

Aligning Human Resources and Business Strategy

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Aligning Human Resources and Business Strategy

Second edition

Linda Holbeche



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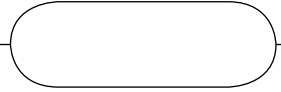
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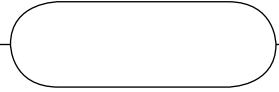
Preface to the First Edition

So much has been written about the changing role of HR that the reader might wonder why I have sought to add to the debate. It seems that being an HR professional is a tough proposition these days and that there are endless requirements to prove that value is being added by HR interventions. The pressures on the function are enormous and in many cases, resources are thinly stretched. The HR function is frequently accused of being reactive. Yet I believe that the situation need not be so bleak and that HR has potentially the most significant contribution to make of all the functions, if it manages to combine operational excellence with a really strategic approach.

My motivation in researching and writing this book is to find out how excellent professionals are delivering value. That is not to say that I believe that the practitioners featured in this book have a blueprint for success but some of the approaches described here are likely to provide food for thought for other organizations. Similarly, I am not attempting here to address all aspects of a strategic and operational HR agenda. I have focused on some of the performance and developmental issues which I consider key if business and HR strategies are to be aligned. This is not therefore a technical book, but one which highlights what practitioners are doing with respect to strategic recruitment, organizational development, management and international leadership development and change management. I have tried to illustrate the theory with 'live' cases where time permitted, and have included checklists which I hope will be useful to HR teams and line managers in assessing their needs and service provision.

I hope that the ways in which the HR strategists featured in this book are approaching the challenges of aligning business and HR strategies in their organizations will provide evidence that outstanding value can be added by HR and offer encouragement to practitioners who are finding the quest to add value hard going.

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Preface to the Second Edition

Since the first edition of this book was published, so much has changed in terms of the employment landscape, HR theory and priorities, that simply updating the text has not been enough. HR is undergoing perhaps more rapid transformation than any other function on its journey to delivering value. In today's fast-changing economic context equipping organizations to deal with the pressures they are likely to experience calls for a truly strategic response from HR. And of all the functions HR has potentially the most significant contribution to make, if it manages to combine operational excellence with a really strategic approach. Building talent pipelines, changing organizational structures and cultures are just some of the opportunities for HR to exercise leadership.

At the same time, much has stayed as it was ten years ago. Alongside the opportunities sit the pressures. It still seems that being an HR professional can be a tough proposition and there are endless requirements to prove that value is being added by HR interventions and, in many cases, resources remain thinly stretched. As the HR agenda moves on so the nature of HR interventions continues to expand, demanding new disciplines, skill sets and behaviours, even within HR's traditional heartland. Strategic workforce planning can put organizations 'on the front foot' when it comes to optimizing the changing labour market and demographic trends. Employer branding, employee segmentation and other analytical techniques, and holistic approaches to reward enable organizations to attract and retain the talent they need for success. Organizational design and development, geared to building flexible, agile cultures are an essential part of the HR role. Continuous professional development is key to raising the game.

Similarly, the capabilities HR is required to demonstrate have also moved on significantly in the last decade since I wrote the first edition of this book. No HR professional can expect to be taken seriously if he or she is unable to understand and speak the language of business, to translate the business strategy into relevant people processes and goals which are appropriate to the context dynamics facing their organization. HR needs the ability and credibility to work collaboratively with line managers to continually push up the standards and practice of people management and development.

The evolving HR role is moving ever more swiftly to becoming a core business leadership role, in which HR's own contribution is to ensure that the organization is equipped for success, now and in the future. And in the wake of various corporate failures, particularly within the global financial services sector, there is increasingly a spotlight on HR's developing role in governance, raising questions such as what is HR's role with respect to building cultures where accountability and ethical practice become the order of the day rather than letting high bonuses form part of a culture of excess and irresponsibility? Similarly, should HR professionals more obviously have a role to play as non-executives on boards, ensuring that good practice in appointments and reward at the most senior levels in organizations reflects the very best emerging practice and encourages high standards of executive behaviour?

So in writing this second edition of the book I have attempted to update my overview of the HR landscape, agenda, skill set and challenges in the light of the changing context, theory and practice. My motivation in researching and writing the book is to find out how excellent professionals are delivering value. I have tried to illustrate the theory with 'live' cases where time permitted as well as drawing on published research. In some cases I have revisited and updated where possible case studies featured in the first edition of the book as well as adding other examples of what I consider interesting practice. That is not to say that I believe that the practitioners featured in this book have created a blueprint for success but I hope that some of the approaches described here will provide food for thought for others. Similarly, I am not attempting here to address all aspects of a strategic and operational HR agenda. I have focused on some of the performance and developmental issues which I consider key if business and strategy are to be gainfully aligned.

This is not therefore intended as a technical book, but one which highlights what practitioners are doing with respect to strategic recruitment, organizational development, management and international leadership development and change management. In this edition I have looked again at the process of HR transformation and the changing nature of business partnering. I have added a chapter on some of the key skills for HR strategists and suggested a process for developing a business-aligned HR strategy. I have included checklists which I hope will be useful to HR teams and line managers in assessing their needs and service provision.

I hope that the ways the HR strategists featured in this book are approaching the challenge of creating aligned strategies will provide evidence that outstanding value can be added by HR and offer encouragement to practitioners who are finding the quest to add value hard going.

Overview of Contents

In Part One, *The Need for Strategic Human Resources*, I raise the question about what 'alignment' means in a fast-changing context, elements of which I discuss on Chapter 2. I present my case drawing on a range of HRM theory, and suggest

that HR leadership should be the preferred direction of travel if the function is to really add value. HR leadership involves embracing a strategic culture-building agenda geared to creating healthy and high performing organizations. The business context drives the HR agenda, especially as work becomes progressively more knowledge- and talent-intensive. It also drives the transformation of the HR role, organization, structures and skill sets. Delivering a value-adding agenda requires purpose, focus, a well-formulated strategy and effective methods, as well as effective measurement to ensure that the right kinds of impact on organizational performance are being achieved.

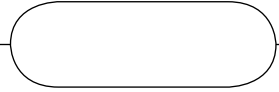
In Part Two, *Strategies for Managing and Delivering Talent*, we consider a major aspect of HR's role – that of attracting, motivating and retaining talent. I explore various aspects of talent management, a concept which for me has partly a feel of 'Emperor's new clothes' about it, including all aspects of the conventional employment cycle from recruitment, development, performance management, reward, career progression etc. What is different is the rapidly changing nature of work and the global labour market, together with changing talent requirements and various forms of talent shortfall. Hence the growing emphasis on workforce/talent planning, on developing enticing employer brands, on segmenting the talent base and personalizing employee value propositions, on 'engaging' employees at an emotional level, on creating the organizational climate where people will give of their best. Debates rage about whether talent management processes should apply only to the privileged minority of 'high flyers' or whether more inclusive approaches are appropriate. In all of this, line managers are key partners, delivering the lived reality of the brand to employees.

In Part Three, *Human Resources as a Strategic Function*, we consider the implications of the evolving HR role and structures for the skills, and behavioural competencies needed by professionals. These include a much greater emphasis than in the past on business acumen, consultancy skills, organizational design and development, as well as analytical approaches borrowed from other disciplines. We look at how these skills can be applied to specific challenges, for instance to support cross-boundary working. In particular, we look at some of the challenges facing global HR teams.

In Part Four, *Implementing Strategic Change*, we look at various ways in which HR teams are changing their organizations' cultures to meet business needs, for instance to become more customer focused or to enable greater knowledge-sharing. We consider the human dynamics of change and at what HR can do to support people through periods of change. We also consider how HR can contribute to successful integration, for instance in mergers and acquisitions, and build more change-ready cultures.

Finally we look at what the future might hold for HR, and at how HR's emerging purpose and role may well crystallize further into several key elements. For me, these include attracting and mobilizing talent, building performance capability, creating healthy and successful organizations, building effective leadership, providing coherence and ensuring good governance. With an agenda such as this, I argue, the time has come for HR to get on the front foot and lead the way.

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Part I

The Need for Strategic Human Resources

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Introduction: From Business Partnering to Leadership

HR passes the wallet test when it creates human abilities and organizational capabilities that are substantially better than those of the firm's competitors – and thus move customers and shareholders to reach for their wallets.

(Dave Ulrich and Wayne Brockbank, 2005)

In the decade since I wrote the first edition of this book, the pace of change in the global business environment has accelerated, new forms of organization and ways of doing business have arisen. Globalization has produced an interwoven set of challenges affecting business, organizations, consumers, workers and society as a whole. Indeed, the nature of work and the expectations of workers have been transformed and change is now a constant feature of most organizations.

In the rapidly changing global economy, external pressures mean that businesses need to innovate and act with speed if they are to keep ahead of the competition in their chosen market. Flexibility is just one feature of this changing competitive landscape as customers increasingly demand tailored products and services available round the clock. The drive to achieve high-quality continuous supply at reasonable margins has meant that production and customer service are increasingly carried out off-shore and virtual working has become more commonplace.

'Talent' and the ability to 'engage' that talent to produce 'high performance' are buzz-words which can be heard in organizations of every sector, reflecting the growing awareness of the importance of being able to attract, manage, motivate and retain the right people. People are no passive 'human resource' and if companies want to be flexible to meet changing market requirements, they also have to meet the needs of their staff, especially those with valuable 'knowledge skills'. Just as customers are increasingly demanding, now 'knowledge workers' are in a stronger position than a decade ago to make demands of employers as their skills are in short supply, especially in industries as diverse as construction, IT and pharmaceuticals. It would appear that the days of the 'War for Talent' are back with us, despite the challenging global economy.

THE HR TRANSFORMATION JOURNEY

The HR profession too has been transforming itself, in many ways leading the way forward for other professional groups. Ten years ago, many HR teams were struggling to make more ‘value-added’ contributions to business success, and Dave Ulrich’s (1997) thinking has had a powerful influence on the evolving practice, roles and structures of HR. The past decade has seen an explosion of HR transformation activity as HR teams in every sector have changed their roles and structures, with over 80% of HR functions having undergone some form of change in the past five years alone (Reilly, 2008).

Much of the change is to achieve greater alignment between business and HR strategy and to drive more cost-effective and improved delivery. HR teams have taken many routes to do this, such as reengineering the ‘back-office’ HR functions by using technology to transform service delivery and information, outsourcing administration or setting up shared services, as well as devolving HR practices to line management and acting as internal consultants in their roles as business partners. However, despite the transformation journey, to some extent HR still experiences ongoing internal and external stakeholder pressures to demonstrate efficiency and added value. Therefore, whether HR transformation in some organizations is producing the right results, or advancing as quickly as it might, is up for debate.

Structural change has also brought with it a degree of role uncertainty for HR. Typical challenges include clarifying the scope and remit of HR, working out how to maximize the performance of HR, where best to make a contribution, how to satisfy its customers and how to develop HR’s own skills and resources. In addressing these challenges, organizations and HR teams have choices to make. So must HR follow the rocky road or is there a high road to success? And if so, can learning from those who have been on the HR transformation journey for some time help make the road ahead easier for those who are setting out on the journey today?

‘OUR PEOPLE ARE OUR GREATEST ASSETS’

And, assuming that HR does free itself up to deal with more strategic issues, the question remains: what do ‘value’, and ‘value-added’ mean in today’s organizations?

Value is what is generated by talent from which employers can derive profit or other forms of benefit. In today’s information age, where knowledge-intensive work is increasingly driving economic growth and when the value of intellectual capital is becoming more apparent, the truth of organizational values statements such as ‘our people are our greatest asset’ has never been more obvious.

While we all may be familiar with organizational values statements such as this, there appears to be a good deal of double-speak in many organizations and the reality on the ground is often different. Short-term business priorities, bottom-line considerations and the need to generate shareholder returns tend to take

precedence over employee considerations. Many executives understandably pay attention first and foremost to the bottom line and in many organizations ‘people issues’ are way down the agenda. Where these do appear they are often treated as short-term operational problems rather than as key areas of attention or investment.

This is ironic given that the growing reality for many organizations operating in a global marketplace is that talent – the lifeblood of competitive advantage – is in short supply. While global talent in some sectors may be abundant, local talent is not, and vice versa. There is growing awareness in global companies that business fortunes increasingly depend on an organization’s ability to attract and retain key talent, while driving forward performance.

Awareness of the talent challenges is one thing; knowing what can be done about them is another. This is where HR, as the key people specialist function in organizations, should be uniquely well placed to make a difference to business success. Being able to attract and retain much-needed talent and drive performance are vital ways of adding value. There seems to be a real opportunity for Human Resource professionals to play a key role in building the organization’s capability to adapt in the face of ongoing change. Indeed, HR has the potential to build organizational capabilities, such as the ability to innovate, improve customer relationships, move swiftly to market, which will lead to sustainable value. But in order to do so, HR has had to embark on a journey of self-reinvention.

Ulrich and Brockbank (2005) issue a cautionary note – HR should not attempt to assess value without regard to stakeholder perspectives:

Value in this light is defined by the receiver more than the giver. HR professionals add value when their work helps someone reach their goals. It is not the design of a program or declaration of policy that matters most, but what recipients gain from these actions. The HR value proposition means that HR practices, departments, and professionals produce positive outcomes for key stakeholders, employees, line managers, customers, and investors.

At this point in its evolution, the HR function has the potential to develop further, moving beyond HR management to more of a leadership role, given that HR’s core contribution relates to culture, processes and that most precious asset of all, people. And while day-to-day people management is mainly the responsibility of line managers, the HR function’s unique selling point (USP) is its ability to develop healthy and effective organizations, with the right people, with the right skills, working in the right ways to achieve the right results. HR’s primary functions include finding tailored ways to attract and retain much-needed talent, to design systems, structures, roles and processes that allow talent to be well-deployed and utilized, to develop management and leadership capability and capacity and to build organizational climates and cultures that can be a source of sustainable competitive advantage. This USP should form the basis of a proactive leadership contribution from HR – if HR is ready to take the opportunity.

Yet despite this USP, and the fact that the HR role is growing in scope and depth, challenges to add value remain.

Much of the double-speak with respect to the value of people also applies to the status of Personnel or HR professionals themselves. The terms often used to describe the function – ‘back office’, ‘support’, ‘cost centre’, ‘internal consultants’ or ‘business partners’ – imply something that is non-essential to the organization’s business and therefore of lesser value. In such cases, the actual influence of the HR director on management team colleagues can be limited.

It is often said that the battle to get a ‘seat at the board table’ has been won, yet it is still rare to find main board directors with an HR background and more often than not HR professionals who reach the main board find themselves with a wide range of responsibilities, of which HR is only one.

Similarly, HR is often perceived to be a ‘junior’ member of the board, expected to implement the board’s decisions rather than help shape them. Even in key organizational events such as a merger or acquisition, HR is often only peripherally involved in the due diligence process, let alone in shaping the emerging integrated culture of the new organization.

A Function under Threat?

