is a good match between the ethics issues written standards of ethical business conduct address and those ethics training

addresses, many companies do not adequately address ethics issues that employees perceive to be of concern to them. For example, in one study respondents indicated that out of a list of 25 ethics issues, sexual harassment and equality in employment were ranked the two most frequently addressed ethics issues in their company's written standards and ethics training.⁶³ However, the same issues ranked ninth and fifth, respectively, as a current issue, and thirteenth and sixth, respectively, as a future issue. Conversely, the use of information systems and environmental issues ranked second and fourth, respectively, as a current issue and first and second, respectively, as a future issue, but were ranked between seventh and ninth as the issues written standards and training programmes most frequently addressed. One explanation for the discrepancy may be that HRM had primary responsibility for the formulation of written standards and ethics training and its focus was on HR-related ethics issues, particularly ones that involved legal compliance. The ranking of occupational health and safety as the third-most-frequent issue addressed in written standards and training programmes supports this explanation.

Lack of opportunity to discuss ethics issues in the workplace can lead to 'moral stress'. Consequently, organisations increasingly provide mechanisms whereby employees can obtain advice and information regarding workplace ethics.⁶⁴ In addition to providing written standards, organisations increasingly provide advice by means of dedicated telephone advice lines, ethics officers, ethics committees, consultants, e-mail, intranet services, and company web-sites. Electronic communication has helped to overcome the problem of distributing written standards to

employees of overseas subsidiaries and of providing them in multiple languages. BHPBilliton, for example, provides some of its documents in nine different languages. Electronic communication via the World Wide Web also facilitates the communication of corporate ethics policies and practices to external stakeholders and the regular updating of those policies and practices.

Surveys report that employees view these mechanisms as highly important for ensuring an ethical corporate culture. For example, the American Management Association and Human Resource Institute (AMA/HR) found that approximately 60% of executives and managers thought that the opportunity to discuss ethics issues and seek guidance were 'extremely important' or 'highly important' and a further 27% found it important. Only 13% found it 'somewhat important' or 'not important.'^{64(a)} However, despite these findings or recommendations by the FSGO, only 68% of employees in the 2011 ERC survey reported the existence of ethics advice and information mechanisms in their organisations.^{64(b)}

- *Monitoring and enforcement phase.* The monitoring and enforcement component of corporate ethics programmes is concerned with:
 - ▷ The methods used to monitor compliance with written standards
 - ▷ The effectiveness of these methods
 - ▷ Actions an enterprise might take in the case of ethics misconduct
 - ▷ Whether or not ethics compliance is a formal part of an organisation's reward and performance management programmes
 - ▷ The organisational positions or units responsible for compliance monitoring and enforcement. In recent years, particularly since the USA *Sarbanes-Oxley Act* (SOX) of

2002, the provision of mechanisms for reporting unethical practices anonymously and confidentially has gained increased attention globally. For example, under the listing rules of the relevant stock exchanges in Australia, Belgium, the Netherlands, the UK and the USA, corporations are required to report on their adherence to recommended corporate governance practices, including the provision of a code of business conduct and a confidential whistleblower programme that provides protection to whistleblowers from retaliation. However, not all corporations have such programs and even in those that do, whistleblowers report retaliatory experiences such as exclusion from decision making or other workplace activities, being ignored by co-workers, verbal abuse, being over-looked for promotion, loss of pay, demotion, online harassment and physical harm.⁶⁵

International studies dating from 1992 to 2012 show that corporations appear to be less active in the monitoring and enforcement aspect of corporate ethics programmes than they are with the formulation aspect. For example, they may require only a periodic sign-off, be focused on punishment for wrongdoing rather than linked to performance management, or not have ethics infrastructure such as ethics committees and ethics officers.⁶⁶ A lack of emphasis on monitoring and enforcement as well as training raises important questions about the extent to which ethics is embedded into an organisation's culture, routines and processes, and, therefore, the motivation that enterprises are providing their employees to behave ethically. High profile corporate financial scandals have spawned a wave of corporate governance initiatives globally.

These corporate governance initiatives include evolving laws and self-regulated best practices. Under new corporate governance structures, senior management and boards of directors are beginning to address proactively the oversight issues their companies face. We shall discuss corporate governance issues in section 9.3.

9.2.2 Effectiveness of corporate ethics programmes

A fundamental issue in the operationalisation of corporate ethics programmes is their effectiveness and how to measure it. However, while codes of ethics are both widely used and researched, little is known about their effectiveness. There is agreement that ethics is hard to measure and that any evaluation of a corporate ethics programme must go beyond cost accounting or savings from fewer lawsuits. Assuming that effectiveness of codes and corporate ethics programmes relates to ethical behaviour, measures of effectiveness and ethical behaviour must first determine what behaviour is ethical in the normative sense (see Chapter 8). A number of studies have attempted to verify the influence of codes of ethics and ethics programmes on behaviour. Schwartz⁶⁷ reported on 22 such studies and concluded the findings were mixed. Ten of the studies found codes were effective in influencing behaviour and another ten studies found they were not. The remaining two studies found the relationship to be weak. However, most of the studies suffered from flawed methodologies.

While the earlier literature generally suggests one cannot meaningfully measure effectiveness of corporate ethics programmes, recent literature argues that one can measure effectiveness and that it involves both processes and outcomes.⁶⁸ With regard to processes, in the USA the federal sentencing guidelines, first implemented in 1991 and revised in 2004 and 2007–2008, have been influential in

setting benchmarks for identifying processes required for an effective corporate ethics programme. The guidelines are designed to achieve just punishment, offer sufficient deterrence, and encourage the development of internal mechanisms to prevent and identify unethical and illegal behaviour. To assist corporations to develop such internal mechanisms, the guidelines identify seven minimal processes that a company's operating structure must incorporate. These processes are:

1. The establishment of standards and procedures tailored to the needs, size, and operating environment of an enterprise
2. Communication of compliance standards and procedures to all employees, regardless of level, and training appropriate to each employee's role and responsibility
3. Periodic auditing, monitoring, and evaluation of all aspects of the programme and the implementation of internal consultative and reporting mechanisms that offer anonymity and confidentiality
4. Promotion and consistent enforcement through positive incentives and appropriate discipline
5. Appropriate and timely responses in cases of a violation
6. Oversight by senior management
7. Careful screening of personnel to whom authority is delegated.

A number of surveys have shown that the major impact of the guidelines has been the creation or enhancement of corporate ethics programmes by numerous companies, both in the USA and worldwide.⁶⁹ The greatest impact of the guidelines is thought to be on ethics training, ethics officers, ethics offices, and ethics hotlines. However, perhaps even more significantly, the guidelines have important implications for corporate culture and corporate self-governance and responsibility.

Weaver and Trevino⁷⁰ state that enterprises often implement the processes stipulated by the *US Federal Sentencing Guidelines for Organisations* without first identifying desired outcomes from their investment in corporate ethics programmes, beyond reduced penalties should they be found guilty of misconduct, and without a systematic evaluation of ethics programmes. While recognising that ethics programmes might influence other outcomes, Trevino, Weaver and Toffler⁷¹ put forward that the outcomes they have identified are the most important in the context of most corporate ethics programmes.

The seven outcomes are:

1. Low levels of observed unethical behaviour
2. High levels of employee awareness of ethical issues that arise in the workplace
3. High levels of willingness to seek ethics advice within the company
4. High levels of willingness and sense of comfort about delivering bad news to superiors
5. High levels of reporting ethics violations to management
6. High levels of effective ethical decision making that is based on a company's ethics programme
7. High levels of employee commitment to the organisation because of its values.⁷²

In order to investigate the relationship between the dynamics of a formal ethics programme process and outcomes, Trevino, Weaver, and Toffler surveyed over 10 000 randomly selected employees in six large US companies. The companies were drawn from a variety of industries and the employees represented a variety of organisational levels. The research found that the most significant organisational processes associated with the seven outcomes were a values orientation, a combined values and compliance orientation, formal mechanisms that allowed employees to raise concerns, follow-through

on those concerns by the organisation, performance appraisals that included ethics, and ethical-culture factors. Ethical-culture factors were the most significant influential factors and included leadership (leaders that genuinely cared about ethics), fair treatment of employees, the perception that ethics and values could be spoken about openly and integrated into decision making, reward systems that supported ethical conduct, and an organisational focus on all stakeholders rather than on self-interest.

The body of research literature on corporate ethics programmes suggests they do influence employee behaviour and that organisations should develop corporate ethics programmes by implementing a range of processes related to the formulation, communication, monitoring, and enforcement of written standards of ethical business conduct.^{72(a)} Ethics programmes act as control systems by identifying legal and ethical requirements, providing enabling mechanisms and monitoring for compliance. Together, these establish a corporate ethics culture. KPMG provides a good example of an ethics programme where the formulation, communication and compliance aspects are well developed and integrated. Its focus is on developing a strong ethical culture. The 2010 KPMG report, *Speaking of Ethics* states that '[O]ur culture is critical to our long-term success as a business. It helps us attract and retain the best people, and it provides the foundation for all of our client relationships.'^{72(b)} The Enron case serves as a reminder that an enterprise with a commendable code of ethics counts for nothing unless mainstream organisational structures support the code and unless the enterprise embeds the code's ethos into the culture and spirit of its management and employees. In implementing a corporate ethics programme, companies should establish measurable programme objectives in order to evaluate programme effectiveness and

they should also, when required, amend the processes and review the objectives.

9.3 Corporate governance

Corporate governance refers to the processes that direct and control enterprises and hold them to account. It is concerned with the performance of enterprises for the benefit of shareholders, stakeholders, and economic growth. Corporate governance focuses on the conduct of boards of directors, managers, and shareholders, it encompasses authority, accountability, stewardship, leadership, direction, and control exercised in the enterprise. The common themes of corporate governance are shareholder rights, disclosure and transparency, executive management, and board accountability. The corporate governance framework includes business ethics and CR.

The Organisation for Economic Co-operation and Development (OECD) has defined corporate governance as:⁷³

... a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interest of the company and its shareholders and should facilitate effective monitoring.

9.3.1 Corporate governance and its importance

Corporate governance is not a new concept, but large-scale corporate scandals and collapses around the globe, turbulent financial markets, the development of international market economies, and advances in technology that have affected security trading, have been catalysts for sweeping and almost continuous changes in corporate governance rules, regulations, practices and disclosure statements. Between 1992 and 2008, 66 countries throughout the world implemented new corporate governance codes on best practice.⁷⁴ These have focused corporate boards on governance and compliance issues, which include attention to organisational culture, and refocused CR issues from the limited shareholder model to the broader stakeholder model. Recently many governance codes have been revised and some of them more than once. Most new initiatives on corporate governance, particularly in the Anglo-American world, reflect a strategic or instrumental stakeholder analysis that considers stakeholders' interests in terms of corporate economic outcomes for the purpose of improving corporate profitability. However, some aspects, such as those pertaining to the environment, take a 'multi-fiduciary approach' that considers stakeholders' interests equally with shareholders' interests, thereby potentially compromising the profitability of a corporation.⁷⁵ The broader stakeholder approach is more common in the European and Japanese approach to corporate governance, which strongly upholds the concepts of obligation, family, and consensus.⁷⁶

As we have already indicated, fraud and abuse as well as the crash in the banking sector have led to a greater awareness of the need for good corporate governance. Bosch⁷⁷ states that good governance is important for two reasons. The first is that 'investor protection has increased with the

Figure 9.2 The five pillars of corporate governance

Corporate Governance				
Culture	Leadership	Alignment	Structure	Systems
Aspects of culture that can work against good governance	Aspects of leadership that can work against good governance	Aspects of alignment that can work against good governance	Aspects of structure that can affect good governance	Aspects of systems that can affect good governance
■ Unethical behaviour ■ Excessive internal rivalry ■ Intolerance of failure ■ Propensity for risk-taking ■ Secretiveness ■ Persecution of people who speak up (whistle-blowers)	■ Recklessness ■ Ruthlessness ■ Being a bullying leader ■ Egotism ■ Self-promotion ■ Insensitivity to the company culture ■ Single-mindedness ■ Irrational behaviour ■ The leader's integrity	■ Inability to align key functions and their responsibilities in the face of rapidly changing environments ■ Conflicts between functions ■ Gaps in responsibility	■ Appointing large numbers of insiders on boards ■ Having a wrong structure of board oversight committees which is conducive to fraud	■ Lack of strong financial controls ■ Deficient internal control systems ■ Weak IT systems
Questions to probe whether the company culture supports good governance	Questions to assess the governance abilities of leaders	Questions to judge whether the organisational alignment of capabilities is conducive to stronger good governance	Questions to judge whether the structure is conducive to good governance	Questions to review the existing systems and their contribution to control, reporting, and risk management
■ Are the company beliefs and values openly articulated in mission statements, and do these include ethical concerns? ■ Does the culture temper drive for entrepreneurship and success with a tolerance for occasional failure? ■ Do employees feel free to bring problems to executives without fear of adverse consequences? ■ Is the organisation unduly concerned with meeting short-term earnings targets, and are fear and extreme pressure associated with missing numerical goals?	■ Is the leadership considered charismatic and possessing extraordinary powers? ■ Does the leadership show an absence of reflection and unrealistically assess opportunities and constraints in the business environment? ■ Are leaders committed to developing the highest standards of corporate governance, managerial judgement and independence of mind in their followers?	■ Do the company's recent actions and performance show evidence of unfocused and misaligned priorities? ■ Do the board, senior executives and top management teams collectively have an understanding of the best practices in corporate governance and internal reporting and how these may be aligned? ■ Have the responsibilities of senior executives and governance committees been properly aligned to ensure compliance with regulations?	■ Are the roles of chairman and CEO combined? If so, how are any conflicts of interest managed? ■ Is there an appropriate degree of diversity, and are outsiders on the board? ■ Does the organisational structure provide an effective system of checks and balances for governance and strategic decision making?	■ Does the company have an effective and standardised system of internal controls and financial reporting? ■ Does the company regularly assess changes in the business and regulations environments that have an effect on internal control systems? ■ Is the organisation attempting to improve strategic risk management?

■ Do incentive plans in any way encourage or condone unacceptable unethical and illegal behaviours?	■ Does the leadership show sensitivity to the needs of all important organisational stakeholders (internal and external)? ■ Does the board ensure leaders are measured and motivated not only by stock valuations, but also by longer-term strategic and ethical considerations?	■ Is there regular communication between internal auditors, external auditors, and senior executives? ■ Do strategic planning processes encourage an appropriate balance of conservatism with entrepreneurship and risk avoidance with opportunity seeking?	■ Are there strong roles for internal auditors with an appropriate structure of reporting to senior executives and board committees? ■ Is the responsibility for assessment of internal controls structured throughout the organisation?	■ What systems are currently in place to identify, assess, and mitigate risks across the organisation? ■ Is the organisation attempting to implement a framework and systems for IT governance that will be acceptable?
How to address critical cultural weaknesses	How to address critical leadership weaknesses	How to improve alignment	How to improve structure	
■ Implementing new and stronger controls ■ Restructuring incentive systems ■ Educating employees ■ Creating communication programmes ■ Providing individual and team coaching	■ Using values-based leadership ■ Setting an example ■ Establishing clear expectations of ethical conduct ■ Providing feedback, coaching, and support regarding ethical behaviour ■ Recognising and rewarding behaviours that support organisational values ■ Being aware of individual differences among subordinates ■ Establishing leadership training and mentoring	■ Ensuring strategy-making processes, aligning performance objectives with risk propensity and regulatory demands on the firm ■ Aligning organisational changes and structural redesign with regulatory compliance and desired ethical standards of behaviour ■ Designing new information and knowledge-management systems to support enterprise management ■ Creating new senior management integrating roles ■ Training and developing management to raise awareness about compliance issues throughout the organisation	■ Understanding the changing nature of risk organisations face as they grow and evolve ■ Understanding how major structural transformations lead to changes in strategic risk exposure ■ Designing improved strategic risk management practices into structural change programmes	

SOURCE: Adapted from: DREW, S.A., KELLY, PC & KENDRICK, T. 2006. Class: Five elements of corporate governance to manage strategic risk. *Business Horizons*, 49:127–138 and DREW, S.A. 2005. Risk management: The five pillars of corporate governance. *Journal of General Management*, 34(2):29, Winter.

enormous surge in share ownership' and the second is that the creation of wealth can be increased by 'improving the performance of honestly managed and financially sound companies.'⁷⁸

Research in Australia has shown that investors are prepared to pay a premium for companies that are well governed and that, overall, companies with good corporate governance achieved better share prices.⁷⁹ There is broad agreement in the literature that corporate governance can have a fundamental impact on the prosperity of not only companies, but also nation states.

Arthur Levitt, the former Chairperson of the US Securities and Exchange Commission, expressed this view, stating:⁸⁰

[i]f a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country will suffer the consequences.

SOURCE: INSTITUTE OF DIRECTORS IN SOUTHERN AFRICA. 2009. *King Committee on Corporate Governance*. Parktown, South Africa: Institute of Directors in Southern Africa:9.

Good governance is also important because it enables predictability, transparency, participation, and accountability.⁸¹ Predictability refers to the consistent interpretation and enforcement of rules, procedures, and regulations. Transparency enhances predictability and quality decision making by ensuring that all relevant information is available and disclosed to all relevant stakeholders.

Participation or stakeholder engagement promotes fairness and justice. Transparency serves participation by providing stakeholders with the necessary information to participate in decision-making processes and practices. Finally, accountability requires enterprises to account for their actions. The account should explain the appropriateness, legality, and morality of corporate actions. To support accountability practices, corporations should identify who is accountable, to whom they are accountable, and for what they are accountable. The essence of good corporate governance is accountability. Figure 9.2 indicates the five pillars of corporate governance as well as issues that need to be addressed in each. By attending to these elements HR can play a strategic role at the board level in leading an organisation to develop an integrated and robust corporate governance process.

9.3.2 Theories of corporate governance

Historically, the same persons owned and managed businesses. In many countries – e.g. many in Asia, Australia, and Europe – family-owned firms, or small firms where managers are high-percentage owners, remain the dominant form. However, the development of the modern corporation has led to a separation of ownership and management control, thereby creating an agency relationship. In such an agency relationship, there exists a potential conflict of interest between shareholders and managers. Corporate governance involves aligning the interests of top-level management with those of the shareholders (and other stakeholders) through mechanisms that address the appointment of directors, executive compensation, and a corporation's structure and strategic direction.⁸²

The agency, steward, and stakeholder theories of governance reflect different assumptions about the nature of the relationship between owners and managers.

Consequently, each of these theories emphasises different aspects of corporate governance. When one theorises about different approaches to corporate governance, it is important to consider first the assumptions underlying them. The three theories are outlined below (even though we have already addressed them in the earlier section on CR).

- *Agency theory.* Agency theory suggests that because professional managers have superior knowledge and expertise, they may act opportunistically and gain advantage of the firms' owners (shareholders). In other words, managers (agents) may maximise their personal interests (typically short-term increases in market value), rather than maximise the interests of shareholders (principals) (market value over the long term). It has been suggested that the 'excesses' of the profligate 1980s represented the inherent problems with agency relationships and led to the push for more public accountability on the part of managers.⁸³
- *Stewardship theory.* Stewardship theory recognises managers as trustworthy stewards of the resources entrusted to them. Unlike agency theory, it does not hold that there is a conflict of interest between managers and owners. Rather, as stewards, managers will work to achieve the objectives of shareholders (profits and share prices) and in so doing satisfy their personal needs. Consequently, stewardship theorists focus on governance structures that facilitate and empower, rather than on those that simply monitor and control.
- *Stakeholder theory.* According to stakeholder theory, corporations serve a broader social purpose than their responsibilities to shareholders. Under stakeholder theory, boards of directors are accountable for the interests of all stakeholders. These include not only

employees, suppliers, and customers, but also the disadvantaged and the natural environment. This accountability requires a board's performance to be measured by metrics other than shareholders' wealth and profit. The 'Balanced Scorecard'⁸⁴ approach to management performance is a good example of performance evaluation aligned to the needs of multiple stakeholders.

9.3.3 Global governance systems, principles and practices

Every country has a unique system of corporate governance shaped in part by its particular economic, social, political and legal systems, as well as factors such as corporate ownership structures, international capital inflows and cross-border institutional investments. However, the *Cadbury Report* in the UK (1992) influenced reforms in governance across the globe and while differences exist between nation states, particularly the USA with its regulatory approach, there is now a trend towards a global convergence in corporate governance principles and practices. Most governance principles focus on large listed companies, but the organisations responsible for them argue that the principles are also relevant to smaller companies, public enterprises, and not-for-profit enterprises. The European Corporate Governance Institute provides a comprehensive database of the full texts of corporate governance codes, principles and reforms for most countries around the globe which can be readily downloaded from their website.⁸⁵ The following section outlines the corporate-governance principles covered by the OECD and highlights some of the developments aimed at transforming corporate governance in the UK, USA, Australia, South Africa, and the European Union (EU).

- *The Organisation for Economic Cooperation and Development (OECD) Principles of Corporate Governance (1999, 2004).* The *OECD Principles*

published in 1999 were the first international code of corporate governance approved by governments. Although the principles were widely adopted, numerous corporate failures around the turn of the century had undermined public trust in companies and financial markets. As a result, in 2002, representatives of the 30 OECD member countries, as well as representatives from other interested non-member countries, came together for the purpose of revising the *OECD Principles*. The revised principles, reworked from five to six, were released in 2004. The principles cover the following areas:

- ▷ Ensuring the basis for an effective corporate-governance framework
- ▷ The rights of shareholders and key ownership functions
- ▷ The equitable treatment of shareholders
- ▷ The role of stakeholders in corporate governance
- ▷ Disclosure and transparency
- ▷ The responsibilities of the board.⁸⁶

The main areas of revision included the strengthening of investors' rights by granting shareholders a more active role in the nomination and removal of board members, the independence and accountability of external auditors, whistle-blower protection, the expansion of the duties of board members and clarification of the fiduciary nature of a board's primary responsibilities. The focus of the principles appears to be on governance problems arising from the separation of ownership (institutional and individual shareholders) and control (corporate management and boards). The *OECD Principles* have no legislative power, but as we indicated earlier, they have served as a reference point for countries when developing their own governance principles.

■ *Corporate governance in the UK.*

Over the past two decades a number of committees have been established by various financial and government bodies in the UK to report and make recommendations on corporate governance. The major reports include the following:

- ▷ *The Cadbury Report* (1992)
- ▷ *The Greenbury Report* (1995)
- ▷ *The Hampel Report* (1998)
- ▷ *The Higgs Report* (2003)
- ▷ *The Combined Code of Corporate Governance (CCUK)* (1998, 2003, 2006)
- ▷ *UK Corporate Governance Code (CGC)* (2010).

In 1992 Sir Adrian Cadbury chaired a committee to address the financial aspects of corporate governance in response to public concerns over executive compensation and financial scandals in the UK. The committee's *Cadbury Report* (1992) is internationally recognised as having been seminal in the development of corporate governance. For example, many of its recommendations were incorporated into the OECD principles and the corporate-governance codes of countries such as Australia and South Africa. In the UK, the recommendations of the *Cadbury Report*, along with the major recommendations of the Greenbury, Hampel, and Higgs reports were incorporated into the *Combined Code of Corporate Governance (CCUK)* (1998, 2003). Following the global financial crisis of 2008, a review of the governance of banks and other financial institutions was undertaken by the Financial Reporting Council (FRC) culminating in the release of the *UK Corporate Governance Code, 2010 (CGC)*. While making changes to the *CCUK*, the *CGC* affirms the relevance of Cadbury's understanding of corporate governance

as being about what the board of a company does, how it sets the values of the company, and is to be distinguished from the day-to-day operational management of the company by full-time executives.

A key legacy of the *Cadbury Report* is its voluntary or 'comply or explain' approach to governance that requires corporations to comply with a set of governance standards or explain in their annual reports why they did not. The *CGC* (2010) continues the legacy of self-regulation. It states that the code's provisions should not be viewed as a rigid set of rules, but as a guide to the components of good practice and that while companies are expected to comply, non-compliance may be justified if good governance is achieved by other means. However it adds that the spirit of the code should be followed, not just the letter. The 'comply or explain' ethos has sometimes been criticised as being too soft and providing little deterrence because what constitutes an acceptable explanation for failure to comply, and the associated reporting requirements, are not well defined. The *CGC* appears to have addressed this criticism by giving specific requirements that companies must provide in their annual reports in order to be deemed to have complied. Some of the main principles and reforms of the 2003 and 2010 UK governance codes are shown in Table 9.2. In anticipation of new issues and developments in best practice corporate governance, the FRC will review the *CGC* in 2013.

■ **Corporate governance in the USA.**

In contrast to the UK, the USA has a regulatory approach to corporate governance but like the UK, the USA has produced a number of governance standards. The most well known and influential of these is the

Sarbanes-Oxley Act (SOX) of 2002. *SOX* was enacted in response to the perceived crisis in corporate governance following the failure of internal controls to stop fraud in high-profile companies such as those of Enron and WorldCom. Particularly problematic was the finding that the organisation Arthur Anderson had Enron and WorldCom as clients in its consulting services and external client services. The amount of consulting services that Arthur Anderson conducted did not allow its auditing service to act independently from its consulting business.

An important requirement of *SOX* is auditor independence. The act restricts firms engaging in accounting from both auditing and consulting services. It also prohibits insider trading and company loans to executive officers and directors. *SOX* requires independence of corporations' board committees, management assessment of internal controls, and personal certification of financial reports by CEOs and CFOs (Chief Financial Officers) with associated criminal liability.

SOX applies to all public companies listed on the US Stock Exchange. However, some states within the USA have adopted, or are considering adopting, similar provisions to those found within *SOX*, to apply to private companies. *SOX* also applies to non-USA companies issuing and registering securities in the USA. *SOX* has taken an aggressive 'comply or else' approach to corporate governance where corporations who fail to comply with its requirements incur large financial penalties. This approach appears to have been successful in changing corporate-governance practices.

For example, studies show that board evaluations are becoming more commonplace (a PricewaterhouseCoopers study reported an increase from 33% in 2002 to 73% in 2004⁸⁷), boards are more independent

(the Business Roundtable survey showed that 82% of companies say their boards are at least 80% independent⁸⁸), and external directors are more active in attending board meetings (the Business Roundtable survey reported that in 2004, 68% of companies said their independent directors met at every board meeting, compared to 55% in 2003⁸⁹). However, SOX has been subject to criticism, mostly because of the cost of compliance. For example, the American Institute of Certified Public Accountants has estimated that SOX has resulted in a 32% increase in the costs of internal auditing.⁹⁰

- **Corporate governance in Australia.**
Australia's corporate governance framework has evolved over time and like the UK and USA consists of 'black letter' law, soft law and non regulatory

guidelines. Starting with the *Bosch Report* (1995), the Australian approach to corporate governance has been significantly influenced by the UK *Cadbury Report* (1992). The *Australian Corporate Governance Standards*, commonly referred to as 'Standards Australia', consist of a suite of five standards that are intended to establish and maintain corporate ethical cultures through self-regulation and benchmarks against which stakeholders (including shareholders) can assess an enterprises performance. These are:

- AS 8000-2003 Good governance principles
- AS 8001-2008 Fraud and corruption control
- AS 8002-2003 Organisation codes of conduct

Table 9.2 Main principles and reforms of the 2003 and 2010 UK corporate governance codes

■ At least half of the board of directors should comprise non-executive directors
■ The CEO should not be the chairperson of the board and should be independent
■ The board, its committees, and directors should be subject to annual performance reviews
■ All directors of FTSE 350 companies should be subject to annual re-election
■ Levels of remuneration should be sufficient to attract, retain and motivate directors of high quality, but should not be excessive
■ A significant proportion of executive director's remuneration should be linked to corporate and individual performance
■ At least one member of the audit committee is to have recent and relevant financial experience
■ Formal and transparent procedures are to be adopted for the appointment of new directors to the board and for fixing the remuneration packages of directors
■ Boards should consider the benefits of gender and other diversity when making appointments
■ All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.
■ In addition to the 'comply and explain' requirement, the 2010 CGC has special recommendations in company annual reports that must be provided in order to comply.

SOURCE: HR Corporate Governance Code (CGC) 2010.

- ▷ AS 8002-2003 Corporate social responsibility
- ▷ AS 8004-2004 Whistle-blower protection for entities.

The AS 8000-2003 standard on good corporate governance is similar to the UK governance codes of 2003, 2006 and 2010 in that it includes guidance on developing a governance policy, the roles and responsibilities of a board, executive and board remuneration, disclosure and transparency obligations, shareholders' ownership and voting rights, and shareholder responsibilities. AS 8000-2003 states that the major objective of good governance should be to improve organisational performance, identify and manage risks, strengthen shareholder and community confidence in an entity, improve the transparency and accountability of an organisation, and assist in the prevention and detection of fraudulent behaviour. Thus the good-governance principles offer a generic framework that applies to private, public, and not-for-profit enterprises of all sizes in order to enhance organisational performance and reputation. The Australian Stock Exchange (ASX) formed a Corporate Governance Council and in 2003 issued its *Principles for good corporate governance and best practice recommendations*. The principles were reviewed in 2007 and 2010.⁹¹ The 2007 revised ASX principles took a triple bottom line approach to governance by including sustainability risks in their description of potential material business risks. The 2010 revisions cover recommendations related to gender diversity, remuneration, trading policies and briefings. The Australian governance principles are similar to those codified in Standards Australia, but also require that all listed companies provide a statement in their annual report about the compliance of their

corporate governance practices and in the case of non-compliance, an explanation. The corporate governance practices include:

- ▷ Board procedures for nominating directors
- ▷ Fair, responsible, and transparent executive remuneration
- ▷ Director independence and tenure
- ▷ Board performance reviews
- ▷ Management of business risk through establishment of internal control systems
- ▷ Establishment of audit committees composed of non-executive directors
- ▷ The use of external auditors
- ▷ Committee structures
- ▷ Establishment of a code of conduct that recognises obligations to non-shareholder stakeholders
- ▷ Provision of effective communication to shareholders.

A number of laws and institutions in Australia complement the guidelines on corporate governance within Standards Australia and the ASX principles and recommendations. These include the *Trade Practices Act* (1974), the *Prices Surveillance Act* (1983), the Australian Competition and Consumer Commission (ACCC), the Australian Securities and Investments Commission (ASIC), the Corporate Law Economic Reform Program (CLERP 1-9) and the ASX Listing Rules.

- **Corporate governance in South Africa.** South Africa's principal corporate governance standards are set forth in the *King Reports* (I, II and III). All three *King Reports* came from committees chaired by Mervyn King, who claimed: 'South Africa has taken the lead in defining corporate governance in broadly inclusive terms.'⁹² King I (*King Report on Corporate Governance*) was issued in 1994. It advocated high standards of corporate governance with a focus on multiple

stakeholders and a corporation's impact on society. King II (*King Report on Corporate Governance for South Africa*) followed in 2002. It formalised the move to a stakeholder and triple bottom line approach to governance (economic, social and environmental accountability). The move was initiated partly in response to the global changes in corporate governance discussed above and partly to take into account changes in the South African legal, political, and economic environments that followed the post-apartheid period. King II justified an inclusive approach to corporate governance by appeal to improved economic efficiency for companies, current socio-economic conditions in South Africa, and traditional African values. As we identified earlier, an inclusive approach to corporate governance is one whereby companies consider the interests of myriad stakeholders. King III, published in 2009 comprises the *King Report on Governance for South Africa*, ('the Report'), the *King Code of Governance Principles for South Africa* ('the Code') and *Practice notes* (guidance for implementation of the Code). King III replaces King I and II. It was necessitated by the new *Companies Act, 2008* (amended 2011), changing trends in international governance and the drive to be at the forefront of governance internationally. King III builds on the governance aspirations, principles and guidelines set forth in King II, but contains differences and has new areas that are emphasised.

Complementing King III is the *Governance Assessment Instrument* developed by the Institute of Directors in South Africa.^{92(a)} The instrument is a web-based tool which is both a measure of and a framework for good corporate governance in terms of structure, policies and procedures. Also

complimenting King III is the *Companies Act 2011* that includes requirements to establish social and ethics committees and a comprehensive list of circumstances under which directors can be disqualified. The following section will outline the fundamental ethos of the *King Reports*, highlight the key similarities and differences between King II and King III, and address some of the criticisms that have been levied against the *King Reports*.

▷ *Ethos and values underlying the King reports*

We have already acknowledged the influence of the *Cadbury Report* worldwide. The earlier *King Reports* were informed and directed by Sir Adrian Cadbury's definition of corporate governance as being 'concerned with holding the balance between economic and social goals and between individual and communal goals,' with '... the aim [is] to align as nearly as possible the interests of individuals, corporations and society.'⁹³ For example, the reports advocate 'good governance in the interests of a wide range of stakeholders' with regard to 'good financial, social, ethical and environmental practices'⁹⁴ and state the King Committee's unanimous view is that an inclusive approach to corporate governance is fundamental to doing business in South Africa 'where many of the country's citizens disturbingly remain on the fringes of society's economic benefits'.⁹⁵ The inclusive approach is then placed within the context of South Africa's culture and dominant values and refers to the African experience of collectiveness over individualism, consensus rather than dissension, co-existence rather than prejudice, and an inherent belief in fairness for

all human beings. These themes are reflected explicitly in King III. King III states that its philosophy revolves around leadership, sustainability and corporate citizenship and that its overarching corporate governance principles and values are fairness, accountability, responsibility and transparency.

▷ *King II and III: similarities and differences*

First, as with King I and King II, King III takes a self-regulatory approach to governance compliance. However, although the code of principles and guidelines of the King reports are voluntary, the Johannesburg Securities Exchange (JSE) has made them a listing requirement. Second, King III has adopted an 'apply or explain' approach to corporate governance which is different from the 'comply or explain' approach of King II. This means that if a board of directors believes that in a particular set of circumstances it is in the best interests of the company to opt for a practice different from that recommended in King III, it may do so, but must explain it. The change is said to reflect better the original intent of 'comply or explain', in particular, a consideration of how principles and guidelines can be applied. Third, in contrast to King I and II, King III applies to all entities regardless of the manner and form of incorporation and establishment and whether in the public, private or not-for-profit sectors. Hence, the word 'corporate' has been omitted from the title of the report.

Four, there are a number of new requirements in areas of increased emphasis introduced by King III. Some of these include:

- Sustainability (its interface with strategy, control, risk management and annual integrated reporting)
- Risk management (more detailed recommendations concerning formal risk management processes), internal audit (as a strategic function, annual written assessments of the effectiveness of internal and independent controls) and information technology (the strategic role of IT and its importance from a governance perspective; IT was not covered in previous *King Reports*)
- Remuneration (more specific practices are recommended that affect all employees and which include pay policy, e.g. targets, the balance between fixed and variable pay, and severance pay; share-based incentives, and advanced approval from shareholders for remuneration policies affecting non-executive directors' fees and senior executive pay)
- Alternative dispute resolution (ADR): (advocates enforceable ADR clauses aimed at efficiently resolving disputes according to parties' needs, rather than simply their legal rights and obligations)
- Fundamental and affected transactions (recommendations regarding business rescue, disposal of assets, mergers and acquisitions).⁹⁶

Assessment of King Reports. The governance elements covered by King III are recognised as being comprehensive and at the forefront of the world's best practices in corporate governance. They include:

- Ethical leadership and corporate citizenship
- Boards and directors

- Audit committees
- The governance of risk
- The governance of information technology
- Compliance with laws, rules, codes and standards
- Internal audit
- Governing stakeholder relationships
- Integrated reporting and disclosure.

In particular, the new form of integrated reporting has been praised for its holistic approach to stakeholder interests and for mainstreaming the concept of sustainability by embedding sustainability into risk management practices, performance measures and corporate strategy. It appears that King II has had a positive impact on improving corporate governance. Research undertaken in 2004 shows that of the JSE top 200 companies, 60% claimed to have fully adopted the requirements of King II and 90% claimed they would fully comply in the future.^{96(a)} Analysis of governance disclosure in the annual reports of South African companies shows that high levels of disclosure has been achieved, including areas related to human capital management.^{96(b)}

However, a number of individuals and groups have expressed concern over some shortcomings in the *King Reports*. First, while King II and III purport to advocate an inclusive approach to corporate governance, several of their guidelines reflect an Anglo-American approach which tends toward the shareholder model or, at best, an instrumental stakeholder approach to governance. West suggests that the shareholder or instrumental stakeholder view of corporate governance rests on the primacy of individual's rights to private property and is therefore inappropriate to societies, such as South Africa, that place greater value on communal rights and requirements of duties.⁹⁷ Moreover, West argues that the elevation of shareholder interests above urgent needs of social justice (stakeholder interests)

conflicts with African values of consensus and communitarianism. An example of the instrumental stakeholder approach can be seen in the discussion of accountability and responsibility by both King II and King III.

For example, in the section on managing stakeholder relationships, King III states that:

Board decisions on how to balance interests of stakeholders should be guided by the aim of ultimately advancing the best interests of the company. This applies equally to the achievement of the 'triple context' and the notion of good corporate citizenship ... This does not mean that a company should and could always treat all stakeholders fairly.⁹⁸

It appears then that while King III does incorporate aspects of stakeholder theory into the Anglo-American model of corporate governance, it does not fully embrace the inclusive approach it advocates. Second, employees are a key stakeholder group. The South African Board for People Practices (SABPP)^{98(a)} makes the observation that King III appears to have scaled down the importance of human capital. They point out that a clause in King II that articulated the requirement for companies to disclose the criteria for measuring human capital development and reporting its performance in areas such as the number of staff, its diversity (race, gender, disabilities, age), training and financial investment committed, has been omitted from King III.

Finally, although the *King Reports* have been catalysts for significant improvements in the governance of South African corporations, challenges remain. In response to

these challenges Vaughn and Ryan⁹⁹ offer five recommendations they believe would further enhance the governance reforms to date.

The recommendations are as follows:

- Regulating private funding of political parties
- Strengthening regulations that monitor takeovers
- Improving accountability (independence) of boards of directors
- Motivating institutional investors to monitor corporate governance actively
- Educating current and future business leaders about the importance of transparency, accountability, fairness, responsibility, and independence.
- **Corporate governance in the European Union (EU)**

In April 2011 the European Commission released a green paper entitled *The EU Corporate Governance Framework*.¹⁰⁰

The purpose of the paper is to assess the need for improvement in corporate governance practices in European listed companies. The annex to the paper lists 25 questions for consideration. The questions most important to HR practitioners (some of which will be addressed in section 9.4 below) include:

1. Should the EU seek to ensure that the functions and duties of the chairperson on the board of directors and the chief executive officer are clearly divided?
2. Should recruitment policies be more specific about the profile of directors, including the chairperson, to ensure that they have the right skills and that the board is suitably diverse? If so, how?
3. Should listed companies be required to disclose whether they have a diversity policy and, if so, describe its objectives and main content and regularly report on progress?