Other factors that may explain why HR’s contribution may be less impactful than it might be include the micro-political context within which Personnel specialists are operating and the skills and effectiveness of the specialists themselves. For instance, in a Roffey Park survey, particular criticisms of HR included HR’s lack of ability to add value, poor implementation of change, with HR forced into a reactive, ‘picking up the pieces’ role. Initiative overload, with poor follow-through of key initiatives, were other symptoms of the function’s difficulties in many organizations. In other cases Personnel professionals struggled with the difficulties of balancing pragmatic solutions with professionalism, leaving them open to accusations of being ‘ivory tower’ and not ‘in the real world’.

So along with reengineering the HR function, downsizing the HR function has been a strong trend in recent years, often because HR is not perceived as adding value. In a CIPD research study examining the changing nature of the HR role (Reilly, 2008), it is apparent that many HR professionals perceive the function to be under threat.

This mixed picture of perceptions about the role and value of HR may reflect legacy issues arising from HR’s evolution as a function. Below are some of the more significant shifts in the HR role, a number of which will be explored in this new edition.

FROM WELFARE TO PERSONNEL TO HUMAN RESOURCES – THE STORY SO FAR

What HR professionals are able to deliver appears to some extent to depend on the way their role is perceived within their organization.

Traditionally, the Personnel function has been seen more as a service deliverer and a management tool than as a strategic contributor. Since the mid-1990s, Personnel has struggled to reinvent itself, get close to the customer and add value to the business. Some of the earlier ways of thinking about the Personnel role and contribution include the following.

The Welfare Model (after Tyson and Fell, 1986)

In the early days of large organizations and organized labour, the function of pay clerk was often carried out by the same person who meted out ‘tea and sympathy’ as the notion of employee welfare caught on. Usually held by a woman, such posts were regarded as useful tools of management but post-holders were considered administrators and were not expected to contribute to the development of strategy.

Clerk of Works

As the Personnel role evolved throughout the 1970s and 1980s it gradually became a more active tool of management. Managing people was certainly ‘line’ management’s responsibility, but ‘staff’ roles such as Personnel could provide useful specialist support on a range of issues such as pay and conditions, employee welfare, recruitment and selection, etc. To a large extent, these were largely ‘maintenance’ roles through which the status quo was enshrined in personnel policies and procedures. The role of Personnel was often thought of as the company ‘policeman’ or clerk of works, ensuring compliance with set procedures.

Compliance and the Legal Obligations of Employers

The compliance role of HR remains strong and significant. HR is the visible face of an employer’s obligations towards employees. Prior to 1970, the statutory regulation of the employment relationship in the UK was limited. Individual terms and conditions of employment were stated in the contract of employment and in any collective agreements. The law’s intervention was restricted to basic health and safety problems, the right to limited redundancy payment and the general requirements for employers and employees to honour the contractual terms agreed at the commencement of employment. It was only ‘good’ employers who chose to go beyond the letter of employment law. For instance, even today, equal opportunities are still far from achieved in the UK though the general employment picture relating to equality is healthier than 30 years ago.

But since 1970 the regulatory environment has changed dramatically with increasing amounts of employment legislation and policies designed to protect employee rights. Today the contract of employment remains of crucial importance and can be enforced in court but, in addition, a whole host of statutory rights in the areas of human rights, health and safety, equal pay, unlawful discrimination and unfair dismissal have been added, with which employers are

required to comply. There has been growing recognition among many employers that in order to attract talent and get the best out of a workforce, it can be in the interests of employers to go beyond the letter of the law, such as with the Right to Request Flexible Working, which is currently restricted to parents of children under six and carers, but is under review. ‘Good’ employers have already extended the right to all employees, with very few negative side-effects. In any case, severe labour shortages in some areas mean that employers no longer have the whip-hand in the employment relationship.

The Industrial Relations Expert

To continue the evolutionary story, between the 1970s and 1990s international competition grew considerably and there was a great need to improve UK productivity. Without the opportunity to compete on cost, UK organizations attempted to differentiate themselves on the grounds of quality, and new skills and working practices were needed if businesses were to succeed. This was also a period of prolonged industrial unrest in the UK.

The Personnel function started to attract men in large numbers for the first time. Specialists in employee relations took on the responsibility for leading negotiations with unions and (often militant) staff groups. The tough stances often adopted in these negotiations were reflected elsewhere as organizations were reshaped to meet the needs of the changing workplace. As ‘fixers’ of company problems such as dealing with major restructurings, redundancy programmes and other ‘difficult’ tasks, Personnel professionals earned the right to be taken seriously as members of management.

The 1980s was also a golden period for the development of a new range of ‘hard’ personnel disciplines, such as organization design, manpower planning and pay negotiations. Many of the ‘baby boomer’ generation of HR directors with such skills and experiences went on to significant careers in industry. However, some of these HR skills relating to collective bargaining and organization design fell into decline in the UK after the ending of the prolonged industrial unrest and reduction in the power of the trade unions. The skills void was filled to a large extent by major consultancies who helped design and implement many large-scale reengineering projects characteristic of the corporate downsizings of the 1990s. More recently, many of the ‘hard’ HR disciplines, such as workforce planning and analytics, are being revived and reclaimed by HR, after a period in the doldrums.

In the Republic of Ireland a similarly challenging industrial climate in the 1980s and 1990s led to the tripartite social partnership between trade unions, employers and the government. The relative industrial peace over the past 20 years has brought much-needed inward investment from companies in high technology and pharmaceuticals and other knowledge-intensive work and provided a significant boost to the economy. As a result, Personnel practitioners in Ireland have long experienced the growth of knowledge work and recognized the need to develop talent.

Personnel as a Profession

Perhaps as a result of the significant part played by Personnel in employee relations during the period of industrial unrest, the power of the role grew beyond the original confines of the job. In large organizations specialist functions such as Compensation and Benefits were created. The more Personnel became the specialist repository of information about employees, including senior management, the more it needed to be consulted about any and every issue related to employees. Personnel began to be seen as a power in the land, even if, in most cases, the Personnel director was not a member of the board. Over time, in some cases, responsibility for managing people appeared to slip away from line managers who would refer to Personnel for everything from a minor disciplinary offence to recruitment. The primary functions of Personnel became administration and generalist service delivery and the numbers employed within the function grew accordingly.

Since the 1970s there has been a gradual move to professionalize the Personnel function and increase the value of its contribution. The UK Institutes of Personnel Management and Training and Development merged in the mid-1990s and achieved chartered status in 2000 under Geoff Armstrong's leadership. Membership of the professional body gradually came to be by qualification rather than experience alone. Now the UK's Chartered Institute of Personnel and Development (CIPD) provides chartered membership to people who combine continuing professional development with qualifications and experience.

Human Resources?

By the 1990s business survival, rather than growth, became the issue in many sectors. Much manufacturing capability migrated from the UK to parts of the developing world, and the UK gradually developed a service economy. The emphasis in many organizations was on downsizing and change, with change management becoming mainly a line management discipline.

At about the same time, many Personnel functions started to re-badge themselves as 'Human Resources', reflecting a resource-based view of the firm which suggests the link between different resources and business success. From a resource perspective, three basic types of resource are thought to contribute to competitive advantage:

- Physical capital resources, which include, for example, the company's finances, equipment, plant, etc.
- Organizational capital resources, which include the firm's structure and systems for exercising control.
- Human capital resources, which include the skills, competencies, experience and intelligence of employees.

While describing human beings as a 'resource' is curious, to say the least, the link between humans as a resource and business success has been the basis of a

raft of HRM theory which continues to develop as evidence accumulates about how the link works in practice. Since, for all its limitations, the term ‘human resources’ does imply that people are assets, and while, as assets go, people may be a fragile and volatile resource, they have the potential to create greater value than other forms of asset. More specifically, people represent latent assets, whose value is unlikely to be realized if that latent contribution is left undeveloped. Logically then, the human resource should be treated from an investment perspective more as an asset, than as a cost. Getting the best out of ‘resourceful humans’ is perhaps a more appropriate way of thinking about the purpose of effective people management strategies. Links between the company’s human resources and competitive advantage are explored in Chapter 5.

The Spur to HR Transformation

By the mid-1990s HR itself started to restructure and ‘right size’ itself. In many organizations the ratio of HR to line positions had grown significantly and the more difficult trading conditions and constant restructurings of the time brought the size and value of support functions such as HR into question. This was the period when one of the most significant theory voices on the role of HR was that of Professor Dave Ulrich of Michigan University, whose model of the HR roles in 1997 in effect accelerated the reengineering of HR referred to earlier. He described four core roles and related activities, namely:

- *Strategic partner* – whose activities involve aligning HR and business strategy; organizational diagnosis
- *Administrative expert* – reengineering organization processes; creating shared services
- *Employee champion* – listening and responding to employees; providing resources to employees
- *Change agent* – managing transformation and change; ensuring capacity for change.

This model was used by organizations attempting to realign their HR functions to meet the changing needs of their business. The shifts in the HR role were intended to be as follows:

Traditional	—————>	Emerging
Reactive	—————>	Proactive
Employee advocate	—————>	Business partner
Task focus	—————>	Task and enablement focus
Operational issues	—————>	Strategic issues
Qualitative measures	—————>	Quantitative measures
Stability	—————>	Constant change
How? (tactical)	—————>	Why? (strategic)
Functional integrity	—————>	Multi-functional
People as expenses	—————>	People as assets

Ulrich's model, since revised, remains the most influential in terms of driving thinking and practice on HR's role and scope, structure and skills. HR transformation will be discussed in more detail in Chapter 3.

MAXIMIZING THE HUMAN ASSET – HUMAN CAPITAL MANAGEMENT

Since the 1990s, various researchers (Huselid *et al.*, 1997) have emphasized the role played by technical HRM in building a company's performance, with strategic HRM creating competitive advantage by building HR systems that cannot be imitated. The desire to assess the effects of HR activity on business performance has led to a focus on measurement, though the range of measures used in different organizations tends to be inconsistent, making comparison difficult.

In more recent times the quest for increased productivity at national level and for sustainable business performance from organizations has increased recognition of the importance of the human factor to business success. Human Capital Management (HCM) attempts to define measures for valuing aspects of human performance and the various 'intangible' outputs, such as innovation, associated with it, so as to be better able to understand what this contributes to organizational performance and competitive advantage. However, hopes that companies would be required to report on their human capital in annual reports were dashed in 2005 when the UK's Operating Financial Review (OFR) did not make this a requirement, and the causal link between people and organizational performance remains poorly understood. We shall explore different approaches to measurement and assessment of HRM practice in Chapter 4.

Despite this, the 'Human Capital' movement has led to increased awareness that treating employees well is a key element of increasing performance and productivity. To some extent this has strengthened the hand of those advocating effective people management, training and development. It has also suggested that HR has a key role to play in creating competitive advantage and driving performance. It has also focused management and trade union attention on what drives employee performance, in particular employee 'engagement'.

The argument goes that in order to produce the results the organization needs to be successful, employees need to be 'engaged'. Towers Perrin (2003) defines engagement as 'employees' willingness and ability to contribute to company success ... the extent to which employees put discretionary effort into their work, in the form of extra time, brainpower and energy.

The assumption behind much research into high performance is that in every organization there is a value chain to high performance which runs something like this: the right employees, with the right AMO – i.e. ability (A) and motivation (M) and the right opportunity (O) – will deliver the right performance to customers, who will produce the financial and other returns required by the organization's stakeholders (Purcell, 2002). Similarly, Towers Perrin (2003) have found 'clear links between our respondents' level of engagement, their focus on

customers, and aspects of the organization's financial and operational performance across a number of areas.

The challenge for managers and HR is to create the AMO which leads to employee engagement and performance. HR should be developing and implementing strategies which help their organizations to attract and retain talent, which add to the value of the human asset, which produce the conditions for great performance and which build organizational capacity and capability.

Links between good people management practice, individual development and performance and business results have long been assumed within assessment and measurement frameworks such as Investors in People (IiP), ISO, the European Foundation for Quality Management (British Excellence Model) and the Balanced Business Scorecard. These all associate 'hard' business results with 'soft' inputs such as learning, customer focus, processes, people management and leadership.

These frameworks reflect some of the broader thrusts of strategic human resource management theory which suggest a strong link between HRM practices and organizational performance.

STRATEGIC HUMAN RESOURCE MANAGEMENT THEORY

Strategic HRM has become topical in recent years but definitions as to what is meant by the term vary widely. Typically, strategic HRM bridges business strategy and HRM and focuses on the integration of HR with the business and its environment. In particular, the growing literature on the impact of HRM practices on organizational performance is commonly underpinned by the resource-based view of the firm with its emphasis on gaining sustainable competitive advantage by means of effective and efficient utilization of the resources of the organization, including resources that are valuable, rare, inimitable and non-substitutable, such as human resources.

Wright and McMahan (1992) for instance discussed the importance of human resources in the creation of competitive advantage. However Wright, McMahan and McWilliams (1994) further suggested that, while human resources are always a potential source of sustained competitive advantage, not all organizations have the ability to systematically develop these through the use of HRM practices. Similarly Huselid (1995) and Pfeffer (1995) have used the resource-based view as a basis for examining the impact of human resource development on firm performance, in particular, utilizing a system of management practices that gives employees skills, information, motivation and latitude, and results in a workforce that is a source of competitive advantage.

Control and Commitment Approaches to HRM

HRM has evolved from two distinct conceptions of the link between employee motivation and behaviour and firm-level performance outcomes. Some researchers

distinguish between ‘hard’, traditional HRM and ‘soft’, commitment-focused HRM. ‘Hard’ HRM reflects a contingency approach based on the assessment of the best way to manage people in order to achieve business goals in the light of contextual factors.

Walton (1985) suggested that a distinction can also be drawn between the control and commitment approaches to HRM. Arthur (1994) argues that the control approach to HRM seeks to improve efficiency by enforcing employee compliance by, for example, basing employee rewards on some measurable criteria.

The control approach is clearly represented in Fombrun, Tichy and Devanna’s (1984) ‘Michigan Model’, which emphasized that superior firm performance is dependent on having in place systems for the regular assessment of individual employees. Associated with, and reinforcing, these systems are performance rewards and training whose performance-related outcomes are monitored. Fombrun *et al.* argued that what was important was a tight ‘fit’ between the external business strategy and HRM. This contingency approach suggests that for any particular organizational strategy, there will be a matching HR strategy (Figure 1.1).

The belief that the closer the ‘fit’ between business strategy and organizational functions will result in organizational effectiveness has been challenged in recent times. The challenges relate to the lack of empirical evidence that this close strategic fit will automatically lead to improved effectiveness, and that such approaches do not take into account measures of organizational effectiveness. There are also criticisms that such approaches can be too simplistic in their assumption that the creation of HR strategy inevitably follows the business strategy. In contrast, ‘soft’ HRM focuses on a high-commitment–high-performance approach to the management of people. Commitment approaches to HRM aim to shape attitudes by forging psychological links between organizational and employee goals. Also known as the collaborative model of enhancing firm performance – aimed at promoting the goals of both employees and employer – the commitment approach to HRM is clearly apparent in Beer *et al.*’s ‘Harvard Model’ (1984), which emphasizes the need for management to recognize employees as significant stakeholders in the enterprise. The notion of HRM being used to develop employee commitment is also central to Guest’s (1997) theory of normative HRM.

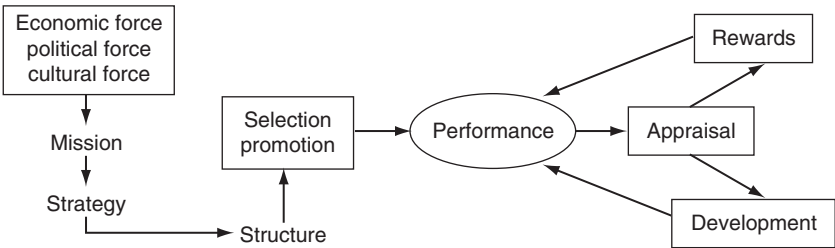


FIGURE 1.1 The human resource cycle and ‘fit’ with business strategy.
Based on Fombrun *et al.*, 1984

At the core of this model is the notion of the centrality of employee influence and the common sense of purpose it engenders for firm performance. Employee influence is contingent on there being processes of mutual influence between management and employees that enable management to understand employee interests. Without such processes, employee intrinsic motivation is undermined, thereby giving rise to employee resentment and distrust, which results in unwillingness to take responsibility for the performance of the firm.

‘Bundles of HRM Practice’

What remains unclear is how organizations can achieve consistently superior performance via HR strategy. Various researchers (for example, Delaney and Huselid, 1996) claim to have found a statistically significant link between ‘bundles’ of HR policies and business performance. With respect to employee commitment, for instance, Beer *et al.* found that, rather than a single system of employee involvement techniques, several approaches, such as employee briefings and work system design, may be used. These bundles of HR practices need to be internally consistent and complementary and depend on the organizational logic in that context. Thus, while individual aspects of ‘best practice’ are useful for benchmarking purposes, the approaches used must be congruent with the organization’s state of development if the real benefit is to be felt.

Guest (1989) incorporated the HR policy goals of strategic integration, commitment, quality and flexibility into a model, whereas Purcell (1996) considers the following six elements as key to employee commitment:

- Careful recruitment and selection
- Extensive use of systems of communication
- Team working with flexible job design
- Emphasis on training and learning
- Involvement in decision-making
- Performance appraisal with tight links to contingent pay.

Similarly, Pfeffer (1998) recommends seven integrated practices that will enable organizations to ‘obtain profits through people’. These are:

- Employment security
- Selective hiring of new personnel
- Self-managed teams and decentralization of decision-making as the basic principles of organizational design
- Comparatively high compensation contingent on organizational performance
- Extensive training
- Reduced status distinctions and barriers (including dress, language, office arrangements and wage differentials across levels)
- Extensive sharing of financial and performance information throughout the organization.

Again, one of the key tenets of ‘soft’ HRM is the internal integration of HR policy goals with each other.

Alignment?

The notion that there is ‘one best’ or ‘universal’ way to manage human resources, such as is advocated by Pfeffer (1998) stands in contrast to theorists such as Schuler and Jackson (1987) and Fombrun *et al.* (1984), who argue that what firms do depends on their circumstances and that HR strategy (HRS) should therefore also be contingent.

This contrast lies at the heart of what ‘strategic alignment’ means. For the contingency theorists, the best personnel policy relates to the unique characteristics and circumstances of the organization. The argument is that organizations need to achieve a fit between personnel policy choice and broader strategic considerations, such as market conditions and business strategy. In contrast, from a universalist perspective, alignment relates to the level of integration between HR practices that are understood to lead, for example, to employee engagement or high performance.

In my earlier edition of this book, I took the view that the best form of alignment was one that was relevant, i.e. contingent on the organization’s circumstances and strategic aims – ‘best fit’. Indeed, in many organizations, the notion of ‘best fit’ is attractive, especially if HR strategies are developed to meet the needs of the business in its context. Contingent HR strategies are more attractive to line managers since they can see the relevance to what the organization is aiming to do in the short term, and can enhance the credibility of the HR team who are seen to be business-focused.

However, I also considered that universal ‘best practice’ can inform local circumstances. Indeed, many measurement frameworks and competency-based standards, such as Investors in People frameworks or CMI Management competencies, assume a universal set of approaches that represent best practice on people management and development, regardless of context. Similarly, benchmarking processes derived from best practice can help organizations recognize choices in the way they address key issues. The danger of HR strategies built on ‘best practice’ is that they can seem ‘ivory tower’ and idealistic. Having an HR strategy that appears unrelated to the business strategy is far from useful.

While holding to my earlier view, several factors are causing me to modify it slightly. First, the body of thinking on what constitutes ‘best practice’ has expanded in recent times. So with respect to high performance for instance, there does appear to be a growing evidence base and broad degree of consensus, which I share, about which key ingredients are almost always present in high-performance contexts, e.g. high degrees of employee involvement. However, other less well-established factors are being added to the list of ‘universalist’ factors as time moves on and as research uncovers new ‘drivers’ of employee engagement and links with performance. For instance, work–life balance is coming to be viewed

as a key factor in employee engagement, even though the link between that and high performance is not well proven. Similarly, the nature of the organization's corporate reputation is thought to be an important factor in attracting and retaining talent. For instance, with environmental and climate change issues becoming more prominent, job candidates are increasingly reported to be taking into account an organization's policies on recycling, carbon offsetting etc. when making their career choice. To the extent that major social changes affect the daily work lives and expectations of employees, and help shape their attitudes and motivations, I would argue that the nature of 'universal' factors is also always contingent on external factors.

Other challenges to the nature of strategic alignment relate to the typical time-horizon within which business goals are planned and implemented. Usually the planning time-frame is three to five years at best. Now that there is growing recognition that HR has a key role to play in building culture – to support high performance – the timeframe for developing the organization is longer than the average business planning cycle.

Similarly, some HR strategies focus on building talent from within, growing leaders for tomorrow. The development of leaders with the behaviours and capabilities to lead tomorrow's business requires HR to look beyond today's practices and business strategies and work with line managers and executives to identify what will be required in the future workforce and leadership. Activities involving growing talent and changing the 'way we do things around here' can take time, and an understanding of how to bring about change in complexity. These are issues on which HR needs to exercise leadership to produce real value for the organization but gaining the licence to focus on the longer term often depends on how effectively HR delivers in the short term.

Moreover, alignment is not always one-way and HR strategies can themselves influence business strategy. HR strategies cannot be isolated from changes in the marketplace, most specifically trends relating to the labour market. New employment legislation, shortages in the labour market, demands for greater diversity and flexibility of service provision have to be taken into account. A business strategy which requires specific types of labour that are in very short supply will prove difficult to implement.

Social Role of HR

In contrast to the notion that HR strategic alignment is all about developing the means to deliver a business strategy lies a more values-based way of thinking about the role of HR, which co-exists somewhat uneasily with the performance-based view. Michel Syrett (2007) points out that HR's role is not restricted to dealing with employees as if they are mere instruments of organizational performance. HR has a key social role to play with respect to employees, due in part to the breakdown of the traditional social contract that exchanged employee loyalty for life-time job security, and the rise of individualism more generally in

society. People have increased expectations in terms of their quality of life, of which their workplace conditions and relationships form a very important part. Employees increasingly resist authoritarian management, require participation in decision-making and demand improved physical working conditions.

And HR has to address the issue of whether HR should be a business resource management function or an employee welfare facility to a much greater extent than other business disciplines like marketing or finance. The latter brings with it responsibilities and commitments which may potentially bring HR into moral conflict with business and performance-driven objectives that lead to, for example, the closure of a factory in a town with declining prospects of employment for workers whose skills base is limited.

Similarly, HR's legal responsibilities can create tensions and contradictions over the strategic business imperative to use employees as a competitive 'human resource' in highly pressured and often global marketplaces. More recent legislation, much of it originating from the European Union, includes that on working time, family-friendly rights and consultation. This is set to continue with, for example, the current focus on age discrimination.

HR practitioners need a knowledge and understanding of developments in employment law in order to both devise appropriate policies and procedures and to provide the correct advice to line managers and employers. Increasingly too there is recognition among employers that merely complying with the letter of employment law is not enough to leverage human resources for competitive advantage. A more strategic, proactive response to human resource issues is needed and should not be left to chance.

HR is at the pivot point of debates about whether the rights and needs of employees for instance for work-life balance and flexible working, should be of greater priority than those of employers who may need staff to be available for business at conventional times. The increasing quantity of regulation and law that governs the employment relationship in the UK means that HR – to a far greater extent than other business disciplines like marketing and finance – has a role as 'guarantor' or 'guardian' of employee rights as well as representing the interests of the organization. This has led to a continuing role for HR as arbiters between 'the business' and 'the workforce'. Not for nothing has Dave Ulrich's 'employee champion' now become 'employee advocate'.

Organizational Effectiveness

Increasingly, strategic HRM is coming to be understood as being about organizational effectiveness. Tony Grundy (1998) defines organizational effectiveness as: 'the capacity of the organization to adapt rapidly to its external environment and to meet market and other external demands and with good resulting business performance'. Grundy (1998) argues that integrating corporate strategy and HR matters into an 'Organization and People Strategy' more fully reflects the focus on organizational effectiveness and may prove more successful at building

business performance over time. Key to building organizational effectiveness is a skilful blend of HRM practices, organizational design and development to suit a specific organization in its particular context.

Strategic HRM therefore has a clear focus on creating the right organization architecture to be more effective in the fast-changing global context. The HR role involves creating new organizational capabilities, implementing strategic change and growing the skill base of the organization to ensure that the organization can compete effectively in the future. Indeed, Stroh and Caligiuri (1998) suggest that strategic HR departments are future-oriented and operate in a manner consistent with the overall business plan in their organizations. Such departments assess the knowledge, skills and abilities needed for the future and institute staffing, appraisal and evaluation, incentives and compensation, training and development to meet those needs. This also suggests that facilitating organizational learning, both for implementing change and in helping to develop strategy, is a key element of strategic HR.

Delivering Value

Though transition to a more strategic role can be difficult, it is certainly not impossible. Several of the case studies in this book, featuring the activities of HR practitioners who are making a strategic contribution to their organizations, should offer hope and practical insights into how others have made the transition. Interestingly, as the role and contribution of HR continue to evolve, the HR function is coming to be seen as a ‘player’ in many organizations. In Roffey Park’s Management Agenda Surveys 2000–2006 practitioners appear to see the influence of HR as strong and the function to be growing in size. Adapting the Wyatt-Haines (2007) functional value ladder, it would seem that HR is moving up the value ladder from its base, as ‘follower’ to at least ‘enabling’ the organization to maximize its performance:

Following

This is the first and lowest level, where HR follows the business and reacts to its needs, but is capable of delivering consistently and reliably, as well as managing costs, effectiveness and efficiency of HR systems. Regrettably, many HR functions fail to deliver even at this basic level. When responses are late or inconsistent, and practitioners find themselves leaping from one crisis to another, these HR functions are perceived as ineffective.

Enabling

With better organization and delivery standards, and the benefit of an understanding of the business strategy, the HR function is able to facilitate business units in delivering current business priorities.

Leading

Looking ahead, the [HR] function is able to predict likely needs, resource priorities and strategic issues in order to maximize the performance of the business. In this way, [HR] has the role of enabling the business to enjoy strategic success. (after Wyatt-Haines, 2007)

‘Leading’ requires the ability to both ‘enable’ and ‘follow’ business needs, but above all requires strategic anticipation and the ability to create value. While arguably HR generally may still have some way to go before it can be said to be ‘leading’, the more positive views of the value of HR in some organizations may also reflect the perceived relevance of the business partnership between line managers and HR professionals, and the development of organizational strategies that deliver value.

WHAT DOES ‘BEING STRATEGIC’ MEAN?

One of the key challenges for the early implementers of the ‘Ulrich model’ who managed to free up some capacity to ‘be strategic’, with the intention of providing a more value-added service, was working out what ‘being strategic’ and ‘adding value’ in their context were about. Similarly, creating shared perceptions of value with line manager colleagues was challenging and measurement came to be used defensively to prove that value was being added. Consequently the HR function became seemingly caught like a rabbit in the headlights, away from the safe place of the old role at the kerbside yet unable to move forward to a new, more dynamic place. In many cases practitioners reverted to what they knew best, what they felt was expected of them by line managers, and where they gained most personal satisfaction. Inevitably perhaps, HR value and the merits of HR transformation continued to be called into question.

The Role of Business Partner

What gradually became apparent was that the role of business partner was poorly understood by all concerned. According to the theory, business partners were to see themselves as part of the business, and be capable of understanding the business drivers and implications of business strategy for people and organization. Business partners needed to be able to diagnose problems, prescribe solutions, ensure effective implementation and move out of the hamster wheel of activity to create more strategic approaches to key organizational challenges such as employee engagement, culture change, integration etc. In practice, clarification of the role largely came through doing it.

One of the critics of the Ulrich model, Ed Lawler (2006) has commented on the difficulty of HR positioning itself as a business partner. Lawler considers HR a business with three product lines:

- Administrative services and transactions with the need to use resources efficiently and provide quality of service

- Business partner services developing HR systems and providing solutions needing to know the business and exert influence
- Strategic partner role contributing to business strategy, which needs a deep knowledge of the market as well as HR.

In the early stages of HR transformation, the roles of business partners were often poorly differentiated, resulting in confusion and in many cases a reversion to generalist support activities. What gradually became apparent was that many new business partners were under-prepared or under-powered for their roles, lacking the skills, confidence or the delivery capability as consultants to ensure that value was being added over what had existed before. However, the need for higher level skills to implement strategic HRM has become increasingly recognized and addressed through HR education and development. Consultancy skills, relationship management and third party management skills, together with commercial acumen, are prerequisites for effectiveness in business partner roles, and these now commonly feature in business partner development programmes.

Similarly, while much transformation effort was focused on reengineering HR processes and structures, and the 1997 Ulrich roles of 'strategic partner' and 'administrative expert' gradually became clearer, relatively less priority was placed by those implementing the model on Ulrich roles of 'change agent' and 'employee champion'. In the first decade of the twenty-first century, it has become apparent that building organizational capabilities around change, and finding ways to grow employee engagement are key priorities. The neglected roles have therefore come to the forefront.

Towards a Strategic Contribution

We are now supposed to be in the era of HR as a strategic business partner. On the whole, this current phase of HR transformation appears to be a refinement of the earlier implementation of the Ulrich model to reflect evolving business needs and opportunities, changes in the business and organizational landscape, as well as learning from the experience of HR transformation about what works and what is required. Interestingly, even now, 42% of respondents in the CIPD study (Reilly, 2008) are still experiencing difficulty defining HR roles, perhaps because it is clear that one size does not fit all.