4. Should listed companies be required to ensure a better gender balance on boards? If so, how?
5. Should disclosure of remuneration policy, the annual remuneration report and individual remuneration of executive and non-executive directors be mandatory?
6. Should it be mandatory to put the remuneration policy and the remuneration report to a vote by shareholders?
7. Are there measures to be taken, and if so, which ones, as regards the incentive structures for and performance evaluation of asset managers managing long-term institutional investors' portfolios?

This overview of global corporate governance suggests four key points. First, there is no single or enduring best practice model of corporate governance. Instead countries use a combination of hard law, soft law and advisory guidelines to provide a flexible approach that is responsive to changing market conditions, company structures, technology and social values. Second, there is a trend towards global convergence on criteria by which to measure good governance. These include board accountability, financial disclosure and internal controls, shareholder rights, executive remuneration, control and ownership base and corporate behaviour that optimises the triple bottom line. Third, the benefits of sound corporate governance are widely acknowledged to include:

- Protection and promotion of the reputation of a corporation
- Consideration of the interests of all stakeholders through principles of engagement, transparency, responsibility and accountability
- Creation and maintenance of organisations and management practices focused on upholding integrity

- Enhanced sustainability of corporations by the optimisation of the triple bottom line (performance, social and environmental outputs).^{100(a)}

Finally, the *Cadbury Report* has had a strong and lasting influence on shaping worldwide responses to corporate governance. The essential ethos of Cadbury is to encourage self-regulation with the ultimate goal of good corporate citizenship. In the new era of corporate governance a critical challenge will be to find the right balance between regulatory prescriptions and recommended practices for the highest standards of integrity in both public and private enterprises. This point is made by King in his book *The Corporate Citizen* where he states that good governance requires a foundation of intellectual honesty and practised abilities, not mindless compliance with statutes.¹⁰¹ Ultimately the foundation of corporate governance is ethics and a corporation's ethics needs to be actively managed.

9.4 Corporate citizenship: Implications for the HR function

We have referred to corporate citizenship as an umbrella term that embraces CR, corporate ethics programmes, and corporate governance. It is therefore a comprehensive and complex concept. Corporate citizenship policies, practices, and mechanisms aim to influence the attitudes, behaviour, and performance of an organisation's internal and external stakeholders. As a result, heightened attention has been given to the economic, social and environmental aspects of a corporation's performance. Corporate citizenship initiatives also aim to make corporations more effective and more satisfying places to work in, and contribute to what is sometimes known as 'human flourishing'. Therefore, corporate citizenship shares

much in common with HRM and has enormous implications for the HR function.

Assessing the effectiveness of an enterprise's corporate citizenship, particularly in terms of valid and reliable measurements, has been problematic. The Center for Corporate Citizenship at Boston College in the USA is involved in launching a new assessment tool (The Corporate Citizenship Assessment Tool™) that is intended to help enterprises manage corporate-citizenship practices in order to better integrate corporate-citizenship efforts into company culture and strategic planning. The assessment tool is based on a series of questions relating to three dimensions of corporate citizenship. These are:

- Community – non-commercial activities that address social and environmental challenges from the very local to the global
- Products and services – commercial activities that find market solutions to social and environmental challenges
- Operations – responsible business practices that integrate a commitment to corporate citizenship across all business units and corporate functions.

These three dimensions suggest that corporate-citizenship programmes are an interdisciplinary endeavour. The HR function is well placed to provide leadership, not only in assessing corporate performance, but also in advancing new corporate-citizenship initiatives that move corporations beyond economic transactional relationships, philanthropy, and compliance to integrated social partnerships and self regulation. The following sections will discuss the relationship between HRM and corporate citizenship in more detail.

9.4.1 Corporate responsibility and HRM

A stakeholder understanding of CR involves listening and responding to stakeholders'

interests and concerns. It puts people at the centre and builds relationships of mutual trust and mutual benefit. It requires corporations to operate in ways that not only avoid harming people and the environment, but which have a positive impact on people's health and safety, quality of life, and personal growth.¹⁰² In the case of employees, this involves HRM practices associated with equal employment opportunity, diversity, job security, compensation, occupational health and safety, industrial relations, performance and remuneration, and work-life balance. In global operations, it involves managing human rights, particularly those relating to child labour, wage exploitation, basic health and safety, empowerment, and quality of life.

In our earlier discussion of current trends in CR (see section 9.1.4), we noted that business ethics and CR initiatives will increasingly be strategically focused. A good illustration of a strategically focused CR initiative is the HIV/Aids programme at Eskom. Eskom Holdings Limited is a South African electricity public utility, established in 1923 as the Electricity Supply Commission. The utility is the largest producer of electricity in Africa, is among the top seven utilities in the world in terms of generation capacity, and is among the top nine in terms of sales. As an organisation conducting its business exclusively in South Africa and other countries in Africa, Eskom is actively involved in the management of HIV/Aids and its effects on its employees, as a strategic priority.¹⁰³ It is estimated that 27 million people in sub-Saharan Africa live with HIV, of which 5.2 million live in South Africa (2010), 1 500 new infections occur every day; and more than half of these are in the 20- to 30-year age group. The impact of these infections and deaths on society is devastating. HIV/Aids also affects the sustainability of business, through, for example, a reduction in available workers, loss of experienced workers and their skills, strained labour relations,

and declining morale in employees. Eskom has estimated that each new infection will cost the company four to six times the annual salary per individual infected and that during the period 2006–2010, existing HIV infections will cost seven per cent of the payroll per annum. Eskom further estimates that they can expect around 600 new Aids cases per year within their company which will add R300 million to the cost of business annually.^{103(a)} To minimise the impact of HIV/Aids on employees and the business, Eskom has developed a set of HIV/Aids programmes for its employees, contractors, suppliers, and customers. The programmes include learning materials, educational programmes, medical training of appropriate personnel, and community projects. The company says that while the programmes are financially onerous, the costs are insignificant when compared to the impact of HIV/Aids.

Some criticise the stakeholder theory for its lack of guidance on how to manage and balance competing interests of different stakeholders. For example, the King II report stated that '*the stakeholder concept of being accountable to all legitimate stakeholders must be rejected for the simple reason that to ask boards to be accountable to everyone would result in their being accountable to no one.*'^{103(b)} However, the stakeholder theory does provide guidance about myriad CR issues and expectations of stakeholders. One can glean many of these issues from a review of corporate codes of conduct presented above. A good example of a proactive programme of stakeholder engagement is the Anglo Platinum Group in South Africa. Anglo Platinum uses a stakeholder mapping process; management systems to record, track and monitor stakeholder interactions; includes stakeholder engagement as a key performance area in operations managers' contracts and reports its stakeholder engagement according to the GRI's G3.^{103(c)}

By way of summary, we present Coghill, Black, and Holmes's five key stakeholder groups and a number of attendant issues, many of which are HR related:

- **Employees:** recruitment and selection, compensation and benefits, training, occupational health and safety, work-life balance, diversity, sexuality in the workplace, minority hiring practices, responsible redundancy, use of temporary and casual workers and workplace culture. By attending to these issues, corporations stand to benefit from reduced turnover and improved workplace morale, productivity and employee identification with the firm, which in turn is likely to reduce the risk of fraud and unethical behaviour.
- **Suppliers:** ethical sourcing, prompt payment, use of migrant and child workers, doing business with oppressive regimes and human rights of outsourced workers.
- **Customers:** product manufacturing (human rights of workers, product safety, safety standards), labelling and packaging, marketing and advertising practices, and pricing.
- **Communities:** traditional philanthropy, community investment and development, partnerships between employees and communities, environmental issues, and donations to political parties.
- **Investors:** identifying sources of social and environmental risk.

SOURCE: COGHILL, D., BLACK, L. & HOLMES, D. 2005. *Submission to the Parliamentary Joint Committee on Corporations and Financial Services, 'Inquiry into Corporate Social Responsibility'*. Canberra, A.C.T.: Parliamentary Joint Committee on Corporations and Financial Services, Parliament of Australia.

9.4.2 Corporate ethics programmes and HRM

In Chapter 8, we looked at the role of HR professionals in operationalising corporate ethics programmes. In doing so, we noted that in Australia, Canada, South Africa, and the USA, HR departments play a central role in developing and maintaining corporate ethics programmes. In the following section, our focus will be on the contribution that HRM can make to the formulation, communication, and monitoring and enforcement of written standards of ethical business conduct.

When many companies develop and revise written standards of ethical business conduct, they do so in consultation with employees. Typically this involves HRM in organising focus groups or workshops where employees at all levels come together to identify and discuss key corporate values, behavioural indicators of values, and the ethics issues which employees most frequently face. The engagement of organisational members in the formulation of written standards is essential for the standards' relevance and acceptance and, therefore, effectiveness. As we noted earlier, when HRM is involved in developing written standards (and training programmes), it is important that ethics issues not be limited to specific HRM issues – e.g. equity, sexual harassment, and occupational health and safety – but also include those of primary concern to employees in their daily work practices – e.g. the environment, use of information systems, and conflicts of interest.

We identified earlier that while most large enterprises have at least one written standard, many do not pay sufficient attention to providing training about these standards. There is wide agreement in the research literature that HRM currently has most responsibility for training programmes in organisational ethics and is also a primary source of advice and information for employees

regarding workplace ethics. However, it is not clear if HR managers and HR staff are adequately trained in more complex ethics matters. Also, when training is provided, most often it is conducted as part of a general orientation programme. It is unlikely that such training would equip employees with all the skills and competencies necessary to respond to ethical situations they may face during their time with the organisation. However, it is reasonable to assume that ethics training as part of an orientation programme would:

- Convey to new employees an organisation's commitment to its values and ethical business conduct as stated in its written standards
- Raise new employees' awareness of ethical issues that may arise in the conduct of their daily work
- Provide information about organisational resources available to employees when faced with conflicts or observed breaches of the standards
- Inform employees of linkages between ethical business practice and sanctions, rewards, and performance management.

HRM could make a significant contribution to corporate ethics programmes by, firstly, undertaking ethics training, and secondly, implementing more in-depth training programmes, particularly for employees who are involved in complex ethical decision making. In some organisations HRM is involved in developing ethics-education material that also comprises organisational-specific case studies. This material is then widely distributed via intranet services, handbooks, and company websites. For example, Telstra is an Australian telecommunications and information-services company with over 52 000 employees. It has harnessed the advantages of e-learning technology to provide desktop training on a

range of ethics issues to all employees. This training is designed to be interactive and to address typical ethics issues that arise in the workplace. The Telstra HR and legal departments wrote most of the ethics dilemmas the programme includes. They based the dilemmas on past experiences of organisational members. These online programmes have the advantage that employees can access them at times to suit their schedules and needs and regardless of their geographic location. In the UK, a survey conducted in 2010 found the use of corporate websites to publicise corporate codes of ethics had increased from 26% in 2001 to 63% in 2004, and to 83% in 2010. The survey also found that e-learning was widely used by companies in the UK (67%), Spain (100%), Italy (100%) and Germany (89%) although it should be noted that the sample size of the continental European countries was small.¹⁰⁴

HR professionals can also make a strong contribution to corporate ethics programmes by initiating creative and meaningful ways to link ethics and organisational values to performance management and reward programmes. Reward systems are said to be the single most important influence on employee behaviour. However, most surveys in this area reveal that only 40 to 50% of companies currently link ethics to performance management and only very few link ethics to reward programmes. For example, a 2010 survey involving 3 667 employees in 20 South African companies found that approximately 35% reported that their code of ethics standard was integrated in Key Performance Areas (KPA's) and that on average respondents strongly doubted that ethics was considered in promotions.^{104(a)} Surveys also reveal that while organisations frequently punish misconduct, they rarely reward good conduct. Most managers find it difficult to conceive of meaningful ways in which to reward good conduct. However, rewarding ethical behaviour is possible if managers take a longer-term view. For

example, some Australian multinational enterprises are currently using a performance-management system whereby they dismiss employees who meet their financial targets but fail to address corporate values in the process, while the enterprises counsel and retain, albeit sometimes on probation, those who fail in their financial targets but who operate in line with corporate values. HRM needs to investigate ways to use the tools of reward and performance-management programmes innovatively to shape, maintain, and develop ethical cultures that support ethical types of behaviour. A lack of ethics infrastructure fails to nurture an organisation's ethics culture and employees' motivation to live the standards.

9.4.3 Corporate governance and HRM

The corporate-governance codes described in this chapter indicate that one can identify superior governance in terms of transparency, accountability, responsibility, and independent oversight in matters relating to corporate financial, ethical, social, and environmental performance. Convergence in the key elements of corporate-governance across different countries suggests there is the emergence of international 'soft law' governing the expected conduct of enterprises. Much of the reform in corporate governance has focused on the role and duties of directors. A board's main functions include defining a company's purpose, formulating its strategy and policies, appointing the chief executive officer, monitoring and assessing the performance of the executive team, and assessing the board's performance. The traditional HRM activities of recruitment and selection, training and development, and performance management and remuneration have a critical role to play in the development and maintenance of good corporate-governance practices, not only in terms of boards of directors, but also in terms of improving shareholder value

through the development of human capital and upholding a company's responsibilities to stakeholders, in particular its employees as Mervyn King has noted, 'good human resource management is imperative for good governance.'^{104(b)}

There is agreement amongst different corporate-governance codes that a 'balanced board' is desirable and, therefore, diversity is sought in board membership in terms of skills, experience, backgrounds, and personalities. There is also agreement that the appointment of the chairperson of the board is crucial as it is the chairperson who is a key determinant of creating a culture of integrity and ensuring board effectiveness. The Royal Commission, which investigated the collapse of the Australian insurance company HIH, found the chief executive, Ray Williams, appointed friends and associates to the board. This practice contributed to a culture of compliance whereby the board simply followed the recommendations of senior management, without due assessment of risk.¹⁰⁵ Despite important similarities between corporate ethics and corporate culture, they are not synonymous. The distinguishing feature of ethical discourse is not the standardisation of behaviour, but the joint promotion of community (belonging) and autonomy. Corporate culture can only be ethical if it seeks to make autonomy a fundamental feature. When a company has a culture that fosters autonomy, employees are more likely to feel empowered to raise ethics issues, seek advice and report misconduct. Autonomy requires information, freedom from coercion or intimidation and viable alternatives, hence the importance of ethics training, ethics advice mechanisms, confidential and anonymous reporting processes and performance reward and management systems linked to the governance of ethics. As Freeman and Stewart^{105(a)} note, compliance programmes and a laminated values card are no substitute for living conversations

'about ethics, values and the creation of value for stakeholders.'

The issue of board-member independence versus board-member knowledge and expertise is contentious. Lorsch¹⁰⁶ has argued that some conflict of interest is a price worth paying for more knowledge and expertise. His point is that when the majority of board members have no conflicts of interest and a focus on the interests of the company and its shareholders, they are likely to be members who know little about the company or its industry and who, because of their other commitments, have little time to devote to board and company affairs. Insofar as both qualities are important to board integrity, HRM has an important role to play in providing objective recruitment and selection processes for independent and diverse board members, providing orientation training and ongoing development opportunities for the board, and assessing the board's performance for both independent oversight and effectiveness.

Board remuneration is another area of importance for HRM. In addition to a base salary, remuneration packages for directors typically include bonuses, share options, and retirement benefits. Corporate-governance codes provide guidelines for policies and practices relating to executive remuneration, while some aspects of director remuneration are subject to government regulation. For example, the *Australian Corporations Act* (No. 50 of 2001) requires that shareholders approve a director's remuneration and that the details be disclosed in a company's financial statements. Remuneration committees may also assist in the determination and review of remuneration packages. The Australian Stock Exchange (ASX) guidelines recommend that remuneration committees be composed of a majority of independent directors and have a formal charter that sets forth the committee's role and responsibilities.

Press articles have widely reported and discussed levels of remuneration for directors. Many directors perceive that their responsibilities and risks have increased under new guidelines and regulations about governance, but that they are not adequately compensated for these increases in responsibility. At the same time, changes in corporate-governance requirements have resulted in an increase in demand for independent directors. Consequently, HRM has an important role in leading and advising remuneration committees about competitive, fair, and equitable remuneration for directors as well as succession planning.

The monitoring and measurement of board performance is related to remuneration. Performance appraisals require that performance indicators be identified. Such indicators should include financial and non-financial metrics. For example, in addition to a company's share price, performance measures could include such things as compliance with regulations and standards, transparency, leadership, shaping long-term strategy, and balancing the interests of different stakeholders. The governance of risk is another area where HR can make an important contribution, particularly in expanding a board's understanding of risk to include human capital risks. The SABPP propose that people risks include, corporate culture, talent shortages, retention, incompetence employee performance, unethical behaviour, low morale, grievances, disputes, absenteeism, employee wellness, sabotage, harassment, and non compliance with codes and laws.^{106(a)}

In Chapter 8 we identified the roles played by HR practitioners and the differences between an administrative-supportive HR paradigm and a strategic one. Similarly, the SABPP advocates a HR governance role, not a HR compliance role. They state that '*[P]rogressive HR directors and managers will become HR governors – true high-level professionals who connect HR with the board.*'^{106(b)}

While currently this remains somewhat visionary,^{106(c)} we support the view that HR governance provides HR with an exciting opportunity to ‘create value at board level’ through ‘the act of leading, directing and controlling the HR function to promote sound corporate governance in pursuit of the overall business goal of economic, social and environmental sustainability.’^{106(d)} We invite our readers to embrace the vision!

SUMMARY

This chapter first presented three different viewpoints on corporate responsibility (the narrow classical economic view or shareholder view, the socio-economic view, and the broad maximal view). It then discussed three key phases of corporate ethics programmes (formulation of written standards, communication of standards, and monitoring and enforcing of standards) and how one might evaluate programme effectiveness. The chapter then focused on international developments in corporate governance, including developments in the UK, the USA, the Organisation for Economic Co-operation and Development, Australia, South Africa and the EU. Finally, the chapter discussed the implications of corporate responsibility, corporate ethics programmes, and corporate governance for the HR function.

KEY CONCEPTS

■ Affirmative duties	■ Narrow classical economic view of CR
■ Corporate citizenship	■ Shareholder model
■ Corporate ethics programmes	■ Socio-economic view of CR
■ Corporate governance	■ Stakeholder model
■ Corporate responsibility	■ Stakeholder theory
■ Corporate Social Responsibility Index	■ Sustainability
■ Maximal view of CSR	■ Triple bottom line reporting
■ Moral minimum	

CASE STUDY

Objective: To understand how a company's organisational structure and governance models can support corporate responsibility and sustainability (CR&S) success. This in turn enhances financial success.

Starbucks

One company with a unique corporate responsibility and sustainability (CR&S) history is Starbucks. The Starbucks' case presents some interesting challenges and illustrates the unique and individual nature of each CR&S strategy. Many of the issues that Starbucks faces as a company have ultimately contributed to its success in CR&S. The challenges of Fairtrade Certified™ practices and a product largely produced in developing countries, combined with an enormous physical presence in many people's daily lives, make Starbucks a unique and visible target that only serves to highlight the importance of a good CR&S strategy. Starbucks aspires to be recognised as much for its commitment to social responsibility as it is for the quality of its coffee. It aims to achieve this through focusing its efforts on improving social and economic conditions for coffee farmers, minimising its environmental impact, making a positive contribution in the communities where it does business and providing a great work environment for its partners (employees are partners at Starbucks).

As an organisation's business strategy evolves, so too does their organisational structure. Starbucks is an example of a company that strives to include CR&S as not just a compartmentalised idea, but as part of their core business approach. As a result, the role of CR&S has paralleled the company's growth and has continued to progress over the lifecycle of the organisation. The CR&S function started as a senior vice president reporting to the CEO, who was primarily focused on environmental issues, public affairs, and supply chain issues. In 2008, Starbucks experienced significant and public change when its then chairman, Howard Schultz, resumed duties as President and CEO and initiated a corporate reorganisation. Within this model, Starbucks launched the 'Starbucks Shared Planet' initiative. This programme set new CR&S targets, measurable benchmarks, and a renewed commitment to its CR&S initiatives.

Today, CR&S is housed in a Global Public Affairs division. This group sets the strategy and vision for CR&S, yet the accountability and metrics lie within the business units. This change, from reporting directly to the CEO to locating the CR&S function in the Global Public Affairs division, served to better align CR&S with the business units who are ultimately responsible for executing the CR&S strategy. As a result, the realignment further integrated the CR&S strategy. As a result, the realignment further integrated the CR&S strategy within the business, helping to ensure that the goals outlined in the Starbucks shared Planet initiative are realised. Additionally because Starbucks has so thoroughly integrated CR&S into the business functions they are able to quickly respond to emerging CR&S priorities. Each of the businesses individually detects early CR&S issues that affect their function, and because of their integrated organisational design, the company as a whole can collectively respond to critical CR&S matters. Further demonstration of the holistic way Starbucks views its CR&S strategy is that there is no

CR&S committee on the board of directors. While the board is briefed on specific CR&S issues, since the CR&S strategy is integrated in to the company's overall business plan, there is no need for a specific committee.

In order to implement a successful CR&S strategy, Starbucks has also implemented measurable benchmarks and a 'materiality matrix' – a process to help determine which material issues are most important to both Starbucks and their stakeholders – to better establish their priorities as they relate to CR&S practices. The materiality matrix facilitates the assessment of issues with regard to significance or potential impact to Starbucks versus the significance to external stakeholders. Starbucks has identified five key issues to monitor: coffee purchasing practices, growth and expansion, environmental impacts, health and wellness, and workplace practices. These serve as a focusing mechanism for the company, though it is important to note that priorities and placement within this structure can be different when viewed from a consumer versus a business perspective. Additionally, Starbucks has established a set of goals to reach by 2015 that address ethical sourcing, environmental stewardship, and community investment. Prioritising issues is critical when developing a CR&S strategy; it can influence a company's choice of structure and alignment with key business goals. In Starbucks' fiscal 2010 global responsibility report Howard Schultz (chairman, president and CEO) states:

I have always felt that we must balance our responsibility to create value for shareholders with a social conscience. Our ... report reflects our commitment to transparency in these efforts and our intent is to openly share the challenges we encounter as well as the progress we are making in our efforts to live up to our responsibilities as a global corporate citizen and a neighbor next door.

For any business strategy to be successful, it needs the proper support, structure, and accountability within the organisation. Starbucks, with its mature CR&S strategy, is now leveraging a business-embedded model to fully integrate CR&S with the business goals. Providing a formal and visible place for sustainability within the organisation and embedding CR&S into their overall business goals has provided Starbucks with a competitive platform from which to innovate and lead in the space.

Coffee purchasing practices

Starbucks is committed to sourcing coffees of the highest quality that support a sustainable social, ecological and economic model for production and trade. Over half of the world's coffee is produced on small family farms with only a few acres of coffee trees. Fairtrade certification provides a way for these farmers to increase their incomes by helping them organise into cooperatives and linking them directly to coffee importers. Fairtrade farmers are guaranteed a premium over the prevailing price being paid for coffee on the international market. This helps them afford basic health-care, education and housing improvements for their families and farms. In addition, Fairtrade improves farmers' economic stability by encouraging importers to extend financial credit to cooperatives and to develop long-term trading relationships. An important component of Starbucks' approach is its Coffee and Farmer Equity (C.A.F.E.) Practices, which is a set of social, economic, environmental and quality guidelines. Farms and mills are evaluated with approximately 200 performance indicators, by third-party verification organisations.

Growth and expansion

Starbucks understands itself to be a leading specialty coffee brand and retailer in the world. As at October, 2011 Starbucks had 17 003 stores across 57 countries and served approximately 40 million customers a week. Starbucks is also an expanding global brand and seeks an enormous retail expansion worldwide.

Environmental impacts

Starbucks states that it is committed to the importance of caring for the planet and encouraging others to do the same. It has a goal that by 2015, 100% of its cups will be reusable or recyclable and it works to significantly reduce its environmental footprint through energy and water conservation, recycling and green construction. It is a signatory to the UN Global Compact and since 2001 has reported on its responsible business practices.

Health and wellness

Environmental stewardship ethical sourcing and community involvement are three areas where Starbucks believes it can have the greatest impact. Starbucks contributes money and products to non-profit organisations through the Starbucks Foundation and Starbucks corporate giving programme. Starbucks Foundation's recent goals are nurturing young leaders, supporting tea and coffee communities, assisting communities to access clean water, fostering education in China, and rebuilding the Gulf Coast. In 2010 Starbucks partners and customers around the world contributed more than 191 000 hours of community service. By 2015 Starbucks hopes to contribute one million partner and customer volunteer hours each year to the communities in which it operates.

Workplace practices

Starbucks employees are called partners and are encouraged to buy stocks in the company. Starbucks believes in treating its partners with respect and dignity. The Starbucks' *Business Ethics and Compliance Standards of Business Conduct* document states its commitment to integrity, acting honestly and ethically, and complying with the letter and intent of the law. The standards cover a range of issues including, the work environment, diversity, OH&S, wage and hour rules, fair competition, conflicts of interest, gifts and entertainment, confidentiality, intellectual property, community involvement and help lines.

Questions and activities

1. Read through the case study and compile a list of all the possible stakeholders you think would be involved with Starbucks in its business operations.
2. Indicate what you think the most appropriate method would be for engaging with those stakeholders.
3. Explain the particular interests of each of these stakeholders and how Starbucks could, and should handle competing interests.
4. Which view of corporate responsibility does Starbucks' CR&S strategy reflect and how are the Kew Garden Principles relevant to this strategy?
5. Review Starbucks' 2010 Year in Review Report and its Standard of Business Conduct available from the websites below. Comment on the efficacy of its corporate ethics and corporate governance programmes.

6. What role do you suppose HR might have played in establishing and developing Starbucks' corporate ethics programme and its CR&S strategy?
7. In your view is Starbucks a good corporate citizen? Why?

SOURCES: [Online] Available: <http://www.corpgov.deloitte.com/site/us/board-governance/corporate-responsibility-and-sustainability/?jsessionid=vd1LPPGWQJgrWJFPRJv5gwgq3nyKL8JbtKny-hf1wJtw9TTvgLtnbm!1081848390!NONE>, 9 February 2012.
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REVIEW QUESTIONS AND ACTIVITIES

1. What is the purpose of business and is it in transition?
2. Identify and discuss the aspects of this chapter that you think are most relevant for providing a framework for companies to incorporate CR into their operating procedures and management practices.
3. Explain Friedman's main arguments for his view that the purpose of a corporation is to maximise profits for shareholders. What criticisms can be made of Friedman's arguments?
4. Discuss the implications of the moral minimum expressed as, (a) 'do no harm,' (b) 'prevent harm' and (c) assist society.
5. What is the significance of the Kew Garden Principles' (criteria of need, capability, proximity and last resort) to the affirmative duties to prevent harm and assist society?
6. What is your view about corporate responsibility and the role of corporations in society?
7. Discuss the five pillars of corporate governance and the issues that need to be addressed within each of these pillars.
8. What is corporate governance and is it important?
9. Discuss the difficulties of harmonising the different interests of different stakeholders and consider if it is reasonable for corporate governance guidelines to direct boards to manage the business in the best interests primarily of shareholders, yet at the same time direct them to broaden the scope of their responsibility to a number of other stakeholders.
10. Identify and discuss ways in which the HR function can contribute to corporate citizenship through implementing programmes in corporate responsibility, corporate ethics and corporate governance.

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WEBSITES

- <http://www.aiccafrica.org/>
– African Institute of Corporate Citizenship
- <http://www.asx.com.au/governance/corporate-governance.htm>
– Australian Stock Exchange Corporate Governance Council Principles and Recommendations
- <http://www.benafrica.org>
– Business Ethics Network of Africa
- <http://www.australian-corporate-governance.com.au/case-studies.htm>
– Case studies in corporate governance
- <http://www.bccc.net/>
– Centre for Corporate Citizenship at Boston College
- <http://www.unisa.ac.za/cc>
– Corporate Citizenship Centre at the University of South Africa
- <http://www.ethics.org/>
– Ethics Resource Centre
- http://www.ecgi.org/codes_all.codes.php
– European corporate governance institute provides corporate governance codes in various countries (including Australia, South Africa, the UK, the USA and many others)
- <http://www.corpgov.deloitte.com>
– Deloitte Centre for Corporate Governance
- <http://www.globalreporting.org>
– Global Reporting Initiative
- <http://www.lbe.org.uk>
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– International Corporate Governance Network
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Human resource management in the electronic era

10

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Define the concept 'e-business'
- Describe the design of an e-business strategy
- Define the concept 'electronic HRM', also known as 'E-HR'
- Distinguish between the different levels of HR intranets
- Discuss how HR can effectively integrate the HRIS with the intranet
- Identify the advantages and disadvantages of E-HR
- Understand how technology can assist in creating and managing an effective talent management strategy
- Discuss the effects of technology on several key HRM functions
- Discuss the advantages of an effective change management strategy when implementing E-HR
- Discuss how the effectiveness of an E-HR system can be measured
- Discuss why measuring a return on investment is an important step in the entire E-HR process

PURPOSE

The purpose of this chapter is to indicate the impact of e-technology on companies and the HRM function.

CHAPTER OVERVIEW

This chapter starts by focusing on the role that e-technology plays within an organisation. It considers how to implement this technology within a company. Thereafter it looks at the impact it has on the HRM function. The discussion focuses on some important HRM functions such as recruitment, selection, training, performance management, staff retention and also compensation, collectively regarded as Talent Management. The concluding case study illustrates how the theory contained in this chapter can be applied practically to companies.

Introduction

Experts have predicted that very early in the twenty-first century, the portion of the economy driven by the electronic medium will be greater than that driven by industrial companies.¹ In this 'new economy,' it is inevitable that the way companies do business, are managed, and are organised will change dramatically. The impact of web-technologies such as the internet, intranets, and extranets on, for example, universal connectivity, is already apparent.² These new developments will also affect the competitive advantage of companies. In view of this new and important initiative, we shall in this chapter look first at the impact of the electronic era (e-era) on business in general. Thereafter, we shall discuss the developments taking place within the area of HRM, the so-called E-HR.

10.1 The impact of the electronic era on business

The introduction makes it clear that electronic business (e-business) will form the basis on which organisations will conduct business in the future. Organisations that understand the impending demands of the internet economy stand the greatest chance for success with their e-transformation. Of course they must do more than just be aware of these changes; they must develop new 'best practices' to address them.³

10.1.1 What does e-business mean?

According to Brache and Webb,⁴ e-business is about doing business digitally – everything from buying and selling on the web, to extranets that link a company to suppliers, to intranets that enable an organisation to manage its knowledge better, to enterprise-resource-planning systems that streamline an enterprise's supply chain, to electronic customer support, to automated order tracking.

A similar viewpoint is shared by Karakanian⁵ when she states:

... e-business is the overall business strategy that redefines the old business models and uses digital media and network technology to optimise customer value delivery. It relies on internet-based computing which is the platform that supports the open flow of information between systems. It capitalises on an existing technology backbone consisting of front-end and back-end enterprise business systems; it makes effective use of component technology and interacts with customers via business portals established over the internet. Technology is used in this case both as the actual cause and also driver of business strategy. It is used not only to develop the product or the service but also to provide better choices to customers along with enhanced delivery options.

SOURCE: KARAKANIAN, M. 2000. Are human resources departments ready for E-HR? *Information Systems Management*, 17(4):36.

Thus, an e-business initiative, to be done well, requires dramatic changes in strategy, organisational processes, relationships, and systems. It also requires significant changes to the way in which employees work.⁶

Thus, e-business in the HR space refers to an organisation being able to operate in a web-based environment providing users, managers and employees access to relevant HR data in order to achieve their objectives within the organisation. The customers of HR include all staff members (employees, managers and executives alike) and the goal

is to ensure that they are able to provide the necessary information and services as and when needed by them.

10.1.2 Where does a company start on the e-business path?

To find the answer to this question, we shall look at the important work of Feeny,⁷ published in his article 'Making business sense of the e-opportunity'. Feeny suggests that companies interested in e-business should first construct a coherent map identifying the areas where web-based technology could be introduced. The author suggests three core areas or domains – which one can almost see as generic – that business should look at. These include e-operations, e-marketing, and e-services. He suggests that e-operations and e-marketing should receive the most urgent attention as they provide the most certain rewards. He further suggests that it is important to distinguish clearly between these three domains as they each require their own distinctive framework for identifying ideas that can bring a competitive advantage to a given context.⁸

We shall now briefly look at each of the three domains individually:⁹

- *E-operations.* This covers web-based initiatives that improve the creation of existing products. Of importance is the way a business manages itself and its supply chain. An example is the improvement of a company's purchasing by posting requirements on a website and having suppliers bid electronically.
- *E-marketing.* This covers web-based initiatives that improve the marketing of existing products. Aspects of importance are the way the organisation delivers products and the scope of support services. An example is the online bookshop Amazon notifying customers of new book-buying options based on a profile of previous purchases.
- *E-services.* This covers web-based initiatives that provide customer-affiliated services. Aspects of importance are, for example, the new ways to address an identified set of customer needs. An example is shopping robots that search the internet to find the best deals available. A number of new dotcom businesses are currently active in this area.

Having identified these domains within a company, we shall consider the question of what should happen next.

10.1.3 Formulating an e-business strategy

After formulating a corporate strategy, a company's top executives should develop an e-business strategy.¹⁰ Just as strategies for marketing, manufacturing, and HR follow the company strategy, so also should an e-business strategy be formulated; it is important that the company strategy contains a framework for the company's e-business strategy. According to Brache and Webb,¹¹ a company's e-business strategy should answer the following questions:

- What objectives of our business strategy can be digitally enabled?
- Where does e-business (not just e-commerce) fit in our strategic priorities?
- How will we ensure that the internet does not make our niche in the value chain obsolete?
- How will we protect our customer base in the digital world?
- How will e-business help us attract new customers in the markets our strategy has targeted?
- How will we interface electronically with our customers? Our suppliers? Ourselves?
- What role will our website play? How will people find it?
- How will we ensure that we have the systems and technological capabilities to implement this vision?

- How will we ensure that we have the processes to implement it?
- How will we ensure that we have the human capabilities to implement this vision?
- What are the priorities among our digital initiatives?
- What is our plan for making this all happen?
- Do all role players understand that e-business has an inward and an outward focus?
- Can we ensure that our inward focus meets the needs of our staff?
- Do we understand the expectations of our staff regarding e-business?

It is important to note that with the integrated nature of today's business environment the E-HR strategy should not be seen as separate or apart from the overall e-business strategy. The overall goal of the e-business strategy is to create a more productive and profitable organisation, and this can only be achieved through the organisation's staff, which will be directly affected by the E-HR strategy. It is of vital importance to ensure that all the various e-strategies dovetail into an overall corporate e-strategy.

When a company has completed all these activities, the next phase entails actually implementing the e-business strategy within the company.

10.1.4 Implementing the e-business strategy

Due to the nature of web-based technology, change within the 'new economy' will be almost immediate whereas, in most cases, change in the old business paradigm was incremental.¹² As organisations will have to change the way in which they approach their customers, and how they market, order, track, and deliver their products or services, they will have to build rapidly the business and technical architectures required, as well as develop the new cultures and skills

needed.¹³ This means, according to Neef,¹⁴ that an organisation-wide e-business initiative will require expertise in:

- E-business strategies
- Leading operational-level business practices
- Process and technical redesign
- Data management
- Security
- Specialist services such as web-marketing and design
- Knowledge-management techniques for choosing and implementing business information and decision-support tools
- Supply-chain management, supplier management, and strategic sourcing
- System-to-system integration.

Overall, organisations need to understand web technologies and how they can best be utilised in their business environment, both internally and externally. Web technologies require a unique set of skills and to maintain a presence in the e-world of business, organisations are required to be aware of the rapid enhancements that are continually being made in this sphere of technology. In addition, as an e-business strategy needs to be implemented organisation-wide, a comprehensive change management strategy needs to be formulated and executed side by side with the implementation of the e-business strategy (see Chapter 11). With regards to the e-business strategy, an organisation also needs to take note that this strategy will affect both internal and external stakeholders, and as such the change management project should cater for all role players within the entire value chain process – which should include staff, management, manufacturers, suppliers and customers.

One of the key factors in implementing and maintaining an e-business strategy is finding and keeping the right skills as a lack of skills will create a major obstacle for managers hoping to implement an

e-business strategy successfully. The literature¹⁵ identifies a number of other issues that need attention during this process. We shall briefly consider these.

- *Gain the support of top management.* As with any change that takes place within an organisation, the support of top management, as well as that of other key players in the organisation, is vital. This will help to minimise delays in decision making when implementing the necessary changes, and working across existing functional, geographical, and company boundaries. Implementing an e-business strategy requires ongoing investment and therefore the support of the top management is also required for the long run as opposed to the single approval expenses for the initial project.
- *Establish a cross-functional project team.* Driving the implementation of the e-strategy successfully will also require the establishment of a cross-functional project team. It has been proved that creating a dedicated team of people produces the quickest results. Such a team will consolidate new ideas as well as coordinate and manage the efforts between the different parts of the organisation. It will also be important to have both a technical and a non-technical component within the project team, given the technical matters – e.g. management information system (MIS) – and non-technical aspects – i.e. business processes and change-management initiatives. The success of such a project team depends on its leader. This person needs to understand how the business works and has to believe in the project passionately. Besides the project leader, team members must also be selected. Here it is vital to select team members who are optimistic and enthusiastic about the project. According to Butler,¹⁶ the ideal e-business team member possesses leadership qualities, creativity, and strong interpersonal skills, and is also able to influence co-workers and supervisors. It will also be a good idea to appoint at least two individuals (e.g. consultants) from outside the organisation.
- *Draw up a communication plan.* A proper communication plan is necessary to indicate to the employees why the company is initiating the project, how the project will be done, what the likely outcome will be, and how those affected will be treated. Not only top-down communication is necessary, but also bottom-up communication. The organisation should invite employees – as well as customers, suppliers, and other affected groups – to be involved throughout the project. Communication throughout the project is an absolute necessity and is not a once-off event. All employees and stakeholders need to be communicated with on a regular basis as an e-business solution will affect everybody once it goes ‘live’. The communication plan is a vital part of the overall change management strategy.
- *Obtain own budget.* One cannot underestimate the importance of having a budget. This will ensure that a smooth transition takes place. Having a budget under someone else’s existing budget, so that questions are regularly asked regarding whether the expenditure is necessary, will not work. The project team must have its own budget approved by top management.
- *Create a transition plan.* The following will enable the organisation to implement the e-business strategy successfully: acknowledging the way employees’ work will change and creating a transition plan covering new activities and jobs, changes to reporting structures, and, when necessary, changes to incentive and reward systems and the retraining of staff.

- *Evaluate the process.* An organisation needs to monitor its implemented e-strategy to determine the extent to which it achieves its objectives. Despite efforts at objectivity, the process of formulating a strategy is largely subjective. Thus, the first substantial test of a strategy comes only after implementation. The project team must watch for early signs of marketplace response to their actions. They must also provide monitoring and control methods to ensure that the organisation follows the e-business strategy as planned.

As Figure 10.1 indicates, e-business success within an organisation is dependent on a number of issues, namely:

- The presence of a business strategy
- An e-business strategy
- Manageable e-business initiatives
- Digital-ready business processes.

Just as the idea of e-business has captured the attention and imagination of the business world, the world of HR is also rapidly progressing toward an electronic-delivery concept, sometimes referred to as E-HR. In the following section we shall look at this new development.

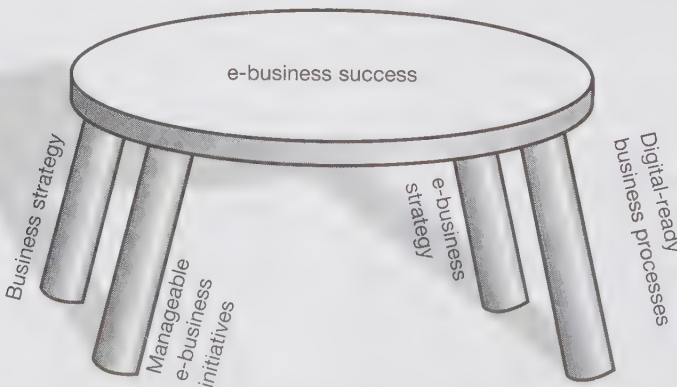
10.2 The impact of the electronic era on HRM

There is no doubt that web technology is changing every aspect of the way in which a company conducts its business. It is also transforming the way in which companies manage their employees,¹⁷ and thus is changing the way in which HR professionals do their job. As a result, HRM has become the latest partner in the web development known simply as E-HR.¹⁸ What does E-HR entail?

10.2.1 Describing E-HR

According to Karakanian,¹⁹ E-HR is:
... the overall HR strategy that lifts HR, shifts it from the HR department and isolated HR activities, and redistributes it to the organisation and its trusted business partners old and new. E-HR ties and integrates HR activities to other corporate processes such as finance, supply chain and customer service. Its promise is that HR is the owner of the strategy

Figure 10.1 The four elements of e-business success



SOURCE: BRACHE, A. & WEBB, J. 2000. The eight deadly assumptions of e-business. *Journal of Business Strategy*, 21(3):13, May/June. Emerald Group Publishing Limited. Copyright © 1993, MCB UP Ltd.

and when required it is the service broker as opposed to the provider.

SOURCE: KARAKANIAN, M. 2000. Are human resources departments ready for E-HR? *Information Systems Management*, 17(4):36.

What this definition is trying to identify is that E-HR:²⁰

- Demands HRM to do its homework
- Requires executive participation
- Needs an excellent appreciation of technology and the use of technology
- Requires a well-developed and integrated human resource information system (HRIS)
- Needs to use wisely the network of technologies and various communication channels such as the web, wireless, and, perhaps, kiosks
- Requires a comprehensive change management strategy to ensure the successful implementation of the E-HR strategy.

The HRIS will thus form the backbone of the HRM system. This system will interface with the organisation's intranet and will connect to HR service suppliers and business partners via an extranet as well as have links to the internet via HR portals (single points of access).

This whole process will allow cost-effective universal access to HR data by all authorised parties, including employees, managers, executives, HR service providers, relevant communities, corporate customers, and the public at large. It will also reduce the distance between the HR department and its internal customers.²¹ For example, an e-procurement system might use HR data to establish rules about authorisations and approvals, while an e-operations system might access HR data to tweak staffing levels

or help the company plan an expansion more effectively. It might also play a central role in designing a more efficient production or sales method.²²

For an HRIS to be truly effective within an organisation, it needs to cover all the various disciplines within the HR field in a truly integrated fashion. The HRIS should ensure that data is only ever captured once at source to ensure data integrity throughout the system. A truly integrated HRIS should cover the following HR functional areas that are required for managing all the various HR aspects of employees:

- Employee personal details
- Employee payroll details (compensation management)
- Organisational structure and design
- Recruitment
- Performance management
- Succession planning
- Training and development
- Job profiling
- Employee skills profiling
- Employee and Manager Self Service
- Payroll processing capabilities including leave.

The above list shows exactly how comprehensive the HR management function is within an organisation, if executed as a whole, and how wide this range of interrelated functions is that need to be executed in a coordinated fashion to achieve a truly holistic HR solution for the HR team. In order for the HR team to achieve success in performing these functions, a comprehensive toolset(s) and a fair amount of systems knowledge is required. The current expectations of an HRIS have evolved over the past number of years from that of being just an electronic file-keeping system to that of an integrated set of modules aimed at providing comprehensive and accurate information and providing Decision Support Information (DSI) to the HR team, the Executive and Line Management.

10.2.2 Advantages of E-HR

From the literature it is clear that taking HRM online can achieve vast improvements in efficiencies (see Box 10.1). This process strategy, according to Collett,²³ is becoming known as 'B2E' – the automation of the entire business-to-employee relationship via the internet in ways that enhance employee productivity and workforce return on investment. For example, one of the largest organisations in the USA, Oracle Corporation, has made significant cost savings in the transformation of its HRM. Many routine day-to-day administrative tasks have been taken online, freeing the HR department to focus on more important issues.²⁴

In the HR and Payroll arena web access has opened up many new exciting opportunities:

- HR and Payroll staff are now afforded the opportunity of being able to access the HRIS remotely, thus being able to perform critical system functions while not being present in the office.
- Employees are able to gain access to their current personal information stored on the HR system in addition to accessing certain transactional data including items such as online pay slips, leave balances and then also being able to initiate transactions such as leave applications and the submission of expense claims to the payroll.
- Service providers being able to offer ASP (Application Service Provider) type solutions, where the organisation no longer needs to worry about having the correct hardware or IT skills in-house to administer their application as the

BOX 10.1

Ways in which HR can benefit from electronic systems

- Portals can create a single interface for accessing key data.
- Online recruiting can eliminate paperwork and speed up the hiring process.
- Employee self-service can automate record-keeping.
- A web-accessible knowledge base can reduce questions to the HR department or a call centre.
- Electronic benefits enrolment lets employees sort through options faster, while reducing paperwork and questions for HR.
- Electronic payroll can cut costs and make data more easily accessible.
- Trading exchanges and e-market places can reduce the costs of products and services.
- E-procurement can eliminate catalogues and manual processes that are expensive and slow.
- Electronic travel and expense reporting can crumple the paper glut and speed up reimbursements to both employees and the company.
- Online retirement planning can help employees map out their future, while reducing questions and paperwork for HR.
- Online learning can slash travel costs and make training available anytime, anywhere.
- Competency management can help an organisation identify strengths and weaknesses.

SOURCE: GREENGARD, S. 2000. Net gains to HR technology. *Workforce*, 79(4):46. Used with permission.

ASP based solution is run in a hosted environment utilising the ASP skills.

10.2.3 Disadvantages of E-HR

Despite the positive aspects of E-HR the previous section mentions, there is also a negative side to this process. This involves the security of the HR data. HR-related information is perhaps more critical than any other because it involves private and highly sensitive individual data. According to Karakanian,²⁵ the disclosure and cross-border movement of HR data is a critical issue to be managed very carefully, based on country- and organisation-specific, as well as individual, authorisations. Thus data and multiplatform security aspects are perhaps the most serious factors an organisation needs to consider during the formulation of its E-HR strategy. In Appendix 10A to this chapter a number of guiding principles regarding the protection of information that human resource professionals should consider are provided.

10.2.4 HR intranet sites

With reference to the earlier domains of web application (see section 10.1.2), we note that E-HR will play a crucial role in the e-operations domain of the company. However, for the HR website to achieve its full potential it is important to understand the levels of website development and how effectiveness increases as the site evolves to the higher level of sophistication. For this purpose we shall focus on the work of Chamine,²⁶ published in his article 'Making your intranet an effective HR tool'. We shall discuss the four types of HR intranet sites Chamine identifies, namely:

1. *Brochureware*. Normally at the launch of a website, a company posts most of its written materials on the site and consequently uses the site as an electronic bulletin board. Under these circumstances employees are bombarded with a great deal of information. For a busy employee who is looking for a simple

piece of information, this can be very time consuming and frustrating. Under these conditions, this format does not take advantage of the integrated, interactive, and personalised capabilities of web technology.

2. *Transactional*. When the enormous potential of the intranet is appreciated, by allowing employees to conduct transactions online, the site moves up in capability. Typical online transactions include changing personal information, registering for courses, submitting expense reports, reviewing vacation information and leave, reviewing and updating benefit selections, and applying for other jobs in the company. New types of technology have enabled the creation of truly engaging, easy-to-use applications for self-service.
3. *Integrated*. Here multiple sites are linked together to create a seamless experience for the user. The challenge at this stage is how to integrate the various services in a way that makes sense to the employee.
4. *Personalised*. The ultimate goal is to create a truly individualised experience for each user by providing unique content based on the person's profile: Is the person a manager, supervisor or hourly worker? In what region does he or she work? To which benefits package is he or she entitled? What are the person's unique skills, motivations, and objectives for career advancement?

In order for the organisation to truly integrate their intranet site and that of the web functionality within the HRIS, a holistic solution needs to be implemented. This will prevent employees from having to access various pockets of information spread over the intranet site. In most organisations, the HR departments are under immense pressure to deliver strategic solutions that will make a difference, not only providing the

human resources required by the organisation but also to assist the organisation in setting up and implementing their strategic direction and focus. Some of the key challenges faced by organisations in today's economy are:

- To improve the value of communication,
- To improve knowledge sharing,
- Create more efficient processes and
- Empowering their teams.

To achieve this, organisations need the support of their HR function, but often the question is asked '*Does HR have the time to be a strategic partner in our organisation?*' HR in turn, needs to introduce technology to assist in freeing up their valuable time e.g. implementing a functional intranet site (within which their Self Service solutions are running). This enables HR to free themselves from their everyday administrative tasks, thus allowing them to focus on the value-adding strategic activities that have a real impact on the organisation's performance.

In organisations where the HR department has implemented an effective HR intranet site, they are able to plug into one of the better innovations made available to them since the advent of desktop computing. A fully functional HR intranet will allow the HR department to be open 24 hours per day 7 days per week to efficiently perform many of the routine information requests. This can relate to both a 'push' and 'pull' of information.

Information from the HR department can be 'pushed' throughout the organisation for access by employees via the internet and there can also be a 'pull' of information from employees as and when they enter updated information through the Self Service portal. In the more empowered organisations employees and line managers are also able to perform many HR related tasks with minimal HR time requirements such as – leave management, increase approvals and even

conducting their Performance Management evaluations.

One of the biggest uses for HR of the organisation's intranet will be through the use of their Employee and Manager Self Service solution. Self Service options assist in the alleviation of the burden of administration by giving employees and managers online access to their details including their personal details; leave, training, remuneration and performance management records. Employees are empowered to view, create, and maintain their information using a web browser over the internet or via the company's intranet site.

Self Service solutions are able to produce many productivity gains while at the same time lowering the organisation's HR administrative transaction costs. In addition the HR department is also able to improve the level of service to employees and line managers by reducing the amount of paperwork, which is both a burden to staff and HR alike. In Self Service, HR are still able to retain the ability to control all processes via the automated approvals controlled in the work flow engine, thus ensuring they remain the empowered owners of all HR processes. Self Service should therefore not be a burden to employees, it should in fact be, as many surveys show, a mechanism to increase your employee's levels of satisfaction with HR.

One of the dangers of having a large and comprehensive intranet is that employees run the risk of been smothered by information. Having to follow many links to try and locate a document could negate many of the efficiencies the intranet is expected to produce. One of the most efficient ways to avoid this is to have all the relevant information linked to your current HR system, so if an employee is busy accessing their leave balances in Self Service, the relevant buttons to apply for leave or access your leave policy should be available on this screen.

Employers should thus avoid the trap of continually loading more and more

information onto their intranet sites as and when it becomes available. Eventually, the once valuable intranet would lose its value as it would become too difficult to locate documents in an acceptable time frame, and as with most systems, the less a system is used, the less it is trusted, resulting in a slow and strangled death.

It is important to note that if your HR intranet is to become established as a key communication tool within your organisation, it is vital that navigation around the site is intuitive and easy to follow.

As employees explore and use an integrated personalised HR intranet site, their productivity and retention are likely to increase due to the immediate delivery of services or information to them. According to Chamine,²⁷ the website in effect becomes the face of HRM and has the ability to make a significant and personal impact on individuals, thereby helping them to make a more meaningful contribution to the organisation. In the next section, we shall look at some E-HR applications in practice.

10.2.5 E-HR in practice

This section is based on a number of authors' work, which was published in *The brave new world of EHR*, edited by Gueutal and Stone. In the past number of years we have seen HR's role evolving from that of Personnel Management to Human Resource Management and now towards a more holistic Human Capital Management approach, which is evolving into a more sophisticated discipline, now more commonly referred to as Talent Management. In this section we shall look at the effects of technology on several key HR functions that combined together form an holistic view of an organisation's Talent Management Strategy. The HR disciplines we will look at will include: recruitment, selection, training, performance management, succession planning, retention of key skills, and compensation.

- *E-recruitment and e-selection.* No organisation can function without people, and the attraction and retention of highly talented employees remains a challenge. The core recruitment function within the HRIS is there to assist in the planning and executing of all the recruitment and selection processes. By opening up the system through the internet, applicants will be able to view and apply for vacancies via the internet, creating a fully populated record through the web. Once recruited, the data created via the application process can then be used by the HRIS to populate the core administrative data records in the system (e.g. name, address, contact details, identity number etc.) eliminating the internal administrative burden that use to reside within the HR function. In addition, all applicants' details can be stored in an applicant data base to form a detailed and comprehensive talent pool which can be searched for future vacancies that arise. To aid in this process, companies are increasingly making use of E-HR systems such as web-based job sites, portals, and kiosks to attract applicants.²⁸ According to Stone, Lukaszewski, and Isenhour, the most common practices used for online recruitment involve:
 1. Adding recruitment pages to existing company websites
 2. Using specialised recruitment websites, e.g. job portals and online job boards
 3. Developing interactive tools for processing applications such as online applications and automatic e-mail responses
 4. Using online screening techniques such as keyword systems, online interviews, and personality assessment.²⁹

Job postings are also done on the internal network (intranet) of the company.

Companies derive a number of benefits from using e-recruiting, namely:

- ▷ It increases the effectiveness of the recruitment process by reaching larger numbers of qualified people
- ▷ It reduces recruitment costs
- ▷ It decreases and streamlines cycle times of the administrative process
- ▷ It enables the company to evaluate the success of its recruitment strategy.³⁰

It is thus clear that e-recruiting has numerous benefits for an organisation. However, despite these benefits, there are a number of dysfunctional or unintended consequences of e-recruiting, e.g.:

- ▷ The computerised system may make the recruitment process more impersonal and inflexible
- ▷ Some groups may not have access to computerised systems or even have the skills to use them
- ▷ Some applicants may see the online system as more likely to invade their personal privacy and this may reduce their willingness to apply.³¹

To overcome these obstacles, an organisation can do the following:

- ▷ Restrict unauthorised access to data gathered online
- ▷ Restrict disclosure of data to only that required for decision-making purposes
- ▷ Develop systems that are culturally sensitive
- ▷ Align the system with the strategic goals of the company
- ▷ Provide sufficient evidence on the system about the company
- ▷ Design the site so that it is easy to use.³²

Once an employee is recruited, he or she must next move through the selection process. The implementation of any selection process is complex, and the integration of technology to use in this process even more complex, especially when testing is one of the critical steps in the process. According to Kehoe, Dickter, Russell, and Sacco,³³

organisations can follow a number of steps when implementing the e-selection process, namely:

- ▷ *Step 1.* Draw-up a flow chart of the current assessment process.
- ▷ *Step 2.* Draft the desired flow process that will result from the e-selection process – from this step process improvements, efficiencies, and cost savings should be evident (e.g. the new process will involve fewer staff).
- ▷ *Step 3.* Consider how the various new stakeholders and clients (recruiters, administrators etc.) will use the system.
- ▷ *Step 4.* Choose a new technology-enabled scoring system – with e-selection the scoring should be rapid or instantaneous, test results should be readily combinable with other test results, and score reports that are readily interpretable and printable should be available. Important also here is the equivalence of the previous paper-and-pencil system with the new one. Rules regarding the interpretation of the score results must also be determined (e.g. ‘definitely hire’, ‘possibly hire’, and ‘definitely reject’).
- ▷ *Step 5.* An issue organisations also need to address is how to prepare the candidate for the test (e.g. provide a few practise items). This will help with test anxiety.
- ▷ *Step 6.* Train the employees who will be responsible for administering the process.

Figure 10.2 indicates a typical process for e-recruitment/e-selection.

- ▷ *E-training.* As we indicated earlier, knowledge workers play an important part in the competitiveness of companies. Unfortunately, a reality of today’s rapid explosion of knowledge is that the knowledge workers’

possess becomes obsolete.³⁴ How can this process be stopped?

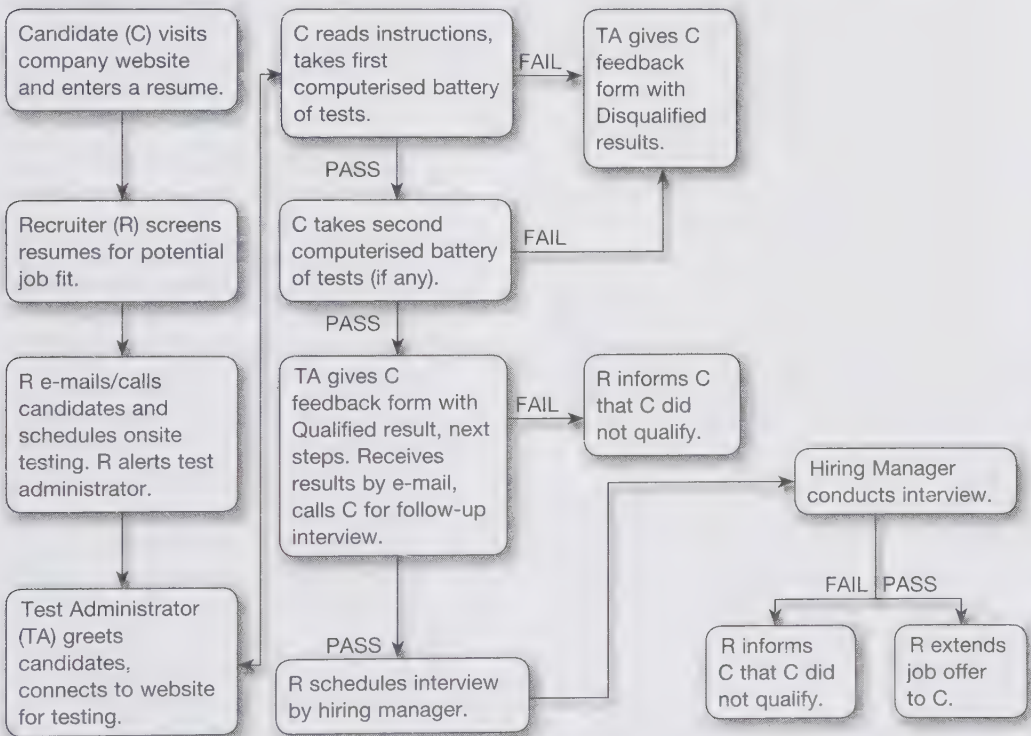
The answer lies in training. Training makes learning and relearning essential if employees are to keep abreast with the latest developments in their fields. However, there is also a growing demand from companies for just-in-time training, as well as for cost-effective ways of delivering it.³⁵ In this area, the appearance of the World Wide Web has provided trainers with greater flexibility in the way they design and implement training (e.g. anywhere and any time) and thus makes e-training a reality.³⁶ E-learning

is a concept that has appeared within this domain over the past few years and is gaining greater momentum.

According to Swart, Mann, Brown, and Price,³⁷ this concept can be defined as follows:

Learning that is delivered, enabled or mediated by electronic technology, for the explicit purpose of training in organisations. It does not include stand alone technology based training such as the use of CD Rom.

Figure 10.2 A typical e-recruitment/e-selection process



SOURCE: KEHOE, J.F., DICKTER, D.N., RUSSELL, D.P. & SACCO, J.M. 2005. E-selection. (In GUEUTAL, H.G. & STONE, D.L. (Eds). *The brave new world of E-HR*. San Francisco: Jossey Bass:88, an imprint from John Wiley & Sons.) Used with permission.

What types of e-learning exist?

According to Silberman,³⁸ e-learning has different forms, which can be separated into four distinct categories, namely:

- ▷ *Independent e-learning.* This is asynchronous – all learning does not have to take place at the same time, i.e. participants can take the course when and where they choose. Examples are web- and computer-based training.
- ▷ *Group-based e-learning.* This is synchronous – participants communicate at the same time. Examples are video training, webcasts, and webinars.
- ▷ *Virtual classroom.* This is asynchronous and synchronous. Examples are discussion boards, chatrooms, and electronic breakout groups.
- ▷ *Blended learning.* This is asynchronous and synchronous. An example is e-learning combined with instructor-led training in a classroom.

How does one access e-learning programmes? The literature identifies two main ways to access e-learning programmes: through a company intranet or through learning portals on the internet.³⁹ Learning portals are like online libraries; they offer courses on a wide variety of topics, from time management to customer-service training to courses on spreadsheets.

We shall now take a closer look at the e-learning concept. According to Driscoll,⁴⁰ the justification for investing in e-learning programmes has both strategic and tactical dimensions. From a strategic perspective, the following are important:

- ▷ The existence of a global workforce
- ▷ Shorter product-development cycles
- ▷ Managing flatter organisations
- ▷ Adjusting to the needs of employees

- ▷ Retaining valuable workers
- ▷ Increasing productivity and profitability.

From a tactical perspective the following are important:

- ▷ Reducing travel and related costs
- ▷ Enabling learning any time and any place
- ▷ Providing just-in-time learning
- ▷ Leveraging the existing infrastructure
- ▷ Enabling delivery independent of a platform
- ▷ Providing tools for tracking and record keeping
- ▷ Making updates easy.

Table 10.1 indicates some benefits and some disadvantages of e-learning.

Given these benefits and disadvantages of e-learning, what would the characteristics of a successful e-learning programme be? According to Wilcock,⁴¹ the following need to be present:

- ▷ *A technically robust delivery platform.* A reliable company intranet or online web-based system must be available, offering fast download times.
- ▷ *An intuitive user interface.* Navigation through the system should be simple and obvious.
- ▷ *Online coaching support.* Fast feedback from e-learning systems must be available. Online coach facilitation through discussion groups and regular personal contact must be part of the system.
- ▷ *A high level of interactivity.* Online tests and quizzes should be available to provide instantaneous feedback to learners.

Thus, e-learning involves not only providing trainees with content, but also giving learners the ability to control what they learn, the speed at which they progress through the programme, and, even, when they learn. This type

Table 10.1 Benefits and disadvantages of e-learning

Benefits	Disadvantages
High degree of interaction between the learner and materials	Requires specific equipment to run the programmes
Understanding can be assessed before the learner moves on	Access to a computer is needed for each learner
Feedback can be tailored to the learner's decisions	Development time can be high
Topics can be accessed in an order which suits the learner	Specialist expertise may be required to design and write the programme
Potential for adapting the learning style to the user's needs	Hardware may be expensive
Relatively easy to update text and graphics	Not good at conveying attitudes or behaviour
Ready means of testing	Some learners find it difficult to read text from a screen
Standardised form of training	Can be inappropriate as a single medium for longer applications
Attractive to many learners	Learner may be unable to comprehend learning material
Learner can use material at his/her own pace	Learning process cannot be followed or modified by tutor following production
Computer aided learning programmes are flexible regarding usage time	Learning programmes may be unreliable
The possibility of using different kinds of material	High-level infrastructure and equipment needed Time spent on studies is reduced, meaning less time spent away from the workplace

When to use:

Good for simulations

Procedural training – adds interest and interaction, particularly the ability to check your responses to activities and tasks

Decision-making 'games' – 'action mazes'

Keyboard training

Tutorials for software packages

Management of learning

SOURCE: SWART, J., MANN, C., BROWN, S. & PRICE, A. 2005. *Human resource development: Strategy and tactics*. Oxford: Elsevier. Butterworth-Heinemann:302, an imprint of Taylor & Francis.

of learning also allows learners to collaborate or interact with other trainees and experts, and it provides links to other learning resources such as reference material, company websites, and other training programmes.⁴² It may also include various aspects of training administration, such as course enrolment, the testing and evaluation of trainees, and the monitoring of the trainees' learning processes. Text, video, graphics, and sound can be used to present course content. Note that e-learning does not simply mean putting existing training courses and materials on a website. According to Mathis and Jackson,⁴³ the following steps need to be followed:

- *Step 1.* Convert the training content into electronic form.
- *Step 2.* Modularise the content to enable the trainees to complete segments of it.
- *Step 3.* Measure the learning, track usage and evaluate training to see whether it meets the objectives set.

Having a comprehensive Training and Development strategy is a critical success factor in the fast moving world of business today. As the demands on the markets change more and more frequently, so do the skill sets required to meet these changes evolve. The only way an organisation can keep up is by continually upgrading each of the employee's skill sets. This can only be achieved by a well documented training plan for each employee based on the skills gap with looking at their current (and possible future) job requirements compared to the employee's current skills set.

When setting up training plans for employees there are always two perspectives to consider: the first being the training requirements for the employee's current job, the second is to

consider what training the employee requires in order to fulfil any role they have been identified as a successor to the current incumbent. Succession planning is becoming a key HR function to enable organisations to manage their current skill sets. With the current shrinkage in the pool of skilled resources worldwide, it is imperative for an organisation to clearly understand the aspirations of each employee so as to work with the employee to attain the necessary skills needed. Failing to meet your employee's expectations could result in your employees seeking alternative employment to meet their aspirations, leaving your organisation with an even greater skills gap.

Undoubtedly, e-learning will have a major impact on HRM and training within companies.

- *E-HR-based performance management.* One of the most critical functions within an organisation is that of managing the employees' performance. There are various aspects that can inhibit an employee's performance and organisations need a better understanding of the strategic value of their employees; as their employees' performance is critical to their success in the global marketplace. A company's future growth and competitiveness now depends more than ever on attracting the right people, an increasingly scarce resource worldwide. Once a newly recruited employee becomes a part of your organisation you need to ensure that they are empowered to perform not only on an individual level, but also as part of their team. Organisations are therefore required to ensure that they set-up the relevant procedures to effectively measure and thus effectively manage their employees' contribution to the organisation. There is no doubt that employers want employees who perform their jobs well.

An effective performance-management system increases the likelihood of such performance. However, to date, the performance-management process has largely been a paper exercise, which has become fairly cumbersome in many organisations. With the arrival of the World Wide Web, intranets, and extranets, performance management can now take place through the direct involvement of technology. It is important that, when using technology in this area, managers make sure that employees are satisfied with the system, i.e. that they feel that they are being treated fairly. If ratees are dissatisfied, or perceive a system as unfair, they will have diminished motivation to use the evaluation information emanating from the system to improve their performance.⁴⁴ The question then is: how can technology contribute to performance management?

According to Cardy and Miller,⁴⁵ the following two ways are possible:

- ▷ *Measurement of an employee's performance via computer monitoring.* This can occur as an unobtrusive and rote mechanical process that relies on minimal input from individuals beyond their task performance. Examples of areas where this can take place are at a call centre or in a data-capturing environment. In this environment the very act of performing a job simultaneously becomes the measure of how well a job holder accomplishes it. For example, keystrokes, time on the task, and number of calls made are recorded and at once become both job content and appraisal content. This is generally known as computerised performance monitoring (CPM). An important aspect here is that this system must be able to balance quantitative performance data

with systems factors. For example, an employee who delivers high-quality customer service over the telephone could generate positive responses from the public that could foster return business even though objective call duration alone might not capture this fact. Thus, a process that also incorporates acknowledgement of system factors such as call complexity would put work performance in perspective.⁴⁶ As this is the kind of performance a company seeks to encourage, finding an appropriate objective balance benefits not only the performer in terms of fairness, but also the organisation from an outcome point of view. According to Cardy and Miller,⁴⁷ one way to overcome these constraints is to incorporate CPM into a type of management-by-objectives (MBO) approach. For example, a supervisor can have a meeting with an employee to review the CPM data, discuss tactics for raising performance (if required), and jointly solve problems regarding current procedures. This will make CPM a more positive experience. An advantage of this system is that it permits a greater span of control because it facilitates the accurate collection of performance data without requiring managers to spend significant time observing each individual worker's actual performance on the job.⁴⁸

- ▷ *The use of technology as a tool to facilitate the process of writing reviews or generating performance feedback.* Examples here include multi-rater appraisals that supervisors or team members generate online and off-the-shelf appraisal packages that actually construct an evaluation for a manager.⁴⁹ This particular approach occurs more

often where jobs require personal judgement and high discretion and are open-ended tasks for which real-time performance monitoring is not an option. Also, here the employees' perception regarding the fairness of the system is important. There are several ways of achieving technological enhancement of performance-management systems in this option. According to Cardy and Miller,⁵⁰ one method is to incorporate appraisal as part of a software system for overall enterprise resource planning (ERP). The advantage of this approach is that it comprises a wide variety of company data – e.g. financial, operations etc. – that managers can view in ways that would otherwise not have been possible.⁵¹ By exploring the company data, and by analysing competencies for individuals, groups of workers or departments, HR practitioners can identify high performers and spot gaps in skill and competency. It is also possible to analyse pay levels relative to performance. Besides the ERP software system, company intranets or the internet may also be utilised.⁵² In this case, a performance-evaluation process may begin with e-mail messages to relative stakeholders coordinating the programme. Following this, the participants can nominate potential evaluators who can provide feedback about them. The system can, for example, automatically limit the number of people an evaluator may rate. The evaluator will then receive a password, which will enable him or her to enter a 'secure website' to complete the evaluation.⁵³ Once the evaluation is complete, the system will collect the feedback, which will be assembled into reports and sent electronically

to the ratees. The advantage of this process is that the employees can be evaluated more frequently.

Another positive feature of this type of process is that many of the software packages also include a training component for the rater. This not only saves the company money but ensures that the reports generated by the rater are of high standard.⁵⁴ In addition, the ratees can also automatically access online developmental suggestions and become aware of training opportunities within the company. The system will also enable the ratees to track their own progress over a series of evaluations. Many of the software packages also allow users to click buttons on a screen for each rating and simultaneously create sentences and paragraphs of text. If, for example, the ratings within an individual factor are high or low or varied at both ends of the scale, the program can prompt the evaluator to review the rating and add his or her own comments.⁵⁵ Some packages also contain enormous databases of prewritten text, allowing raters to upgrade automatically to a more positive evaluation or downgrade to a more negative one.⁵⁶ The systems can also send evaluators the reports of other raters to see how closely they agree with the other ratings.

All these options have the potential to make the performance-evaluation process less daunting for frontline managers, engineers, scientists or others who often strongly resist the time and effort spent on this activity. Thus, the numerous benefits of online performance appraisal are clear, but companies can reap them only if they consider the issues of trust,

fairness, system factors, computer literacy, and training of both the raters and the ratees. One of the keys to the successful implementation of performance management is to have clearly defined role definitions for each employee, as employees need to clearly understand what their individual role is and how this role fits into the goals of their team and ultimately into the bigger organisation. For the organisation to properly implement this, a number of very important factors need to be considered.

Role definition needs to be consistent throughout the organisation and needs to be set up independent of the employees currently performing in the role. The employee is first and foremost expected to fulfil a function, which is built up from a number of tasks for which a certain set of skills is required. These tasks can generally be broken down into those that require some technical skills and others that require soft skills (behaviours), and those related to how the employee is expected to act in their relationships with their co-workers.

Each individual should fully understand their role in the organisation, not only based on their tasks, but now their role fits into the bigger picture and how it will contribute towards the success of the organisation.

Each individual should understand their goals and what measurements will be applied to determine their level of success.

Once the different roles have been defined within the organisation, management should be in a position to determine how important each role is to the company's ability

to create value for customers and shareholders. Now the organisation is ready to start conducting performance management that will hopefully add value to the organisation as opposed to being just another administrative task. By having a single integrated HRIS to fulfil this role will enable an organisation to not only reuse data throughout the system (single point of capture at source) but also ensure that there is consistency through the system as the system will be able to refer to associated data between the various functions within the HR domain.

- *E-compensation.* For many employees, a lifelong commitment to one employer is no longer an option.⁵⁷ This view holds serious implications for companies. Without talented staff, companies cannot realise organisational competitiveness. Thus, the role of compensation has become an important tool for attracting, retaining, and motivating the talent needed for survival over the long term. The management of this process has, in view of technological developments within the HRM field, also undergone major changes and today the literature refers to *e-compensation*.

According to Dulebohn and Marler,⁵⁸ *e-compensation* tools can enhance the practice of designing and administering compensation programmes in three ways:

- ▷ The tools can increase access to critical information on compensation, without the need to involve specialised IT staff – users can simply access key information on an as-needed basis.
- ▷ The tools enable around-the-clock availability of meaningful compensation information to senior managers, HR managers, and employees.

- ▷ The tools can streamline cumbersome bureaucratic tasks, through the introduction of workflow functionality and real-time information processing.

The tools thus enable an organisation to gather, store, manipulate, analyse, utilise, and distribute compensation data and information.⁵⁹ Thus, what distinguishes e-compensation from previous compensation software is that e-compensation is web-based, rather than client-server based or stand-alone PC-based. It also allows managers and employees to perform data entry and data processing remotely, e.g. through self-service portals. Many software companies supply electronically advanced job-analysis and job-evaluation techniques for companies to use in the establishment of their compensation structures.⁶⁰ These components form the building blocks of a proper compensation programme. A job-analysis system known as the Common Metric Questionnaire (CMQ), designed by Personnel Systems and Technology Corporation, enables, for example, companies to describe accurately both managerial as well as nonmanagerial occupations.⁶¹ Some software systems can also specify the number and type of compensable factors, the number of levels within each factor, and the points associated with the factors (the process known as job evaluation). Because the system is web enabled, HR specialists can electronically distribute information to target employees or managers via the company intranet.⁶² The intranet technology therefore enables organisations to decentralise the responsibility for job evaluation and job analysis to the desktop of a manager. These software packages, in many instances, also include information on salary surveys which can be used as benchmarks for

different jobs within a company.⁶³ One company, PeopleSoft, for example, offers a comprehensive web-enabled compensation-planning programme that can coordinate and integrate information from both internal pay structures and external market data to design pay structures effectively and efficiently.⁶⁴ Thus through e-compensation tools organisations can adapt to shifting demands for information in this area of HRM.

Traditionally the implementation of an HR system only affected a small number of employees within an organisation such as the HR and Payroll staff, and sometimes the staff working in Finance. With self-service technology and web-based solutions now being the norm, each and every employee within the organisation is affected by the implementation and there can therefore be far reaching effects if a comprehensive change management plan is not put into place.

One of the most important steps for a project of this magnitude is to get the necessary buy-in at all levels. Management within the organisation play an important role as they need to become change agents throughout the project. In order for them to effectively become key resources in the change management team they will need to assume various roles within the project – these roles will range from training and knowledge dissemination to being part of the design process. It is important that management do not make decisions in a vacuum, many employees as possible need to be included in the process including staff from the various groups that would either directly or indirectly use the system.

The focus should not only be on the 'traditional users' of the solution i.e. HR and Payroll users, but on all employees

within the organisation. Employee self-service cannot survive after initial implementation if all employees do not start utilising the product to obtain the host of additional benefits it can offer – both to the employee as well as to the organisation.

There are many techniques to ‘push’ your self-service capabilities out to the staff and organisations should not ignore the tried and tested traditional marketing techniques such as informative e-mails, cell phone text messages, online newsletters or even direct mail. Employees should be encouraged to visit the self service portal, and to increase the ease of use and access to the self service web page the URL should be included in all communications. In addition this link should have a high visibility on the organisation’s intranet site home page. Remember – ‘if they can’t find it, they won’t use it!’

For the implementation of self-service functionality there are two other areas that require a focus, and the successful use of the system depends highly on these being implemented successfully.

- **Communication:** It is critical that at every stage of the implementation that progress reports, milestones achieved and the project plan’s status are communicated to all stakeholders. Communication should be brief, concise and to the point. It should not have to be hard labour to gather information about the new project. Various means can be utilised including e-mail, notice boards and inserts into any formal/informal company communications.
- **Training:** For any person to use any new technology and/or system it is essential that the correct training be provided. In

addition, sufficient backing documentation must be readily available for reference purposes.

In the end, implementing a self-service solution is all about change – a change that will affect all of your employees. It is thus important not to fall into the trap of selling change to your staff as a way of accelerating the implementation. ‘Selling’ change to your staff is not a sustainable strategy. Change needs to be understood and managed in a way that your staff can cope effectively with it. Change can be unsettling, so the HR team needs to ensure that all change agents become a setting influence within the organisation.

Looking at measuring the impact on implementing a new E-HR solution is not that easy for a number of understandable reasons. Firstly, to effectively measure the impact of a new system (E-HR or any other implemented system) it is of vital importance to understand what the benchmarks are going to be. It is important to know exactly what the criteria and the measurements of the ‘before’ picture in the organisation are when dealing with softer issues, as without these, the post implementation survey will not be able to reveal any changes, just a meaningless snapshot in time.

Prior to the implementation of a new E-HR system, a climate survey should be conducted with all staff and management to obtain an accurate measurement of their perception of the level of the services and the quality of information HR is currently providing. This then becomes the benchmark to measure against once the new HR system is fully operational.

SUMMARY

With the advent of web technology there has been a significant shift in the way companies are managed, organised and, most importantly, valued. This chapter provided guidelines to assist businesses grappling with understanding and implementing the new technology – the electronic or e-business phenomenon. The chapter also focused on the way in which technology impacts on the management of people within organisations – the so-called E-HR.