Ulrich (Ulrich and Brockbank, 2005) has himself broadened out and fine-tuned some of the key ideas behind his 1997 model. He advocates looking at HR roles more as mindsets and forms of responsibility deriving from the strategic needs of the business, rather than as a single structural solution. Leadership and human capital are more in evidence than in his earlier model. Ulrich recognizes that HR should not only build effective organizational leaders but can and should itself exercise leadership, especially given the importance of getting the right people strategies to meet the needs of today's organizations and employees operating in a knowledge-intensive global context.

Ulrich now proposes a new framework based on a synthesis of earlier HR roles:

- Employee advocate (ensuring employer–employee relationships are of reciprocal value)
- Functional expert (designing and delivering HR practices)
- Human capital developer (building future workforce)
- Strategic partner (helping line managers reach their goals)
- HR leader (credible to own function and others).

So what are the key aspects of the business-aligned people agenda which it is reasonable to expect HR to lead on in order to add value? This question has become more significant as scarce resources have become more tightly controlled and markets have become ever more competitive, leading to a highly commercial and hard-edged view of how to leverage ‘human resources’ that may potentially be in conflict with HR’s welfare origins.

What do CEOs Need from HR?

Defining what being a business partner means in practice involves looking at what the ‘partner’ requires from the relationship. Assuming that HR’s principal business partner is line management, it is important to understand what managers’ view of the world is, define problems in their terms, frame what will happen in terms of results they expect and clarify what they need to do in getting there.

It can also be instructive to look at what chief executives do *not* want from HR. A small-scale research project in which chief executives talked about what they needed from the function suggests that CEOs do not place value on HR professional skills alone, though these should be of a high order and reliability. CEOs want and expect HR professionals to understand the business and its challenges, as well as to be able to translate business strategies into their human resource implications. They want HR to be able to communicate with executives in ways that demonstrate this understanding. Similarly, various studies suggest that CEOs do not appreciate too great a concern with rules and procedures that result in inappropriate ‘policing’ and blocking action. The quest for the ‘perfect’ solution or ‘best practice’ system is not appreciated either, if such initiatives are not owned by management or do not fit the organization. This means that HR professionals must involve line managers in the development of initiatives that make a difference to how people are managed, developed and rewarded. The well-intentioned new appraisal scheme or competency framework, if developed by HR alone, may be perceived as over-engineered or inappropriate.

What Keeps CEOs Awake at Night?

Reversing the coin, what matters most to executives is what keeps them awake at night. These, the most significant people and culture issues, should be at the

heart of HR strategies. Identifying, retaining and replacing the best talent in an organization is *the* key issue most likely to keep chief executives awake at night, according to a 2006 study by Accenture. This is now a 'burning obsession among chief executives', according to Peter Cheese, global managing partner at the company's human performance practice, and affects business leaders in India just as much as those in the UK. More than 60% of the respondents to Accenture's annual survey of chief executives said that the inability to attract and retain the best talent is now a key threat to their business, outstripping the issue of low employee morale (Cheese, 2007).

The Accenture study also points out that while the relationship between HR and senior management is improving – particularly in IT, telecoms and financial services – chief executives and financial officers still need to empower and champion HR more effectively, so that people issues rise to the top of the business agenda. What chief executives require is for their strategic HR business partner to translate the organization's needs back into business language and help executives understand what must be done with regard to people if the business strategies are to be achieved. This means that HR professionals need to be able to sense the issues that count, and to have the confidence to relay some potentially tough messages to management about what needs to be done. This is the quality described by Dave Ulrich as 'HR with attitude'. CEOs also need HR to be experts in process skills, able to win commitment and influence within the organization. This requires an ongoing dialogue with the line business organization and the ability to both plan change and bring others effectively through change. Approaches to achieving this will be examined in Chapter 14.

THE AGENDA

For the HR function, the agenda becomes a simple one – the aim is to be both a contributing member of the management team as well as to create personal, functional and organizational capability.

A business strategy only has value when it is implemented and HR has a key role to play in enabling strategy implementation and business success. As Ulrich suggests, 'the successful organizations will be those that are able to quickly turn strategy into action; to manage processes intelligently and efficiently; to maximize employee contribution and commitment; and to create the conditions for seamless change' (Ulrich, 1998). For this to happen, HR managers and their teams must understand how their business strategy can be effective in the competitive and fluid environment in which today's businesses operate. This is not necessarily about analysis and planning, but about how strategy operates both as a way of thinking and acting so HR strategies and policies ensure that employees can deliver value to their customers and organizations can enjoy competitive advantage.

Of course, with the benefit of a clear business strategy on which to focus, HR teams can develop a people and organizational strategy to support the business strategy. This degree of alignment is critical to the success of the business, the

effective utilization of its resources and the perceived value of the HR function. In ‘steady’ times it is possible to be quite specific about what and how an HR function delivers to the business and the service that it wraps around its core products and role. However, in fast-changing times, when business strategy has to adapt dynamically to new circumstances the ability to ‘strategize’ is all the more important. HR has to be at the forefront of creating organizational ‘changeability’ and corporate agility.

This will require key capabilities across the HR function so that it can deliver consistently and reliably as well as strategically. In other words, the HR team must be able to think and act in a strategically aligned way. This is not just strategy in the sense of plans, systems and processes; it is strategy as communication, mindset, flexibility of thought, awareness and a passion for ensuring that HR is a key strategic resource for the business, delivering value and success on an ongoing basis.

So does HR matter? Yes, HR does matter, in the three core areas of:

- Achieving competitive advantage
- Delivering greater productivity
- Transforming the organization.

Achieving Competitive Advantage

- Through *enabling* – understanding the strategic drivers for the business and implications of the competitive environment; technology in particular can help worldwide project teams to bring new concepts to market faster and respond more quickly to customer needs, while at the same time reducing costs. HR can design and implement strategies that help the organization achieve its goals in the short, medium and long term; supporting line managers, executives and employees to perform in ways that build competitive advantage.
- Through *linking* – building the organization’s synergies through collaboration: by facilitating organizational learning across boundaries and helping find new and better ways of doing things. HR can help create new ways of working in partnership with other organizations and may establish a way of operating which becomes an industry norm.
- Through *attracting and retaining key talent* – in today’s fast-moving context, the conventional business planning horizon is becoming ever more short-term, making workforce planning ever more difficult. Skills shortages are being felt across Europe to varying degrees. In some parts of the UK economy skills gaps have been plugged by employing migrant workers for example. HR is responsible for managing talent, designing and implementing the strategies for attracting, motivating and retaining key talent, including leaders at all levels; and addressing organizational needs for flexibility and employee

needs for work–life balance. This involves anticipating not just demographic trends but readying the organization for change. The result should be that organizations have the talent they need to succeed and employees feel their needs and aspirations have been heard and taken into account.

- Through *reducing competitive pressure* – by becoming uniquely attractive to key talent which makes it harder for other organizations to compete. In particular, developing employer brands which are real and enabling employees to have work–life balance will be some of the ways HR can ensure a good supply of the ‘right’ talent.
- Through *growing organizational capability* – designing cultures that are supportive of innovation and performance; building the skills and capabilities of employees at all levels, including those of managers and leaders.
- *Equipping staff with the skills required* to meet changing business needs is increasingly challenging, especially since the psychological contract has become increasingly transactional rather than relational. Employees expect to be trained but may choose not to stick around to deliver on their enhanced skills once trained. Work–life balance has become a key element of talent strategies and achieving diversity has remained a major challenge for many organizations.
- *Developing pools of talent for future leadership roles* will become increasingly important and challenging. Succession planning has moved into a more consensual mode, where individual and organizational interests must be equally taken into account. More personalized approaches need to co-exist alongside the collective – being able to balance both will be a key underpinning of effective HR approaches.

Delivering Greater Productivity

- By *building high performance cultures* – organizational culture is becoming central to organizations’ search for sustainable high performance and productivity. Organizational development has risen in importance and should be a key part of HR professionals’ remit. Building in flexibility and the potential for innovation to structures, processes and, most of all, mindsets, takes some doing. It requires HR to be able to work effectively with organizational agents who have a key role in building high-performance work practices and cultures will be increasingly key to adding value in an HR role.
- The business context is changing so fast that speed is increasingly required for *winning and maintaining competitive advantage*. Given that change is ongoing, change management, being able to integrate cultures and create corporate agility are key to HR roles.
- By *developing good people management practice* – this includes helping managers to manage and develop their staff, many of whom will be ‘non-employees’ or contract workers, helping teams to work across organizational boundaries, and top management to embrace and enact their leadership roles.

- Through *organization design*. HR needs to understand the principles underpinning operational strategy and be strong at managing the interrelated operational elements of cost, dependability, flexibility, quality and speed. From its cross-organizational perspective, HR can see how all the processes and systems within the business interlink, including where there are areas of duplication and unnecessary activities that add little to the business, and identify where improvements can be made in the light of what the business is aiming to do. HR can ensure that team roles are appropriately designed and structured; good communication processes established and ensure that cross-organizational interdependencies are identified, with teams able to share learning across boundaries.
- Through *role modelling good practice*. HR itself needs to be able to adopt good operational principles and be able to take a concept and turn it into reality faster than the competition to provide real advantage to the organization.
- Through *efficiency and effectiveness*. HR needs to organize its structure and delivery mechanisms to create higher levels of autonomy, accountability and performance across the business.
- HR must *understand needs of customers* (internal and external) accurately and apply their resources to projects, functions and services that customers actually need.
- HR must ensure that through its *relationship management* the quality of relationships across the business improves, preventing time being wasted on back-biting and political games.
- HR can *improve internal management processes* and systems by providing approaches and processes through which managers and leaders can direct, manage performance, develop, coach and communicate effectively.

Transforming the Organization

- Working with line managers to *design effective structures and roles to achieve business objectives*. The dimensions of strategy, people, task, structure, skills and systems are closely linked.
- As the nature of work changes, skills and capabilities become redundant. As they are replaced by new performance imperatives, new cultures and behaviours are required. HR has a key role to play in *anticipating how work will change*, and building development paths to equip people for new roles.
- HR can *develop teams and managers to be able to cope effectively* with change, since change is now the norm.
- HR can *build corporate reputation* – by ensuring that the employer brand is ethical and backed up by practice.
- HR can *build inclusive policies and practices that maximize diversity* – international labour laws are becoming ever more stringent and HR has the challenge of anticipating requirements and protecting the organization from infringement of the increasingly copious amounts of employment law.

For example, working lives are getting longer and one of the most significant pieces of European legislation to have come into effect over the past decade outlaws discrimination on the grounds of age. Not only can people work for longer, in many cases they will have to. Across Europe the growing pensions burden on companies has virtually closed access to final salary schemes or their equivalent. Developing policies that will support the recruitment, management, motivation and welfare of a more diverse age range of staff is only one facet of the evolving HR agenda.

- HR must *create employee engagement* – every organization needs employees who not only possess the skills and knowledge required for the job but are also motivated and committed to using those skills on behalf of the employer. Employee ‘engagement’ has become a key quest for HR teams in every sector, both during times of significant change and in relatively stable phases because the changing work environment has resulted in a loosening of the conventional emotional ties by which employees remained attached to their employer.
- How employee engagement is achieved remains open to many interpretations, but significant elements in most definitions are opportunities for employees to have ‘voice’, i.e. to be consulted and have a say in what happens at work, to be equitably rewarded and to have the opportunity for learning and growth. Working with line managers and trade unions to *create policies and communication practices that build effective employee relations and engagement* is another key element of the HR role.

CONCLUSION

So as the HR role continues to evolve, there is clear evidence that when operating at a level to produce cross-organizational solutions, for instance to the challenges of culture change, employee engagement or the sourcing of scarce talent, HR can play a significant enabling role for the business.

And as HR continues to develop its role, practitioners are increasingly asking themselves what HR is for. While more strategic activity is clearly bearing fruit, the latest challenge seems to be more one of defining what lies within the scope of the HR role. So should CSR, environmental policies, organizational development, work–life balance, internal communications, employer branding all be part of the HR agenda? Arguably yes: as always, the real challenge is that of making the ‘right’ choice of what to focus on that will deliver the greatest returns.

This is where HR leadership is the next step on the evolutionary ladder. This will make HR a function which is both proactive and responsive to business needs, underpinned by humanistic values and capable of shaping thinking and practice with respect to the management and development of people. This is the high road towards delivering value for today’s and tomorrow’s organizations.

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The Context for Strategic HR

Whiplash change, fleeting advantages, technological disruptions, seditious competitors, fractured markets, omnipotent customers – these 21st century challenges are testing the design limits of organizations around the world and are exposing the limitations of a management model that has failed to keep pace with the times.

(Hamel and Breen, 2007)

No organization is immune from the changing tides of global economic, social, political and technological trends. In the twenty-first century many of the socio-economic certainties of the twentieth century are crumbling. Strategic HR management involves keeping abreast of the times and developing organizational strategies that prepare organizations not only to respond to changing environmental pressures but proactively to seize the initiative in their various markets. In this chapter we shall consider some of the driving forces for change in the global environment and their emergent impact on the world of work.

THE CHANGING BUSINESS ENVIRONMENT

Despite strong economic growth in the UK since 2000 there is a huge productivity gap between the UK and other industrialized nations. Marketplaces are becoming ruthlessly competitive as unique technologies, unique physical assets and historic brands are challenged by new competitors, new consumers demands and changing distribution channels. In the UK, high street giants such as Sainsbury's and Marks & Spencer have had to radically change their approach to survive and thrive. Nevertheless, despite gloomy short-term economic forecasts, the long-term prognosis for the UK economy is good. With flexible labour markets and open capital markets, the UK has fewer constraints on growth than many other countries. If the UK manages to close the productivity gap it has a unique opportunity to leap ahead of competing nations in terms of overall growth (Lewis, 1999).

Globalization

Globalization continues to drive growth and wealth creation. Much manufacturing capability has migrated from the developed to parts of the developing world. The West is becoming predominantly a service economy, with the UK in particular seeing the development of high technology, financial services and travel and tourism as major growth areas. Corporations face a myriad of markets where once there were stable brands spreading across the globe. As a result, they now need to balance global scale with local responsiveness and local brand identification.

Much of the change experienced at local level, even in the public sector, is the consequence of globalization that has been made possible through deregulation of markets, availability of technology and other factors. The consequent burgeoning of customer demands, availability of new products and service, increasing competition and the need for innovative solutions and cost reduction are leading to change becoming the norm rather than the exception in organizations of every kind.

Kenichi Ohmae, author of *Triad Power* (1985), suggested that the route to global competitiveness was to establish a presence in each area of the Triad – Japan, the United States and the Pacific, and Europe – and to use each of the three Cs of commitment, creativity and competitiveness. Some would argue that to Ohmae's Triad should be added China and India, two rapidly developing economies whose potential is only now starting to be realized.

Indeed, major political shifts have opened up vast new markets for capitalist goods and services, such as China, while closing down some 'traditional' ones. China and India are developing rapidly and differently as global economic powers, as they make use of industrialization, Internet technology and increasingly skilled labour forces.

As competition in the service economy becomes more intense – and the financial services industry is a prime example of this – the trend towards market consolidation through acquisitions is often a defensive move to avoid being swallowed up by bigger players. In a *Financial Times* report, one-quarter of organizations surveyed had experienced a merger/acquisition in 2005 and there was a 39% rise in the value of mergers and acquisitions during 2005, along with a 9% rise in the number of deals (*Financial Times*, 21 December 2005). Similarly, in Roffey Park's 2006 *Management Agenda* trend data survey, ongoing consolidation of the marketplace is particularly noticeable in the financial services. In other sectors, strategic alliances seem to be the preferred option with over half the respondents predicting that their organization will develop such an alliance in the near future.

Ohmae (1985) points out how globalization will ultimately affect all aspects of a nation's economic life:

The essence of business strategy is offering better value to customers than the competition in the most cost-effective and sustainable way. But today, thousands of competitors from every

corner of the world are able to serve customers well. To develop effective strategy, we as leaders have to understand what's happening in the rest of the world, and reshape our organization to respond accordingly. No leader can hope to guide an enterprise into the future without understanding the commercial, political and social impact of the global economy.

Change is the Constant

Against this backdrop it is hardly surprising that organizational change continues to be the order of the day, especially in large organizations. Many of the sources of trend data report similar tendencies. According to Bain and Company's Management Tools and Trends Survey (Rigby, 2007) companies are looking outside to grow. They are acknowledging the impact of globalization, especially the importance of China and India as sources of growth. Four out of ten agree that cross-border acquisitions will be critical to growth objectives in the next five years.

Similarly, according to the 2006 Roffey Park *Management Agenda*, the main challenge faced by all organizations is building company performance in an increasingly difficult market, and many are attempting to stimulate innovation and create performance cultures while simultaneously trimming costs and managing change. In the Bain and Co. survey too, executives are recognizing the importance of 'soft issues', with nine out of ten executives agreeing that they are also looking beyond cost-cutting to be successful, and that 'culture is as important as strategy for business success'.

Our increasing awareness of global interdependence is also driving concerns about some of the environmental challenges which can appear beyond ready control, such as climate change and increasing numbers of pandemics. Add to that social, economic and political trends such as the fluctuating price of energy, political turmoil in the oil-rich regions, the personal and national consequences of global politics and extremism – these are all driving perceptions of a less secure and stable world.

There is growing fear of loss of oil, of water scarcity and of the exhaustion of finite resources and a determined drive by energy suppliers to find alternative energy sources of cheap, clean and renewable energy. While low-cost air travel opens up the prospect of increasing global mobility, the cost in terms of carbon emissions is increasingly being calculated down to the level of an individual's 'carbon footprint'. Social behaviours with respect to recycling, limiting unnecessary travel and other attempts to limit environmental damage reflect a public desire to limit further potentially irreversible damage to the world's climate and eco-system.

In the West people are living longer and the working age is expanding ('from 10 to the grave'). Increasing importance is attached to living healthy lives and there is a growing interest in well-being and quality of life. Increasingly people are enjoying multiple careers and embracing the idea of lifelong learning. The growth of the 'me first' society and the cult of celebrity appear to be increasingly counterbalanced by trends such as the return to traditional values of respect for others and towards living more worthwhile lives, what Faith Popcorn has

described as 'karma capitalism'. While the trend towards ever-increasing consumption continues, consumers are becoming more reflective. There is a growing awareness that not enough attention is paid to those at the bottom of the pyramid, which is reflected in the trend to purchase fair trade products.

In the UK and other developed countries there is an overstretched housing market and debt, with increasing inter-generational transfer of wealth and debt in prospect. Despite increasing medical knowledge and improvements in health, people are worried about the state of their health service, pensions, the education system and crime.

Business is increasingly required to adopt a more proactive stance to some of these issues, since these societal insecurities affect consumer confidence and the economy as a whole. This is leading to a wider questioning of the role and purpose of business with respect to society, and increasingly corporate reputations stand or fall on perceptions of the ethical nature of the brand, the product and its manner of production.

Consumer Demands and the Need for Flexibility

The global economy is driving patterns of consumer behaviour which were relatively in their infancy only a decade ago. In the UK the 24-hour shopping and service culture has taken root, with changing working patterns an inevitable consequence. Consumers now expect to buy their groceries round the clock, have them delivered at home at times to suit themselves, to access customer services via help-desks and shopping opportunities by telephone or Internet. Companies are responding to customer demands by running their operations on a 'sun-time' basis from different parts of the world. Thanks to technology, organizations are able to outsource, 'off-shore' or 'right-shore' key parts of their operations which they believe can be done more cheaply and effectively elsewhere.

Organizations are therefore becoming increasingly reliant on different types of flexible worker who can provide the cover required, whether or not these workers are directly employed by them. These less secure forms of employment may already be changing the nature of the dynamics of employer-employee relationships to more transactional than relational. Indeed, Syrett (2007) argues that it is in an organization's interest to treat 'non-employees' such as contractors or temporary staff as if they were employees, if they are to derive the most 'engaged' performance from contract workers. After all, a company's brand increasingly depends on how customers view the service they receive, which in turn can be provided by third-party suppliers whose only connection with the brand is contractual.

The Impact of Technology

In this global marketplace and thanks to technology, new services and channels abound, niche players can take on the big conglomerates and national boundaries become irrelevant.

Technology is facilitating the rise of the virtual world. Selling or buying via the Internet has become the 'normal' way to do business. Public and private sector services are increasingly provided online, communicating with customers via telephone or the Internet has become the norm, threatening the competitive positioning of conventional postal services. Call-centre-based helplines are available for most services, including round the clock health advice.

Technology is opening up ready access to market information and changing where, when and how you get information. Members of the public can now obtain seemingly limitless amounts of information and entertainment via the Internet. Information is no longer the privileged preserve of members of specialist professions, political groups or sects. Commercial service providers such as Google and Yahoo! vie for share of market with 'volunteer'-led services such as Wikipedia, where the data are provided by contributors who are also users of the service.

Technology underpins the growth in online communities and the burgeoning of social networking. Increasing use of chat rooms and services such as 'My Space', 'Face Book', 'You Tube', seems to potentially counterbalance the apparent fragmentation of society by enabling people to create their own online identities or avatars and have access to thousands of new 'friends'. Even Queen Elizabeth II has her own 'You Tube' presence featuring clips of royal videos.

People expect to get ever-higher service standards as companies reduce their costs. And as consumers access personalized services via the Internet, reducing the need to go to the shops, there are reported to be changes in society such as the increasing isolation of consumers and greater fragmentation of communities. In contrast, young people in particular are forming new online and other communities in which friendship groups augment family relationships.

Technology then is making possible choice, personalization, free and constant access to information, networking, collaboration as well as competition. As users of technology, employees are aware of what can be possible, with the result that they have growing expectations about what work can do for them, as much as what they bring to their work. As such, employees increasingly view their employer through the lens of the discerning and demanding consumer.

The Knowledge Economy

Many pundits argue that we are now in a new industrial era or at least on the verge of the Knowledge Economy, where the individual is king or queen, with corresponding freedoms of choice. Information and knowledge have become key tradeable assets for companies and individuals. These assets form the basis of the 'New Economy'.

The implications of this are significant:

- Governance of society is mutating
- The very nature of the firm, of the workplace, is changing
- Work itself, and the nature of the employment contract, are undergoing major changes.

GOVERNANCE OF SOCIETY IS MUTATING

One impact of globalization is the apparent transfer of power and influence from local and national communities into the global arena, and new forms of global governance are slowly emerging. In the global electronic economy, investors and fund managers can transfer huge amounts of capital in an instant. This can sometimes lead to the destabilization of a national or regional economy, as happened in East Asia. Similarly, the US 'Credit Crunch' and collapsing property market in 2008 has had repercussions for developed economies throughout the world. The global marketplace is indifferent to national borders and many nations have lost much of the sovereignty they once had. According to Professor Anthony Giddens (1999), 'globalization is political, technological and cultural, as well as economic'.

Conversely, there appears to be a corresponding push for greater local control of power, for 'subsidiarity' and the right to make decisions at the most local level possible, as witnessed in the UK by the devolution of some political powers to Scotland, Wales and Northern Ireland. Giddens argues that in a world based upon active communication 'political power based upon authoritarian command can no longer draw upon reserves of traditional deference or respect'. He points out the paradox and political instability inherent in the fact that while many parts of the world are making the transition to democracy, at the same time there is widespread disillusionment with democratic processes.

Giddens' commentary appears all the more relevant since the events of '9/11' 2001 and the increasing polarization of views and cultural differences within a global political landscape which appears increasingly fragmented and turbulent. Yet despite political, religious and cultural differences, collaboration can abound, especially in times of crisis, such as the international response to the Asian tsunami in 2005 or the active international control of the spread of potential pandemics such as SARs or Avian Influenza.

These twin thrusts of competition and collaboration are increasingly common features of the workplace too. What may have previously seemed improbable alliances, such as those between former competitors, are becoming commonplace. Networks of small-scale companies will increasingly form as independent producers find common interest and come to rely on cellular, self-managed teams, according to Leadbetter (2001). Of course, too much unfocused collaboration can produce the 'country club' effect, which can lead to complacency and is not very productive. In contrast, Goldman Sachs is described (in Gratton, 2007) as a powerful organization that thrives on cooperation without becoming cosy. For employees and managers, the ability to work effectively across and between organizational and time boundaries to achieve common purpose is likely to become a key capability in years to come. For Gratton (2007), the four key elements that have to be mastered are a cooperative mindset, an ability to span boundaries, productive capacity and a shared purpose.

At the same time globalization is leading to flexible labour markets and increased insecurity. The monoculture is becoming a thing of the past: diversity-driven innovation appears to be key to economic vibrancy. Technology provides

new possibilities for social networks and the next wave of technology will provide pervasive wireless connectivity. This is resulting in ever greater possibilities of rapidly gaining access to information, and for shaping opinion about any organization or institution, leaving individuals and organizations potentially vulnerable to unwelcome exposure.

Trust, Ethics and Values

Opinion polls carried out in various Western countries suggest that people have lost a great deal of trust in their institutions, politicians and conventional democratic procedures, with younger people often said to be particularly disaffected and alienated. Giddens (2006) suggests that what is needed is a deepening of democracy on a global level. This, he argues, will involve active devolution of power and the use of alternative democratic procedures such as electronic referenda and people's juries. He also suggests that a strong democratized civil culture, which markets cannot produce, will be needed. Government, the economy and civil society need to be in balance.

In this context the role of business too is increasingly under the spotlight. The debate centres around the relationships between business, society and the public good. It seems that organizations are becoming ever-more aware of the need to protect their reputations through effective corporate social responsibility (CSR) policies and practices. This is hardly surprising given the various financial scandals that have rocked major corporations in recent years. There is even an 'Impact on Society' reporting website open for business to any company committed to the principles of transparency and improving their positive impact on society.

Compare this with the views of the 1970s US economist and free-market advocate Milton Friedman, who described the then-growing demands for business to have a social conscience as 'pure and unadulterated socialism'. He argued that business has a duty to make a profit first – anything else will create confusion. In contrast, Charles Handy (1997) argues that firms must see their roles as contributing to society over the long term, rather than simply increasing shareholder dividends in the short term.

Reputational Risk

But beyond debates about the purpose of business, there are strong brand drivers for addressing ethical issues. Global communications now have power to reach into even remote societies. 'News' can now be relayed around the world instantly, shaping opinions and transforming traditional family and societal values. The instant availability of news is increasingly recognized as potentially both an organization's greatest threat when the nature of the news is 'bad', and a major opportunity to enhance company brand and reputation when the news is 'good'. So many of the financial and other corporate scandals brought to light in recent years have fundamentally affected the 'licence to operate' of the

organizations in question, in cases such as Enron, putting them out of business altogether. Once bad news is 'out', it travels instantly around the world. In this context company brand is synonymous with corporate reputation. Consequently, organizations are now paying serious attention to the ethics of how they treat their employees and communities, how they reduce their carbon footprint, how they deal with corruption in their midst, and how they source from suppliers who are known not to exploit their workers.

Corporate reputations, in turn, depend to a large extent on the behaviours and decisions of those who work for, or represent an organization. They can be put at risk – rightly or wrongly – by disgruntled employees who have access to company information and who make use of company intranets and the Internet to broadcast poor practice, or who exploit company data for personal gain. Similarly, corporate reputations can be put at risk by being perceived to be a bad employer. The range of employment legislation and the growth of litigation in the UK, echoing US practice, is reflected in the plethora of employment tribunals in which employees bring cases alleging that their employment rights or, in some cases, their human rights have in some way been infringed. These are just some of the reasons why addressing ethical considerations with regard to the workforce, such as addressing inequality and unfairness at work, and improving employee engagement, have risen up the business (and therefore HR) agenda.

McDonald's in the UK is one employer who knows only too well the cost of damage to reputation. A few years ago the company suffered a wave of unwelcome publicity in which the calibre of employees who were willing to accept a 'McJob' was ridiculed. David Fairhurst, People Director of McDonald's, decided to put the story straight. He commissioned Professor Adrian Furnham to carry out a survey of young employees, their parents and former head teachers. The research found that working at McDonald's, with its training, work discipline and customer focus, had a powerfully motivating effect on employees, many of whom had failed at previous jobs elsewhere. The findings enabled McDonald's to go on the reputation offensive and become seen as an employer of choice in a tough labour market with generally high turnover rates.

Corporate Social Responsibility (CSR)

From a situation a decade ago where many firms adopted CSR mainly to minimize risk, there is now a growing emphasis on responsible business as a positive source of competitive advantage. In the past decade, levels of ethical consumerism in the UK are growing steadily, and show no signs of slowing down. The Cooperative Bank's annual Ethical Consumerism report reveals a sharp increase in the sales of ethical products and services, rising from £9.3 billion in 1999 to £25.8 billion in 2004. Even though many companies still do not take CSR seriously, 78% of the UK general public involved in the poll want to hear about companies' responsibilities to their customers, employees, communities and the environment, according to a MORI poll (Ipsos MORI, 2007).

Similarly, environmental concerns about climate change and global warming have galvanized many communities in the developed world and the geo-political move towards a carbon-free world is rapidly gaining ground. In December 2006, UK Prime Minister Gordon Brown (then Chancellor of the Exchequer) issued the following statement in his pre-budget speech: 'within ten years every new home will be a zero carbon home, and we will be the first country ever to make this commitment'. Businesses are having to respond in kind and, according to Phil Hodgkinson (2007), 'expanding our business measures to include our environmental and social impact will in time transform management's understanding of what makes a successful and sustainable business'.

Major businesses have already responded to the spirit of the times. In 2007 Sir Stuart Rose, chief executive of Marks & Spencer, announced a £220m programme to make the retailer carbon-neutral by 2012. Sustainability and corporate citizenship are an integral part of the M&S brand as well as a key part of its commercial recovery. Similarly, Sir Terry Leahy, chief executive of Tesco, has introduced carbon labelling on all 70 000 of Tesco's product lines. British Airways is the only airline in the world that is actively trading its carbon emissions and also runs a voluntary carbon offset scheme for its customers in return for the carbon emissions created by their journey.