In reality, E-HR touches every corner of a business and therefore requires new tools – such as portals, intranets, and extranets – to consolidate, manage, and deliver information efficiently to its stakeholders. Ultimately, HRM must be aware of the dynamics of e-business in the marketplace if it is to be successful.

KEY CONCEPTS

- | | |
|---|--|
| <ul style="list-style-type: none"> ■ Asynchronous ■ Application Service Provider (ASP) ■ Brochureware ■ B2E (business to employee) ■ Change management ■ Cross-functional team ■ Computerised performance monitoring (CPM) ■ Common Metric Questionnaire (CMQ) ■ Decision Support Systems ■ E-business ■ E-business strategy ■ E-compensation ■ E-HR ■ E-marketing ■ E-operations ■ E-services ■ E-recruitment ■ E-selection ■ E-learning ■ E-performance management ■ E-training ■ Employee Self Service ■ Enterprise resource planning (ERP) | <ul style="list-style-type: none"> ■ Electronic medium ■ Extranet ■ Human resource information system (HRIS) ■ HR portals ■ Hosted solution ■ Integrated ■ Internet ■ Intranet ■ Kiosks ■ Management information system (MIS) ■ Management by objectives (MBO) ■ Manager Self Service ■ New economy ■ Performance Management ■ Personalised ■ Portals (single points of entry) ■ Security ■ Succession Planning ■ Synchronous ■ Talent Management ■ Transactional ■ Transition plan ■ Web |
|---|--|

CASE STUDY

Objective: To understand the role of training in an advanced technological environment.

Training at Sunrise Inc.

Sunrise Inc. is a large brokerage company operating out of Sandton, Gauteng. The company was founded in 1908 by Patrick Johnson Sr, great-grandfather of the current CEO. Sunrise Inc. offer a complete line of insurance services for both individuals and business firms. As is true with other insurance companies, Sunrise Inc. emphasises sales. In fact, more than half of all employees are involved in sales to some degree.

Because the sales activity is so important, the company spends a considerable amount of time, effort and money on sales training. Its training director, Tom Wilson, is constantly on the lookout for new training techniques that can improve sales and profits. He recently attended a workshop on new training techniques and heard about a new approach named 'e-training' which seems to have some promise. On returning to the company, he immediately scheduled a meeting with his boss, Cathy Adams, Executive Director for human resources at Sunrise Inc., to discuss the possibility of implementing e-training within the company.

Cathy: Come in Tom. What's this I hear about a new training technique?

Tom: Well, as you know, Cathy, I always try to keep up to date on the latest in training techniques so that we can remain competitive. I attended this workshop last week and the issue of e-learning, a new approach in training, was presented to the audience by a consultancy company, Train for the Future. Apparently this technique saves companies time as well as money. For instance, we do not have to send our sales people away to be trained; it can all happen right here! I have already worked out a preliminary budget for such a system here at Sunrise Inc. and it looks very feasible. I thought that I'd run it by you.

Cathy: How much will it cost to implement?

Tom: For the first phase it will be about R3 million.

Cathy: I don't know. Tom. That sounds a little steep to me. Besides, Oscar [the CEO], has been bugging me again about the results of our last training effort. He wants to know whether all the money we are spending on sales training is really paying off. As you know, sales and profits are down this quarter and Oscar is looking for places to cut corners. I am afraid that if we cannot demonstrate a pay-off somehow for our training courses, he is going to pull the rug out from under us.

Tom: But we evaluate all our training programmes! The last one got rave reviews from all the participants.

Cathy: That's true. Tom, but Oscar wants more proof than just the reactions of the salespeople. He wants something more tangible. He sees training as extremely 'faddish'. Now, before we buy into any other new training technique, I want you to draw up a report on what our present training is costing us.

Questions and activities

1. What is meant by the statement that training is extremely 'faddish'?
2. How can Sunrise Inc. avoid becoming a victim of the faddishness of the training business?
3. Draw up a list of points that can be used to measure the return on investment should this project be approved.
4. Draw up a document to effectively document the 'before state' and then the 'after state' and how the differences would be measured. Indicate items such as skills profiles, productivity, behaviours, increased revenues, attitudes etc.
5. Draw up a brief report that Tom can present to Cathy on why e-learning should be implemented at Sunrise Inc. Discuss issues such as the benefits and disadvantages of such a system. Also give a brief overview of what the e-learning system entails.

SOURCE: Adapted from 'Evaluating Training at Hutchinson Inc.' Case 8-1. (In CASCIO, W.F. 2006. *Managing human resources: Productivity, quality of work life profits*, 7th ed. New York: McGraw-Hill/Irwin:318-319.) Reproduced with the permission of the McGraw-Hill Companies.

REVIEW QUESTIONS AND ACTIVITIES

1. Briefly describe what e-business means.
2. Feeny suggests that companies interested in e-business should first construct a coherent map identifying the areas where web-based technology could be introduced. Discuss briefly.
3. According to Brache and Webb, a company's e-business strategy should answer a number of questions. Briefly discuss some of these issues.
4. Write a short essay on the implementation of an e-business strategy.
5. Do you think the establishment of a cross-functional project team is very important when implementing an e-business strategy? Explain briefly why you think so.
6. Write a short essay on E-HR.
7. Discuss the benefits and disadvantages of implementing e-learning within a company.
8. Four types of HR intranet sites are identified by Chamine. Discuss each site briefly.
9. Write a short essay on E-HR based performance management.
10. Briefly explain a typical e-recruitment process and e-selection process.

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www.cmqonline.com or <http://commonmetric.com>
 – Web-based questionnaire to describe both managerial and nonmanagerial occupations
www.knowledgepoint.com
 – Job-analysis product accessed over the web; provided by the Knowledgepoint company
www.hr-software.net/cgi/jobevaluation.cgi
 – Online point-method job-evaluation instrument
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Appendix 10A

Guiding principles regarding the protection of information that human resource professionals should consider

- **Guiding principle 1:** When seeking data from job applicants and incumbent employees through E-HR systems, collect only information that is required for the current decision being made (i.e. selection). Determination of the information that is deemed relevant should be based upon a thorough job analysis, identifying job knowledge, skills, and abilities that are required to successfully perform that job.
- **Guiding principle 2:** Safeguard the information that is included in electronic databases by establishing specific record retention policies regarding the length of time each type of information should be maintained electronically. Utilising processes such as layered system access and data encryption lessen the likelihood that stored data will be deciphered and used by unauthorised individuals inside or outside the organisation.
- **Guiding principle 3:** Provide applicants and employees with explanations regarding why information is being collected and the specific decisions for which it will be employed.
- **Guiding principle 4:** Electronically monitor only those behaviours that are associated with performance in a position. Inform individuals that they are being monitored and for what reason the data are being collected.
- **Guiding principle 5:** Establish database error rate goals and conduct monthly audits to identify and correct data errors. Establish error rate performance goals for company employees responsible for data entry.
- **Guiding principle 6:** In order to increase the reliability and validity of decisions, utilise E-HR systems in conjunction with traditional systems (e.g., online assessments and face-to-face test administration; resume scanning systems and visual review).
- **Guiding principle 7:** Provide policies and procedures for employees to access their information contained in organisational databases. Additionally, ensure that there is a detailed mechanism by which employees are able to change or correct erroneous entries.
- **Guiding principle 8:** At the time they apply for jobs, inform applicants that a background check will be performed and information collected from third parties. Advise applicants of any negative information that was discovered from the reports and permit them to either confirm or deny the information, especially if the presence of the data results in negative outcomes (i.e. rejection of job) for the applicant.
- **Guiding principle 9:** Develop privacy policies related to E-HR methods and enforce and follow them. In addition, be sure that these policies are publicised to the employees, either through websites, intranets, e-mail, or newsletters.
- **Guiding principle 10:** Recognise that individuals with different sociocultural backgrounds may differ in their acceptance of E-HR systems, requiring alternative approaches to recruitment, selection, and performance management, including collection of performance data (e.g., drug testing, electronic monitoring). Whenever possible allow job applicants and employees to choose the type of human resource information system they will use (e.g., traditional HR versus electronic HR system).
- **Guiding principle 11:** Employ HR specialists who are knowledgeable

regarding the E-HR systems and the information contained therein so they can assist employees with access or use of these systems. These specialists should also be able to handle exceptions and special circumstances as they arise.

- **Guiding principle 12:** Ensure that the E-HR systems employed are accessible and attractive to all potential and current employees, regardless of age or ethnicity, in order to reduce the

likelihood of adverse impact. The design should be such that the systems can be utilised by all employees without extensive training, including those having minimal computer skills, experience, and education.

SOURCE: MARTIN, G., REDDINGTON, M. & ALEXANDER, M. 2008. *Technology, Outsourcing and Transforming HR* (Chapter 8):219–221. Burlington, M.A., Butterworth-Heinemann, an imprint of Taylor & Francis.

Change management and building the learning organisation

11

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Identify the forces that trigger change in organisations
- Describe the barriers to organisational change and how to overcome them
- Specify three important steps to follow to implement change successfully within organisations
- Discuss the role of the learning organisation and its benefits to all stakeholders
- Describe the five subsystems within a learning organisation
- Identify the role of the chief learning officer (CLO) within an organisation

PURPOSE

The purpose of this chapter is to introduce you to the concept of change management and to discuss how to establish a learning organisation to enhance change on a continuing basis.

CHAPTER OVERVIEW

This chapter starts by looking at the causes (triggers) of organisational change. It then considers the barriers to change and makes some recommendations on how to overcome these barriers. It proposes the use of a model known as 'The Strategic Organisational Change (SOC) framework', with a view to implementing change within organisations successfully. Thereafter it considers the establishment of a learning organisation. It addresses the characteristics and benefits of this type of organisation and also considers a model managers can use to establish such an organisation; it discusses the role of the CLO in this regard. The concluding case study illustrates how the theory contained in this chapter can be applied practically to companies.

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

Introduction

It is clear from looking at the numerous new developments within the HRM field discussed thus far in this text that the twenty-first century belongs to human resources and organisational capabilities. According to Sims,¹ the quality of people and their engagement will increasingly be key factors in organisational vitality, survival, and growth. If HRM is to play a meaningful role within organisations and to continue to make a significant contribution to the bottom line, it will need to make numerous changes to its traditional role. But how does change impact on the human resources of an organisation and affect the HRM contribution? The scenario in Box 11.1 below provides an example to illustrate this point.²

From this scenario, it is clear that these changes have a direct impact on how HRM will have to operate in future. Thus, HRM will also need to undergo changes to support these new company initiatives. The actions on the HRM side may, for example, range from mere improvements in existing processes without significant reference to the strategic focus of the organisation (e.g. redesigning the performance-appraisal cycle and process) to multifaceted large-scale initiatives aimed at supporting changes in the business strategy (e.g. culture change or restructuring in support of the company's

strategy). How can HRM then address these new initiatives required from it? Making these changes successfully requires HRM to adopt some change-management principles. However, although change in today's world is inevitable, the rate of success reported in the literature seems to be low, as the following examples illustrate:³

- One-half to two-thirds of major corporate change initiatives are deemed failures.⁴
- Less than forty per cent of change efforts produce positive change.⁵
- Eighty per cent of mergers are considered unsuccessful after five years.⁶
- One-third of major change efforts either do not work or actually make the situation worse.⁷
- Only five per cent of companies undertaking significant organisational change avoided substantial disruptions and finished on time.⁸

To address these issues, this chapter will focus on change management principles, the creation of the learning organisation, and the role of the chief learning officer (CLO).

11.1 Change management

As the introduction indicated, change is inevitable if a company is to remain

BOX 11.1

Making changes to gain the competitive advantage

A major financial institution has identified improved customer service as a key strategic thrust required for survival in an increasingly competitive market. The company is undertaking various change initiatives aimed at building a customer centric organisation such as implementing leading edge call-centre technology, introducing internet banking and re-engineering business processes to increase efficiency and focus on the customer.

SOURCE: BOTHA, J-A. & GROBLER, P.A. 2006. *Only study guide for strategic and international human resource management (AAHR01-F) for the advanced programme in human resource management*. Pretoria: Centre for Business Management, University of South Africa:141.

competitive in the turbulent business environment of today. This change also impacts on the HRM approach within a company. The question thus is: what triggers change within an organisation?

11.1.1 The triggers to organisational change

The literature identifies a range of triggers to organisational change. According to Dawson,⁹ these triggers can come from within and outside the organisation. The author identifies the following internal and external triggers resulting in organisational change:

- *Internal triggers to change.* These include the following:
 - ▷ *Technology.* The term 'technology' can be used broadly here to refer to the use of new machinery and tools and the associated way in which managers design work within organisations to produce goods and services.
 - ▷ *The changing nature of customers.* The needs of consumers change constantly, necessitating new products and services.
 - ▷ *People.* New HRM initiatives such as team-based working arrangements necessitate the retraining and multi-skilling of employees.
 - ▷ *Administrative structures.* Managers need to undertake the restructuring of administrative processes and the redefining of authority relationships to accommodate new work practices.
- *External triggers to change.* These include the following:
 - ▷ *Political.* Government laws and regulations – e.g. employment laws, pricing regulations etc. – can impact on an organisation.
 - ▷ *Economic.* No business functions in isolation, and economic growth, interest rates, and the level of unemployment can impact on the way

business is conducted. The internationalisation of business can also have a major impact on how business is conducted.

- ▷ *Social.* Organisations consist of people, and changes in their lifestyle can impact on how they are managed. Other issues of importance here are population growth, age distribution of the population, and leisure interests.
- ▷ *Technological.* The rate of technological developments can also impact on organisations – e.g. the computerisation of business processes etc.

It is clear that change is not a one-off process but is instead a continuous process taking an organisation from its present state to a future state. The scale of change, as well as its scope, differs from organisation to organisation. Identifying the triggers of change and implementing processes to address them should suffice. Why then is change often so unsuccessful? In the next section we shall discuss the issue of why change is often unsuccessful.

11.1.2 Barriers to organisational change

In answering the question posed above, the literature indicates that individuals and organisations are not inherently resistant to change.¹⁰ They put up barriers only when they perceive the change to be threatening. They therefore react to the threat and not to the change. Whether they perceive change as threatening or not will depend on the way managers introduce it. According to Gilley and Gilley,¹¹ common barriers to change have their roots in three main areas, namely:

- The organisational system (structure, policies, procedures etc.)
- Leadership and management (philosophies, capabilities, and actions)
- The human dimension.

Table 11.1 indicates common barriers these three main areas exhibit.

The 'human dimension' column in Table 11.1 lists 'inherent human resistance to change' as a barrier. Eccles (as quoted in Dawson¹²) identifies the following 13 possible causes of resistance from employees:

- Failure to understand the problem
- Dislike of a solution because an alternative is preferred
- A feeling that the proposed solution will not work
- Unacceptable personal costs of the change
- Insufficient rewards
- Fear of being unable to cope with the new situation
- Threatened destruction of existing social arrangements by the change
- Erosion of sources of influence and control
- Repellent new values and practices
- Low level of willingness to change
- Suspicious view of management's motives for change
- Higher value placed on other interests than on the new proposals
- Reduced power and reduced career opportunities.

Symptoms of resistance to change include the following:

- Withdrawal
- Aggression
- Arguing
- Negativity
- Blaming
- Gossip
- Slowdown of work
- Sabotage of the change effort
- Increased absenteeism.¹³

Having identified the barriers to change, an organisation's next step is to implement interventions to overcome them. In the next section we shall discuss this step.

11.1.3 Overcoming barriers to change¹⁴

As Table 11.1 indicates, there are barriers to change in at least three main areas within an organisation. Thus, managers need to devise interventions or strategies to address these issues if an organisation is to survive and thrive over the long term. Table 11.2 shows strategies Gilley and Gilley identify for leaders, managers, and HRM professionals to overcome these obstacles to change.

There is no doubt, as the discussion of these strategies suggests, that the HR professional plays a vital role in this regard. Table 11.2 also makes it clear that change managers need certain skills if they are to function effectively and efficiently. These can include social relationship skills, communication skills, persuasive skills, presentation skills, problem-solving skills, and planning skills.¹⁵ According to Higgs and Rowland,¹⁶ managers should also possess the following eight change-management competencies in order to be successful:

- Change initiation
- Change impact
- Change facilitation
- Change leadership
- Change learning
- Change execution
- Change presence
- Change technology.

Thus far, we have addressed the following issues pertaining to organisational change: the triggers that initiate change, barriers to organisational change, and interventions and strategies for overcoming the barriers to change. The following question now arises: how can change actually be successfully implemented within an organisation? This will be the focus of the next section.

11.1.4 A strategic organisational change (SOC) framework

Leading change within organisations is extremely difficult. However, change is

Table 11.1 Common barriers to change

System barriers	Leadership/Management barriers	Human Dimension barriers
Differing organisation values.	Inability or unwillingness to handle resistance when it occurs	Inherent human resistance to change
Dysfunctional culture	Lack of skill or ability necessary to effectively implement change	Lack of skill or ability necessary to effectively implement change
Organisational immune system	Poor or short-term leadership	Faulty assumptions regarding change
Supervisors/managers attempt to change employees when, in fact, the system may need changing	The change is ill-conceived (e.g., seen as a quick fix or as a solution to a symptom – not to the actual problem)	
Ineffective policies or procedures	Lack of management support or commitment to change	
Employees are not involved in the decision making	Lack of trust between management and employees	
The change initiative team isn't communicating appropriately	No one is in charge or accountable	
Insufficient resources (human, technical, financial, etc.) to support the change	Differing organisational values	
Internal conflict over resources	Lack of agreed-upon organisational vision, mission, or strategy	
	Dysfunctional culture	
	Faulty assumptions regarding change	
	Few leaders or managers understand the complexities of the change process, implementation techniques, or human reactions to change	
	The change is poorly implemented (e.g., lacks structure, planning, resources, etc.)	
	Organisations fail to identify and mitigate potential barriers (including people) to the change	
	Supervisors/managers attempt to change employees when, in fact, the system may need changing	
	Managers and executives are often powerful resisters while employees are often blamed	
	Employees are not involved in the decision making	
	The change initiative team isn't communicating appropriately	
	Lack of consequences for inadequate performance	
	Lack of rewards for change	
	The change is conceived, implemented, and managed from a purely technical stance and without understanding of the human influence on its success or failure	
	Insufficient resources (human, technical, financial, etc.) to support the change	
	Internal conflict over resources	

SOURCE: GILLEY, A. & GILLEY, J.W. 2007. Organisational development and change. (In SIMS, R.R. (Ed.). *Human resource management: Contemporary issues, challenges and opportunities*. Charlotte, North Carolina: Information Age Publishing:510. Reprinted by permission of the publisher.

Table 11.2 Overcoming barriers to change

Enhance your skills	Increase your understanding of and skills in change implementation and techniques, including the human factor
Determine what should be changed	Strategy, structure, culture, systems, or people? Ensure that the focus on the change is needed and appropriate
Create a context for change	Sell the change. Help others understand why change is needed, who it will benefit, and consequences of failure to change
Know your people	What is his/her predisposition to change? How will he/she react and why? Which fears are rational? What coping skills does he/she possess? How will he/she personally benefit from the change?
Model the change	Honestly support, champion, and live the change
Remove obstacles in the system	Identify and eliminate obstacles embedded within organisational policies, procedures, people, and structure
Understand and plan for resistance	Understand that change is difficult. Identify and address the root cause of reasons for an individual's resistance. Engage him/her in that area. Channel passions constructively
Involve people at all levels in all stages of change	From design to implementation to evaluation, involvement and participation lead to commitment. Employee involvement only in the implementation stage contributes to failure of the initiative
Communicate, communicate, communicate	Provide those impacted by the change with routine, sufficient information at all stages. Encourage questions and act on feedback
Provide support	Provide resources, allow mistakes, protect/defend your people when necessary
Reward change efforts	Recognise and reward individuals, groups, and departments for their efforts (even if initially unsuccessful)
Create a culture of organisational development and change	Engage in the above actions routinely; live continuous, incremental, beneficial change

SOURCE: GILLEY, A. & GILLEY, J.W. 2007. Organisational development and change. (In SIMS, R.R. (Ed.). *Human resource management: Contemporary issues, challenges and opportunities*. Charlotte, North Carolina: Information Age Publishing:512.) Reprinted by permission of the publisher.

inevitable for ongoing organisational success. Clearly, an organisation needs some form of framework to drive this process successfully. Having looked at numerous frameworks or models presented in the

literature, we have decided to examine more closely the framework or model developed by Auster, Wylie, and Valente and discussed in their book *Strategic organisational change: Building change capabilities in your*

organisation.¹⁷ This framework or model covers all the aspects of change, from building commitment, to leveraging what is already working well, to navigating the politics and emotions of change, to working through the implementation details and inspiring ongoing learning (the focus of the next section).

The framework in Figure 11.1 distils nine different dimensions of change to address the three essential questions of any change, namely:

- Where are we now?
- What do we need to change?
- How will we implement those changes and build in dynamism?

We shall now briefly discuss these three questions.

- *Where are we now?*¹⁸ Working from left to right in Figure 11.1, this is the first question posed. Organisations can answer this question by doing two things: firstly, continuously assess the external environment, and secondly, understand the present state of the organisation, e.g. identify what is working well and what not. (For a discussion of issues in the external environment, see section 11.1.1 above.) This process will help the company establish whether it is still in line with what is going on outside the organisation. As far as the internal organisation is concerned, managers need to establish what is working well so that they do not tamper with this during the change process. They need to analyse operational dimensions such as strategy, leadership, structure, HR practices, physical layout, technology, and culture (see Figure 11.1).
- *What changes do we need to make?*¹⁹ This is the second question. From the previous discussion, it is clear that one of the changes will involve solving the present problems in the organisation.

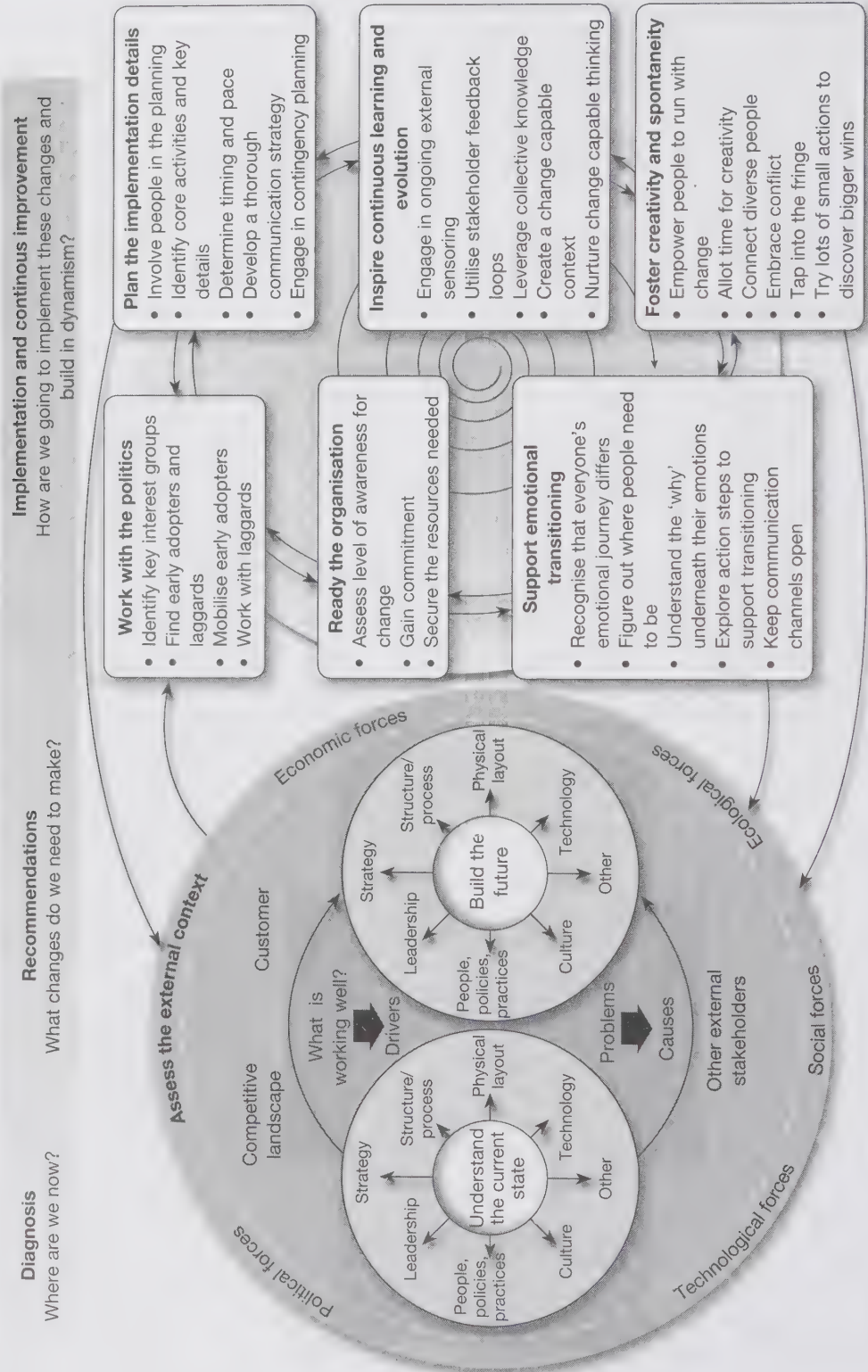
However, besides doing this, managers also need to position the organisation for future success. As Figure 11.1 indicates, each of the various dimensions from strategy to leadership to structure can reveal an array of possible changes which it might make sense to pursue. Once managers have generated a range of possible alternatives, they can evaluate each one to find the optimal path for change.

- How are we going to implement these changes and build in dynamism?

This question addresses the issue of implementation. Here managers need to attempt everything from ensuring the necessary resources and commitment to navigating the political dynamics of the organisation. Some of the steps in this process include the following:

- ▷ *Getting ready for change.* Readyng the organisation for change involves securing the necessary resources needed for the process or finding ways to work with limited resources. It also means involving all parties and obtaining the commitment of all parties as well as understanding why the changes are being made.
- ▷ *Working with the politics of change.* Different people see things differently. For this reason, people will try and push their agendas they see fit. This will inevitably result in the emergence of politics. To ensure successful change, managers need to work effectively with the political dynamics in the company. Identifying influential people within the organisation who are also excited about the change, and using them to propel the change forward, is essential. Besides this, managers need to make an effort to convince those who are not so sure of the value of the change, to gain their commitment as well.

Figure 11.1 The strategic organisational change (SOC) framework



SOURCE: AUSTER, E.R., WYLIE, K.K. & VALENTE, M.S. 2005. *Strategic organizational change: Building change capabilities in your organisation*. Houndmills: Palgrave Macmillan: 176. Used with permission of Palgrave Macmillan.

- ▷ *Supporting emotional transitioning.* Managers need to establish how different individuals in the organisation feel about the change. They can then leverage those who are open to change and help the others to work on their personal barriers to change.
- ▷ *Planning the implementation details.* The change can be derailed if managers do not plan it in detail. Important issues here for managers to take care of are the pacing and timing of the change, who will be responsible for key deliverables, how the changes will impact on customers, and what communication channels are used.
- ▷ *Fostering creativity and spontaneity.* Although the details of change are important, managers do not have to plan for everything. Effective change leaders let the people work with the various elements of change, which can sometimes result in unexpected positive results. This type of approach will also help to develop a passion amongst the employees for change, which will be to the advantage of the organisation in the future.
- ▷ *Inspiring continuous learning and evolution.* To achieve continued success, organisations have to build the ongoing capabilities they need for continuous learning and evolution. Successful organisations continuously engage in ongoing external scanning, develop strong stakeholder-feedback loops, and leverage collective knowledge.

We shall address this issue in more detail in the next section.

From the above discussion it is clear that the SOC framework offers a unique approach to change. It enables the stakeholders both to see the complexity of change and to work through all the different facets necessary for achieving success, not

only for current change, but also for the inevitable changes of the future. How organisations use the framework will depend on the specific situations and change challenges they face.

11.2 The learning organisation

As the previous section indicates, change-capable organisations inspire continuous learning. These organisations are generally known as learning organisations. What does this mean and how can organisations become learning organisations? We shall address these issues in this section. However, before we proceed, it is important first to distinguish between two concepts in the literature, namely ‘organisation learning’ and ‘the learning organisation.’ According to Mabey, Salaman, and Storey:²⁰

- The term ‘the learning organisation’ is used to characterise an enterprise in which learning is open-ended, takes place at all levels, and is self-questioning.
- ‘Organisation learning’ is a descriptive device to explain and quantify learning activities and events taking place within an organisation.

Thus, one critical distinction between an organisation that learns and the learning organisation seems to be that in the latter, individual learning activities feed and integrate with broader and deeper learning processes in the organisation, while this is not the case with organisation learning. What, then, are the characteristics of a learning organisation and does a learning organisation have any benefits for its stakeholders?

11.2.1 Characteristics and benefits of a learning organisation

According to Marquardt,²¹ the learning organisation possesses the ability to adapt,

renew and revitalise itself continuously in response to the changing environment – a vital component for organisational change, which we discussed earlier. Marquardt identifies the following characteristics of such an organisation:

- Learning is accomplished by the organisation as a whole.
- Employees within the organisation recognise the importance of current and future success of ongoing learning.
- Learning is a continuous, strategically used process that is integrated and runs parallel to work.
- There is a focus on creativity and generative learning in the organisation.
- Systems thinking is fundamental in a learning organisation.
- The organisational climate encourages, rewards, and accelerates individual and group learning.
- Employees network in an innovative manner that resembles a community both inside and outside the organisation.

- Everyone is driven by a desire for quality and continuous improvement.
- Employees have uninterrupted access to information and data.²²

Having all these characteristics present in an integrated whole provides benefits for an organisations stakeholders. Table 11.3 shows some of the benefits of a learning organisation.

11.2.2 Building a learning organisation

Clearly, becoming a learning organisation is absolutely a prerequisite if an organisation is to remain competitive. But moving from a non-learning organisation to a learning organisation is no simple task. It requires, amongst other things, cooperation between numerous stakeholders. It also needs a person to oversee the process. This person is normally known as a chief learning officer (CLO) (see section 11.3). But how can companies then move from a non-learning mode to become a learning organisation? To answer this question, we shall look at the

Table 11.3 Benefits of a learning organisation

Anticipates and adapts more readily to environmental influences
Accelerates the development of new products, processes and services
Becomes more proficient at learning from competitors and collaborators
Expedites the transfer of knowledge from one part of the organisation to another
Learns more effectively from its mistakes
Makes greater use of employees at all levels of the organisation
Shortens the time required to implement strategic changes
Stimulates continuous improvement in all areas of the organisation
Attracts the best workers
Increases worker commitment and creativity

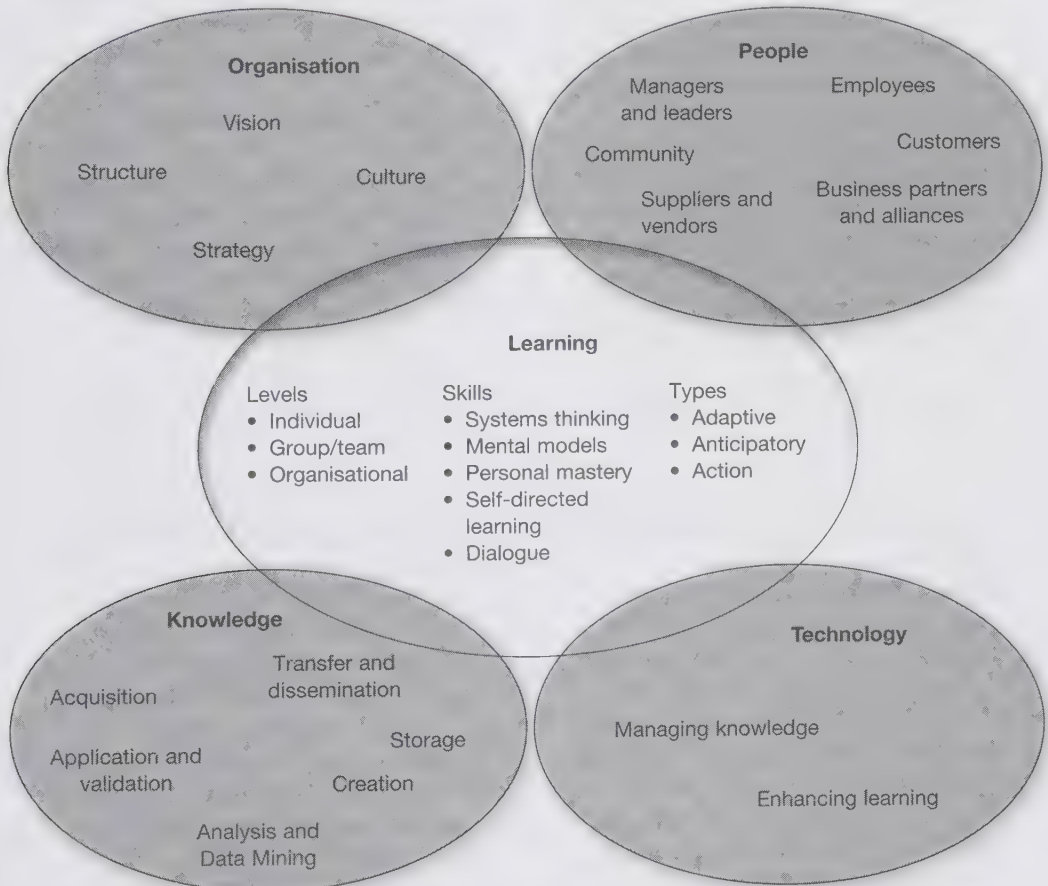
SOURCE: MARQUARDT, M.J. 2002. *Building the learning organisation: Mastering the five elements for corporate learning*. Palo Alto, C.A.: Davies-Black Publishing:32. Reprinted by permission of Nicholas Brealey Publishing, Inc.

'Systems learning organisation model' developed by Marquardt and discussed in his book *Building the learning organisation: Mastering the five elements for corporate learning*.²³ Thousands of companies around the world have successfully adopted this model, which is practical and workable. The model consists of five related subsystems (see Figure 11.2). These are learning, organisation, people, knowledge, and technology.²⁴ (Note that all five of the subsystems are necessary to sustain a viable ongoing learning organisation.) As Figure 11.2 shows, the subsystems within the model

consist of a number of elements/components. We shall briefly discuss each of these by referring to Figure 11.2.

- *The learning subsystem.*²⁵ At the core of the learning organisation is learning. Learning can occur at three levels, namely:
 - ▷ *Individual level.* This refers to changes in skills, insights, knowledge, attitudes, and values acquired through self-study.
 - ▷ *Group or team level.* Group or team learning involves an increase in knowledge, skills, and competencies accomplished by and within groups.

Figure 11.2 The learning organisation model



SOURCE: MARQUARDT, M.J. 2002. *Building the learning organisation: Mastering the five elements for corporate learning*. Palo Alto, C.A.: Davies-Black Publishing:24–31. Reprinted by permission of Nicholas Brealey Publishing, Inc.

- ▷ *Organisational level.* Organisational learning is the enhanced intellectual and productive capability gained through commitment.

A learning organisation develops the capacity to encourage and maximise learning on all three levels. Besides these levels of learning, there are three types of learning, namely:

- ▷ *Adaptive learning.* This happens when people reflect on past experiences and then modify future actions.
- ▷ *Anticipatory learning.* This involves acquiring knowledge from envisioning various futures and determining ways to achieve that future.
- ▷ *Action learning.* This involves reflecting on reality on a present, real-time basis, and applying the knowledge in developing individuals, groups, and the organisation.

Note that these types of learning are not exclusive of one another, but that an individual, group or organisation may employ more than one type at the same time.²⁶ As Figure 11.2 shows, besides the levels and types of learning, five key skills are also needed for initiating and maximising learning within a company if it is to attain ultimate business success. These five key skills are:

- ▷ *Systems thinking.* This is a conceptual framework to make full patterns clearer and determine how to change them.
- ▷ *Mental models.* These are deeply ingrained assumptions that influence people's views and actions in the world.
- ▷ *Personal mastery.* This indicates a high level of proficiency in a subject or skill area.
- ▷ *Self-directed learning.* Everybody is aware of, and enthusiastically accepts responsibility for, being a learner.

- ▷ *Dialogue.* This denotes a high level of listening and communication between people.²⁷

Other important issues here, but not shown in the model, are:

- ▷ The speed of learning (how quickly the organisation is able to complete each learning cycle)
- ▷ The depth of learning (the degree of learning the organisation achieves at the end of the cycle)
- ▷ The breadth of learning (how extensively the organisation is able to transfer the new insights and knowledge).²⁸

Thus, for the learning component to make a contribution to the company, the following needs to be done:

- ▷ Develop modular, reuseable learning content
- ▷ Increase the ability to learn how to learn
- ▷ Develop the discipline of organisational dialogue
- ▷ Design career-development plans for employability
- ▷ Establish self-development programmes
- ▷ Build team learning skills
- ▷ Encourage and practise systems thinking
- ▷ Utilise scanning and scenario planning
- ▷ Expand multicultural and global mindsets and learning
- ▷ Change the mental model of learning.²⁹

- *The organisation subsystem.* This is the setting within which the learning process occurs. To change to the new focus, a company's structure and strategies must change dramatically.

Four components can be distinguished here, namely:³⁰

- ▷ *Vision.* The vision encompasses a company's hopes, goals, and direction for the future.

- ▷ *Culture.* The culture refers to an organisation's values, beliefs, practices, rituals, and customs.
- ▷ *Strategy.* The strategy relates to action, plans, methodologies, tactics, and steps employed to achieve a company's vision and goals.³¹
- ▷ *Structure.* The structure includes a company's departments, levels, and configurations.