Investors too are making it clear that it is not only morally preferable to be socially responsible but a sign that a company is managing risk. Companies that fail to achieve alignment between business values, purpose and strategy with the economic and social needs of employees and customers, while embedding responsible and ethical business policies and practices, risk exposure to the harsh world of scrutiny and censure. Companies that do not keep a grip on working conditions, the activities of suppliers or pollution are likely to be prosecuted, shut down by the authorities or boycotted by the public. That broader awareness of business's responsibility to the wider community is evident in the Bain and Co. (Rigby, 2007) survey, with seven out of ten executives agreeing that 'environmentally friendly products and practices are an important part of their mission'.

Organizations are also more attractive to potential recruits if they are seen to be active in supporting their community, and in other ways practising corporate values. For example, according to Emma Schmitt of Standard Chartered Bank: 'Doing business in an ethical way is increasingly important for international companies like Standard Chartered. Half of our graduates cite our ethical approach as a reason for joining the bank. We give our employees two days additional leave each year to volunteer for community initiatives and we find it really enhances employee engagement' (quoted by Davidson, 2007). One such project involved 12 staff members helping to teach blind students interview and career development techniques.

Other non-financial benefits of responsible business practice include things like building trust in the brand, increasing customer satisfaction, improving staff morale, reducing absentee rates, strengthening community relations in addition to reducing the organization's carbon footprint. Management teams are being encouraged to

take their corporate citizenship roles seriously, and in some cases, executives are rewarded on the basis of how they demonstrate corporate values, including ‘community involvement’. Arguably the best leaders – in business and elsewhere – are those who are prepared to learn from others and help others learn from them. They are the people who are prepared to hold themselves and their companies to account.

Ethics from an Employee Perspective

It seems that employees too place great importance on working for ethical organizations, with 83% of *Management Agenda* respondents classing CSR as personally important to them. Interestingly, more women than men maintain that CSR is of personal importance to them and it appears to be mainly respondents from larger organizations who are most concerned about CSR.

There do, however, appear to be big gaps between the ‘walk’ and the ‘talk’ on some aspects of CSR. For instance, diversity appears to be more espoused as a concept than practised for real in many organizations. The majority of employees (63%) believe that their organization does not actively manage diversity and 31% of respondents believe that a gender pay gap exists, with men receiving more money than their female counterparts. There appear to be significantly more visible female role models within medium-sized organizations and more especially in public sector and not-for-profit organizations than in commercial organizations. However, most of these female role models are mainly in middle management roles, and tend to be in support or staffing functions such as HR rather than business leadership roles.

Diminished Loyalty and Trust

The importance of trust as the basis of a positive psychological contract between employees and employers is highlighted by these findings. The absence of trust undermines employee motivation and loosens the bonds of employee commitment. In particular, the widening gap between perceptions of workplace conditions is fertile breeding ground for employee cynicism. Corporate scandals and ‘fat cat payouts’ for example have led to increased cynicism and distrust (46%), and 25% of respondents report that they have lost trust in corporate leaders altogether. Senior managers are the least trusted group within organizations (only 24% trust their senior managers to a great extent), while subordinates (53%) and peers (46%) are the most trusted.

It seems that greater employee confidence in the external job market and in their own employability is leading to a reduction in effort and commitment to organizations in some cases. Only 27% of *Management Agenda* respondents classed the collective sense of purpose and commitment within their organization as ‘high’. This cocktail of reduced employee commitment and trust is unlikely to be helpful to retention or to developing and sustaining high performance.

Closing the Gaps

Organizational policies and practices can make a difference to the quality of employees’ working lives, but only if they can be effectively implemented.

There are reported mismatches between the importance ascribed by employees to issues such as work–life balance, and what they judge to be the level of importance accorded to these issues by their organization. It is no good having a flexible working policy if those who work flexibly must sacrifice career progression. Wide gaps remain between the practice of corporate values and what is espoused; perceptions of appropriateness of reward vary according to level of hierarchy; what people want from top management and what they get remain very different. The challenge for HR is to add value by identifying how some of these gaps can be closed.

Organizational contexts also appear to have a significant impact on whether or not policies produce the right results for organizations and employees. In the public sector, many respondents report that their organization takes the issue of work–life balance seriously, and that they are also able to achieve an appropriate work–life balance. Similarly, employees working for large organizations are more likely to report that they are experiencing more change, and are less likely to consider their top managers as leaders than employees in small organizations. Employees in smaller organizations are less likely to report that their organization actively manages for diversity or has CSR policies in place, yet they are more likely to report that they are able to work flexibly. Perhaps large organizations can learn from their smaller neighbours, such as those in our survey, how to create the sense of community and how to show more effective leadership, while smaller organizations might learn from their larger counterparts some of the evolving elements of good practice relating to corporate citizenship. Similarly, some public sector bodies may be well placed to show others how to manage for diversity and to achieve more flexible ways of working. HR networks can facilitate exchanges of learning on key organizational issues where no one sector or organization may have all the answers.

Closing such gaps calls for more active people-centred leadership. HR professionals, together with top managers, have a significant opportunity to influence workplace climates through their greater access to key levers such as communications, reward and sanctions. What appears evident from these findings is that many top managers fail to act as leaders to their employees and are therefore perhaps missing the opportunity to move the focus of attention from a purely short-term, reactive and task-focused agenda to one which is more strategic, humanistic and ultimately more effective. HR has the challenge of developing effective leadership at all levels. HR professionals need to be guardians of the development of a high-performance workplace climate, where people feel that their work is meaningful.

What is also clear from these findings is that today's employees, especially young high flyers, not only want to make a good living, they also want to make a difference. It is therefore in the interests of employers to provide opportunities for their key employees – and others – to explore how society works, to get engaged in the wider world and more obviously develop fulfilling roles. By so doing employers are more likely to retain their key talent and go some way to

closing the gap between the ‘walk’ and the ‘talk’ on values. When people can have their choice of employer, the power balance in the psychological contract shifts from the employer to the employee. Employers who fail to recognize this are more likely to lose the talent they need to build competitive advantage.

Demographics: the Ageing Workforce

Due to the falling birth rate in Europe, by 2030 the EU will lose 20.8 million people (6.8%) of working age at a time when Europe will need an employment rate of more than 70%.

The so-called ‘demographic timebomb’ in Europe and the United States is paralleled by other social trends reflected in the phrase ‘the Age of Individualism’. In Europe and the US declining birth rates generate future shortages of both employees and consumers. In the West more men and women than ever before live in single-person households, leading to increasing numbers of small occupancy housing being built. Single women are said to be healthier and fitter than single men living alone, and though people are living longer than in the past, they are not necessarily leading healthier lives.

Throughout Western Europe the workforce is ageing. At the same time as the workforce in the developed economies is ageing, fewer young people are entering the workforce. By 2020 there will be 2.7 workers to every non-worker, compared with 4:1 in 1990. Pensions issues, and the extension of the right to work beyond the age of 60, suggest that employers and employees will need the skills of older workers while at the same time they will need to provide opportunities for younger workers. It is predicted that people of the ‘baby boomer’ generations will be among the last to be able to enjoy a comfortable retirement from the age of 60. Managing a multi-generational workforce is set to become a new management challenge.

In the UK labour market these demographic shifts are already evident in the recruitment pool where the workforce is becoming older, female and more diverse. According to DTI statistics (DTI, 2007), the consequence of these trends means that the UK labour pool by 2010 will be as follows:

- 20% will be mothers (50% as single parents)
- 1.3 million fewer workers will be aged 25–35 (‘Generations X, and Y’) and 3 million more workers, over 35 years
- 80% of workforce growth will be represented by women
- 10% of the working population will come from ethnic minorities
- 80% of 16-year-olds will stay on at school (and later, if proposals to extend compulsory school education to 18 are approved)
- Only 20% of the workforce will be made up of white, able-bodied men under 45 years in full-time work.

Talent ‘Crisis’

One of the key challenges facing HR is ensuring that there are the right people in the right places with the right skills. At a time when, despite short-term recessions,

many developed economies are experiencing underlying growth, there is a risk that talent shortages will become a key factor affecting organizations' ability to achieve their goals.

According to the Future of Work Organization (Grantham and Ware, 2007), the predicted 'talent crisis' will hit organizations operating globally across all sectors by 2010. The United States alone will experience significant talent shortages by 2010, with a shortfall of 10 million knowledge workers.

At entry level, many employers report skills deficiencies in young recruits, and in the UK there is a determined attempt by government to support workplace learning and development to equip young people with the vocational skills required. In many sectors, particularly those requiring higher level specialist skills, there are global shortages of talent, even if there is local abundance of other forms of talent.

Retention will be Key

In the UK at the time of writing there is the highest level of employment on record. Registered vacancies are increasing and there is an increase in proportion of employers reporting skill shortages, despite predicted downturns in the economy for the short term. The increased labour market buoyancy for those with marketable skills is reflected in a general increase in labour turnover (10% in 1992; 14% in 1996; 18% in 1998; 21% in 2005). Retention will be key to avoiding talent shortages. Turnover is highest amongst young workers and over 25% of 20–24-year-olds were working for a different employer a year before (Office of National Statistics, 2006).

UK businesses face huge staff turnover problems as links between employees and employers break down, a report has revealed. The report, *Corporate Warming*, by Adecco and the Institute of Employment Studies (Reilly, 2007), has found that 45% of employees will leave their company in the next three years, attracted by better salaries, more security and better career progression and challenges elsewhere.

Rene Schuster, Adecco Group country manager, said:

The labour market is changing and self-starting employees are demanding more from companies and it is up to businesses to realize this and close the gaps in employee management. We know from past research that 40% of UK employees surveyed have applied for a job or registered with a recruitment agency in the past 12 months. If businesses don't start engaging with their employees on the issues central to them, they will ultimately vote with their feet and leave.

Findings show that fewer than four in ten businesses undertake employee satisfaction audits to gauge motivation and only a quarter appear to examine vital attrition data. Peter Reilly of IES argues that 'a strong labour market creates choice and freedom for employees. This leaves employers vulnerable, if people management falls through the management cracks, to increased turnover and labour costs, unproductive workers and the risk of not quickly replacing highly valued employees' (quoted by Peacock, 2007).

The challenges then to attract, motivate and retain talent are significant, especially since the Future of Work Programme (2002) and other studies report significant deterioration in worker satisfaction, and an increase in working time and stress over a decade. Moreover, what motivates and retains employees is likely to reflect perceived differences in expectations about pay and benefits, and attitudes to work, depending on class, age, sex and occupation. Stereotypically, Generations X and Y differ from each other and from their predecessors the Baby Boomers, as will be discussed in Chapter 6.

The challenges for employees of the Knowledge Revolution are generally reported as having to deal with too much information, leading to overload and ineffectiveness. In many organizations, knowledge management is still in its infancy – it's a case of working harder, not smarter. Workers are increasingly unable to escape from work, given the widespread use of sources of contact, such as mobile phones, data devices and laptops and the growing perception that accessing e-mails at any time, even on holidays, is expected. Ironically, the Future of Work Programme findings suggest that high commitment management practices are contributing to the work–life imbalance that accounts for a dramatic decline since 1990 in reported worker satisfaction levels (Nolan, 2004). On the other hand, some employees find access to information and the ability to work anywhere, at times to suit themselves, liberating.

At the same time employee career prospects will vary according to many factors. Local or specialized knowledge makes workers more attractive to (many) employers and it is predicted that complex jobs will multiply; routine work will wither away. Although economists debate whether polarization is really occurring between so-called 'knowledge work' and work that can be routinized, nevertheless it is the latter which tends to be outsourced, often dispersed to emerging economies. The so-called 'digital divide' has significant social and economic consequences for individuals. Knowledge work requires higher-level skills – and ongoing development, especially updating in new technologies. Moreover, the evidence base for the UK contradicts forecasts of the end of careers and the rise of the portfolio worker. Nine in ten employees work under full-time contracts. Organizations that provide effective development are more likely to attract and retain employees than those that do not.

THE CHANGING NATURE OF THE WORKPLACE

Thanks to technology, the nature of work and the workplace are being transformed. In recent years there has been a shift away from secure employment to outsourcing and short-term contract jobs. However, employee preferences appear not to have kept pace with the shifts in the nature of employment contract on offer. In the *Quality of Working Life Survey* (Worrall and Cooper, 2006), 66% of the 10000 managers surveyed said that the major restructurings of recent years had added significantly to their feelings of job insecurity. And Charles Handy's prediction that most people would have a 'portfolio' career is only slowly becoming

reality. In practice, most employees seem to prefer continuous employment, which offers high levels of job security. Indeed, average job tenure in 2003 was longer than in 1992 when a permanent job with prospects was the most common type of employment expected and on offer.

Private Equity

Work is back at the heart of political debate. How much will the goal of building sustainable organizational success be compromised as companies are acquired by private equity firms who are not obliged to report publicly on their actions and expect to make significant gains in the short to medium term? Companies such as Boots Alliance and Sainsbury have been subject to takeover bids which take them out of public ownership and scrutiny into a more potentially hostile management environment.

Commentators are becoming increasingly alarmed that companies, private equity groups and investors are not properly controlling their growth, or ensuring that they have good risk controls. Powerful UK trade unions, such as the GMB, allege that private equity firms are asset strippers and there is a concern that the exclusive focus on balance sheets is taking attention away from issues such as pension funds, working conditions and the environment. Management teams who are ambitious to create longer-term success for their companies are increasingly buying their own companies in order to be able to realize this ambition.

At the same time, others argue that private equity acquirers are generally more alert to the drivers of growth than many other forms of investor. Many firms study carefully the nature of current leadership talent in the acquired company, and the strength of the talent pipeline, as well as the key processes that must be developed to fuel growth, including innovation. Working to short-term timeframes means that experienced management teams take speedy and effective decisions – far from being asset strippers they actually build more effective organizations for the longer term to sell on. Perhaps some private equity firms at least have a closer understanding of the value of human capital than they have previously been credited with.

Employee Relations

The Future of Work Programme (2005) suggests that the more participative and employee-friendly workplaces predicted a decade ago are also slow to be realized in the UK. In practice, in many organizations the degree of workplace employee ‘voice’ remains limited and family-friendly policies, such as the right to request flexible working, are limited with only the bare minimum required by law on offer.

Similarly, the Future of Work Programme (2005) predicts that international organizations will experience challenges to traditional national patterns of industrial relations and participation. In the UK it is predicted that decision-making

will be pushed away from centralized hierarchies and there will be a revival of trade unionism, especially over issues such as diversity.

Throughout the UK's public sector from the late 1990s, public sector managers and trades unionists have talked of working in 'partnership', a model put under strain in 2008 by public sector pay restraint, a weakening UK and global economy and some resurgence of industrial relations disputes, albeit not on the scale of the late 1970s and the infamous 'Winter of Discontent'. 'Partnership' describes agreements between unions and company management, where the joint aim is to make a business successful and follows from the TUC's six principles of partnership agreed in 1999, because their primary interest lies in maintaining labour standards. Such partnership approaches are typically reflected in extensive meetings between trade union representatives and management and the chance for greater involvement by staff. Arguably, so significant are the challenges of creating an effective response to the changing environment that even traditional adversaries such as managers and trades unions should continue with, and extend their 'partnership' to tackle competitive challenges. HR has a key role to play in proactively providing advice and the HR support mechanisms to underpin the joint objectives. This is in effect an internal consultancy service, particularly in enlisting the support of unions with respect to change management.

As a result perhaps, less adversarial relations have been evident between employers and unions over the past decade, with only a few wildcat strikes or prolonged forms of industrial action in the UK, such as the more significant disputes involving the Transport and General Workers' Union (T&G) and Gate Gourmet (in 2005) and the threatened BA Cabin Crew strike (in 2006).

In theory, of course, effective HR management, consultation and participation could negate the need for trades unions at a local level. In theory too, employers and employees share many interests, even though not all of these are identical. Indeed, Stephen Overell (2005) described this as 'the great unheralded revolution in working life is the people-centred outlook of many organizations, bringing with it the rhetoric of mutual gains, shared interests, high commitment, teamwork, careers, development, and involvement. HR management is killing off the unions.' However, others would argue that HRM is limited in its effect on employee relations and that collective modes are being revived.

Unlike more embedded European Workers Councils, trades union memberships in the UK have been steadily dropping since 1995. By 2004, according to the *Workplace Employment Relations Survey* 64% of workplaces had no union membership compared with 57% in 1998. The same survey in 2005 suggested that workplaces are less likely to recognize unions for bargaining over pay and conditions. Collective bargaining is less prevalent and in general there appears to be a shift away from collective representation for employees towards direct consultation with management.

Changes such as these are leading in the UK to consolidation amongst trades unions, and the creation of 'super unions', which in turn will create issues for unions about representation at local level. The merger between Amicus and

T&G to form the UK's largest trades union 'Unite', announced on 1 May 2007, represents a third of the UK's union membership and could dominate the twenty-first-century workplace, according to Tony Woodley, General Secretary of T&G. Derek Simpson, General Secretary of Amicus, described the new union as 'the greatest campaigning force on behalf of ordinary people that has ever existed' (*People Management*, 5 April 2007). He argues that it is a precursor to the creation of a single global trades union movement capable of taking on the might of multinationals.

Subsequent moves to create 'Workers United' from a merger between Unite and the United Steelworkers of the US and Canada reflect the intentions of the two joint General Secretaries of Unite, Tony Woodley and Derek Simpson, to recognize the global context and tackle cross-boundary issues:

That is why, right from the start, Unite is going to be doing two things no British trade union has done before – seeking union mergers across frontiers and devoting serious money to organizing employees outside our traditional comfort zones.

Globalization makes the first of these objectives imperative. The challenges presented by world capitalism – outsourcing, wage-cutting – cannot be met by any union that confines its operations within one country alone. Already we have signed an agreement to seek a merger with the United Steel Workers of the US and Canada. This blazes a further trail and, when finalised, will constitute the first transatlantic trade union.

(Derek Simpson and Tony Woodley, *Guardian*, 1 May 2007)

Employment Legislation

The plethora of employment legislation in recent years requires employers to take their responsibilities to employees seriously and provide greater protection for employees against some of the harmful effects of modern working conditions. Protection against bullying, damage to health, inequality and discrimination on the grounds of race, gender, ability and age is enshrined in European employment legislation. In some cases, company ombudsmen have been appointed to ensure that fairness is possible for both employers and employees.

On the other hand, many UK employers argue that the legislative burden is now so great that this is one of the reasons why Europe's productivity lags behind that of the United States and Asia and, according to a DTI-sponsored study *i2010, Responding to the Challenge* (Nolan and Salmelin, 2005), many EU member states, particularly Germany, France, Spain and Italy, have not had the courage to reform labour laws and superfluous regulation, making organizations rigid and unable to move swiftly enough to adapt to changing requirements.

The Need for Real Leadership

How leaders within organizations respond to the challenges and opportunities of the dynamic environment in which they operate is critical for the success of their business. According to Phil Hodkinson, board member of Business in the

Community and previously group finance director of HBOS, speaking at a BITC conference in 2007:

Leaders take risks. They challenge conventional wisdom and have the courage to take a stand even if it means being out of step with their peers. Leaders also decide that they can change their business model without going bust. The really clever ones add value by differentiating themselves through innovation and by understanding the long-term context in which they operate. The leading companies in the future will be those that develop and implement business strategies that contribute to and harness a low-carbon economy and thus also contribute to their own sustained growth.

Top Leaders Have a Rosy View of Leadership

In the current context, it is useful to consider what ‘good’ leadership looks like from the perspective of followers. Employees are looking for clear direction, inspiration and effective change management from their leaders.

Employees are increasingly reporting that they expect their top leaders to be ethical and authentic, to work as teams and to lead by example. Leaders are also expected to manage the reputations of their organizations in the face of worldwide demands for higher standards of business practice, accountability and responsibility.

To what extent does your organization experience inappropriate leadership and management styles?

To some extent/to a great extent 72%
Management Agenda survey (2006)

In the *Management Agenda* survey (2006) some differences of perception about the quality of leadership are evident, with senior managers viewing leadership in their organization more positively than junior managers: 82% of board directors rate ‘distant’ (executive) leadership as good or excellent compared to 63% of other directors/senior managers, 64% of middle managers and 51% of junior managers. With regard to ‘near-by’ (supervisory/managerial) leadership, 89% of board directors rated it as good or excellent compared to 67% of other directors/managers, 57% of middle managers and 34% of junior managers.

These findings have a number of possible explanations. For instance, employees may have unrealistic expectations about the roles, values and behaviours of top leaders. It would appear that many employees want their top leaders to be more visible and to practise organizational values more than they currently do. Another explanation is that top leaders are out of touch with what their employees really think and may be deluding themselves about their own leadership abilities.

The desire of followers for leaders to act as role models for organizational values has become increasingly evident in recent years in the annual *Management Agenda* survey. This is not only with respect to an individual leader’s behaviour but also in the way leaders act to bridge gaps between organizational rhetoric on values and actual practice. For example, in the 2004 survey 76% of respondents suggested that management and organizational practices were very much out of sync with espoused values statements. Reward systems

in particular were considered to contradict recommended practice and respondents reported few incentives or sanctions to encourage management to model the values. By 2007 the *Management Agenda* survey reports leadership development to be the most pressing organizational development issue. Succession planning is one of the most widely reported ways in which organizations are preparing for the future.

Many respondents call for senior leaders to lead a culture change to create an appropriate climate for high performance and to improve employee morale by dealing with inappropriate leadership behaviours. Several respondents reported that, where senior managers did model organizational values, individual commitment to the organization increased. On the other hand, the disconnection between management rhetoric and practice appears to be a strong reason for people wishing to leave.

Changing Organizational Structures

Structural change is one of the more significant forms of change that employees are likely to experience and the 2006 *Management Agenda* survey suggests that 89% of organizations underwent structural and system change in the previous two years. Structures are increasingly being used as a key plank of building a performance culture, as well as of saving costs. The challenge of structure change is to manage the change in a way that makes employees want to give of their best.

Operating Internationally

‘Virtual’ companies are appearing at the centre of loose alliances, linked together with global networks. Transnational organizations appear to be decentralizing and globalizing with the help of technology. Typical company practices linked to globalization include using global/international teams and international joint ventures. With regard to talent, global companies generally work towards creating a pool of international talent, rather than developing smaller talent pools in regions, and many establish centres of functional excellence.

Flatter Structures

Many organizations have continued to flatten management layers in recent years. The emphasis continues to be towards smaller, more flexible units with as few levels of management as possible. Delaying in the 1990s appeared strongly driven by the need for cost savings and the benefits to businesses are being felt in sustained profits. Difficulties arise when the staffing of specific units is too ‘lean’ to do what is required and when managers fail to provide the required forms of leadership. Equally important, flatter structures appear to highlight some aspects of the changing employment relationship, namely that such structures do not easily lend themselves to conventional promotion opportunities for employees.

This can lead to a loss of employee commitment and a turnover of staff with marketable skills who are still looking for more conventional career development opportunities.

Call Centres

One of the most significant developments in workplace organization in recent years is the growth of call centres. Particularly common in customer service operations, especially in the financial services sector, working in call centres has gained ground as a form of employment. Call centres have often been criticized as being the human equivalent of battery hen conditions, with employees encouraged to conform to rigid standards and conditions. Employees are usually grouped in large buildings where their performance is carefully monitored.

In the UK, towns such as Livingston in Scotland, and Cardiff have become call centre hubs. Indeed, over 27 000 people are employed in shared service centres throughout Wales alone. Fierce competition for the best employees in the local labour market is commonplace. Increasingly, working in call centres has come to be seen as a relatively attractive prospect by young people or 'women returners'. This can arise because there is little alternative employment in the locality, but some people, including graduates, actively choose to work in call centres and plan to make them the basis of their career, rather than a temporary phase while they are looking for something better.

Part of the reason for this is that there appears to have been a marked advance in understanding about how to manage and motivate people in a call centre environment. Typical enabling factors include a great emphasis on teamwork, strong and encouraging supervision and a high social factor, which many employees find appealing.

Outsourcing and Off-Shoring

The call centre concept is being extended to international service centres, offering a wide range of professional expertise. Service centres can be based in any geographic location and typically require employees to be multi-lingual, graduates and professionally qualified in their own field. Shared service centres (SSCs) are usually external enterprises set up to manage outsourced non-core business processes. The SSCs are usually jointly owned by partners and are tied in to ongoing business process reengineering.

These are already used by a number of international organizations to service human resources, finance and other functional needs. Early adopters included Kelloggs UK, which migrated its European financial processing to a European shared service centre in 1997, and the BBC outsourced its financial transaction processing to an SSC in 1998. It is not just technology that is driving change in the finance function. What is really pushing reform is renewed global regulatory demands for tighter internal controls, as well as an ongoing need to cut costs. Finance directors are continually being challenged to deliver higher value at lower cost.

Call centre technology has also facilitated the development of outsourcing, by which activities considered peripheral to the organization's core are delivered by third party suppliers. If work can be 'parcelled up' into outsourceable chunks, it can also go off-shore. Increasingly, customer help-desks of every sort are now provided from locations such as India and Central and Eastern Europe, where English language and technical skills are available and labour costs relatively low compared with the UK. Outsourcing overseas or 'off-shoring' is also known as 'right-shoring' and competition for business is stiff, with UK call centres increasingly losing out to cheaper suppliers.

Research by the Hackett Group (Perry, 2005) indicates that if more UK companies off-shore their shared service centres, the current dearth of skilled finance professionals will soon turn into a glut. The study found 84% of companies will bring in more staff with diversified skills, with the majority having run their operation for two or more years. But what is even more important is whether to take the step abroad at all. Hackett research suggests that those companies that do take the biggest step in developing an SSC from in-house to virtual in one fell swoop stand to make the biggest gains.

Some companies have reversed the trend on outsourcing and have taken back in-house some aspects of their operations which they had previously outsourced. In some cases this was because they found that anticipated cost savings were simply not there, and worse still, that once the outsourcing contract was in place, service levels dropped. Indeed, those with experience advise never to outsource a problem. In the long run, it will not only cost you more to fix but, worse still, it may never be fixed in the way you foresaw it. In short, don't jump on the bandwagon because it seems to be the quickest route to cutting costs.

Perry (2005) advises that unless finance directors understand the reasons why they are going down the SSC route, they should take care. Besides the obvious cost savings that an SSC eventually brings, the path is littered with stumbling blocks. Savings are rarely immediate.

The social and psychological effects such a move has on staff and customers is not to be underestimated. Communication at all levels at every step of the way is crucial for any finance director wishing to build a successful SSC. Otherwise achieving the goal of cutting costs and tightening controls remains elusive.

Managing effective delivery through third parties requires a special set of skills on the part of both the outsourcer and the provider and when customer service and other 'public face' activities of the brand are delivered by a third party, the risks involved require serious and sustained management attention. This is not simply a question of developing clear service level agreements but also requires managers, including HR, to manage relationships across boundaries, develop shared agendas as well as maintain quality to commonly agreed standards.

The Changing Nature of Work Itself

Central to the role of HR are the challenges of attracting new talent to the organization, creating the circumstances and policies supportive of staff motivation,

ensuring that the organization can make the most of emerging human capital and retaining key talent.

In today's organizations, the nature of employment is changing and the notion of a 'nine-to-five' full-time role is now an anachronism for many. The concept of permanent employment as a 'right' has been replaced by employment being due to having marketable skills. The trend towards 'core' workers who remain in an organization's employ and 'peripheral' workers who are outsourced appears to have taken hold. Routine office and production work can now be exported anywhere around the world or carried out electronically. As organizations continue their quest to cut wage bills and increase quality, low-skilled workers in the West are effectively having to compete for jobs against highly skilled workers from developing countries who are willing to take on jobs at the minimum wage.

Knowledge Workers

We are now firmly in the era of, the 'Knowledge Economy' where knowledge-intensive industries are increasingly driving GDP. Back in 1999, Ian Angell, then Professor of Information Systems at the London School of Economics, suggested that the Information Age would not simply counterbalance the removal of 'old' jobs with the creation of new ones. Growth would be created from the intellect of knowledge workers, not from the labour of low grade service and production workers. He suggested that growth would be decoupled from employment, and that survival by adding value will be a new form of natural selection. He argued that what would be required in employees is 'intellectual muscle' which will be hard to develop and even more difficult for employers to track down and retain.

Indeed, Professor Angell's predictions have come to pass. A report from the Sector Skills Development Agency (the *Working Futures* report, Dickerson *et al.*, 2006) suggests that traditional jobs that have underpinned the livelihoods of generations of skilled working-class people are moving closer to extinction. The report forecasts that an additional 1.3 million jobs will be generated by 2014, with women expected to benefit most from the increases. However, it cautions that there will be a stark divide between 'old' jobs such as factory work and 'new' posts in the consumer sector. Other findings include:

- 340 000 skilled jobs in metals and electrical trades will be lost by 2014;
- 105 000 administrative jobs and 234 000 secretarial posts are set to be lost; and
- 400 000 jobs will be created in the caring personal services sector, such as beauty therapy and hairdressing.

Growing numbers of what Will Hutton, Executive Vice-Chair of the UK's Work Foundation, describes in Maslowian terms as 'Apex workers', are able to command huge salaries and to take their pick of enticing employment options. Where there are shortages of particular skills and knowledge, the balance of power swings of course to the employee.