Thus, for the organisational component of making a contribution to the process of becoming a learning organisation, the following needs to take place:

- ▷ Use future-search conferences to develop a vision
 - ▷ Gain support from top management
 - ▷ Create a corporate climate of continuous learning
 - ▷ Re-engineer policies and structures around learning
 - ▷ Reward individual and team learning
 - ▷ Incorporate learning in all policies and procedures
 - ▷ Establish centres of excellence
 - ▷ Measure financial and nonfinancial areas as a learning activity
 - ▷ Create time and space for learning
 - ▷ Make learning intentional at all times everywhere.³²
- *The people subsystem.* People are vital to learning organisations because only people have the capacity to learn. People are the agents who take information and transform it into valuable knowledge for personal and organisational use.³³ The people subsystem in the learning organisation consists of the following components:
 - ▷ Managers and leaders that carry out coaching, mentoring, and modelling roles and, therefore, are responsible for enhancing learning opportunities for the people around them
 - ▷ Employees who are empowered and expected to learn, plan for their

future competencies, and take action and risks to solve problems.³⁴

The learning organisation also recognises that customers can be a fertile source of information and ideas and thus should be closely linked with the organisation learning systems.³⁵ Other important external groups include: business partners and alliances that can share their competencies and knowledge, suppliers and vendors, and community groups such as social, educational, and economic agencies that can share in providing and receiving learning.³⁶

Strategies for empowering and enabling people within the learning organisation include:

- ▷ Encouraging leaders to model and demonstrate learning
 - ▷ Inviting leaders to champion learning processes and projects
 - ▷ Empowering employees to learn and produce
 - ▷ Instituting personnel policies that reward learners
 - ▷ Creating self-managed work teams
 - ▷ Balancing learning and development needs
 - ▷ Encouraging and enhancing customer participation
 - ▷ Maximising learning from business partners and alliances
 - ▷ Building long-term learning partnerships with suppliers and vendors
 - ▷ Providing educational opportunities for the community.³⁷
- *The knowledge subsystem.* Companies need knowledge in order to increase their ability to improve products and services.³⁸ The knowledge subsystem in the learning organisation consists of the following components:
 - ▷ Acquisition (the collection of existing data and information from inside and outside the organisation)

- ▷ Creation (generating new knowledge through a number of different processes)
- ▷ Storage (the coding and preservation of the organisation's valued knowledge for easy access by employees at any time)
- ▷ Analysis and data mining (analysing data as well as reconstructing, validating, and inventorying it)
- ▷ Transfer and dissemination (the movement of information by mechanical, electronic, and interpersonal means)
- ▷ Application and validation (the use and assessment of knowledge by members of the organisation).³⁹

Thus, for knowledge to play an important role in the learning organisation, the following steps need to be taken:

- ▷ Share responsibility for collecting and transferring knowledge
- ▷ Systematically capture relevant external knowledge
- ▷ Organise internal learning events
- ▷ Be creative about thinking and learning
- ▷ Encourage and reward innovation
- ▷ Train staff in knowledge storage and retrieval
- ▷ Maximise knowledge transfer across boundaries
- ▷ Develop a knowledge base around organisational values and learning needs
- ▷ Create mechanisms for collecting and storing learning
- ▷ Transfer classroom learning to on-the-job utilisation.⁴⁰

- *The technology subsystem.* The technology subsystem is made up of supporting integrated technological networks and information tools that enable access to, and exchange information and learning.⁴¹ This subsystem includes technical processes, systems and structures for collaboration, coaching, coordination,

and other knowledge skills. It encompasses electronic tools and advanced methods of learning.⁴² Two major components here are:

- ▷ *Technology for managing knowledge.* This refers to computer-based technology that gathers, transfers, and codes information.

- ▷ *Technology for enhancing learning.* This involves the utilisation of video, audio, and computer-based multimedia training for the purpose of delivering and developing knowledge and skills.⁴³

For technology to play an important role in the learning organisation, the following steps need to be taken:

- ▷ Encourage and enable staff to connect to the information highway
- ▷ Develop multimedia, technology-based learning centres
- ▷ Develop and use a variety of distance-learning technologies
- ▷ Use technology to capture internal and external knowledge and ideas
- ▷ Acquire and develop competencies in groupware and in self-learning technology
- ▷ Install electronic performance-support systems
- ▷ Plan and develop a just-in-time learning system
- ▷ Build internal courseware technology and capability
- ▷ Use intranets for training
- ▷ Increase capabilities of management and HR staff.⁴⁴

From the above discussion, it is clear that if it is to become a learning organisation, an organisation needs an understanding of, and commitment to, mobilising all five subsystems of the model. Taking the specific steps to build a learning organisation requires well-orchestrated planning on the part of many people in the organisation (see Box 11.2).

BOX 11.2**Google: a good example of a learning organisation**

Throughout Google there is a clear understanding that success not only depends on being aligned with the external environment but on taking initiatives that will shape the external environment. For example:

- Products are often launched early, in pre-mature stages, to receive input from users and developers. In this way, Google learns about what the market demands.
- Many products are released 'open source', with all the source codes being shared freely with developers all over the world, so that they can build on Google's initial offering to develop a better core product and, importantly, use this as the basis for developing component products.

In-house, creativity is fostered by allowing employees to spend 20% of their time to experiment with whatever they want to explore. This has been the source of many well-known Google products.

The value of dialogue and open communication is widely recognised. Google has developed a transparent approach to knowledge management to ensure that no opportunities are missed for learning from colleagues or joining forces with others to develop new ideas. This is helped by structures that have few layers and a culture that promotes teamwork.

The culture also encourages risk taking and learning from mistakes. Failure is not a problem, it is regarded as sign of having explored, and it teaches the organisation what works and what does not. People are not motivated to hide failures because it is only when failures are shared that the learning effect is achieved.

The big question is whether Google will be able to retain this learning culture over the next ten years. Google was founded in 1998 by Larry Page and Sergey Brin while they were students at Stanford University. In 2004, they floated Google to raise new capital. The initial public offering raised US\$1.67 billion, implying a value for the entire corporation of US\$23 billion. One implication of this development is that the company will now have to pay more attention to shareholder value.

Greiner's (1972) life-cycle model posits that as companies grow and mature, they move through a predictable series of stages of development. He describes the first as 'growth through creativity'. He argues that many company founders are entrepreneurial and technically oriented and the organisation's structure, systems and culture tend to be informal. But as the organisation grows, the need for more knowledge about efficiencies, more professional systems for maintaining financial control and more formal approaches for managing and developing people can lead to a crisis of leadership. Greiner suggests that a new approach to managing and leading the business may be required, and often the way forward is for the founders to bring in a strong business manager from outside. This happened at Google when Eric Schmidt joined the company as chairman and CEO in 2001. Prior to joining Google, Eric had been the chairman and CEO of Novell and before that the chief technology officer at Sun Microsystems. Google employs over 20 000 people and is still growing, so the challenge will be how to sustain this growth without compromising the organisation's capability for double-loop learning.

SOURCE: HAYES, J. 2010. *The theory and practice of change management*, 3rd ed. Houndmills, Basingstoke: Palgrave Macmillan: 316–317. Reproduced with permission of Palgrave Macmillan.

However, maintaining this new higher level of learning power is perhaps as challenging as initiating the process. Appointing a CLO to oversee this process might well be a good idea. In the next section we shall look more closely at the CLO.⁴⁵

11.3 The chief learning officer (CLO)

In many circles, the rise of the position of CLO, also known as the chief knowledge officer (CKO), as a senior corporate position is seen as a recent phenomenon. General Electric and Coca-Cola, two of the world's major companies, were the first to hire such individuals.⁴⁶ These individuals are normally part of the HR departmental structure and report directly to the head of HRM and the CEO of the company⁴⁷ (see Box 11.3, entitled 'Wanted: Chief Knowledge Officer', for an example of an advertisement for a CKO).

The sample advertisement in the box makes it clear that the CLO (or CKO) plays a vital role in building and sustaining the high-level learning organisation, as we discussed it in the previous section. In the next section we shall discuss the characteristics of such a person.

11.3.1 Characteristics of a chief learning officer

Recent studies have identified a number of characteristics most prevalent for CLOs. For example, knowledge officers:⁴⁸

- Must have circulated through the company and must have developed a holistic perspective
- Must be able to energise the organisation and function as cheerleaders to build momentum behind the knowledge initiatives
- Must be able to withstand a multitude of pressures

BOX 11.3

WANTED: Chief Knowledge Officer

Rapidly growing corporation with aggressive expansion goals seeks CKO to manage organisation's intellectual assets to gain a competitive advantage. Will report to CEO.

RESPONSIBILITIES: Design and implement a knowledge-learning culture and a knowledge-learning infrastructure. Tie together the information in the corporation's databases, historical records, file cabinets, and intranet, as well as employees' informal knowledge that has yet to be identified or recorded in a systematic way. Draw from external information sources, such as the internet and public databases. Align and integrate diverse groups and functions in order to leverage knowledge management strategically across the entire corporation. Use technology to support knowledge capture, sharing and retention.

QUALIFICATIONS: Successful candidate must be an evangelist for the value of knowledge sharing among employees. Must have a strong sense of vision and business strategy, and be able to partner with senior managers. Ability to conduct complex strategic needs assessments and use personal influence to IT networks.

SOURCE: BONNER, D. 2000. Enter the chief knowledge officer. *Training & Development*, 54(2):39. Used with permission.

Table 11.4 What the CKO/CLO does

Roles, responsibilities, and activities	Andersen: Knowledge manager	BP Norway: Knowledge manager	CIA: CKO	Clarica: Other	Entovation: CKO	Enquiva: CLO	Foreign Bank: CKO	IBM (UK): CKO/CLO	Lancaster: Other (CLO)	Luxury Retail: CKO	Mem. Hermann: CLO	Millbrook: CLO	Plante & Moran: Other	SAIC: CLO	Sedgwick: CLO	7 Schools: Other (CLO)	Stock Trade: CKO/CLO	Zerox: CLO
Align/integrate diverse functions or groups	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		X
Best practices/benchmarking (utilised or developed)	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X		X
Business objectives and performance (developed or supported)	X	X	X	X		X		X		X	X	X	X	X	X		X	X
Career planning/staff or professional development	X					X						X	X		X	X		X
Change manager role	X	X	X	X	X	X		X			X	X	X	X	X	X		X
Communications/build networks/use personal influence	X	X	X	X	X	X		X	X			X	X	X	X	X		
Continuous and/or consistent learning systems highlighted	X	X	X	X	X	X		X	X		X	X	X	X	X	X		X
Corporate or in-house universities/learning lab	X					X					X			X	X			
Create/lead expert teams	X	X	X			X		X	X		X	X			X	X		X
Culture development for learning and/or knowledge	X	X	X	X	X	X		X		X	X	X	X	X	X	X		X
Customer service orientated	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Employee orientation programme											X		X		X			
Employee retention/recruitment programmes							X		X				X					
Executive education and/or action learning					X	X			X	X		X						
Financial knowledge management																	X	
Identify critical areas for improvement/needs analyses	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X

Roles, responsibilities, and activities	Andersen: Knowledge manager	BP Norway: Knowledge manager	CIA: CKO	Clarica: Other	Entovation: CKO	Enquiva: CLO	Foreign Bank: CKO	IBM (UK): CKO/CLO	Lancaster: Other (CLO)	Luxury Retail: CKO	Mem. Hermann: CLO	Millbrook: CLO	Plante & Moran: Other	SAIC: CLO	Sedgwick: CLO	7 Schools: Other (CLO)	Stock Trade: CKO/CLO	Zerox: CLO
Knowledge-content activities (capture, share and retain)	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Knowledge-structure (tools, manage infrastructure)	X	X	X	X	X			X		X	X			X			X	X
Leverage corporate-wide learning and/or knowledge	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Organisation effectiveness consulting/OD activities	X	X	X			X						X	X	X				
Partnerships with senior management/others	X	X	X	X	X	X			X		X	X	X	X	X	X	X	X
Project management activities		X			X						X	X						X
Sales/marketing/business development	X				X		X				X	X					X	X
Strategic planning and implementation	X	X	X	X	X	X	X		X		X	X	X	X	X	X		X
Technology for learning/knowledge (developed or supported)	X	X	X		X	X		X			X	X	X	X	X			X
Training and education/workshops/retreats/meeting leader		X	X	X	X		X	X	X	X	X	X	X	X	X			
Visionary/champion for organisational learning and/or KM	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X			

SOURCE: BONNER, D. 2000. Enter the chief knowledge officer. *Training & Development*, 54(2):37. Used with permission.

- Must feel rewarded by other people's accomplishments
- Must have a good relationship with the head of HRM.

Although the CLO appears to be a rare type of person, the identification, appointment, and training of the CLO is of utmost importance to the company. What is the role of the CLO? We shall discuss this next.

11.3.2 The role of the chief learning officer

The CLO can influence the organisation in several ways (see Table 11.4 on what CLOs

do in some of the major companies in the world). One way is rapidly to generate new knowledge, ideas, and solutions to problems throughout the organisation by means of the information technology we mentioned earlier (refer to section 11.2).

In today's highly competitive global environment, the organisation needs knowledge workers more than knowledge workers need the organisation, and the role of the CLO in this process is thus indispensable. The good news is that the number of CLOs continues to grow worldwide.⁴⁹

SUMMARY

This chapter addressed the issues of change management and building the learning organisation. The organisational fight for survival takes on many fronts and to address these challenges successfully, organisations need to make changes. A planned, ongoing process of change provides a framework through which individuals and their organisations engage in well-planned change initiatives proactively, continuously, slowly, and in parts. An inbuilt component of this process is learning.

To obtain and sustain competitive advantage in this new environment, companies will have to learn better and faster from both successes and failures. They will need to transform themselves continuously into learning organisations, to become places in which groups and individuals at all levels continuously engage in new learning processes.

KEY CONCEPTS

■ Barriers to change ■ Change management ■ Chief knowledge officer (CKO) ■ Chief learning officer (CLO) ■ Communication skills ■ Learning organisation ■ Organisation learning ■ Persuasive skills	■ Planning skills ■ Presentation skills ■ Problem-solving skills ■ Social-relationship skills ■ Strategic organisational change (SOC) framework ■ Systems learning organisational model ■ Triggers for change
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CASE STUDY

Objective: To understand the HR role in the re-engineering process within an organisation.

The role of HR in re-engineering and change at Siemens Rolm

Siemens Rolm Communications, based in Goodwood, Cape Town, is an operating company for Siemens, the electrical- and electronics-systems supplier. Rolm, which employs 5 800 people, was previously owned by IBM, but in 2000, when the company was losing money, IBM sold Rolm. As the new owners, executives at Siemens were determined to turn the company around, but they realised that to do so would require a lot of changes. Because Siemens is a knowledge-based company, it had to restructure itself as a learning organisation to stay competitive in the new business environment.

To start the change process, Bonnie Hatchcock, Chief Director of HRM, put together a team of managers to design a new appraisal process. The new system raised the bar on performance and encouraged employee self-development. The company CEO, Karl Geng, was committed to tracking appraisals of key players. The company also worked on a cultural transformation that emphasised speed, guts, and dramatic moves. More than 60 managers – in small groups across South Africa – attended a two-day ‘world class management institute’ development conference that reinforced the message. Finally, the company re-engineered its pay and rewards policies. HRM carved out a portion of the merit budget pool to award to employees who had advanced their skills in the previous period. In addition, the new flexible rewards programme was instituted to allow managers to award up to R10 000 to employees who ‘go the extra five miles’.

As the company is evolving into a learning organisation, HRM itself is becoming a new creature, one that brings Siemens Rolm’s bid for excellence to fruition. Hatchcock asks HRM people to work on three skills: business mastery, change and process mastery, and personal credibility. To accomplish this, HR has torn down the ‘silos’ between staffing, training, compensation, and the like and reorganised into five business-driven teams. The Strategy and Design team studies Siemens Rolm’s business plans and sets HRM strategies that complement those plans. The Consulting Services group helps influence the company’s culture and decides how best to deploy people to meet HRM goals. The HR Programme Integration area ensures that HR managers clone their expertise across the company, so it can maintain its own best practices system. The Education division assists with employee development and the HR Service Centre handles employees’ day-to-day administrative HRM questions.

According to Bonnie Hatchcock, ‘We can’t just think of ourselves as support. We have to be right out there.’ These efforts, taken together, have helped turn the company around, and, in 2006, the company won the IPM’s Award for Managing Change.

Questions and activities

1. How can HRM practices help Siemens Rolm become a learning organisation?
2. What other methods might help the HRM organisation develop the competencies it needs?

3. What problems, if any, do you see in the Siemens Rolm change strategy?

SOURCE: Adapted from FLYNN, G. 1996. *HR's advances reengineer a restructuring*. *Personnel Journal*, 75(1)160. Reprinted by permission of Copyright Clearance Center on behalf of the publisher.

REVIEW QUESTIONS AND ACTIVITIES

- | | |
|---|--|
| 1. Provide examples of internal and external triggers to organisational change. | Write a short essay on this framework by referring to the three questions posed in the framework. |
| 2. Common barriers to change can be rooted in three main areas. Briefly discuss. | 7. Distinguish between the concepts 'organisation learning' and the 'learning organisation'. |
| 3. List a number of possible causes for employees resisting change in companies. | 8. List nine characteristics of a learning organisation. |
| 4. What are typical symptoms of resistance to change, from an employee's perspective? | 9. Briefly discuss the 'Systems Learning Organisation Model' developed by Marquardt, by referring to the five subsystems of the model. |
| 5. Write an essay on how to overcome barriers to change within organisations. | 10. Write a short essay on the CLO found in many organisations today. |
| 6. Auster, Wylie, and Valente have designed a strategic organisational change (SOC) framework to assist companies in the successful implementation of change. | |

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- www.tipp.co.za
 - Company providing change management training
- www.changewright.com
 - Consulting services and products from a leading South African Consultancy
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Human resource management – An international dimension

12

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Understand the different issues posed by operating HRM internationally
- Discuss some of the underlying academic debates in international human resource management (IHRM)
- Debate the duality raised by the simultaneous need for standardisation and localisation of HRM
- Identify some of the new features of IHRM that are changing the way organisations operate
- Understand the way in which organisations manage international transfers of employees

PURPOSE

The purpose of this chapter is to introduce you to some new thinking in the field of international human resource management.

CHAPTER OVERVIEW

This chapter sets out by exploring some key academic issues in the field of IHRM namely the universal and contextual paradigms, comparative and International HRM, cultural and institutional influences and the issue of convergence versus divergence. It then uses these theories to explore the nature of IHRM and some of the key developments occurring in the field. Finally, it takes a sharp look at international assignments. The concluding case study illustrates how the theory contained in this chapter can be applied to a practical situation.

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

Introduction

The world is becoming increasingly global. Of course, there are organisations like the Roman Catholic church that can claim to have been global for hundreds of years, but it is the extent and the speed of change that is significant now. It is not just jeans and hamburgers that are found all over the world. Changes in technology – and, particularly, perhaps, in capital markets – have led to an increasing influence of some countries over others. The growing influence of internationalisation on organisations, both large and small, is beyond dispute and was brought home to many by the world economic crisis that started in 2008. In these circumstances, increased knowledge about the specifics of management across borders – including knowledge of how organisations operating internationally handle HRM issues – the most expensive item of their operating costs – has become a prominent issue for social scientists as well as for practising managers.¹

How is HRM influenced by globalisation? There is a real sense in which one might expect HRM to be the most local of management practices – this, after all, is where institutional factors such as the differences in labour markets and educational standards, differences in employment legislation and differences in trade union presence and power can be seen most clearly. HRM is also, because it is the part of management most tightly tied to people, the area of management in which people experience cultural differences most profoundly. However, the spread of internationally operating organisations brings with it a spread of employment practices, with these organisations unwilling to keep ‘reinventing the wheel’ to cope with local sensibilities and determined to spread what are seen as successful practices throughout their operations. As in other areas of HRM, there are tensions and balances – and few clear-cut answers.

12.1 Four key debates

HRM is universal, since every organisation has to utilise and, hence, in some way, manage human resources. Chapter 1 outlined the origin of the subject and the approaches that organisations have developed. These approaches, or variations of them, are used in, perhaps, most universities and business schools around the world.

However, approaches to HRM, and the practice of HRM, vary across the world. We can use the analogy of a telescope: we can take either a very close look at things, which reveals important details, but blurs, or loses completely, a wider perspective, or we can adjust the focus screw and take a wider view, but if we do this we lose some of the detail.² Neither view is wrong: each is useful for particular purposes. In this chapter, we take a wider perspective, looking at how organisations that operate in many countries cope with the cultural and institutional differences they find.

To do this, we shall begin by exploring some of the key debates in IHRM. These are the conceptual paradigms that underlie how the topic is understood, the difference between comparative and International HRM, the explanatory factors for the differences between countries and the issue of convergence and divergence. These conceptual distinctions provide a platform on which to explore not only how organisations are handling IHRM but also the factors creating change in IHRM.

12.1.1 The universalist and contextual paradigms in HRM

People do things differently in different countries. The differences include differences in the way in which people conceptualise HRM, the research traditions through which they explore it, and the way in which organisations conduct it. In conceptual and research terms, two different (ideal type) paradigms have been classified

as the universalist paradigm and the contextual paradigm.³ The notion of a paradigm is used here in Kuhn's (1970) sense as an accepted model or theory, and with the corollary that different researchers may be using competing models or theories.⁴ It is to some degree the difference between these paradigms, lack of awareness of them, and the tendency for commentators to drift from one paradigm to another, which has led to the debates about the very nature of HRM as a field of study, as noted in Chapter 1.

- *The universalist paradigm.* This paradigm is dominant in most textbooks, universities, and business schools, especially in the USA, a country that has significant power in influencing the world's thinking. It is a 'scientific' approach. HRM is seen as a science and, as in other sciences, the aim is to discover universally applicable laws.⁵ This paradigm assumes that the purpose of the study of this area of the social sciences, HRM, and, in particular, SHRM, is to improve the way that organisations strategically manage human resources.⁶ Thus, the widely cited definition by Wright and McMahan states that SHRM is 'the pattern of planned human resource deployments and activities intended to enable a firm to achieve its goals'⁷ (see Chapter 4). Methodologically, research based on the universalist paradigm is deductive, i.e. it involves generating carefully designed questions capable of leading to proof or disproof, the elements of which one can measure in such a way that one can subject the question itself to the mechanism of testing and prediction. Built into this paradigm is the assumption that research is not 'rigorous' unless it is drawn from existing literature and theory, focused around a tightly designed question which can be proved or disproved to be 'correct', and contains a structure of testing that can

lead on to prediction. The research base centres mostly on a small number of private-sector 'leading edge' exemplars of 'good practice' – often large multinationals, generally from the manufacturing and, specifically, the high-tech sector.

- *The contextual paradigm.* This paradigm, by contrast, is specific, and looks not for universal laws but for an overall understanding of what is contextually unique and why. In HRM, it focuses on understanding what is different between and within HRM in various contexts and what the causes of those differences are. Hence, the research mechanisms used are inductive. Here, theory is drawn from an accumulation of data collected or gathered in a less directed (or constrained) manner than would be the case under the universalist paradigm. Research traditions are different: focusing less upon testing and prediction than upon the collection and interpretation of evidence. There is an assumption that if things are important, they should be studied, even if testable prediction is not possible or the resultant data are complex and unclear. The policies and practices of the 'leading edge' companies (something of a value-laden term in itself), which are the focus of much HRM research and literature in the USA, are of less interest to researchers in the contextual tradition than is the identification of the way labour markets work and what the more typical organisations are doing. As a contributor to explanation, this paradigm emphasises external factors as well as the actions of management within an organisation. Thus, it explores the importance of such factors as culture, ownership, structures, labour markets, the role of the state, and trade-union organisation as aspects of the subject rather than as external influences upon it. That authors of many of the seminal management

and, even, HRM texts write as if the analysis applies at all levels: what Rose called 'false universalism'.⁸ These texts are produced in one country and tend to base their work on a small number of by now well-known cases. This can become a problem when people elsewhere unthinkingly adopt the analysis or prescriptions in those texts. The cultural dominance of US teaching and publishing, particularly in the US journals, means that readers and students in other countries often utilise these texts. US-based literature searches, now all done on computer of course, tend to show little writing outside the universalist tradition. For analysts and practitioners elsewhere – with interests in different sectors, countries and so on – many of these descriptions and prescriptions fail to match their reality. It is not that either paradigm is necessarily correct or more instructive than others, but that the level and focus needs to be specified to make the analysis meaningful. Researchers have to make a choice between these paradigms.

12.1.2 Comparative and International HRM

Within the organisational literature, HRM is one of the areas where organisations are most likely to maintain a 'national flavour' and is the point at which business and national cultures have the sharpest interface.⁹ HRM can be examined comparatively – how does it vary from country to country? – and also internationally – how do organisations operating internationally handle these differences? This presents a dilemma for these companies. On the one hand, they want to get the advantages of integration – ensuring that HRM policies and practices are as far as possible similar in all countries – as this brings benefits of scale, benefits of learning across the organisation (no 'reinventing the wheel'), and ensures fairness

and equity. On the other hand, they have to be sensitive to national differences. Organisations have to adapt some policies and practices to local institutional contexts. For example, the cultures and laws surrounding equal opportunities in the USA, the European Union, and South Africa are very different, even if the intentions may be similar. Companies operating in all these countries may well have active diversity and non-discrimination policies, but these policies will have to be differently applied in each place if the company is not to find itself a target for activists, or even taken to court, with all the resultant bad publicity. The company may have more scope in dealing with cultural differences: it does not have to hire 'typical' people from the country and can seek employees who are closer to its own attitudes, it can undertake socialisation and training, and it can dismiss people who do not share its philosophy. Even here, however, multinational corporations' (MNCs) room for manoeuvre may be limited: cultures are deep-seated and might be hard to lease out. Overall, comparative and International HRM are beginning to overlap: we cannot understand comparative differences within noting the influence of MNCs and the diffusion of practices as globalisation spreads; we cannot understand the working of MNCs without being aware of the differences in national contexts.¹⁰

12.1.3 Cultural and institutional explanations of differences in HRM

One question raised in comparative HRM is: why are there differences between countries that seem to persist over time?¹¹ In broad terms, there are two competing sets of explanations: the cultural and the institutional. In other words, are the differences between countries 'sustained because people find it repulsive, unethical or unappealing to do otherwise ... [or] ... because a wider formal system of laws, agreements, standards and codes exist?'¹²

Exploring different cultures is not easy, because 'culture is one of those terms that defy a single all-purpose definition and there are almost as many meanings of culture as people using the term.'¹³ Organisations represent 'cultural communities', but so do much wider groupings.¹⁴ Often, these will reflect national boundaries, but this is by no means always the case. Thus, countries such as Belgium, Spain, and Switzerland contain communities speaking different languages, with different religions and different legislation, and seeming, at least to the citizens there, sharply different in their approach to life. In Africa and in the Middle East, cultural groups were divided by colonial map-makers; the individuals in those groups may have more cultural similarities with groups in countries across the national border than they do with other citizens of their own country. In many countries, however, especially the longer-established ones and those within coherent geographical boundaries (e.g. islands), culture equates to country – and that is certainly the assumption the research into workplace values makes.¹⁵

The 'culturalist' school includes many different approaches, but they have in common the notion that it is not possible to depart radically from established rules and norms. They see culture as shared by individuals as a means of conferring meaning on, and adding sense to, social interactions. The national culture provides a persistent boundary, horizon or 'segment' to the life of individuals, which enables them to make sense of their world. When companies try to operate against a national culture, their local subsidiary in that country may find 'ways around' or adaptations of the company policy so as to fit in with the expectations and values of people in that country.

Many different researchers have found geographically based – usually national – differences in deep-seated values about what is good or bad, honest or dishonest, fair or unfair, etc.¹⁶ These perceptions affect the way

people – especially, perhaps, managers – in a country view the world. There is, of course, an interrelation between cultural-level and individual-level values; each individual is different but the aggregation of their approaches makes what is acceptable and desirable in one country different from what is acceptable or desirable in another.¹⁷ HRM is concerned with interactions between people at different hierarchical levels within an organisation, so these cultural differences will inevitably be reflected in differences in the way organisations manage people.

In contrast to the cultural approach, the institutional perspective assumes that the institutions of a society are what keeps the society distinctive.¹⁸ Social arrangements in a nation are always distinct; many of the institutions are likely to shape the social construction of an organisation. Thus, the wealth of a society, the general and vocational education system, employment legislation, and the amount of informal working in an economy will all impact on the way that organisations can conduct HRM. Since these vary from country to country, so HRM in countries will vary. As with the culture effects, there seems to be a kind of societal recipe against which it is possible to go, or ignore, but only at a cost. Most people, or most organisations, generally do not do so.

The recognition of institutional differences is not new, but there is increasing research in this area.¹⁹ This research notes that, for example, there are variations between countries' typical patterns of ownership.²⁰ Public or state ownership is not widespread in the USA, but in many northern European or African countries it continues to be the main provider of work in the formal sector. And private-sector ownership may not mean the same thing. In many of the southern European countries and in South America, for example, large corporations, even, are owned by single families. In many African and Asian countries, large proportions of the population are outside the

formal employment scheme, whereas this is rare in the richer countries of the 'North'.²¹ Each of these factors – and many other institutional differences in terms of labour and educational markets, legislation, trade unionism etc. – will have important implications for comparative HRM.

Perhaps neither an exclusively 'culturalist' nor an exclusively 'institutional' approach can be entirely satisfactory. Many of the 'cultural' writers see institutions as being key artefacts of culture, reflecting deep underlying variations in the values that they see between societies; many 'institutional' writers include culture as one of the institutional elements explaining differences. Institutions cannot survive without legitimacy, but the way they operate also affects the views of a society's people about what is legitimate. In the end, the two explanations simply explore the same factors from different points of view.²²

Like the comparative/international but unlike the universal/contextual difference, in this case approaches that combine both perspectives will be most valuable.

12.1.4 Convergence and divergence in HRM

A key issue concerns the question of whether the differences in the way that organisations manage people in different societies are being reduced as globalisation increases. The early management theorists thought that a form of 'social Darwinism' would mean that successful management practices would 'crowd out' less successful ones and so management practices would inevitably converge towards the most efficient, and therefore they argued for the US model.²³ A widespread emphasis on the benchmarking practices of organisations, and attempts at the diffusion of 'best-practices,' have been noted.²⁴ They have contributed to shaping similar forms of organisations across countries as well as similar curricula in business education.

One theoretical possibility, therefore, is that as policies of market deregulation and loosening state control are spreading from the USA to the rest of the world, firms everywhere move towards North American HRM.²⁵ Another possibility is that different regional models of HRM may be created, so that powerful economic groupings – such as the European Union (EU), which is developing employment laws that have to be adopted in all its 27 countries – may develop their own models of HRM.²⁶

There are other theoretical possibilities: one is that organisations are so locked into their respective national institutional settings that no common model is likely to emerge for the foreseeable future. Since HRM systems reflect national institutional contexts and cultures, and these do not respond readily to the imperatives of technology or the market, each country will continue to be distinctive.²⁷ The literature often refers to divergence theories, but what is usually meant is 'non-convergence': no one seems to be arguing that countries are becoming even more dissimilar. Managers in each country operate within a national institutional context and a shared set of cultural assumptions. Neither institutions nor cultures change quickly, and they rarely change in ways that are the same as those of other countries. Hence managers within one country behave in a way that is noticeably different from managers in other countries. Even superficially universal principles (e.g. 'profit' and 'efficiency'), may be interpreted differently in different countries.²⁸ A final set of theoretical possibilities is that there is convergence in some aspects of HRM but not in others.

Recent research has drawn a distinction between directional convergence (where the same trends are visible in different nations, but they may not be getting more alike) and final convergence (where the countries are actually becoming more similar).²⁹ In HRM, there are clearly common trends, at least in

the more industrialised countries, towards a greater professionalism in the HRM function and in the growth of practices such as more sophisticated recruitment and the use of contingent pay practices. However, there is no sign of countries becoming more alike in the way that they manage their human resources.

12.2 IHRM: What is special about ‘international’?

In the dynamic and international world of the twenty-first century, organisations, from both the public and the private sectors, need to operate across national borders. How are they to handle this national diversity in the way they manage their people? The complexities of international business are no longer restricted to MNCs but are also of concern for small to medium-sized enterprises (SMEs), international joint ventures (IJVs), and not-for-profit organisations.³⁰ Indeed, a comprehensive understanding of global operations would also incorporate learning from international family business units, overseas networks of entrepreneurs, and, even, illegal gangs, all of which have learned how to operate globally.³¹

The theories of IHRM – the way in which organisations manage their staff across country boundaries – have not developed in line with the growth of globalisation. There is still much room for better understanding of successful HRM practices in an international context.³² While there is an increasing amount of research on IHRM, and while organisations recognise that this is of practical importance to HR managers, some have criticised the work as focusing too narrowly on functional activities and as lacking appropriate theoretical structures.³³ The essence of the critique, in summary, is that the current literature in international HRM defines the field too narrowly and is influenced by a discussion of concepts and issues with little backing in systematic research. Critics argue that a new field of IHRM studies should be

built around a broader set of questions. They argue that an assessment is needed of what the term ‘IHRM’ means, how to conceptualise it, and what areas and activities it includes, and that researchers need to model its drivers and enablers.

IHRM originally consisted of three major clusters of inquiry:

- The international transfer of staff, specifically focused on expatriation
- The conduct of people management in companies operating internationally, most typically in multinational organisations
- Comparisons of HRM policies and practices across different countries.³⁴

All three streams of discussion have grown in size, differentiation and depth.

The majority of studies in the area have traditionally focused on expatriation: cross-border assignments of employees, lasting for a significant period of time.³⁵ Indeed, for many organisations and many commentators, IHRM and expatriate management are virtually synonymous. This is understandable; expatriates are among the most expensive human resources in any internationally operating organisation and they are almost invariably in crucial positions for the organisation. They have, and their management involves, issues and problems that go beyond those of most other employees. And yet the understanding of expatriates and the management of expatriates is less complete than that of other employees, and expatriates are often far from the best-managed employees. We shall return to this issue.

However, IHRM covers a far broader spectrum than the management of expatriates. It involves the worldwide management of people. Several researchers have proposed detailed models of how IHRM fits into the overall globalisation strategy of organisations. Adler and Ghadar³⁶ suggest that organisations need to follow very different IHRM policies and practices, according to

the relevant stage of international corporate evolution, which they identify as domestic, international, multinational, and global. Linking this with the attitudes and values of top management at headquarters (classified by Heenan and Perlmutter³⁷ as ethnocentric, polycentric, regiocentric, and geocentric – see Table 12.1), they outline how organisations could adapt their HRM approaches and practices to fit the external environment in which the firm operates, and its strategic intent. Some have criticised these categories on the grounds that:

- They imply a development from earlier to later categories, which may not be the case
- They imply, without evidence, that the earlier stages are less appropriate or effective
- They give equal weight to the various categories, when in practice the vast majority of organisations are clearly ethnocentric.³⁸

Schuler, Dowling, and De Cieri³⁹ offer an integrative framework for the study and understanding of strategic international human resource management (SIHRM) that goes beyond theories of SHRM based in the domestic context and incorporates features unique to the international context.

They define SIHRM as:⁴⁰
... human resource management issues, functions and policies and practices that result from the strategic activities of multinational enterprises and that impact on the international concerns and goals of those enterprises.

SOURCE: SCHULER, R., DOWLING, P.J. & DE CIERI, H. 1993. An integrative framework of strategic international human resource management. *International Journal of Human Resource Management*, 4(4):720.

Table 12.1 Four approaches to international human resource management

Aspect of the enterprise	Orientation			
	Ethnocentric	Polycentric	Regiocentric	Geocentric
Standard setting, evaluation, and control	By home country headquarters (HQ)	By local subsidiary management	Coordination across countries in the region	Global as well as local standards and control
Communication and coordination	From HQ to local subsidiary	Little among subsidiaries, little between subsidiary and HQ	Little between subsidiary and HQ, medium to high among subsidiaries in region	Totally connected network of subsidiaries and subsidiaries with headquarters
Staffing	Home country managers	Host country managers	Managers may come from nations within region	Best people where they can be best used

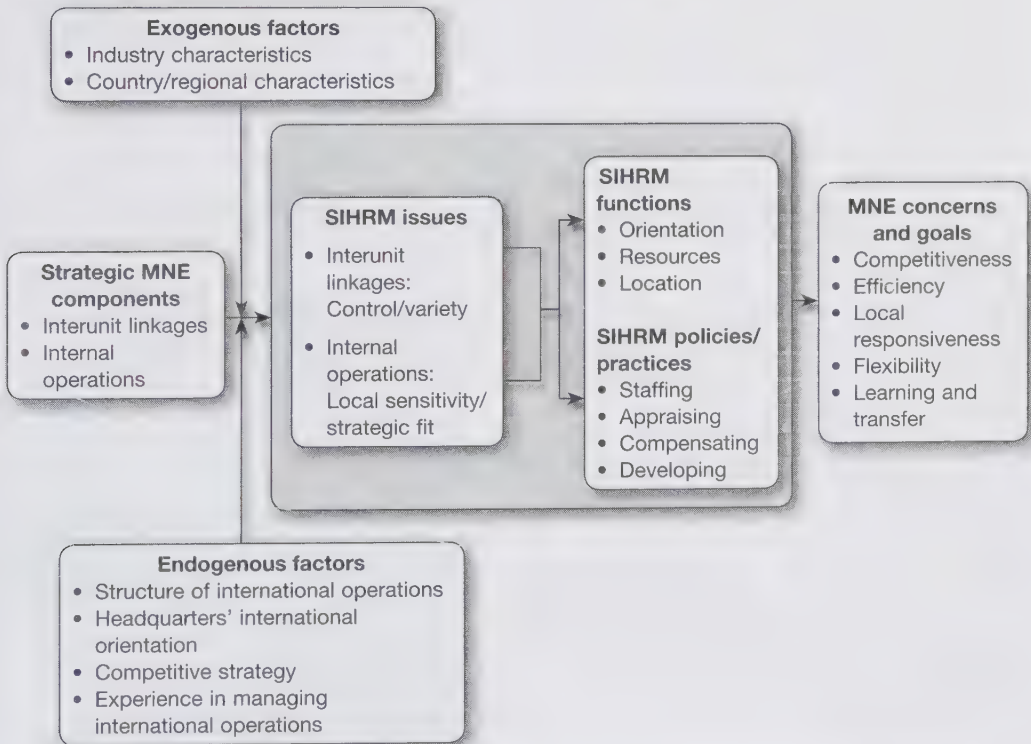
SOURCE: HEENAN, D.A. & PERMUTTER, H.V. *Multinational organizational development*. Addison-Wesley Publishing Company:18–19. © 1979 by Addison-Wesley Publishing Company. Used with permission.

The breadth of issues involved is illustrated by a framework linking SIHRM orientations and activities to the strategic components of multinational enterprises (MNEs).⁴¹ The framework comprises inter-unit linkages and internal operations (see Figure 12.1). The authors argue that the key determinant of effectiveness for MNEs is the extent to which their various operating units across the world are differentiated and, at the same time, integrated, controlled, and coordinated.⁴² As we have indicated, the link between, on the one hand, strategy-structure configuration in MNEs and the demands for global integration and, on the other, the need for local responsiveness, is a recurring theme in the literature. Most organisations require an element of both, but where global integration and

coordination are important, subsidiaries need to be globally integrated with other parts of the organisation and strategically coordinated by the parent.⁴³ HRM practices that are, as far as possible, common across the organisation will be appropriate. In contrast, where local responsiveness is important, subsidiaries will have far greater autonomy and there is less need for integration. Hence, in such cases, the organisation will gain little from trying to coordinate HRM at the global level.

Evidence of different solutions adopted by MNEs to the problem of tension between differentiation and integration – otherwise termed the ‘global versus local’ – dilemma, results from the influence of a wide variety of exogenous and endogenous (external and internal) factors. Exogenous factors include:

Figure 12.1 Factors in strategic international human resource management



SOURCE: Reprinted from SCHULER, R.S. 2000. The internationalization of human resource management. *Journal of International Management*, 6(3):252. With permission from Elsevier Science.

- Industry characteristics, such as type of business and technology available
- The nature of competitors, and the extent of change
- Country and regional characteristics, such as political, economic, and socio-cultural conditions, and legal requirements.

Endogenous factors include:

- The structure of international operations
- The international orientation of the organisation's headquarters
- The competitive strategy being used
- The MNE's experience in managing international operations.

A practical issue to which the literature pays little attention concerns what it is possible for headquarters to know about its local operations. Whatever controls there are can always be circumvented: in practice, subsidiaries have some flexibility in how they respond.⁴⁴

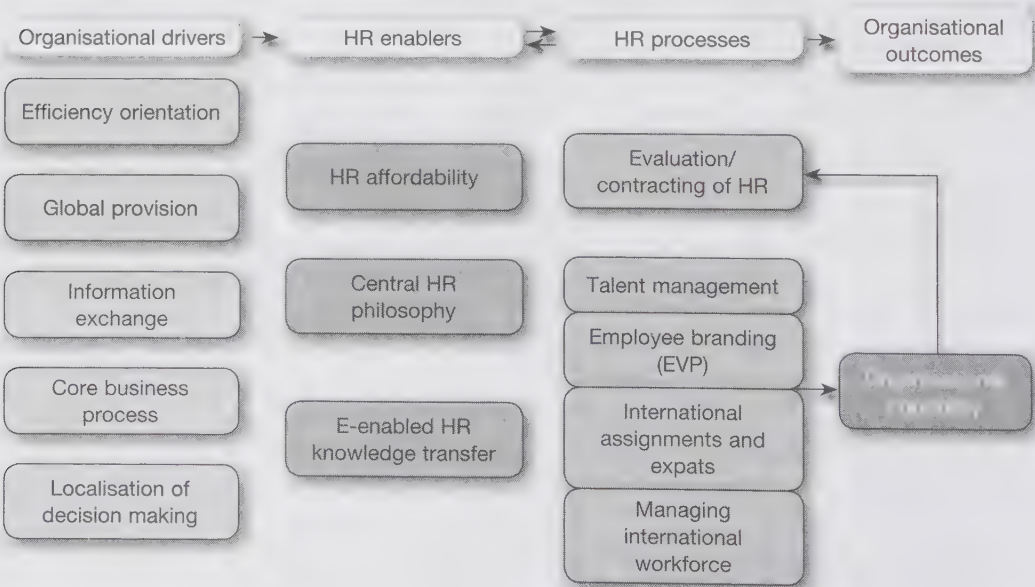
Recent research focuses on the drivers and enablers of HRM in MNEs.⁴⁵ Using the term 'global HRM' (GHRM) rather than the more familiar terms 'IHRM' or 'SIHRM' to emphasise the wider nature of the topic, these researchers summarise their findings in a model of IHRM (see Figure 12.2).

12.2.1 The drivers of global HRM

The drivers of GHRM are as follows:

- *Efficiency.* This involves, for example, the outsourcing of business processes and a high degree of centralisation. The organisations involved here focus on shared service centres, centres of excellence, and E-HR as the key delivery mechanisms for global HRM. The extensive ramifications of global HRM restructuring will have a significant effect on the roles and career paths of HR professionals. This has clear implications in terms of the level of expertise sought at selection and the amount of training the organisation gives.

Figure 12.2 Model of global HR



SOURCE: BREWSTER, C., SPARROW, P. & HARRIS, H. 2005. Towards a new model of globalising HRM. *International Journal of Human Resource Management*, 16(6):950. Used with permission.

- *Global provision.* This comprises two key elements – building a global presence and e-enabling management. Organisations are striving to build a global presence. For example, Rolls-Royce identified the fact that the market for aircraft engines was increasing globally, with much of the business in North America. It was important for Rolls-Royce to have a presence there. That meant moving a considerable portion of its operations there. This move, in turn, implied an extended role for the HRM function, which had to arrange the transfer of specialists, the redundancy of others (in the UK home base), and the recruitment of new specialists (in North America). For e-enabling management see Chapter 10. From the international HRM viewpoint, one of the outcomes of e-enabling HRM is that local HRM specialists, line managers, and, even, employees around the globe can access the same material. The electronic capability tends to swing the HRM pendulum in the direction of centralisation and integration.
- *Information exchange and organisational learning.* These also comprise two key elements – knowledge transfer and management, and the forging of strategic partnerships. So far, the possibilities of GHRM as the process that adds to and helps exploit the knowledge stock, and particularly the powerful intrinsic knowledge stock, have not been fully developed. This is largely, perhaps, because information-technology specialists have driven much of the knowledge-management debate. Capturing and sharing explicit knowledge puts pressure on company intranets and on the technology, but the HRM function also has to grapple with the intrinsic knowledge – held in people's heads – that is often the key to competitive advantage. Forging strategic partnerships is a second important factor related to the issue of information exchange and organisational learning. The not-for-profit charity Action Aid, for example, has as a central part of its strategy the aim of decentralising its activities to local operations and local staff. This has involved working closely with other aid groups to ensure the delivery of the necessary support.
- *Core business process convergence.* This involves the HRM response to the creation of core business processes and the movement away from country-based operations towards business-line driven organisations. Convergence around core business processes is not automatically associated with centralisation. Moreover, the HR function does more than just respond to this phenomenon and is often a key part of the re-orientation of the strategy. For example, as Shell changed its business focus from oil extraction to retailing, and identified centres of excellence around the world, HRM had to arrange the staffing, the procedures and the policies to put that change in place and embed it within the organisation. In another example, BOC set up a Pacific-based operation and HRM had to ensure that it worked.
- *Localisation.* In practice, not many firms seem to be incorporating the option of decentralisation into their strategic-driver recipe. However, though not common, this does exist. It is widespread in the not-for-profit and charity sectors, for example. The ramifications of such a policy for HRM are extensive. HRM has to decentralise too. The central HRM department can be reduced to a smaller number of key staff dealing with the top and the internationally rotating employees.

12.2.2 The enablers of global HRM

The enablers of GHRM are as follows:

- *HRM affordability.* This is about the need to deliver global business strategies in the most cost-effective manner possible. For nearly all organisations, the costs of labour are the largest single element of operating costs. Thus, as cross-national organisations have to be increasingly aware of their competitive position and ensure that they reduce their costs to a minimum consistent with organisational efficiency, they examine both the people employed and the activities they undertake, to identify their added value. MNEs are devoting much attention to ensuring that people are where they can be most cost-effective and that central overheads are as low as possible. In many cases, this has led to a redeployment of activities from higher-cost countries to lower-cost ones, especially those where there is a well-educated population, or at least a high enough number of educated people for the needs of the MNE. Arguably, the growth spurts in Eastern Europe, and most dramatically in China and India, started from this base.
- *Central HRM philosophy.* This consists of two elements: centralisation of HRM decision making and industry-wide convergence of HRM practice. The transfer and mutual learning from potentially very varied global practice is critically important. Some organisations aim to develop a degree of central command and coordination over this knowledge. For many organisations, the centralisation of HRM decision making and industry-wide convergence clashes with the requirement to be aware of differences between countries. The aim of many organisations is to adopt the best from around the world whilst operating a decentralised and distributive approach to global best practice. Perhaps almost inevitably, the line between standardisation (creating best practice from around the world) and centralisation (assuming that best practice is either found at headquarters or needs to be controlled from there) is blurred. It is not uncommon for the people managing HRM at the centre of the MNE to argue that they are doing the first, whilst people in the subsidiaries see only the second.
- *E-enabled HR and knowledge transfer.* This is increasingly a critical component in terms of IHRM positioning.⁴⁶ The HRM department's role as knowledge-management champion has three key elements: capitalising on the e-enablement of HRM, the pursuit of knowledge transfer and management, and the building of a global HRM presence. Organisations are spending billions of dollars on e-enabled HRM around the world, but no multinational organisation will claim that it is really making the most of E-HR. Just as individuals often have facilities on their mobile phones that they almost never use, so MNEs often buy hugely expensive E-HR systems and then fail to exploit them to the full. Nevertheless, the ability for any HRM specialist anywhere in the world to access data, for example, on employees who are expert in certain subjects, to contact them in real time, and to enable the organisation to draw on that expertise, has improved efficiency considerably. Such examples could be multiplied many times over.

12.3 International transfers

One of the traditional areas of IHRM – and one that still has a key impact on the field in terms both of academic research and of the implications for organisations and individuals – concerns the issue of moving people around the world. All international organisations

struggle with the problems created by the need to fill and manage important assignments that may not be in the home country. Organisations usually choose expatriates, also known as parent-country nationals (PCNs), to fill these key positions, for example country manager or financial controller, or technical-specialist roles. These positions are important to the success of the organisation. The people involved are invariably expensive to service, perhaps costing three or four times as much as a similar posting at home and often far more than a local appointment would cost. At the same time, assignments in the overseas subsidiaries are rarely other than a very small proportion of the overall organisational staffing. Because the numbers are low, it is difficult for all but the largest international organisations to develop expertise and policies in dealing with other employees. The increasing pressure to cut costs has exacerbated the problem. Many large organisations have done so by reducing the number of expatriates, only to find later that this has caused very significant problems of communication, coordination, and control. Smaller and younger organisations face a different situation, but one that can lead to the same problem: how to decide which assignments to localise and which to fill with expatriates.

Organisations often handle key international assignments as unique events. It is true, of course, that each case is different – but not so different that the organisation cannot learn from the accumulation of cases, nor so different that organisations cannot develop generic guides based upon past experience. Very often the ‘one-off’ approach arises because, except in the very largest organisations, there is no coherent framework on which to base decisions. Each situation becomes a problem and the line manager has to use his or her personal knowledge of individuals to try to fill the gap. This is partly why the research into expatriate selection often fails to identify

any systematic approach. The reality is that managers often take such decisions (or at least initiate them) in the corridor or at a social gathering as the result of one manager ‘knowing’ someone who could fill their one vacancy.⁴⁷

An organisation might undertake international assignments for a variety of reasons:

- To enhance the control of the centre
- To underline the importance of the country to the local government
- To provide skills not existing in that geographical location
- To provide opportunities for management development
- To internationalise the management team.

Furthermore, there is evidence that there are variations between firms in the use of expatriates, based on size, organisational age, and nationality.⁴⁸ A developing strand of the literature discusses expatriation in terms of knowledge transfer: the ability of the organisation to move information and understanding from one country to another.⁴⁹ This is seen as a key task and one that organisations can undertake through a variety of mechanisms, but is not without its problems.⁵⁰

12.3.1 International transfers: Cheaper and/or better

In this section we shall discuss two approaches to international transfers:

- *Doing it more cheaply.* Here, we shall consider alternatives to expatriation.
- *Doing it more effectively.* Here, we shall discuss managing the expatriate cycle better in order to get better quality results.

We shall start by examining the issue of ‘doing it more cheaply’. Expatriation is always expensive. Expatriates tend to be paid more than other staff, even at the same level; they get substantially more benefits;

their transfer may involve a partner and a family and it will certainly involve a disproportionate amount of specialist HRM support and senior management time. Many established MNEs are looking carefully at their budgets and trying to reduce the costs involved.

One response is to negotiate more toughly. Many organisations use 'salary clubs' (groups of international organisations sharing pay and cost-of-living information), which, in effect, allow them to see the terms and conditions of staff – for particular locations and levels of staff. This is increasingly being challenged: whilst MNEs see the benefits of ensuring that their staff are able to 'hold their own' with other equivalent level expatriates, they are also seeing the benefits of negotiating hard about terms and conditions: 'If you are the right person, and really want this job, you will take it on these terms: if not we will look elsewhere.' At the same time, expatriates themselves are getting more 'streetwise' about their employability. They know that good expatriates are in short supply and intend to negotiate a good deal. The result is that the standard deal of a set package for a set job in a set location is being replaced by the kind of negotiation that goes on elsewhere.

Increasingly, international organisations are employing expatriates on local terms and conditions. This is of particular relevance in Europe where the European Union has no work permit or residence limitations on people moving between member states. It is happening amongst both university graduates (e.g. biochemists recruited from Italy to work in Eastern England on the same terms as they would have been had they come from Scotland) and managerial employees. A particular group of expatriates, which has only recently begun to be studied, is made up of the many who end up working for one of their national organisations after having made their way to the host country. This group of self initiated foreign

employees (SEs) is probably much bigger than had previously been understood and is now beginning to be researched.⁵¹

There has been increasing interest in the use of third-country nationals (TCNs): individuals who are not from either headquarters or from the host country.⁵² They have a number of advantages:

- Their use reduces criticism of the organisation as ethnocentric
- They emphasise the organisation's commitment to developing and using talent wherever it may be
- They are usually considerably cheaper
- They often have a cultural awareness that can be beneficial.

Thus, a UK MNE may gain advantages from using Malaysian Muslims in Arab countries, or Portuguese employees in Brazil, for example. In both cases, the TCNs will have a cultural advantage over home country (British) expatriates. However, assumptions here can be dangerous: there are innumerable stories of Overseas Chinese being sent in to the People's Republic of China, for example, and, because they have fewer excuses, receiving a much rougher ride than Westerners would have done. Organisations can also cut costs by considering alternatives to expatriation.

Many international workers are not expatriates. They are the short-term assignees, international commuters, frequent flyers, and international project teams. They have always existed but because they have only recently been 'discovered' by academics, they are sometimes (wrongly) referred to as 'new' forms of international assignments.⁵³ Their number is considerable and, at least amongst larger organisations, is growing faster than the number of expatriates, though there is growth in all forms.⁵⁴ In many ways, these employees share the same stresses as expatriates, particularly in terms of their social lives and family pressures, and

yet they never move their homes or get many of the benefits of expatriation.

Organisations recruit some people specifically for short-term assignments and some are sent from within the existing home-country labour force. The advent of easier, cheaper travel and improvements in communications technology have led to a surge in such arrangements in recent years. The duration of such assignments varies, depending on purpose, company, and sector. In most cases, assignments will last less than a year – normally anything from a few weeks to six months. The main reasons for short-term assignments are skills transfer and management development, so managerial control is not as important as it is for long-term international assignments. Compared to the traditional expatriate assignments, the main advantages of project assignments are – flexibility, simplicity, and cost-effectiveness. Goals for short assignments are easier to set and evaluate than those for longer assignments.⁵⁵ That said, remuneration and administration, as well as costs associated with short-term assignments, can create severe problems.⁵⁶

The international commuter phenomenon is becoming more widespread: managers live at home in, say, Austria during the weekend and travel to Hungary every Monday, returning home every Thursday night or Friday morning. In parts of Africa, many aid organisations house their employees' families in safer countries, while the employees 'commute' to the more dangerous country where they work on a regular basis. The effects on their home lives and the implications this has for local staff perceptions of the degree of commitment to the country they work in are significant and negative.

Many more people, throughout the world, travel frequently: visiting company operations or customers in other countries for a few hours or days on a regular basis. The costs to the organisation and the benefits

that such travel brings are debatable. In many cases these trips are unmonitored from any central source, agreement to such trips being the prerogative of the line manager. The effect is that the organisation has no overall idea of how much it spends on such frequent flyers – and no idea of the benefits. Some organisations have teams of people flying around the world on regular assessment projects, enabling them to balance central knowledge with local control.⁵⁷ They believe that 'hands-on' and 'face-to-face' are still the best ways to do business.

Some have argued that the development of information and communication technology (ICT) will render both international transfers and international travel redundant. Why go to a country when it is easier, safer, and cheaper to video-conference with the people there? With the growth of ICT in individual economies, the argument has some strength – undoubtedly the future will see more video-conferencing and more use of e-mail etc. However, familiar arguments apply: in many cases, face-to-face meetings are more effective. Just as ICT technology has made a comparatively limited difference to working practices within individual countries, so the fact that business travel has grown significantly just as international ICT has developed may be less a function of ignorance or the desire for foreign travel than of a recognition that the social side of management is critical to success. An understanding of negotiating skills, for example, indicates that it is more difficult to say 'No' face to face than it is by fax or e-mail. In these circumstances, international travel by sellers makes a lot of sense. It is well-known that teamwork is better fostered by meetings than by even the best video-conferencing. Amongst many companies which make considerable use of 'virtual project teams', there is a firm belief that the members of the team should meet in person at the beginning of the project in order to ensure that the 'distance' phases of the work are fully effective.⁵⁸

The cheapest option, of course, is usually the employment of local people. There is a strong case to be made that the reason that the employment of local people is so rare in management circles is less to do with internationalising the management team than with the remnants of colonialism or racial assumptions of superiority.⁵⁹ The argument that international assignments are part of developing international awareness and understanding in the management team would be stronger if there were better evidence that organisations utilise and exploit the knowledge they can gain from these arrangements: in fact, it seems that international assignments are usually seen as little more than an interlude away from headquarters. It is assumed that it is at headquarters that the real action takes place. International experience is discounted.⁶⁰ In practice, most organisations fail to release the capabilities and expertise of their local employees.

Having examined the issue of 'doing it more cheaply', we shall now turn to the issue of 'doing it more effectively' and discuss the expatriate cycle. Whilst the forms

of international assignment are all growing, so is the use of traditional expatriation. Research into expatriation has, in general, followed the traditional expatriate 'cycle', with, interestingly, early attention given to the earlier stages of the assignment and a successively developing focus on the later and more complex issues of adjustment, monitoring of performance, and repatriation. 'Doing it more effectively' at each stage of the cycle will lead to greater cost-effectiveness overall.

- **Selection.** Research into the selection of expatriates has generally focused on the more 'visible' aspects of these issues, such as the criteria used in selection decisions.⁶¹ Researchers have found that, in practice, technical expertise and domestic track record are by far the two dominant selection criteria. Factors such as language skills and international adaptability come further down the list in all studies, though some evidence shows that these have more importance for European MNEs than for those in the USA.⁶² Box 12.1 shows the

BOX 12.1

Selection factors for global employees

Organisational requirements

- Organisational knowledge
- Technical abilities
- Job-related skills

Personal characteristics

- Emotional stability
- Ambiguity tolerance
- Flexibility and risk taking
- Physical/stress coping

Cultural adjustment

- Cultural awareness
- Cultural adaptability

- Diversity acceptance

- Global experiences

Personal/family concerns

- Personal life demands
- Family considerations
- Financial/economic concerns
- Career development

Communication skills

- Language capabilities
- Nonverbal awareness
- Coaching and listening skills
- Conflict resolution abilities

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most frequently cited key competencies for successful global employees. Recent research into recruitment systems indicates that these criteria are constructs of international HR departments: in practice, decisions on expatriation are taken by line managers (who often simply ignore the criteria).⁶³

- *Training and development programmes.* Such programmes for expatriates are, surprisingly, more apparent by their absence than their presence. They are more common in European MNEs than in US ones, and in Europe they include some interesting and cost-effective alternatives to formal training programmes, e.g. pre-appointment visits and briefings by returned expatriates.⁶⁴
- *Adjustment.* There have been a number of studies into the issues of expatriate adjustment.⁶⁵ Increasingly, those who study adaptation have been moving away from the most widely used 'three-factor' approach that tries to distinguish between the overlapping area of work, interaction, and general adjustment.⁶⁶ While it is essential for a functioning household to be well adjusted to the economic environment regarding consumption of goods and services, for example, there has been discussion as to how far adjustment should go in the workplace and where the expatriate's allegiance should lie.⁶⁷
- *Pay and rewards.* These are critical components in ensuring maximum return from human resources throughout the whole international organisation but, as 'technical' issues related to tax and pension regimes, they have tended to be the domain of consultants rather than researchers, though some researchers have made important contributions. Recent writing in Europe has been concerned with central pay policies and their link to business goals, whilst allowing for sensitivity to business, cultural,

and other influences at subsidiary-unit level. Differences in international rewards are seen as a consequence not just of cultural differences, but also of differences in institutional influences, national business systems, and the role and competence of managers in the sphere of HRM.⁶⁸ In Box 12.2, a variety of financial incentives expatriates receive in addition to their base salary to accept an overseas assignment is indicated.

- *Performance measurement and management.* The whole question of performance measurement and management in multinational companies involves a complex range of issues. Research to date suggests that rigorous performance-appraisal systems for expatriates are far from universal.⁶⁹ This is perhaps surprising, given the high costs of expatriate underperformance and the growing tendency to see expatriates as key human assets. European firms, in particular, seem to be paying more attention to this aspect of expatriation.⁷⁰ In part, this reflects the growing use of international assignments for development purposes in European multinationals and the greater integration of expatriation into the overall career-development process in European firms. In part, however, it also represents the difficulty of establishing performance criteria for posts aimed at fulfilling multiple objectives.
- *Repatriation.* The repatriation of expatriates has been identified as a major problem for multinational companies and has only recently begun to be seriously researched.⁷¹ For many MNEs, this problem has become more acute in recent years because expansion of foreign operations took place at the same time as the rationalisation of HQ operations; in the majority of MNEs there are few unfilled positions suitable

BOX 12.2

Types of allowances given to expatriates

- **Foreign Service Premiums:** This is a sum of money that is simply a reward for being willing to move one's family to a new country. The sum is generally a percentage of one's base salary – usually between 10 and 25%.
- **Hardship allowance:** Hardship allowances are greatest when the expatriate is sent to places that have poor living conditions, a vastly different culture, less access to good health-care, etc.
- **Cost of living allowances:** The cost of living allowances (COLAs) enable expatriates to maintain their standard of living. COLAs are given when the cost of living in the host country is greater than that in the home country.
- **Housing allowances:** The cost of housing in various parts of the world is sometimes much higher than it is in the home country. Large apartments in Tokyo or Hong Kong, for instance, can cost more than \$10 000 (US) a month. Housing allowances compensate expatriates for these higher costs.
- **Utility allowances:** Some companies give expatriates a fixed sum of money above their base salary to pay their utility bills. Other companies try to ascertain the difference in utility bills between the home and host countries, and give an allowance based on that difference.
- **Furnishing allowances:** Some companies offer to ship all of the expatriate's furnishings to the foreign assignment. A second approach is to pay for the local lease or purchase of furnishings by expatriates. A third approach is to give the expatriate a fixed sum of money (usually between \$8 000 and \$10 000 (US) to buy furnishings.
- **Education allowances:** Most expatriates send their children to private schools. Companies often pay the full cost of tuition, books, and supplies.
- **Home leave allowances:** Companies usually provide expatriates and their families with round-trip, business-class airfare to visit the home country at least once a year.
- **Relocation allowances:** This allowance makes up for any mistakes made in any of the other allowances for unforeseen complications. Expatriates receive about one month's salary.
- **Medical allowances:** Companies usually pay for all medical expenses. In hardship countries where medical facilities are inadequate, this includes emergency trips to other countries to receive medical care.
- **Car and driver allowances:** Most companies offer expatriate managers a car allowance. This enables the expatriate to lease, buy, or rent a car in the host country. In some cases, the expatriate is given funds to hire a chauffeur.
- **Club membership allowances:** In some countries, the only way an expatriate can gain access to recreational facilities (e.g. tennis courts, swimming pools, country clubs) is by joining clubs. Also, in many cultures, these facilities are important places in which to develop contacts and conduct business.
- **Taxes:** Many companies reimburse expatriates for taxes they pay in excess of what they would have paid had they remained in the home country.

SOURCE: KLEIMAN, L.S. 2009. *Human Resource Management: A managerial tool for competitive advantage*, 5th ed. © 2010 Custom Solutions, a part of Cengage Learning, Inc. Reproduced by permission. www.cengage.com/permissions <<http://www.cengage.com/permissions>>.

for expatriates to slot into when they return. From the repatriate perspective, other problems associated with re-integrating into the home country are loss of income and status, loss of autonomy, loss of career direction, and a feeling that international experience is undervalued by the company. There is growing recognition that where managers see companies dealing unsympathetically with the problems expatriates face on re-entry, managers will be more reluctant to accept the offer of international assignments.⁷² It has been reported that a quarter or even a third of expatriates leave their company within 12 months of repatriation, a figure which is notably higher than for equivalent non-expatriates.⁷³ Yet whilst it is widely accepted that the costs of expatriate turnover are considerable, very few firms have effective repatriation programmes. One study of a cohort of Finnish expatriates found that most had received great value from their international assignment, but that within a year many had left their firm and many others wanted to leave.⁷⁴ Recent research in Europe situates repatriation in the context of career development and loss of corporate knowledge.⁷⁵ The focus now is on seeing the expatriation phase as part of an individual's career, rather than seeing repatriation as the end of the process.

12.4 Strategy and attention to detail

The complexities of IHRM are a reflection of the lack of simple answers to the questions involved in managing HRM generally, and the extra level of difficulty added by internationalism. There are unlikely to be exact or final answers to the questions IHRM raises. However, senior executives in multinational enterprises can do much to ensure that their

organisations learn from the available research understanding. (And, incidentally, researchers can learn much by paying closer attention to experience and expertise within MNEs.)

Many international organisations struggle with the issues of which elements of their HR policies and practices they can centralise and which they can decentralise. The literature shows an ongoing debate about the extent to which MNEs bring new HRM practices into a country, in comparison to the extent to which they adapt their own practices to those of the local environment.⁷⁶ In practice, of course, there is always an interplay between the two, and both factors apply to some degree.

Research into IHRM has tended to focus on expatriation and, even more narrowly, on the pay and conditions of expatriates. HR managers in MNEs have to start examining their use of human resources internationally according to the same criteria they would apply to national HRM. When MNEs ask themselves the following basic questions, they will be able to improve the way in which they manage their human resources internationally:

- What kind of people do we need working for us in these locations?
- How do we ensure that we get the best people in the most cost-effective manner?
- How do we ensure that we monitor their performance and unlock their potentialities as fully as possible?
- In this particular context, would that involve the international transfer of people?
- If so, what is the best mechanism for making that effective?

SUMMARY

This chapter examines the additional complexities created for HR managers when organisations conduct business internationally. It addresses the critical issues of what can be managed from the centre and what has to be held locally. The international transfer of employees remains a key and complicated topic, but MNCs are taking a much more globalised view of their management of people, trying to ensure that they get the best from them and provide them with the best opportunities to contribute to the organisation.

KEY CONCEPTS

- | | |
|---|--|
| <ul style="list-style-type: none"> ■ Contextual paradigm ■ Convergence ■ Cultural approach ■ Divergence ■ E-enabling HRM ■ Endogenous factors ■ Ethnocentric ■ Exogenous factors ■ Expatriation ■ Geocentric ■ Global HRM (GHRM) ■ Globalisation ■ Information and communication technology (ICT) ■ Institutional perspective | <ul style="list-style-type: none"> ■ International HRM (IHRM) ■ International joint ventures (IJVS) ■ Multinational companies (MNCs) ■ Multinational enterprises (MNEs) ■ Polycentric ■ Regiocentric ■ Repatriation ■ Salary clubs ■ Self-initiated foreign employees (SEs) ■ Strategic HRM (SHRM) ■ Strategic international HRM (SIHRM) ■ Third-country nationals (TCNs) ■ Universalist paradigm |
|---|--|

CASE STUDY

Objective: To understand the role of HRM in an international business environment.

Global HR at McDonald's

One of the best-known companies worldwide is McDonald's Corporation. The fast-food chain, with its golden arches symbol, has spread from the United States into 91 countries. With more than 18 000 restaurants worldwide, McDonald's serves 33 million people each day. International sales represent an important part of McDonald's business, and more than 50% of the company's operating income comes from sales outside the United States. To generate these sales McDonald's employs more than two million people.

Operating in so many different countries means that McDonald's has had to adapt its products, services, and HR practices to legal, political, economic, and cultural factors in each one of those countries. A few examples illustrate how adaptations have been made. In some countries, such as India, beef is not acceptable as a food to a major part of the population, so McDonald's uses lamb or mutton. To appeal to Japanese customers, McDonald's developed teriyaki burgers. Separate dining rooms for men and women are constructed in McDonald's restaurants in some Middle Eastern countries. HR practices must adapt to different cultures. Before beginning operations in a different country, HR professionals at McDonald's research the country and determine how HR activities must be adjusted. One method of obtaining information is to contact HR professionals from other US firms operating in the country and ask them questions about laws, political factors, and cultural issues. In addition, the firm conducts an analysis using a detailed outline to ensure that all relevant information has been gathered. Data gathered might include what employment restrictions exist on ages of employees and hours of work, what benefits must be offered to full-time and part-time employees (if part-time work is allowed), and other operational requirements. For instance, in some of the former communist countries in Eastern Europe, employers provide locker rooms and showers for their employees. These facilities are necessary because shower facilities, and even consistent water supplies, are unavailable in many homes, particularly in more rural areas around major cities. Also, public transportation must be checked to ensure employees have adequate means to travel to work. Once a decision has been made to begin operations in a new country, the employment process must begin. Often, McDonald's is seen as a desirable employer, particularly when its first restaurant is being opened in a country. For instance, in Russia, 27 000 people initially applied to work at the first McDonald's in Moscow. Because customer service is so important to McDonald's, recruiting and selection activities focus on obtaining employees with customer service skills. For worker positions such as counter representative and cashier, the focus is to identify individuals who will be friendly, customer-service oriented employees. A 'trial' process whereby some applicants work for a few days on a conditional basis may be used to ensure that these individuals will represent McDonald's appropriately and will work well with other employees.

For store managers, the company uses a selection profile emphasising leadership skills, high work expectations, and management abilities appropriate to a fast-paced restaurant environment. Once applicant screening and interviews have been completed, individuals are asked to work for up to a week in a restaurant. During that time, both the applicants and the company representatives evaluate one another to see if the job 'fit' is appropriate. After the first group of store managers and assistant managers are selected, future managers and assistant managers are chosen using internal promotions based on job performance.

Once the restaurants are staffed, training becomes crucial to acquaint new employees with their jobs and the McDonald's philosophy of customer service and quality. McDonald's has taken its Hamburger University curriculum from the United States and translated it into 22 different languages to use in training centres throughout the world. Once trainers and managers complete the training, they then conduct training for all employees selected to work at McDonald's locations in the foreign countries.

Questions and activities

1. Identify cultural factors that might be important in a training programme for food handlers at McDonald's in Saudi Arabia.
2. Rather than focusing on the differences, what similarities do you expect to exist among McDonald's customers and employees in both the United States and abroad?

SOURCE: MATHIS, R.L. & JACKSON, J.H. 2003. *Human resource management*, 10th ed. Mason, Ohio: South Western, a division of Thomson Learning:603–604. Used with permission.

REVIEW QUESTIONS AND ACTIVITIES

1. Briefly define the concept of strategic international human resource management (SIHRM).
2. Write a short essay on expatriates.
3. Briefly discuss the 'universal' and 'contextual' paradigms in HRM.
4. Briefly discuss the four approaches to IHRM by referring to the following aspects of the organisation: staffing; communication and coordination; and standard setting, evaluation, and control.
5. Write a short essay on the 'institutional' perspective in IHRM.
6. Write a short essay on the 'drivers' of GHRM.
7. Give a detailed discussion of the alternatives to expatriation.
8. Write a short paragraph on the repatriation of expatriates.
9. Briefly discuss the issue of culture in IHRM.
10. Write a short paragraph on the 'enablers' of GHRM.

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– Society of Human Resource Management Global Forum
- www.berlitz.com
– Berlitz International (language and cultural adjustment training and information provided by this well-known firm)
- www.etiquetteintl.com
– Etiquette International (this professional firm works with organisations to make their employees more effective and professional when working with other cultures)
- <http://unctad.org/en/Pages/Home.aspx>
– United Nations Conference on Trade and Development
- www.eca-international.com
– ECA was established in 1971 by a number of leading international companies. Its purpose was, and still is to provide employers with information and advice on terms and conditions for staff abroad, whether local national or expatriate.

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The role of human resource management in the twenty-first century

13

LEARNING OUTCOMES

After reading this chapter you should be able to:

- Describe the workplace of the twenty-first century
- Explain the redesign of the role of HRM
- Identify the competencies required of the HR professional of the future
- Describe the structure of the HR department of the future

PURPOSE

The purpose of this chapter is to introduce you to the role of human resource management in the twenty-first century.

CHAPTER OVERVIEW

This chapter focuses on the new role of HRM within organisations. It begins with a discussion of the important changes taking place within the workplace. It next discusses the necessity to reposition the HR function and looks at tactics that can be used to assist with this process. Thereafter it discusses the competencies HR professionals need to manage this new environment of work and also looks at the new HRM structure that will accommodate these changes. The concluding case study illustrates how the theory contained in this chapter can be applied to a practical situation.

IN HUMAN RESOURCE MANAGEMENT
CONTEMPORARY ISSUES

Introduction

The discussion in this book thus far has made it clear that organisations are facing numerous challenges. These challenges require new and innovative responses; this requirement has a direct effect on the world of work within organisations (see Figure 13.1), and also impacts not only on employees' working lives, but also on their future survival. In this book, we have discussed issues and activities through which to address these challenges, but the question now is: how will the future work environment look, and, specifically, what impact will it have on HR professionals and HR departments? In this chapter we shall address the workplace of the twenty-first century, the redesign of the role of HRM, the competencies required of the HR professional of the future, and the structure of the HR department of the future.

13.1 The workplace of the twenty-first century

In this section we shall look at the following important work:

- That of Barner, published in his article 'The new millennium workplace: Seven changes that will challenge managers and workers'
- That of Barnatt, published in his article 'Office space, cyberspace and the virtual organisation'¹
- That of Gandossy, Tucker, and Verma, published in their book *Workforce wake-up call: Your workforce is changing, are you?*²

Barner's research identifies seven changes, expected over the next few years, which will reshape the work environment. These include:³

Figure 13.1 Business challenges and their impact on people and HR departments



SOURCE: ULRICH, D., BROCKBANK, W. & JOHNSON, D. 2007. *Human resource competency study*. Society for Human Resource Management Annual Conference. Las Vegas: USA, 26 June. [Lecture notes from a paper.] © The RBL Group. All right reserved. Used with permission of The RBL Group.

- The virtual organisation
- A just-in-time workplace
- The ascendancy of knowledge workers
- Computerised coaching and electronic monitoring
- The growth of worker diversity
- An ageing workforce
- The birth of a dynamic workforce.

We have already mentioned many of these issues in Chapters 1 to 12, but to understand their HR implications better, a closer investigation is necessary.

13.1.1 The virtual organisation

As we indicated earlier in this book, organisations are already using electronic technology to link their members at different work sites, and their members are communicating with each other via these systems. This type of operation is known as a virtual organisation. Virtual organisations exhibit a number of characteristics:⁴

- They are reliant on the medium of cyberspace (the medium in which electronic communications flow and computer software operates)
- They are enabled via new computing and communications developments
- They initially exist only across conventional organisational structures.

The growth in this area can be attributed to developments such as:⁵

- The rapid evolution of electronic technology in the area of video, audio, and text information
- The worldwide spread of computer networks, as a result of globalisation
- The growth of home offices (telecommuting).

For management as well as HR professionals, these developments hold a number of important challenges for the future.

From a management perspective, issues such as effective communication and planning will need attention as the face-to-face approaches, which have worked well over the years, disappear. In addition, to capitalise on the flexibility and speed through these networks, managers and team members will have to form clear agreements from the outset regarding issues such as performance expectations, team priorities, communication links, and resource allocation.⁶ See Box 13.1 regarding some principles for effective virtual teamwork. Other problems that may arise include possible misunderstandings and interpretations as a result of e-mail correspondence. E-mail allows messages and computer files to be sent electronically from computer to computer over a

BOX 13.1

Principles for effective virtual teamwork

1. Realign reward structures for virtual teams.
2. Find new ways to focus attention on task.
3. Design activities that cause people to get to know each other.
4. Build a virtual presence.
5. Agree on standards and terminology.
6. Leverage anonymity when appropriate.
7. Be more explicit.
8. Train teams to self-facilitate.
9. Embed collaboration technology into everyday work.

SOURCE: NUNAMAKER, J.F., REINIG B.A. & BRIGGS, R.O. 2009. *Principles for effective virtual teamwork*. Communications of the ACM, 52(4):113–117.

network. The advantage of e-mail is that it cuts down on paper use and increases the speed of messages.⁷ According to Barnatt, the computer giant Microsoft sees its e-mail system as the carrier of its culture. The company is expanding so rapidly that it is reliant on e-mail as the glue to hold its employees together.⁸⁻¹⁰

The redistribution of power within the organisation can also be problematic. For example, with electronic networks, individuals can skip levels in the chain of command and give senior managers direct feedback on problems or successes, which is not the case in many conventional organisations.¹¹

As a result of the computer networks, faster decision making and easier access to company information are also possible. However, the speed of decision making may place great pressure on individuals who do not possess the necessary skills to function within such environments. At the same time, those who thrive in such an environment will find themselves in a strong competitive position in the networked marketplace.¹²

From an HRM point of view, the virtual organisation also holds a number of challenges. For example, the ways in which organisations have approached recruitment and career development in the past will change rapidly. More companies and employees are using the internet to match jobs and candidates.¹³ If the information on individuals is up-to-date and correct, no skill within a company can go unnoticed. The internet also helps management to put together people with specific skills via cross-functional teams to solve problems. This was impossible with the outdated information systems and rigid organisational structures of the past. Flexibility is thus the new goal.

Easy access to relevant information will mean that individuals will also be able to plan their own career moves within the company, thus utilising the available talent to the benefit of both the company and the individual.¹⁴

With multiple teams, the rigid, traditional job description will also have to disappear. Job descriptions are not flexible enough for the constantly changing world of new strategies, customer requirements, and membership of multiple teams. To fill this gap, companies will follow the competency-based approaches more enthusiastically. Competencies can and should be organised into menus that individuals and teams can use to describe their work and conduct people practices.¹⁵ In this regard Hertel, Konradt & Voss have in addition to the competencies derived from research with conventional teams, considered so called telecooperation-related KSA's that should become particularly important with high degrees of virtuality (see Figure 13.2).

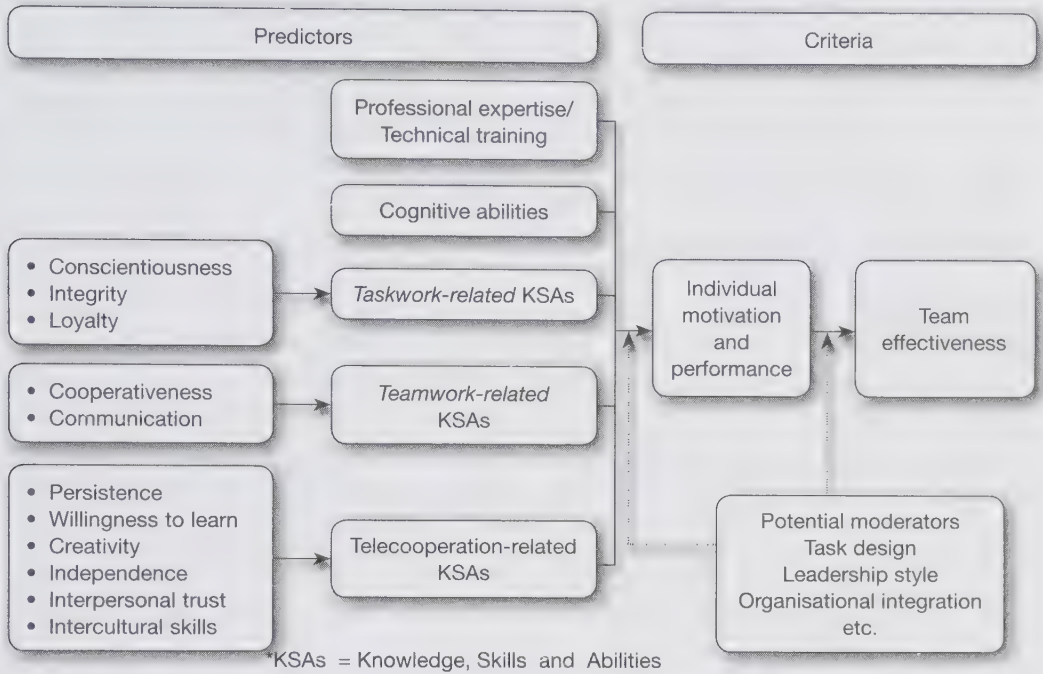
With workers working at distant sites, problems can also arise regarding the appraisal system the organisation uses and the manner in which it compensates these individuals. HR managers will have to devise innovative methods to address these unique situations.

13.1.2 The just-in-time workforce

The growth in temporary workers and just-in-time workers, and the outsourcing of a large number of organisational functions, has resulted in companies using more temporary workers.

HR professionals utilising these types of workers will have to find new ways to motivate them, as serious problems in performance and morale will occur. Research in the USA indicates that conflict between permanent staff and temporary staff can easily occur where, for example, organisations pay permanent staff for production outputs while giving a flat hourly rate to temporary employees, as we mentioned earlier in Chapter 5.¹⁶ Due to their employment contract, temporary workers cannot be motivated by the traditional methods of promotion, merit increases or, even, profit-sharing programmes. To overcome these

Figure 13.2 Predictors and criteria of the Virtual Team Competency Inventory (VTCI)



SOURCE: HERTEL, G., KONRADT, U. & VOSS, K. 2006. Competencies for virtual teamwork: Development and validation of a web-based selection tool for members of distributed teams. *European Journal of Work and Organisational Psychology*, 15(4):477–504.

problems, management and HR professionals will have to spend more time and money on providing training, giving such workers greater access to company information and a bigger role in decision making. Thus, in the workplace of the future, HR professionals will have to look at issues such as the orientation and training of just-in-time workers.¹⁷

13.1.3 The ascendancy of knowledge workers

As the world moves rapidly away from manufacturing into the services sector, HR managers will have to rethink their traditional approaches to directing, coaching, and motivating employees. Thus, the emerging knowledge worker in this new environment will be a unique individual whom the organisation must nurture to enable it to gain the competitive edge it desires.¹⁸

As companies continue to become flatter, they will retrench individuals who do not add value. Gone are the days when companies paid individuals only for performing managerial tasks. Managers and employees will have to make a strong commitment to lifelong learning and skill advancement to achieve job security in the new work environment. As these new knowledge workers become more mobile, HR managers will continually have to educate and train new employees in company culture and values.¹⁹

13.1.4 Computerised coaching and electronic monitoring

The growth in electronic systems over the coming years will allow employees to become fully independent. Easier control by managers over work employees perform may result in employees feeling manipulated and

exploited, placing the relationship between the manager and employee under great pressure.²⁰ Employees will also be able to learn more rapidly, e.g. by placing solutions to problems in a central database which can be accessed globally. Employees will also become less dependent on managers for coaching, training, and performance feedback, resulting in the redesign of managers'

jobs. The operation of the electronic networks 24 hours a day will make it difficult for employees to draw a line between work and home, which may result in domestic problems. Employees' right to privacy may also be invaded as a result of the permanent presence of the network system in the home environment.²¹

BOX 13.2

Goldman Sachs International: Diversity Task Force

In 2006, Goldman Sachs formed its second global Diversity Task Force comprising 34 Managing Directors. Fifty-one focus groups were held and extensive interviews were carried out with senior management to shape the foundation of a five-year diversity plan.

Goldman Sachs' belief in diversity as a business imperative has constantly driven commitment to achieve meaningful progress in this area. The first Diversity Task Force (DTF) was created in 2001 to assess the status of the firm's diversity progress and to make concrete recommendations to drive behavioural changes to advance diversity and inclusion at the firm.

Comprising 34 Managing Directors representing each division and region of the firm, the second DTF convened from April to July 2006. The main aim of the task force was to help shape the next generation of programmes and ensure that Goldman Sachs continued to build an inclusive environment. Much focus was put on ethnicity, multiculturalism, religion and sexual orientation. The recommendations made provided the foundation of their next five-year diversity plan.

While Goldman Sachs has made important strides in diversity, progressing the agenda demands a renewed sense of obligation and energy. Since the first task force, the Office of Global Leadership and Diversity has been established, they have launched the People Survey, which is an important tool for them to assess employees' satisfaction, and further support has been provided to the affinity networks.

The DTF represented the significant commitment and long-term effort needed to address the strategic priority that the firm places on this business imperative.

Impact

- Methodology has been developed to evaluate the diversity performance of senior business leaders
- A diversity and inclusion training curriculum that explores the entire spectrum of diversity topics has been launched
- Senior leaders are also proactively interweaving diversity agendas into their divisional address.

SOURCE: [Online] Available: http://www.bitc.org.uk/resources/case_studies/goldman_sachs.html as published in KIRTON, G. & GREENE, A-M. 2010. *The dynamics of managing diversity: A critical approach*, 3rd ed. Kidlington, Oxford: Butterworth-Heinemann:220, an imprint of Taylor & Francis.

13.1.5 The growth of worker diversity

The mobility of workers between countries has increased enormously over the years. Individuals with specific skills (e.g. computer specialists and chartered accountants) are sought throughout the world.²² Increasingly, companies are setting up manufacturing and assembly plants worldwide and smaller companies are expanding into international markets.

For the first time, managerial staff will come into contact with multicultural groups and will need to adapt to different work expectations and communication styles. Companies will highly value workers who are able to operate successfully in these diverse environments.²³ HR professionals will find it necessary to provide sensitivity training to help managers understand the needs and perspectives of different members in these work groups (see Box 13.2).

13.1.6 The ageing workforce

In the past, companies were, to a large extent, reluctant to employ older workers, as they saw them as less productive, less flexible, and more expensive.²⁴ Older workers were also denied challenging jobs. However, with the lack of skills in numerous areas, companies are again employing older workers because of their experience and maturity. These workers are also more flexible about taking part-time and odd-hour shifts than younger workers are. However, the implications are that younger managers may find themselves threatened when managing older staff. In this situation, HR managers must arrange for these managers to undergo training in managing teams and communication skills, to enable them to extract the best efforts from older teams.²⁵

13.1.7 The birth of the dynamic workforce

The processes and methods of performing work are no longer fixed but fluid. This

situation requires workers to adapt continuously. Thus, over the next few years, managerial performance will be based less on the ability to direct and coordinate work functions and more on improving key work processes through innovative thinking on a continuous basis.²⁶ This new dynamic environment will require workers to jump quickly into new ventures and manage temporary projects.

13.2 The redesign of the HRM role

From the previous discussion, it is obvious that if HRM is to address these changes successfully, the traditional role it has played until now will not work in the future. Therefore, the redesign of the HRM role is necessary. Galbraith,²⁷ as quoted by Kesler,²⁸ argues that the function must be repositioned much in the same way as a company would reposition itself to become more competitive.

One method organisations have used to achieve this has been the re-engineering of HR processes. However, although re-engineering will reduce waste and result in more satisfied internal clients, it will not change the fundamental role that HR professionals play in the business or the value HR professionals add to shareholders.²⁹

Research suggests that, to be successful, HR professionals must first work with top management to contract for a new or realigned role, before pursuing the re-engineering route. Thus, this must take place after the contract process. Kesler identifies three tactics that organisations can follow to achieve success:³⁰

- Contracting with line management for a new role for HR
- Identifying and developing new HR competencies
- Redesigning HR work, systems, and the organisation.

All these components cannot achieve change alone; organisations need to do them in conjunction with one another.

As Kesler remarks:³¹

Contracting for new roles without competencies to deliver is pointless; redesigning or eliminating work without a consensus from the client organisation leads to confusion and dissatisfied clients.

SOURCE: KESLER, G.C. 1995. A model and process for redesigning the HRM role, competencies, and work in a major multinational corporation. *Human Resource Management*, 32(2):230, Summer.

What do these individual elements entail? Let us take a brief look.

13.2.1 Contracting new roles

It is important that organisations, when contracting new roles to be performed, involve the internal clients who will be served. Thus, organisations need to approach several stakeholders. These can include employees, middle management, functional top executives, HR and top line management. The process must also be a two-way dialogue in which the client managers influence, and are influenced by, their HRM providers. The business needs to develop a process whereby it identifies HR priorities through intense involvement of both HR and line management.³²

Establishing the priority HR practice areas and outputs line managers desire is not enough. HRM and line managers must also agree on how the HRM role will actually change in the new environment, beyond the re-engineering effort of the HRM processes. The question that must be asked is: what value will HRM truly add?³³ For example,

in the case of training and development, will the HRM role be to enable employees to be better businesspeople or will it merely deliver a number of individual training programmes?³⁴ Thus, establishing this fundamental orientation of HRM work is critical if it is truly going to redesign itself for the new challenges.

Kesler has proposed a 'performance capabilities' (PC) model³⁵ that will help in this regard (see Table 13.1). As Table 13.1 shows, the model consists of a continuum of six value-adding roles, each of which is a distinct competency. The roles – from left to right in the model – are:³⁶

- Catalytic influence
- Diagnostic and fact-based analysis
- Innovating business structures and processes
- Assurance standards
- Administration and services
- Problem solving.

Roles one to three generally exert more leverage, as the model indicates. Here a partnership between HRM and line people creates benefits to the line organisation that are greater than the immediate efforts of the HR staff member.³⁷ Roles four to six, however, have less leverage because they are more transactional in nature and are less likely to add value to the money invested. Most HR departments view their current activities and resources as falling in the 'controlling, administering, and problem-solving' roles. However, the value of the various roles can be determined only in the context of a given company and its needs.³⁸ However, for the business strategy to be successful, the partnership-orientated performance capabilities (roles 1 to 3) must support the business strategy more directly than the service-transactions portion of the continuum (roles 4 to 6) does. The most effective use of resources is served when the continuum is utilised effectively.³⁹

Table 13.1 The performance capabilities model: defining the fundamental role of HRM

Greater leveraged roles			Less leveraged roles		
1	2	3	4	5	6
Catalytic influence	Diagnostic assessment	Innovating processes, structure	Assurance of standards	Administration and services	Problem solving
'Partnering role' ■ Enable others ■ Knowledge-based ■ Performance-based quality ■ Distributed resources ■ Enhance business performance ■ Knowledge transfer to line ■ Highly integrated with business process ■ Non-linear work – focus design on outcomes and competencies ■ Early life cycle			'Transactional role' ■ Service others (or remove administrative barriers) ■ System-based ■ Conformance-based quality ■ Consolidated resources ■ Economy of scale/cost (commodity) ■ Few specialists/admin transferred to line ■ Parallel, stand-alone ■ Linear work – process map and redesign (for consolidation, elimination, automation) ■ Late in the life cycle		

SOURCE: KESLER, G.C. 1995. A model and process for redesigning the HRM role, competencies, and work in a major multinational corporation. *Human Resource Management*, 34(2):237, Summer. Reprinted by permission of Wiley-Liss Inc., a subsidiary of John Wiley & Sons, Inc.

Activating the left side of the model first will normally reduce the resources consumed on the right side of the continuum later, according to Kesler.⁴⁰ For example, labour-relations planning and joint facilitation of the labour-management process will usually result in less problem solving regarding labour relations. Thus, to be effective, the HR role, which normally starts on the right side of the model (roles four to six), must move to the left (roles one to three), where conditions are best accomplished. Thus both halves of the model must be delivered to the appropriate extent and in a highly competent manner to be successful.⁴¹

To implement the discussion between line and HR managers, Kesler provides a further extension of the model shown in Table 13.2. He does this by placing HRM practice areas and the performance capabilities on an HR processes grid in which a dialogue can take place in order to:⁴²

- Contract for priority, value-added roles, while influencing the expectations of internal clients
- Identify a set of required competencies that reflect those priorities
- Redesign the work and processes.

Table 13.2 shows Kesler's HR grid, which was completed by the US company Whirlpool's North American Appliance Group (NAAG). This grid will provide a tool for repositioning the HRM function by answering the following questions:⁴³

- What is the HRM work that needs to be performed?
- Who are the best people to perform it?
- Where does the HRM organisation clearly add the most value?
- What are the specific outputs required, and in what time frames?
- What is the relationship between line and HRM staff in these major practice areas?

- How are we allocating resources among the cells of the grid?
- What can we stop doing?

Getting answers to these questions for the future state will form the basic contract with the line organisation. The process by which to obtain these answers can consist of scanning for competitive success factors to implement the business strategy, benchmark visits to other companies, interviews with focus groups within the company (e.g. managers across diverse units and group functions), and surveys among the staff (using questionnaires on the HR process

grid).⁴⁴ For example, the survey can ask respondents to identify which cells in the grid should be further emphasised and which should be de-emphasised over the next number of years, given specific business strategies. Responses to other questions could determine what activities could be eliminated, consolidated or automated, either at the business-unit or other levels. After gathering the data, feedback meetings must be held and final decisions made. It is interesting to note that, in the Whirlpool case, middle management emphasised the maintenance or service-orientated portions of the grid. The team involved in this process

Table 13.2 HR grid at Whirlpool's North American Appliance Group (NAAG)

	Catalytic influence	Diagnostic and analysis	Innovative process, structure and plans	Assurance of service	Admin and service	Problem solving
Organisation design						
Talent pool management						
Training and education						
Employee involvement						
Rewards and recognition						
Well-being and morale						
Communication						

Key:

Increase	No change	Decrease
	Future emphasis	

SOURCE: KESLER, G.C. 1995. A model and process for redesigning the HRM role, competencies, and work in a major multinational corporation. *Human Resource Management*, 34(2):244, Summer. Reprinted by permission of Wiley-Liss Inc., a subsidiary of John Wiley & Sons, Inc.

must try to use the information from other more successful companies to increase the support for the partnering (the left side of the model) elements of the grid. After the discussions, a two-to-five-year plan can be drawn up, HR processes re-engineered, and staff competencies developed.⁴⁵

13.2.2 Competencies

Besides new roles, additional competencies to support the new role – for example, leadership, strategic planning, HR Risk Management (see Appendix 13A) and business know-how – must also be developed, as we indicated earlier. In many HRM organisations these competencies will be unknown to the HRM staff.⁴⁶ The discussion in section 13.3 provides more details in this area.

13.2.3 Redesign of the HRM process and structure

The final step is the redesign of the HRM function. Here re-engineering plays a vital role, as it does in the other functional areas within the organisation. In most organisations the re-engineering action redirects the staff responsibilities away from functional work to client-centred consulting, while the HRM structure is realigned to focus on administrative service centres and internal HRM consulting organisations.⁴⁷ See section 13.4 for more details.

13.3 The competencies the future HR professional will require

As we indicated earlier, one of the tactics by which to reposition the HRM function includes the development of competencies for the HR employees. Competency refers to an individual's demonstrated knowledge, skills, and abilities (KSAs).⁴⁸ The literature indicates that researchers have done little work to identify, conceptually or empirically, competencies HR professionals require.⁴⁹ Many companies follow the approach

whereby either the insights of senior managers or other internal customers define competencies for HR professionals.

Ulrich, Younger, Brockbank and Ulrich of the RBL Group, developed a six-domain framework for conceptualising HR competencies (see Figure 13.3). They based the model on results obtained in the largest global study ever undertaken on HR professionals (HRCS), in conjunction with the University of Michigan Ross School of Business in 2012.

The framework consists of the following elements: Strategic Positioner, Capability Builder, Change Champion, HR Innovator and Integrator, Technology Proponent and Credible Activist.⁵¹

We shall now take a brief look at these elements (please note that the following work is based on the *RBL White Paper Series* with the title 'The State of the HR Profession' published by the RBL Group in 2012.⁵²

13.3.1 Strategic Positioner

In this domain, the HR professional must act and think from the outside in. They are well versed and in a position to translate the external business trends into internal decisions and actions. They have, for example, a good understanding of the impact of the economic, political, social, technological and demographic trends and of the industry their company functions in. They are also able to target and serve their customers by aligning organisation actions to these needs.

HR professionals who are successful in this area will have the following capabilities:

- Able to interpret the global business context
- Able to decode customer expectations
- Able to craft a strategic agenda.⁵³

13.3.2 Credible Activist

In this domain, the HR professional must build their personal trust through their business acumen. They can achieve this by communicating clear and consistent

messages with integrity. They must have a clear point of view and be able to influence others in a positive way. HR professionals who are successful in this area will have the following capabilities:

- Able to earn trust through results
- Able to influence and relate to others
- Able to improve through self-awareness
- Able to shape the HR profession.⁵⁴

13.3.3 Capability Builder

In this domain, the HR professional is able to enhance individual abilities into an effective and strong organisation, through building the organisation’s capabilities. This process can take place through a consistent audit and investment in the creation of

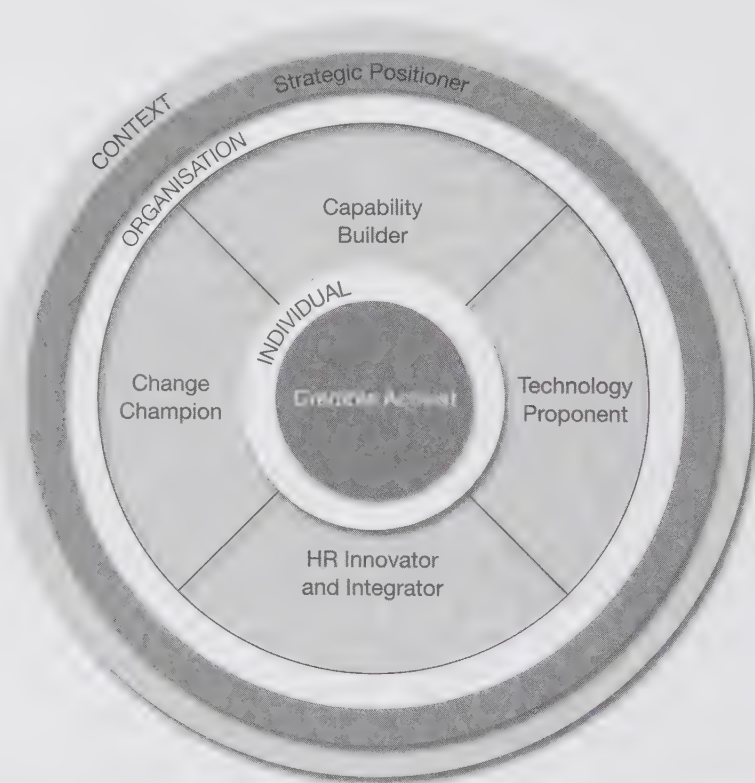
organisational capabilities. HR professionals who are successful in this area have the following capabilities:

- Able to capitalise on the organisation’s capabilities
- Able to align the strategy, culture, practices, and behaviour
- Able to create a meaningful work environment.⁵⁵

13.3.4 Change Champion

In this domain, the HR professional makes sure that isolated and independent organisational actions are integrated and sustained through a disciplined change process. To be successful the HR professional must initiate change by building a case for the need for

Figure 13.3 Six domains to become a successful HR professional



SOURCE: ULRICH, D. YOUNGER, J., BROCKBANK, W. & ULRICH, M. 2012. The State of the HR Profession. *The RBL White Paper Series*. The RBL Group:7. © The RBL Group. All rights reserved. Used with permission of The RBL Group; for more information see www.rbl.net.

change and must be able to sustain change through organisational resources. HR professionals who are successful in this area will have the following capabilities:

- Able to initiate change
- Able to sustain the change.⁵⁶

13.3.5 HR Innovator and Integrator

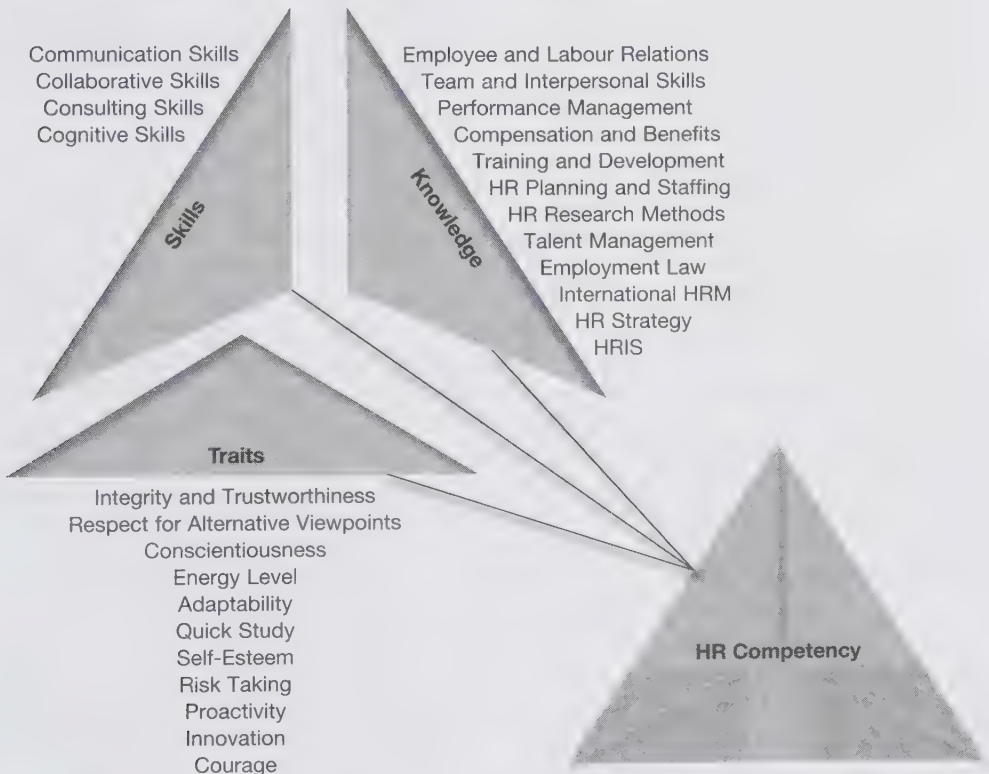
In this domain, the HR professional knows the historical research on HR to enable them to innovate and integrate HR practices into a unified solution to solve future business problems. They can achieve this by gaining insight into the latest trends in the different HR activities. HR professionals who are successful in this area will have the following capabilities:

- Able to optimise human capital through workforce planning and analysis
- Able to develop talent
- Able to shape the organisation and communication practices
- Able to drive performance
- Able to build a leadership brand.⁵⁷

13.3.6 Technology Proponent

In this domain, the HR professional needs to be able to use technology more efficiently to deliver HR administrative systems such as benefits, payroll processing, health-care costs and other administrative services. The HR professional must also be in a position to be able to connect people better through technology whether within the organisation or outside with customers.

Figure 13.4 Competencies for the HR professional of the future



SOURCE: Adapted from MCEVOY, G.M., HAYTON, J.C., WARNICK, A.P., MUMFORD, TV., HANKS, S.H. & BLAHNA, M.J. 2005. A competency-based model for developing human resource professionals. *Journal of Management Education*, 29(3):393, June. Used with permission from the Copyright Clearance Center.

HR professionals who are successful here will have the following capabilities:

- Able to improve the HR operations within a company
- Able to connect people through technology
- Able to leverage social media tools.⁵⁸

The domains within which the HR professional must operate have been identified. The question now is: what competencies must the HR professional possess to be successful within these domains? The essential competencies underlying these domains are summarised in Figure 13.4. The figure makes it clear that the HR professional will have to possess a wide range of skills, knowledge, and traits not required previously. Thus a great challenge lies ahead!

The different roles to be played by the new HR department and the different competencies required by the HR professional

have been identified. All that now remains is to determine the appearance of the structure within which the HR professional will operate.

13.4 The structure of the HR department of the future

For the HR department to function successfully and survive the tremendous changes taking place within organisations, it needs to undergo major restructuring. Thus, reorganisation should better position the function to enable it to provide support for the changing business needs. Figure 13.5 shows an overview of the HR organisation that facilitates the achievement of two fundamental ends needed in the future namely value creation and capability enhancement. The discussion of this model that follows is based on the work done by Dave Ulrich, Jon Younger and Wayne Brockbank and published in their

Figure 13.5 The twenty-first century HR organisation



SOURCE: ULRICH, D., YOUNGER, J. & BROCKBANK, W. 2008. The Twenty-First-Century HR Organisation. *Human Resource Management*, (Winter) 47(4):829-850.

article, 'The twenty-first century HR organisation'.⁵⁹

A brief discussion of the model follows:

■ **Block 1 – Service Centres**

With major advances in information technology, companies have become aware that many administrative tasks can be more efficiently performed in a centralised, standardised way.⁶⁰ As such, service centres have been established which not only provide employees with a better service but also use fewer dedicated HR resources, and are also very cost effective. These centres also make it possible to reduce redundancy and duplication.⁶¹ As a result of the technology used, these centres are also accessible 24 hours per day, 7 days a week from inside and outside the company.⁶² Thus, HR organisations are increasingly addressing their transactional needs primarily through technology enabled employee-self service centres as well as through outsourcing. For example, many consulting firms have built their business on HR-shared services.⁶³ Table 13.3 shows a number of key questions that a company needs to ask when it decides to move to an HR shared services approach. The information provided in Table 13.3 makes it clear that moving from a traditional HR delivery model to an HR shared services model involves major organisational change and careful management.

■ **Block 2 – Corporate HR**

To be effective, HR professionals also need to have a presence at the corporate level next to the other functional areas of the organisation like Marketing and Finance. HR professionals at this level need to address six areas of need within the emerging HR organisation namely:⁶⁴

▷ They create a consistent company-wide culture face and identity

- ▷ They shape the programmes that implement the CEO's agenda
- ▷ They ensure that all HR work done within the company is aligned to the business goals
- ▷ They arbitrate disputes between centres of expertise and embedded HR
- ▷ They take primary responsibility for nurturing corporate level employees
- ▷ They ensure HR professional development.

This process is normally referred to in the literature as an HR business partnership.

■ **Block 3 – Embedded HR**

Due to this new structure of the HR organisation, it is necessary that some HR professionals work within the different business units within the company. These HR professionals are sometimes called embedded HR and go by many names, the most popular being 'HR generalists'.⁶⁵ Whatever their title, they work directly with line managers and the leadership team of the business unit. Their main tasks consist of clarifying strategy, performing company audits, delivering supportive HR strategies and leading their HR function.⁶⁶ They can thus be seen as operating at the coalface.

■ **Block 4 – Centres of Expertise**

A further important component of the new HR structure is that of centres of expertise.⁶⁷ These centres operate as specialised consulting firms inside the organisation. Depending on the size of the company, they may be corporate wide or regional or country based.⁶⁸ They often act like businesses that have multiple clients (business units) using their services. Sometimes a fee is charged for their services. Typically the embedded HR units discussed earlier use the services of these centres before contracting external vendors.⁶⁹ As internal design and process consultants, HR

Table 13.3 Key questions to consider when adopting HR shared services centres

Strategic issues	1. What rationale exists for setting up the shared services centre, in addition to cost savings through synergy? What are the alternatives? 2. Is the HR shared services model really more cost effective when hidden costs are calculated? What are potential indirect costs and how can they be measured? 3. Are you going to look at the shared services centres of other firms before you set up your own? For example, will you engage in market research or benchmark exercise? 4. If yes, how will you do it? What criteria will you use? 5. What are the perceived benefits and disadvantages of the new service provision for the stakeholders? 6. How will the shared services centre affect the role of HR strategy in the corporate strategy? 7. How will the relationship between the HR professionals and line managers be reshaped? 8. How should the HR function reconcile or manage its two roles: providing HR support services to the employees and line management and providing strategic input to the corporate strategy?
Managing the change process	9. How will different groups of people be affected by the change (e.g., line managers, HR managers, HR officers, and individuals) who receive the services? 10. How will the change process be managed? 11. How will resistance to change be expressed and managed? 12. What training is needed for different groups of employees?
Operational issues (the business of the shared services centre)	13. What services will the shared services centre provide and how will the work be organised? 14. How will the shared services centre interact with line managers and the corporate HR professionals to deliver a holistic package of HR services that will provide both operational services and strategic influence at the corporate level? 15. What will be the internal contractual arrangements (e.g., service-level agreements, key performance indicators) between the centre and divisions of the firm?
HR policy and practice for the HR staff in the shared services centre	16. Will the setting up of the shared services centre lead to recentralisation of the HR function and specialisation of HR officers' skill portfolios? 17. Will the HR staff lose any jobs as a result of the change? 18. Will it be necessary to recruit new HR staff for the centre due to staff turnover (e.g., if staff refuse to be relocated) or new skill requirements (e.g., IT and customer management skills rather than HR specialists skills)? 19. How will the following HR policies and practices be different from what they were before the change? (a) recruitment (b) training and development

- | | |
|--|---|
| | <ul style="list-style-type: none"> (c) skill/competence requirement (d) work organisation and responsibility (e) their role in the client department/establishment (f) terms and conditions (g) career pattern. <p>20. In particular, what career pattern will exist for HR personnel, and what are the advantages and difficulties for their career progression within the organisation and within the broader labour market (as compared to the three typologies of an HR career pattern: vertical, zigzag, and parachuting)?</p> <p>21. How will the centre manage its work organisation to avoid the 'sweatshop and tight surveillance' image and nature of call-centre work that have been widely criticised?</p> |
|--|---|

SOURCE: COOKE, F.L. 2006. Modelling an HR shared services centre: Experience of an MNC in the United Kingdom. *Human Resource Management*, 45(2):225. Used with permission.

professionals in these centres of expertise create menus of what can be done for the company.⁷⁰ If a business unit decides to go to outside vendors, the new knowledge the vendors provide is added to the current menu for use throughout the enterprise. They also assist the HR generalists to select the right practice of intervention for a particular situation.⁷¹

■ Block 5 – Operational executors

To enhance the effectiveness of the new structure, organisations sometimes create a fifth leg called the HR consulting pool.⁷² This pool is normally staffed with operational executors.⁷³ The role of these staff members is to assist the HR generalists within the business units to operationalise the HR strategies.⁷⁴ This

is sometimes necessary when HR generalists find themselves overwhelmed with operational HR work that conflicts with their main purpose that renders them unable to make time to be strategic. Thus, the consulting pool operates as a team of high performing mid-level HR professionals and is managed as a cohesive unit.⁷⁵ The team can also assist staff members at the centres of expertise if needed to, for example, implement solutions to important HR projects. Given the high cost, financially and emotionally, in moving to a shared services model, companies need to take a holistic approach and carry out sophisticated financial calculations to weigh up the cost of insourcing versus outsourcing.

SUMMARY

This chapter looked at the important changes that will take place within the workplace over the next few years. It has also indicated the role the HR function will play. To be successful, the HR function will have to be repositioned. The chapter listed various tactics that can assist with this process.

The chapter also highlighted issues pertaining to the competencies HR professionals need to manage the new HR function, as well as the new HR structure that will accommodate these changes.

KEY CONCEPTS

- | | |
|---|---|
| <ul style="list-style-type: none"> ■ Ageing workforce ■ Ascendancy of knowledge workers ■ Business ally ■ Business partner ■ Centre of expertise ■ Change processes ■ Change steward ■ Competencies ■ Computerised coaching ■ Credible activist ■ Culture ■ Dynamic workforce | <ul style="list-style-type: none"> ■ Electronic monitoring ■ Embedded HR ■ Just-in-time workforce ■ Operational executor ■ Partnering ■ Redesign ■ Restructuring ■ Shared services model ■ Strategy architect ■ Talent manager ■ Value-added roles ■ Virtual organisation ■ Worker diversity |
|---|---|

CASE STUDY

Objective: To understand the role of the HR department in a changing environment.

A change in HR

GE Fanuc is a manufacturer of products for factory automation and control. Headquartered in Johannesburg with 1 500 employees, the HR department primarily performed administrative support activities. But when Dawid Ellis took over as Senior Executive Director of Human Resources, he and his staff began by restructuring and decentralising the HR entity so that each functional area of the company has an HR manager assigned to it. The HR managers were expected to be key contributors to their areas by becoming knowledgeable about the business issues faced by their business functional units. Today, HR managers participate in developing business strategies and ensure that human resource dimensions are considered. For instance, the HR manager for manufacturing has HR responsibilities for 600 employees.

In that role, she contributes to workflow, production, scheduling, and other manufacturing decisions. It also means that she is more accessible to and has more credibility with manufacturing workers, most of whom are hourly workers. Making the transition in HR management required going from seven to three levels of management, greatly expanding the use of cross-functional work teams and significantly increasing training.

To ease employee and managerial anxieties about the changes, GE Fanuc promised that no employees would lose their jobs. Managers and supervisors affected by the elimination of levels were offered promotions, transfer to other jobs in GE Fanuc, or early retirement buyouts.

Additionally, employees were promised profit sharing, which has resulted in up to three weeks additional pay in profit sharing bonuses in some years. The test of the

change is in the results. GE Fanuc's revenue is up almost 18%. More than 40 work teams meet regularly to discuss work goals, track their performance against established measures, and discuss problems and issues. Employee turnover is also extremely low in most areas.

Questions and activities

1. What possible problems do you see with this approach for HRM in other organisations?
2. Compare this approach to HRM with the involvement of HR in operations in a job you have had.

SOURCE: MATHIS, R.L. & JACKSON, J.H. 2004. *Human resource management*, 10th ed. (international student edition). Mason, Ohio: South Western, a division of Thomson Learning:47–48. Used with permission.



REVIEW QUESTIONS AND ACTIVITIES

1. Discuss the important challenges facing management and HR professionals regarding the development of virtual organisations.
2. Briefly explain Kesler's performance-capabilities model.
3. Ulrich, Younger, Brockbank, and Ulrich recently identified six domains that can serve as a framework for identifying competencies for HR professionals. Briefly discuss.
4. Write a short paragraph on the concept 'service centres'.
5. Explain Dave Ulrich, Jan Younger and Wayne Brockbank's structure of the HR department of the future.
6. Provide a list of the seven changes, identified by Barner, which will take place over the next number of years and will reshape the work environment.
7. HR professionals will have to find new ways to motivate the just-in-time workforce. Discuss briefly.
8. Write a short paragraph on the challenges facing HR professionals regarding computerised coaching and electronic monitoring in the new workplace.
9. List Kesler's three tactics that can be followed in the redesign of the HRM role.
10. Write a short paragraph on the ageing workforce.

FURTHER READING

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WEBSITES

www.shrm.org

- Society for Human Resource Management (for latest research results pertaining to the changing environment of HRM)

www.gilgordon.com

- Site for issues such as telecommuting, telework, and alternative officing

www.hrprosgateway.com/www/index2.html

- Links to HR-related web pages

www.netage.com/pub/minibook/vtmini_fr.htm_

- Virtual Teams Minibook

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- Keys to success with virtual teams

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Appendix 13A

HR risk management*

The management of risk in the HR area has become increasingly important for all HR managers. The word risk is derived from the old Italian word 'riscare' meaning to dare. Risks are uncertain future events which, if left unattended, could adversely impact on the company's functioning. To be successful, it is important that HR risks are included in the company's Risk Management Plan. While a number of companies attend to these risks proactively, others sit and wait for them to go away. In a recent survey undertaken by the SABPP amongst 40 HR managers, the following HR risks were identified – the risks are listed from the biggest to the smallest:

- Poor recruitment/selection
- Lack of succession planning
- Poor information management
- High absenteeism
- Sabotage
- Poor ethics
- Remuneration problems
- Nepotism
- Strikes/disputes
- Verification of qualifications
- Lack of compliance with laws/rules
- Poor leadership/management

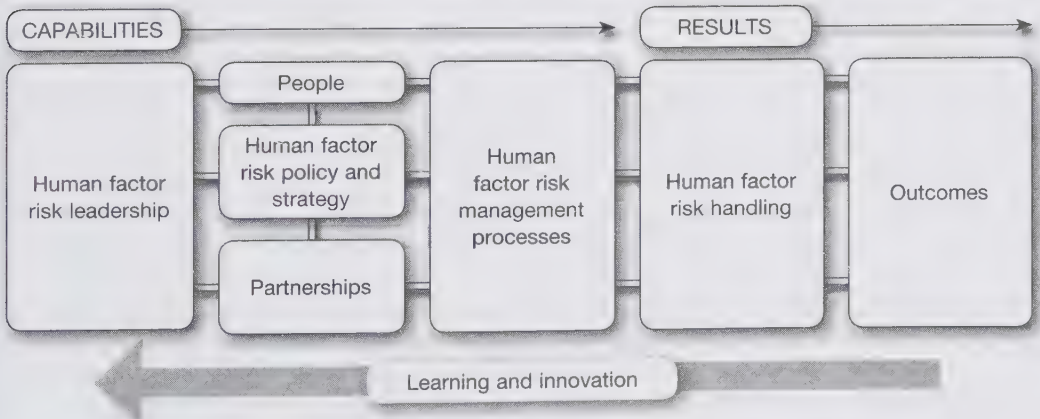
- Skills shortages
- Employee retention

In the Figure 13A.1 below, an HR Risk Assessment Framework is provided which can assist HR managers plan, assess and implement a HR risk management process. The Framework is based on the European Foundation of Quality Management Risk Management Model.

The building blocks to the left of the Framework represent the capabilities needed to make HR risk management work, i.e., the HR manager assumes responsibility for HR risk leadership. As people can have either a positive or negative impact on the company it is essential that a human factor risk policy and strategy is developed. To optimise this it is essential that partnerships be developed internally between departments and externally, i.e., with the Department of Labour. HR risk factor processes are at the centre of the framework, i.e. all processes and practices needed to manage the HR risk is vital. Once these capabilities are developed, the company is ready to deal with risks and report on the outcomes.

*The content of this document contains extracts from the following Position Paper issued by the South African Board for People Practices (2010). Authored by M. Meyer, G. Roodt and M Robbins.

Figure 13A.1 Human factor management assessment risk framework



SOURCE: MEYER, M., ROODT, G., ROBBINS, M. 2010. Adapted from *HR Risk Management* – a position paper published by the South African Board For People Practices. Reprinted by permission of SABPP.

CASE STUDY 1

Marks and Spencer – HRM issues

Introduction

In an increasingly competitive environment, organisations have to focus on the value of investment in human resources as a major source of competitive advantage. Although a business strategy as a means of competition is common conversation in the executive suite, taking a strategic approach can be especially beneficial for staff functions within companies, as they are often required to justify their need for resources and their contribution to the company.

The following report presents an analysis of human resource management (HRM) issues provided in a case study on Marks and Spencer's (M&S) organisational change. It discusses strategic HRM issues facing the company in deciding to create business units and adopt structural change, and the extent to which M&S needs to overhaul HRM and its core business. The author also emphasises the importance of HRM styles and approaches for the company's medium-term business practices being integrated into an overall organisational strategy.

Strategic HRM issues for M&S's organisational change

The common wisdom in the literature on organisational change is that employee involvement is crucial to successful change, especially in situations that require attitudinal and cultural change. Therefore, any rapid organisational transformation can only be successful if they focus on structural as opposed to cultural change. The M&S case is a scenario of rapid organisational transformation, which was based on a vision imposed on the company in a mainly directive fashion, from the top down, by its management and CEO, but which could potentially lead to a widespread change of attitudes and behaviours in the company. This change in the middle of the trading period was a risky action and would bring about major confusion for the staff, putting pressure on their performance. It was an emergent change where staff had to develop and adjust to new ways in a flatter organisational structure and new ways of operations under new business units.

In this case it can be seen that the company deliberately set out to change the basis on which it competed by reinventing itself as a service-based organisation. One of the standard perceptions for successful organisations is that they should know their own strengths and weaknesses, their customers' needs and the nature of the environment in which they operate. Hence, by introducing new business units M&S aimed to make them fully profit-accountable, putting more emphasis on the individual performance of the departments. This would enable M&S to effectively control their operations and show where the improvements need to be implemented. With this new approach to business practices, the company had to closely consider strategic issues of HRM.

One of the reasons behind the proposed change is to modify the attitudes and behaviours of the staff. People are required to reconsider their attitudes towards how work is performed and their attitudes to their counterparts externally. Whatever form it

takes, if it is to be successful, there are three people-related activities that need to be undertaken: creating willingness to change; involving people, and sustaining the momentum (Doorewaard and Benschop, 2003; Burnes, 2004). M&S is seeking to create willingness and a readiness for change and needs to be aware that stressing the positive aspects of the proposed change may have a negative impact on the company's performance. Therefore, M&S have to make people fully aware of the pressure for such change during the trading period, give them on-going feedback on the performance and areas of activity within the organisation, and understand staff's fears and concerns. Constant communication and involvement will have to be present, providing resources and explanations for change. Aligned line managers will have to give all the support needed to the change agents, develop new competencies and skills and reinforce desired behaviours, such as increased pay or bonuses.

The new changes to business units and a flatter company structure are likely to increase employee empowerment and responsibility, increase the direct contacts with customers and build new knowledge. Post-Modern theories suggest better flexible strategies, accommodating change in the structure of power relationships, where they specialise in their field of tasks (Johnson and Scholes, 2002; Francis, 2003). To become more flexible M&S decided to apply a more horizontal management organisation style. Through a clear leadership role of appointed heads of business units, there is a certain amount of centralisation so as not to prevent adaptability and flexibility of staff. Coordination will need to be in the form of a clear structured hierarchy and division of labour. To encourage job enrichment and staff satisfaction, M&S may establish one or more specific coordinating roles. Liaisons, individual or departmental, committees, task forces, project groups, and the like are all examples of possible structural coordinating devices.

Many modern theorists believe that in order to succeed, business culture needs to be change-oriented and so M&S need to adapt to differentiating changing environments and internal workforce diversity.

HRM approaches for M&S's medium-term performance

The interpretation of HRM is based on incorporating either a 'soft', developmental humanist approach or a 'hard', situational contingent approach (Liao, 2005). Schnelder (1994) has suggested that in the 'soft' approach, effective HRM is seen to involve a focus upon fostering employee motivation, commitment and development. It is an approach that acknowledges the importance of HRM to the aims of the business, whilst reflecting attempts by management to create a work environment that emphasises employee development, through practices such as training, participation and communication, and the importance of having innovative, flexible, committed employees who are valued resources.

'Hard' HRM is, as Liao (2005) has noted, closely aligned with what is often termed strategic HRM. In these instances, HRM is closely linked with business strategy. Accordingly, it views employees as a resource to be used dispassionately and in a rational manner. As such, HRM effectiveness can be more contingent upon cost minimisation measures rather than upon significant investment in human resources. A 'hard', contingency-based approach to HRM is often seen as an essential part of a cost-minimisation strategy. However, in the case of M&S it is suggested that for a successful implementation of changes, there is a greater need for a 'soft' approach for

medium-term success, as everyone within the company needs to cooperate and understand the importance of the changes. For M&S the commitment of senior management and the assigned heads of the business units to HRM are crucial to the company's effective operation. It would be essential to possess the knowledge and skills necessary to implement a credible HRM programme within the organisation. For medium-term success, M&S needs to consider the following HRM approaches:

- A clear understanding of and commitment to the desirable change needed to prevent any conflicts and operational barriers.
- Dynamic and effective leadership supported by the managers of M&S.
- It is also important to consider teamwork in the decision-making process. The employees have to be integrated into the change-process management.
- To become a more service-focused company, M&S will have to look at the culture of communication, so that people can use the advantage of a good working team for progress and the company's success. Mayo's motivation theory also suggests that effective communication is an essential part of organisational change and an effective foundation of modern organisations. Hence, M&S has to put greater emphasis on the improvement of interpersonal communication skills of all organisational members.
- As McGregor's theory proves, employees are likely to be motivated by the goals of achievement and 'self-esteem'. By rewarding staff and by leading people, M&S would build a good management team for medium-term success.
- Staff involvement and participation are likely to contribute to a sense of responsibility and ownership and, hence, organisational commitment and loyalty. The norms and beliefs that enhance an organisation's ability to receive, interpret, and translate signals from the environment into internal organisational and behavioural change will promote its survival growth and development.
- It may be important to clarify the strategy throughout the hierarchy to every employee (Huang, 2001). An effective two-way flow of information and communication has to take place, so that everyone will be aware of the goals and visions for the company's growth. Face-to-face, one-to-one communication through to routine bulletins on notice boards and circulars sent around the organisation are all important for effective communication of the message. Staff meetings have to take place to inform everyone about the changes and prevent misunderstanding and dissatisfaction. In order to get feedback on the changes, a two-way communication approach has to be encouraged.
- A good strategy for dealing with conflicts and a contingency system is also essential for the operational process.

HRM and the core business of M&S

One of the challenges for managers having to introduce change in the company is to determine the strategy that will produce the best results. In a situation of excellence, a company has to be able not only to adapt in an outstanding way to its market conditions, but also to develop internal practices that clearly set it aside from the competition.

Change can be costly, not only in financial terms, but in terms of management time. The question should arise whether M&S has enough capability and is ready to manage change and, more importantly, is ready to achieve the scope of change.

It is not enough to adjust the performance management processes to support changing business strategies. M&S managers need to be able and willing to envisage a future where the strategies and performance of the company are transformed by stretching the staff's capabilities better than their competitors. The primary goal of M&S management has to be in overhauling an integrated relationship between HRM and the core business to successfully implement the changes.

Strategic capability is essentially concerned with how the resources (including people) are deployed, managed, controlled and, in the case of people, motivated to create competences in those activities and the business processes needed to run the business (Huang, 2001). Bergenhenegouwen (1996) states that the concept of core competences goes beyond this in a search for those few activities that underpin competitive advantage. Nevertheless, the starting point of successful strategies for M&S is acquiring, retaining and developing human resources. Much of the 'hard' side of HRM is concerned with ensuring that this baseline is maintained in the company. HRM activities such as audits to assess HR requirements to support core business strategies, goal-setting and performance assessment of individuals and teams, the use of rewards, recruitment as a key to improve strategic capability, and training would assist M&S management in delivering the proposed change in the most effective way for business outcomes.

M&S has been always known for its strength in linking business and human resource strategies. This tends to bring clarity to the business planning process. However, operating in a highly competitive environment, with constant pressure from stakeholders and external forces impacts the decisions of the management board, as it was in this case.

In general, a strategic approach to HRM involves the design and implementation of a set of internally consistent policies and practices that ensure a company's human capital can contribute to the achievement of its business objectives. Fundamental to the strategic HRM perspectives, there is an assumption that company performance is influenced by the set of HRM practices a company has in place. M&S line managers can enhance productivity by building a sound HRM system with a set of specific HRM practices. This necessitates the development of an approach to investigate the correlation between a company's productivity and strategic HRM factors. Based on that understanding managers can adopt appropriate strategies to improve the company's HRM so as to increase the business units' total productivity. According to strategic HRM, the HR strategy should be developed alongside the general strategy of the organisation, to acquire cultural fit within and with the outside environment.

Conclusion

Every organisation wants to be successful and depends upon its employees to make that happen. Success should be viewed over the long term. A healthy organisation can go the distance and the best measure of success should be the health of the employees.

The most important issue for M&S is to build upon the company's already existing strengths and try to overcome the threats of the change. One of the major benefits claimed for organisational learning is that it enables organisations to manage change in a timely and effective manner. The organisational learning and individual development movement was largely a response to the need for organisations to seek to sustain competitiveness and survival in a discontinuous environment. Management practice

today is still largely driven by a closed systems view that relies on planning, on a consensual, top-down implementation of change interventions. M&S's change requires time and energy for learning new approaches, but it is necessary to develop new skills and capacities. M&S has a long history of change management and HRM excellence, but even for them, resolving their present tensions and changes represent a considerable challenge.

SOURCE: [Online]. Available: <http://www.ivoryresearch.com/sample13.php>, 9 March 2012.

CASE STUDY 2

VELUX UK – Systems Thinking

Introduction

The VELUX Group is primarily known for their roof windows and skylights. They have manufacturing companies in 11 countries and sales companies in just under 40 countries, are one of the strongest brands in the global building materials sector and sell their products in most parts of the world. Founded in 1954 the VELUX Group now has about 10 000 employees. Group head office is based in Horsholm, north of Copenhagen but the UK headquarters and customer contact centre are in Glenrothes, Scotland.

In 2004 Laurence Barrett was the Executive Director of VELUX in the UK. Being a director for the Danish window manufacturer was, on paper, the dream job. The company was the number one supplier of roof windows in the world. Despite attempts from other suppliers, most of whom were providing windows at a cheaper price, VELUX dominated the market. The company had the highest market share and a healthy profit margin. Most directors would have put their feet up and enjoyed the enviable position of being the market leader. But Barrett wasn't content. He was aware of a constant undercurrent of customer dissatisfaction. But the situation was brought to a head when a disgruntled customer sent a recorded delivery letter to every director of the company. The letter arrived at each director's home on a Saturday morning and caused uproar on the Monday morning.

'The letter' as the now CEO of Falkirk for Business remembers 'was a turning point, it brought the poor service issues to a head and gifted me the support to investigate the full extent of the problem, and as we were to find, there was definitely a problem.'

Analysing the problem

Vanguard Scotland was called in to help. Their first move was to put together a team of frontline VELUX UK staff to analyse the nature of customer contact demand and study the value created for the customer. It was discovered that the level of failure demand was around 45% and Barrett recalls that 'It was evident that the customer was getting

the run around. Only 52% of our calls were handled on one stop (i.e. by the first person they spoke to). We had so many different lines and so many different service desks, each with their own functional area of responsibility, that the customer service agents had become accustomed to first checking if the customer had got to the correct desk rather than solving their problem.'

The company also had an incentive scheme for operators to upsell window blinds. This simply exacerbated the problem. Operators were listening for customers who were ready to buy; any callers with questions not related to an immediate sale were passed off to other areas. And to make matters worse, if once the question had been answered the customer then made a request to purchase, they would then get passed back to yet another agent in the service centre.

The Systems Thinking solution

Barrett, a manager who cares deeply about customers, took action fast. On the day he got the information about the effects of the call centre design and the incentive scheme he put a new pay structure into place and started to run experiments to see how many calls could be handled in one stop if a combination of skills were used to deal with the customer. Initially two people would take the call together, each with the ability to listen to the customer demand and respond.

Within a few months the call centre was handling nearly all calls in one stop. Within three years Barrett had replaced the 14 different functional service desks with one large desk that could handle any demand. And in the independent survey, positive customer ratings had increased by 40%. The bottom line improved by over £1m within a year.

The success was due to creating a change team that was made up of frontline staff. Barrett freed up three days a week to join this team and learned (on the job) with them how to use Systems Thinking management methods, line demand analysis and process mapping. He saw that his job as to remove 'the stuff' that was getting in the way of the frontline team being able to do their job of satisfying customer demand.

Employee turnover following the intervention fell from 28% per annum to just 11%; well under the call centre industry average of 20%. The CIPD state that staff turnover costs an estimated £2 250 per person. So an average call centre with 188 staff would expect a turnover of approximately 37 employees per year, amounting to £83 250. If you can reduce that you can save money.

VELUX UK did just that. The improved system allowed staff to feel they were really able to help customers, empowering them and making them happier in their work. Staff turnover dropped to just 22 employees a year saving £148 000.

This was reinforced by a sharp drop in the average number of days absent from 6.81 days per year, per employee to just 4.

Again the CIPD reports that the average cost per employee for a day's absence is £600. With their new absence rate at 56% less than the average call centre VELUX UK saved £96 000.

This new way of working not only made staff and customers happier, it also enabled staff to do more value work. Under the previous system VELUX would have required 81 staff; they now only required 64 due to the increased efficiency and removal of failure demand. This saved them over £600 000.

Taken together over a three-year period the client saved in excess of £1m from the above, staff morale improved and the reduction in transferring calls around the

organisation and increase in its one-stop capability to over 90% sent their customer satisfaction levels back up to where they should be.

SOURCE: [Online]. Available: www.systemsthinkingmethod.com, 9 March 2012.

CASE STUDY 3

TakeABreak.com.au – Turning on flexible employment

Introduction

TakeABreak.com.au makes it easy to find and book holiday accommodation online. Not just last minute and not just hotels, www.takeabreak.com.au lists over 38 accommodation types including holiday houses, bed and breakfast, cabins, and more.

Currently employing a staff of 12 employees, TakeABreak.com.au has been growing strongly over the last five years, and this growth has been fuelled in part by the flexible employment options built into their human resource policies.

Key work-life issues affecting employees and how TakeABreak identified them

TakeABreak employees, like employees in most organisations, have widely varying needs. Regular group and individual discussions are used to identify ways that the business can better support its staff. Approximately twice a month they hold a 'lunch and learn' where issues are discussed over an informal lunch provided by the company. The most important work-life issues arising from these are:

- Flexible work hours
- Staff driven rostering system
- Ability to take personal leave for carer's responsibilities
- The need to find time for hobbies, sporting, or social plans.

'Employees need to be able to control the amount and timing of their work. Sometimes they want to do more work, sometimes they need to give priority to other things and do less work. So the ability to schedule their work to the right times and durations is very important to staff', says Penny Young, Joint Chief Executive Officer (Marketing).

'Those caring for small children need to be able to schedule work to fit with child care, but more importantly, they need the flexibility to be able to deal with difficulties such as illnesses, sleepless nights, and so on, which usually come with no notice', Penny continues. 'Therefore, the ability to change their working times or to take leave at short notice is very important.'

In addition to family, everyone has different social, sporting, hobby and other life commitments and activities that need to be balanced with their work. Several of

TakeABreak's staff are involved in volunteer work including St John Ambulance, Marymead (volunteer respite/foster care), school management/fundraising and Girl Guide leadership.

Lisa, who has worked for TakeABreak for two years in a part-time capacity as a marketing communications writer, says 'It is the flexibility of the work arrangement, combined with being able to work as it suits me in my chosen field, that makes TakeABreak such a special place to work. I feel that I am fulfilling my need to work and contribute, and yet I have the time to be involved with my sons' school and also to undertake study that will add to my skill base.'

An important way TakeABreak.com.au has learned about what their employees need is by observing which options staff actually take up. For example, they allow (and even invite) staff to bring children to work for emergencies however this has rarely been taken up, as staff tend to use the flexibility in working hours and location to solve this type of challenge.

Key work-life balance initiatives

Work-life issues are a fundamental aspect of the culture of TakeABreak.com.au. The company's founders decided that creating a genuinely good place to work was a central part of their vision for TakeABreak.com.au. Their vision statement begins with the words 'A great place to work'.

TakeABreak's business systems are engineered from the ground up to enable work-life balance:

- Computerised systems enable staff to work from home (telework)
- Meeting times are determined by staff availability or attended via voice conference
- Part-time employment via job-share arrangements
- Flexible leave allowances.

Key systems can be accessed through any internet connection (using a combination of web interfaces and virtual private network). This means that team members can, when they wish to, perform a significant amount of their work from home.

Communication strategies to raise awareness of work-life balance issues with employees

Communication of TakeABreak's work-life policies and approach begins with the recruitment process. They emphasise work-life balance in job advertisements, and explain in detail their approach as part of the interview process. They seek employees who understand and value the approach – right from the start.

The most important element of communication is visibly putting policies into practice. 'It is easy to say you're flexible on working hours, but when you consistently implement this, staff are empowered and are much more likely to ask if they have a need which is not being met,' says Craig Davis, Joint Chief Executive Officer (Operations).

'Rather than rely on a pile of policy documents, we work on our business processes to maximise the flexibility for staff and managers. Where the business process enables flexibility, it is easy for staff to use this flexibility and easy for managers to agree to requests,' continues Craig.

Individual and informal communication is constant, and is backed up by formal six-monthly reviews that include discussion of employee satisfaction and future needs. Staff

are employed using AWAs in order to offer above-award payments and to cater for employees who do not fit easily in award categories.

Integrating work-life balance into day-to-day operations

Realistic expectations of the needs of staff for time off and flexibility are built into TakeABreak's business plans. The management team considers the impact on the working environment and work-life balance for staff before making any substantial change to the business plans.

TakeABreak's recruitment strategy emphasises offering genuine flexibility and a friendly (and professional) working environment as a major competitive advantage in recruiting the best people. 'We believe this has gained us staff who are more motivated, and more skilled than we would otherwise have been able to attract,' says Davis.

Business systems at TakeABreak are designed to enable flexibility for employees. Any new system or procedure must meet three goals – meet business needs (e.g. stay within budget); meet customer needs/expectations (e.g. average response time); and not compromise employee flexibility or other needs (e.g. require rigidity of staff availability). With some creativity and determination all three goals can always be met. Sometimes this may involve compromises or working to influence customer expectations (e.g. explaining to customers the advantages of e-mail over phone communication for most customer support requests).

Where a staff member has a crisis and needs to change their working times or other aspects of work at short notice, TakeABreak's policy is to offer as much flexibility as possible. This would include granting leave at short notice – due to smart business systems this can usually be done with little impact on customer service. Occasionally this results in a senior manager doing front-line customer support, but this is regarded as a good thing in terms of keeping in touch and ensuring that the business is staffed at a level where this need is rare. The willingness of senior management to step in rather than push staff to work in ways that conflict with their family needs shows a true commitment to putting work-life balance principles into practice.

Outcomes including benefits for employees and for TakeABreak

TakeABreak sees a number of specific benefits that are attributable to flexible employment options:

- Happier, less stressed employees
- The ability to attract higher calibre employees
- Being able to offer employment to staff who are not able to work full-time due to other life commitments
- Motivation and staff loyalty
- Customer satisfaction
- Environmental sustainability
- Revenue growth and profitability.

TakeABreak believe their employees are generally happier overall due to its employment and management approach. They have at least one employee who they believe would not be in the workforce at present without the flexible options that are provided. One employee recently completed a university degree that was assisted by the ability to take

study leave. Another is coping successfully with the challenges of being a sole parent.

Nicole, TakeABreak's Marketing Coordinator says 'I can't emphasise enough what a flexible boss we have and how we feel comfortable asking or requesting leave or working from home. Also, I love that my suggestions are taken seriously and we genuinely discuss them, unlike other jobs I've had.'

'We believe that our work-life policies also benefit TakeABreak – primarily by building high staff motivation and loyalty,' says Davis. 'We are often able to attract an extremely high calibre of experience than otherwise would have been the case, simply by providing flexible employment options'.

Low staff turnover is another major benefit. Over the five years of operation, only a few staff members have resigned, to either go on to other careers, travel or look for something closer to home.

Customer satisfaction is another benefit. With a number of staff working on a part-time basis, their approach to customers is generally fresh; they are not tired after sitting eight hours straight at a computer, nor stressed by tight deadlines and working in an unfriendly call centre environment. This positively impacts the quality of their interaction with customers. TakeABreak regularly surveys customers and find very high (industry leading) levels of satisfaction. The most recent results showed 94% of respondents would recommend TakeABreak.com.au to their friends.

Flexible employment options are also contributing to another key strategy, which is environmental sustainability. By allowing staff to work from home and/or to schedule their start and finish times to coincide with bus timetables or school pickup, they are helping to eliminate the environmental impact of traffic congestion and pollution.

Finally, TakeABreak.com.au's business success has been outstanding. They recently won the NSW Tourism Award in the Tourism Marketing category for the third year in a row, and were inducted into the Hall of Fame. They were awarded a High Commendation in the 2007 National Work and Family Awards (ACCI, BCA) and were NSW State Finalists in the Telstra Business Awards.

For the last five years, TakeABreak.com.au has been one of the top ten websites in the highly competitive destinations and accommodation category, revenue growth in the past year was over 100%, and TakeABreak.com.au was reviewed by the Sunday Herald Sun as 'one of the best websites to "find an escape" '. 'While it seems that at times we put our people ahead of profit, our profits are strengthened by our approach,' adds Davis.

For more information, go to www.TakeABreak.com.au

SOURCE: [Online]. Available: <http://businessbreaks.takeabreak.com.au/FrontDoor/LoungeRoom/CaseStudies/Flexib>, 9 March 2012.

CASE STUDY 4

Volvo Car Corporation – Talent management

Introduction

As part of HDA's sustained commitment to supporting their clients, they regularly work with world-class organisations to obtain insights into their talent management strategies and successes. With this in mind HDA has recently collaborated with Volvo Cars to create a short case study on their approach to effectively managing talent – with particular emphasis on their Competence Management Framework and Lean Academy both of which are intrinsically linked to enhancing employee engagement levels and ensuring long-term success.

Talent Management will and always has been a crucial component of successful business management. It is important to develop practical strategies for ensuring your key talent are engaged, motivated and ultimately committed to your organisation and its objectives. Reflecting this, Volvo Car Corporation has developed a Talent Management strategy that reflects the requirement for organisational capability to meet business commitments in the short, medium and long term. For Volvo, organisational capability is about having the right competences in place and the right levels of commitment to utilise those competences in an ever-changing and fiercely competitive global economy. So the starting point, for their Talent Management strategy, is a Competence Framework.

Competence management process

The Volvo Competence Management Framework was established in 2006, in the hopes of refining their approach to training and development – moving from a subjective, fairly ad hoc approach to a more systematic, consistent and objective process. The Framework is built on the six generic competences that the company believes all employees should have. These competencies are considered essential if Volvo is to strengthen their people-centric culture; continue to operate successfully in the premium segment of the global automotive industry; and deliver on their brand promise to 'design cars for a better life'. For leaders, there is an additional component to the Framework as they are assessed against four key competences deemed as essential in delivering business success through people. Alongside the generic employee and leadership competences, Volvo has also identified the specific competencies required for each role/function to deliver business commitments both now and in the future.

In order to determine progress against these competencies, employees and leaders are assessed (self and supervisor assessment) against the framework according to the Volvo standards of: Acquire, Apply, Guide and Shape. A development discussion is then had around this assessment and a personal development plan is produced. As demand for learning far outweighs the resources available to satisfy all needs, any competence gaps identified are then prioritised in order of importance for business continuity. Once priorities are determined the competence area specialist group identifies ways to provide high quality learning solutions at the lowest affordable cost.

The Competence Management Framework in itself provides a greater return on investment than previous training and development activity as it enables Volvo to achieve more learning for less as a result of the systematic approach that eliminates ad hoc, subjective training requests. In addition, competence gaps are now defined and identified within a business context and so learning solutions are more closely aligned to business needs. The Framework also drives the Operating Management to think more radically about strategic needs in terms of competencies and so the focus is shifted from the short to medium/long term.

In the current climate, with constraints on the budgets related to managing and developing talent, organisations are finding it increasingly challenging to facilitate and promote a culture of continuous learning. The transparency of Volvo's Framework combats this by reinforcing a learning culture; whereby individuals take responsibility for their own learning agenda. HR guide and enable as opposed to directing staff; thereby creating a culture of career ownership amongst staff members. In addition, greater emphasis is placed on self-help solutions, blended learning, relationship-learning and experiential learning. As a result, Volvo's role is shifting away from pure provider to enabler.

Finally, the Framework allows for an overall 'health check' of the organisation so that an assessment can be made as to Volvo's capability to meet business commitments and this can be used to steer the whole Talent Management cycle plan – for example, it maybe that the succession planning approach needs to be modified to reposition the company to meet a competence gap.

A successfully implemented and managed competency framework is not only a useful performance management tool but it can also act as an indirect motivator; particularly in the current climate where organisations are constantly seeking new and alternative means of engaging talent. A critical challenge for the twenty-first century organisation is in understanding how to engage employees in a world where geographical boundaries have no limits and remote working is commonplace. Clearly defined competencies can be a useful means of integrating remote workers; ensuring that all staff are aligned and engaged with organisational goals and consistent in their approach to promoting and representing the organisation. A successful competence management framework can also give structure and direction to employees during times of change; ensuring they are fully aware of where their role 'fits' within the organisation and what they need to achieve to be successful.

The Lean Academy

Following the successful introduction of Lean into its operations, Volvo identified that although the Lean systems and tools were operating effectively, the company had not made sufficient progress on the most important element of ensuring a sustained Lean transition...Lean Thinking!

As a result Volvo developed its Lean Academy – a programme aimed at reinforcing knowledge of lean systems, processes and tools amongst leaders, and ensuring that Volvo leaders are Lean Thinkers and believers in the Power of Lean with a proactive approach to embedding Lean approaches across the organisation. Taking a radical departure from past learning activities, Volvo decided to combine the expertise of their operations management and internal lean specialists to design their own three-week programme to be delivered through internal resources. Blended learning is central to

the success of the Academy as is buy-in from the Senior Management Team, which is visibly committed to the programme. A key enabler of effective talent development is a clear commitment from the leadership team, while the greatest barriers tend to be the time and cost associated with running talent management schemes. Even in the current climate, where numerous short-term priorities consume both people and financial resources, Volvo has achieved a longer-term commitment to talent development through their Lean Academy.

Since its inception the return on investment from the Lean Academy has been significant; with the programme delivering real business benefits, including:

- Post-programme each participant takes an on-the-job assignment to resolve a business issue that has a real impact to their business location.
- The introduction of an online alumni, which allows former course participants to network as a lean knowledge community.
- Alongside the leader element to the programme, Volvo also partners with a locally-based technical college to make the programme content available for its students; thereby ensuring that the company will have access to a new generation of Lean Thinkers in the future.
- The Academy demonstrates Volvo's commitment to continuous improvement; where flaws in current processes are highlighted and more robust solutions to ensure long-term Lean success are implemented.

Through the introduction of their Lean Academy, Volvo has demonstrated their understanding of the important role that leadership development plays in determining future organisational success. In addition Volvo recognises that investing at this level should be made proactively to ensure leaders are equipped with the skills not only to achieve current requirements but also to meet the changing demands of the market place.

The key to success...

As with any strategy the key to success is in ensuring that there is an integrated approach to Talent Management; recruitment planning should be linked to career or succession planning and leadership development should not be seen as something disconnected from a company's Employer of Choice positioning – they are all part of a holistic Talent Management system. With talent retention set to remain a key concern in 2010 (CIPD 2009, HDA, 2009, 2008) it is critical for organisations to ensure they develop a proactive, integrated but diversified strategy for attracting, engaging and retaining talent now and in the future.

SOURCE: Written By Geoff Glover – Vice President Talent Management at Volvo Cars & Melissa Gallagher – Client Partner & Project Manager at had. [Online]. Available: <http://www.hda.co.uk/corporate/hda-overview/>, 9 March 2012.

Glossary

- Asynchronous learning** Interactions between instructors and learners on an intermittent basis with a time delay in between; an example is self-paced courses on the internet.
- Alternate work arrangements** Non-traditional schedules that provide flexibility to employees.
- Balanced Scorecard** A carefully selected set of quantifiable measures derived from a company's strategy, which can be used as the basis for awarding incentive pay.
- Best practice** Strategies, activities or techniques that are viewed as being highly effective. Note that what is best practice in one context may not work in another.
- Change management** An ongoing process enabling a company to anticipate and respond to changes taking place in its external and internal environments and to enable employees to cope with the changes.
- Cognitive flexibility** The mental frame of reference required to perform effectively in the job and the level of cognitive skill required.
- Communication** The process of exchanging information between a sender and a receiver.
- Compensatory justice** Compensating people for any harm or loss they have suffered.
- Competencies** Basic characteristics of individuals, which are necessary for successful performance, taking into consideration the nature of the tasks and the organisational context.
- Competitive advantage** A condition that enables a company to claim certain customers from its competitors as a result of the fact that it can operate in a more efficient or higher quality manner.
- Contingency approach** Allows for multiple ways of doing things to fit different circumstances.
- Corporate responsibility (CR)** Involves not only a commitment to behave ethically and to contribute to economic development, but also a commitment to improve the quality of life of the workforce members and their families, the local community, and society at large.
- Corporate ethics programmes** Integrating ethics formally and explicitly into daily business life, into company-policy formulation at the board and top-management levels, and, through a formal code, into all daily decision making and work practices, down the line at all levels of employment.
- Corporate governance** A set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance.
- Corporate citizenship** The extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed on them by their stakeholders.
- Culture** A set of actions, values, understandings, and ways of thinking, transmitted socially and shared by the majority of members of a company and taught to new employees as correct.
- E-business** Doing business electronically by using the internet.
- Efficiency** The degree to which operations are done in an economical manner.
- Effectiveness** The ability to produce a specific desired effect or result that can be measured.
- E-HR** The processing and sending of HR information by making use of computer networking and the internet.
- E-leadership** A social influencing process mediated by advanced information systems to produce a change in attitudes, feelings, thinking, behaviour, and performance with individuals, groups, and organisations.
- E-learning** Conducting training online by making use of the internet or a company intranet or extranet.
- Environmental scanning** The assessment of internal and external environmental conditions that affect the organisation.
- E-marketing** Web-based initiatives that improve the marketing of existing products.
- Employee value proposition (EVP)** Everything an employee experiences within an organisation, including intrinsic and extrinsic satisfaction, values, ethics, and culture. It is also about how well the organisation fulfils employees' needs, expectations and aspirations.
- E-operations** Web-based initiatives that improve the creation of existing products.
- E-recruitment** Online recruitment agents and sites established by companies for advertising their own vacancies.
- E-services** Web-based initiatives that provide customer-affiliated services.
- Ethics** A set of standards of conduct and moral judgements that help to determine right and wrong behaviour.
- Expatriate** A citizen of one country who is working in a second country and employed by an organisation headquartered in the first country.
- Extranet** A collaborative internet-linked network that allows employees access to information provided by external entities such as suppliers and customers.

- Flexible firm** Atkinson's model combining flexibility with Japanese concepts of 'core' and 'peripheral' workforces.
- Flexibility** The concept covers a combination of practices that enable organisations to react quickly and cheaply to environmental changes.
- Functional flexibility** Abolishing skill barriers and utilising workers on a variety of jobs in response to market demand.
- High-performance work system** A customer-driven system in which technology, organisational structure, people, and processes all work together with the common focus on customer satisfaction.
- Host-country national** A citizen of one country who is working in that country and employed by an organisation headquartered in a second country.
- HR Scorecard** Linking human resource initiatives to business strategies, resulting in significant increases in shareholder value.
- HR strategy** Human resource policies and practices designed to facilitate the implementation of strategic business plans.
- Human capital** The knowledge, skills, and abilities of employees, which have economic value to a company.
- Human resource information system (HRIS)** A computer system used to acquire, store, manipulate, analyse, retrieve, and distribute information related to an organisation's people, jobs, and costs for purposes of control and decision making.
- HR service centres** One of the most widely used solutions to re-engineer HR in large organisations. Such centres centralise a number of HR processes and may deal with geographically widespread users. Enquiries can be taken by voice, e-mail or internet forms.
- Intranet** An internal company website that operates over the internet (behind a firewall) and links employees to company-wide information sources.
- Leadership** The process of influencing people within an organisational context to direct their efforts toward particular goals.
- Learning organisation** An organisation that empowers its people to learn effectively and collectively inside and outside the organisation to achieve the results they desire.
- Legalistic period** The 1960s and 1970s saw an unprecedented amount of legislation in the social and employment area, which had a major impact on the workplace and the roles and responsibilities assumed by the personnel officer.
- Management by objectives (MBO)** A process that relies on goal setting to establish objectives for the organisation as a whole, and thereafter for each department, manager, and individual, thus providing a measure for each individual's contribution to the success of the company.
- Mechanistic period** The 1940s and 1950s, when manufacturing was the driving force in industry; this period saw the birth of the personnel and industrial relations profession.
- Multinational corporation (MNC)** A corporation that has facilities and other assets in at least one country other than its home country.
- Numerical flexibility** Matching employee numbers to fluctuating production levels or service requirements as a result of economic activity.
- Organisational learning** Learning of employees within an organisation through corporate-wide commitment to and opportunity for continuous improvement.
- Organisational mission** The core reason for the existence of the organisation and what makes it unique.
- Organistic period** The 1980s, during which issues such as globalisation, mergers, acquisitions, re-engineering, and downsizing were taking place. These activities brought about radical changes in the workplace and created an environment in which the HRM function faced numerous challenges.
- Paradigm** A common framework from which to view reality, based on fundamental assumptions, which establishes boundaries and principles within a particular field.
- Psychological contract** A set of unwritten expectations and understandings of what an employee expects to contribute in an employment relationship and what the employer will provide the employee in exchange for those contributions.
- Reneging** The term for what happens when either party to a psychological contract knowingly breaks a promise to the other.
- Repatriation** The transfer of an employee back home from an international assignment.
- Resource-based view** View that sees a company as a bundle of resources that enables it to conceive and implement strategies that will lead to above-average returns.
- Retributive justice** The imposition of penalties and punishment upon individuals and enterprises who cause harm to others.
- Risk management** Involves responsibilities to consider physical, human, and financial factors to protect organisational and individual interests.
- Self-control** The ability to keep disruptive emotions and impulses under control.
- Self-directed work team (SDWT)** A team of individuals assigned a cluster of tasks, duties, and responsibilities to be accomplished.
- Strategic human resource management** Linking HRM policies, practices, and processes with the strategic goals and objectives of the company in order to improve business performance.

Strategic international human resource management (SIHRM) HRM issues, functions, and policies and practices that result from the strategic activities of multinational enterprises and that impact on the international concerns and goals of those enterprises.

Strategic period The 1990s, during which strategic thinking and planning emerged as the most prominent activity to deal with the continual change faced by organisations.

Strategy The means by which an organisation seeks to meet its objectives; a strategy focuses on significant long-term goals rather than day-to-day operating matters.

Synchronous learning Transmission and interaction of information and knowledge in real time.

Talent The sum of the person's abilities – his or her intrinsic gifts, skills, knowledge, experience, intelligence, judgement, attitude, character, and drive; it also includes his or her ability to learn and grow.

Talent management The sourcing (finding talent), screening (sorting of qualified and unqualified applicants), selection (assessment and testing, interviewing, reference and background checking etc. of applicants), on-boarding (offer, acceptance, badging and security, payroll, facilities etc.), retention (measures to keep the talent that contributes to the success of the organisation), development (training, growth, assignments etc.), deployment (optimal assignment of staff to projects, lateral opportunities, promotions etc.), and renewal of the workforce with analysis and planning as the adhesive, overarching ingredient.

Talent mindset A deep-seated belief that having better talent at all levels is how to outperform the

competition; the belief that better talent is a critical source of competitive advantage; the recognition that it is better talent that pulls all the other performance levers.

Teleological theory Stresses the consequences that result from an action or practice.

Third-country nationals Citizens of one country, working in another country and employed by an organisation headquartered in a third country.

Triple bottom line While a company's bottom line traditionally refers to its financial profit or loss, triple bottom line refers to the need to consider also social and environmental impacts; this triple bottom line measures the financial, social, and environmental impact of business.

Virtual teams Groups of geographically and organisationally dispersed co-workers assembled using a combination of telecommunications and information technologies to accomplish an organisational task.

Virtual organisation Advancing technology allows firms to extend the network concept to form enterprises with no permanent structures. They bring people together for specific projects. Teams dissolve on completion to reappear in new combinations for other tasks.

Visionary leadership The ability to take charge and inspire with a compelling vision.

Workforce Scorecard Indicates in a clear manner how to turn strategy into strategy execution by focusing on elements of workforce success that can then be tracked and monitored.

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