However, while there is general acknowledgement of the importance of knowledge workers, the sharing of knowledge around organizations, which is generally considered key to leveraging that knowledge, remains problematic. The restructurings since the 1990s have broken up central teams who typically looked after corporate knowledge. The tendency within business units is for isolationist attitudes to come to the fore which can lead to wasted effort and duplication as well as untapped opportunities. The organizational issues related to the management of knowledge are examined in Chapter 17.

The Role of the Manager

A few years ago managers seemed an endangered species as they appeared to represent organizational superfluity; in an empowerment context it was argued, were ‘checkers checking checkers’ necessary? Perhaps the reality is that managers are more needed than ever, but that their role is changing. No longer are they expected to be the ‘first among equals’ or the technical expert. The current trend in management thinking is to see the manager as helper rather than as problem-solving hero. In all sectors managers are being encouraged to take on the role of coach, whether or not they have appropriate skills for this. However, the trend is firmly in place, with professionals and technical managers increasingly expected to take some responsibility for people management. There is a greater emphasis on teamworking and client relationship management skills for instance are typically required.

The role of managers is becoming increasingly complex due to the variety of forms of contract by which employees and contractors are employed. Managing a departmental team of full-time workers is becoming a thing of the past as managers are increasingly required to act as organizational ‘glue’ between workers of all kinds. Even the notion of ‘the workplace’ is open to new interpretation with the increasing trend towards virtual working. Businesses are increasingly developing new work methods to handle supervision and to counter isolation. In particular managers have to develop forms of communication appropriate to managing remote workers which increase mutual trust and high performance.

The nature of the individuals being managed is changing too. Highly skilled knowledge workers generally do not take kindly to being managed, and are very critical of management if their needs are not met. Managers then have the tricky task of managing performance, raising standards and gaining commitment from people on whom the business depends for results and whose technical skills are likely to be superior to those of the manager. They also have the task of acting as a ‘shield’ to protect employees from bureaucratic and other barriers to innovation.

Managers then have the challenges of communicating with, and developing, their teams, providing focus during times of change, managing more age-diverse workforces who are working in a variety of contractual relationships and improving performance at the same time! No wonder that increasing management capacity and capability is considered one of the key solutions to the challenge of building and sustaining high performance.

Changing Working Lives

Teamworking

Team working appears to be extensive, with the majority of respondents in Roffey Park's *Management Agenda* surveys working in some form of team, typically on a project basis. An increasingly prevalent form of teamworking is cross-functional or cross-boundary, with 63% of respondents in the 2006 *Management Agenda* survey working in such teams. Cross-boundary working will be explored in Chapter 13. Working in teams appears to be a major source of satisfaction and skills development for the majority of respondents, though it is recognized by many that multiple skills are required to work effectively in today's teams.

'Virtual' teams appear to be gaining ground. They typically come together around specific business issues or opportunities and tend to be project based. They rely on the convergence of a number of complex technologies and can be based almost anywhere. Virtual enterprises tend to disband when their task is finished, or relocate to areas where there is least regulation or most profit.

Demanding Work Environments

Work environments are becoming ever-more demanding. Eighteen per cent of respondents have experienced harassment to varying degrees, with the key forms reported including the 'long hours culture' within their organization, being excluded or sidelined and direct bullying. Twenty-seven per cent have experienced some kind of discrimination based upon their gender, age, ethnicity, class or religion.

Organizational Politics

Another key feature of organizational life appears to be the increasingly political work environment facing many employees. In Roffey Park's survey people report working longer hours, experiencing increased politics (56%) and conflict (46%). To some extent this can be understood in the context of more fluid organizational structures in which informal political alliances can be a means of getting the job done beyond formal reporting lines.

Cross-boundary working also appears to be on the increase. This seems to heighten the possibility of political behaviour since loyalties can be tested when reporting lines become less clear. Many respondents spoke of the importance of developing effective networks not only for getting the job done but also for personal career development purposes.

However, the majority of respondents commented on the negative features of working in a political environment, including the adverse effects on job satisfaction.

Use of Communications Technology

The fast pace and flow of information affects most aspects of working life. One British MP commented at a Labour Party Conference in 2007 that, while ten

years ago people might have kept in touch using their mobile phone, now people often have a mobile phone plus two Blackberries. Rather than listen with rapt attention, conference delegates are more likely to be texting comments to others during sessions.

In Roffey Park's survey, typically, people reported that they now spend considerable periods in front of a screen working online, using e-mail, rather than talking with people, even if they are in the next office. People suggested that they found face-to-face communication the most effective means of communicating but that voice- and e-mail were now the favoured forms used at work. E-mail in particular came in for comments which suggest that the benefits of technology can easily be outweighed by their drawbacks if used ineptly. Among the positives, it appears that the more widespread use of technology is beginning to make smarter ways of working possible.

On the other hand, numerous comments suggest that much of the information conveyed by e-mail is irrelevant at best and at worst can add to the work pressures and stress which many people are experiencing. People complained about being deluged with unnecessary data via e-mail and voice-mail. A study in the UK by Gallup (see Buckingham and Coffman, 1999) suggested that individuals are interrupted every 10 minutes on average by incoming messages to which they are expected to respond. Keeping focused, and making progress towards key work targets can be very difficult in such circumstances.

Many respondents also commented on the negative impact of e-mail on people's ability to relate to others. The bluntness of some messages causes offence and there is a call from many respondents for a new form of etiquette which takes modern means of communication into account.

Career Issues

Given the shifts in organizational forms and structures in recent years, careers now take a number of forms though the dominant form of career development expected by employees still appears to involve conventional vertical progression up a hierarchy. Many staff have found their career has reached a plateau earlier than they expected. Instead of being promoted, they have to accept lateral moves in a culture that regards sideways moves as negative. In a situation where jobs are in short supply, lack of career development opportunities might seem to be a small price to pay for ongoing employment. For employees looking to move up the conventional career ladder, mergers and acquisitions and flatter structures do not just shift the goalposts – they kick them down. In a situation where there are high levels of employment, employees who want the opportunity to progress their careers are likely to move on. Rather than being a 'personnel' issue, the challenges relating to career development are now a business issue. Not least is the significant lessening of employee commitment to the organization, due to a perceived reduction of career opportunities. This is leading to turnover, especially in jobs requiring specialized skills and which can command high market rates. Career issues will be examined in Chapter 9.

Work-life Balance

The long hours culture appears firmly entrenched in the UK but is coming to be considered more unacceptable. Trades Union Congress (TUC) research (2008) found that in 2008, 15.5% of all workers in the East of England worked more than 48 hours per week, increasing from 13.4% in 2007. This means that the total number of employees in the East of England working excessively long hours leapt to 374000. And the rate of increase of long hours working in the East of England was the sharpest increase in the UK. Many surveys highlight the widespread stress among employees caused by long hours, uncertain employment prospects and unclear expectations. Indeed, TUC research also showed that 45% of employees wanted to work fewer hours and more than two million people in the UK – one in ten employees – would give up pay for a better work-life balance.

In Roffey Park's *Management Agenda* survey, 83% of respondents work consistently longer than their contracted week (Holbeche and McCartney, 2005). Increasingly stressful work environments and the lengthening of the working week are taking their toll upon the work-life balance of many employees. Seventy-eight per cent of respondents reported suffering from stress as a direct result of work and 49% suggest that they do not have a satisfactory work-life balance. They report ongoing heavy demands made on them by employers with regard to both the quality and quantity of output, as well as a requirement that employees will learn new skills and do more with less. Despite these demanding conditions, the majority of respondents report themselves as still being relatively committed to their employers. Professor Cary Cooper (2006) argues that job insecurity is one of the key drivers of job-related pressure and stress and issue a challenge to directors to take a leadership stance to these issues:

As directors, we must attempt to provide people in our organizations with a sense of continuity, some sense of security and an environment that values and rewards their contribution. Let's not allow technology, and the unremitting clamour for change to control us.

Interestingly, although these conditions appear to be general, regardless of sector, the way in which people are responding to them appears to polarize into two broad reactions. On the one hand, some people appear to thrive on pressure and do not people perceive the additional pressures on them to be stressful. Almost a third of respondents felt that the increased demands made on them had a positive aspect since they provided a developmental 'stretch'. Comments in this case suggested that individuals believe that the organization is getting the best out of them and that their own ability has been recognized. There is a sense that for some people, the increase in pressure and responsibilities is enabling them to realize some of their potential.

On the other hand, most respondents consider stress to be damaging to them personally. Ninety-one per cent spoke of increased stress affecting relationships, as well as wear and tear on the individual. A third of respondents reported that their health has suffered as a result of heavy workloads and lack of balance

between work and other parts of their lives. This negative situation is compounded when there appears to be a lack of recognition of the problem, and of employees' achievements, by the line manager and the organization. One comment is typical of many: 'responsibilities are growing faster than rewards'.

Workplace stress not only affects individuals but also productivity. Several respondents refer to the way in which unreasonable workloads can result in quality being compromised. Stress is a common reason given to explain the growing levels of absenteeism in the UK's workforce. Absence costs UK employers £13 bn each year and £3.9bn of absence costs are attributable to mental ill-health. The average employer spends 10% of annual paybill managing the consequences of absence and there is compelling evidence that higher absence reduces customer satisfaction and productivity, since employee absence is correlated both to declining employee commitment and to declining customer satisfaction with service, and customer intention to spend more with the company (Bevan *et al.*, 2007).

There is also wide disparity in the importance employees and employers are reported to attach to work–life balance. While 68% of employees consider work–life balance as of increasing personal importance, only 32% suggest that it is important to their organization. Work–life balance is also not supported by top managers in many organizations. Indeed 66% of senior managers are reported as 'not bought-in to the idea of balance' and only 22% suggest that their senior managers practise work–life balance values at work.

Many organizations do appear to be making some efforts to tackle work-related stress. Fifty-two per cent of the organizations sampled reported themselves to be implementing initiatives/standards to reduce stress, including Health and Well-being Strategies, Occupational Health and Health Road Shows. This range of pressures is creating a new 'stress-busting' industry. City workers can now enjoy holistic therapy treatment during lunch periods and some firms are hiring specialists in Indian head massage to provide relief to employees at their desks. However, employees report that truly flexible working is the main enabler of work–life balance – and 90% of our sample claim there is a growing demand for flexible working in their organizations. While the range of flexible working options has increased in recent years, it appears that concerns over career progression are still preventing certain groups from requesting a flexible working pattern. For instance, only 19% of fathers are exercising their 'right to request' to work flexibly and non-managerial staff appear much more likely to work flexibly than senior and middle managers.

Management style and the chance for personal development appear to be two factors that relate closely to whether people perceive the pressures on them to be positive or negative. The key role of managers is reflected in the Health and Safety Executive's (HSE) Management Standards on how employers should tackle workplace stress. In the absence of specific legislation, these standards, based on the risk assessment approach, are seen as the most useful method of tackling stress in the workplace. The extent to which people feel able to grow

and ‘empowered’ to do their jobs appears to be closely linked to job satisfaction and resilience to extra pressure. In a 1998 study people who considered the added pressure on them to be negative spoke of inappropriate command and control management styles still preventing empowerment from being a reality. On the other hand, many of those who perceived the pressures to be positive spoke of the stimulus provided by increased challenge, broader roles and the opportunity to develop others. These they found helpful to their personal development. This may be linked to the fact that 86% of respondents stated that their role has changed in the past two years, bringing greater variety, responsibility and a more strategic focus than before. The changing roles were not necessarily brought about by skilful management interventions or by succession planning but by organizational growth and structure change in many cases (Glynn, 1998).

On the whole, the respondents agreed that the extra work pressures called on employees to make sacrifices, particularly with respect to their home life and spending time with their children. However, many admitted that their own ambition was a key driver and that they were to some extent prepared to collude with their employers over such conditions in order to make career progress.

Arguably, this is an area where responsible employers can provide clear and unequivocal support for better balance, rather than appearing to endorse the principle of work–life balance but do nothing to make reality match the aspiration. Where a combination of lack of recognition, increased workloads, poor management and lack of career opportunities exists people are most likely to contemplate changing their jobs. If pressures remain constantly high and people are expected to continuously raise standards and output levels, and do more with less, they may in some cases, voluntarily ‘downshift’, i.e. step off the career ladder, or in some cases leave paid employment altogether, in order to ‘get a life’. In a survey by recruitment company Select Appointments (2006), people who most want to downshift are in education and financial services. In both, nearly one in six employees wants to reduce their hours – even if it means taking a pay cut. Where the pressures on employees undermine their performance, the real impact of such stresses will be felt on business results and many organizations are now beginning to address the question of enabling employees to have balance. Offering people the chance to balance work and personal life therefore makes good business sense.

What Can HR Do About Balance?

HR has a significant role to play in ensuring that their organizations are enabling employees to have some form of balance. Developing employee-friendly policies is part of the solution, but such policies need to be owned by employees and senior managers if they are to become a reality. Some of the more interesting practice on this front comes from the United States. In America, stressed-out employees of Boston City Council have an automated phone system which screens calls for depression. Callers listen to recorded descriptions of how they feel ranging from ‘I get tired for no reason’ to ‘I feel others would be better off if I were dead’.

They punch the appropriate number and hear a recorded diagnosis that urges severe cases to seek counselling (*London Evening Standard*, May 1999).

In the UK, organizations such as Watford Borough Council have developed clear family-friendly policies that are supportive of flexible working and provide childcare vouchers. Littlewoods recognizes that employees have a life (and dependants) outside work. The company policies allow people to change conditions as their circumstances change, for instance with elder care arrangements. Job-shares are encouraged and time off for emergencies is considered normal so that people do not have to resort to subterfuge to deal with a family crisis. Business Express, which is part of the Littlewoods group, offers employees five days' paid leave for family reasons each year. Fathers have ten days' paternity leave as a right. Having this as a right means that employees are more likely to be open about their needs rather than simply taking 'sick' leave. This means that the organization can plan for the leave and avoid unexpected downtime.

In the United States, casual-lifestyle retailer Eddie Bauer uses its work-life programmes to help employees lead more productive and balanced lives. The firm has won many accolades for its approaches to employee support, including being named as one of the 'Best Companies to Work For' by *Washington CEO* magazine. A flexible work environment plus offer, an exceptional benefits package, make Eddie Bauer an employer of choice in the US. HR has produced a package of benefits that covers routine and non-routine challenges of work and home. The firm's management believes that the investment more than pays for itself because many of the programmes reduce health-care costs. The Employee Assistance programme offers a Child and Elder Care consulting and referral service, referrals for personal counselling and legal and financial assistance to both employees and their family members.

Among other initiatives introduced are:

- Balance Day, a free day once a year when employees can 'call in well'. This is in addition to normal time off
- As well as the usual array of benefits, extras include a casual dress code and alternative transport options such as preferred parking for carpools
- Its Customized Work Environment programme offers options such as job-sharing, a compressed workweek and telecommuting
- It offers a plan that allows employees to enjoy group buying power for mortgage loan discounts
- Emergency child-care.

Employers with employee-friendly policies argue that these policies are helping the business, as well as employees. In the case of Eddie Bauer, the work-life programmes have led to fewer sick days, less absenteeism and lower health-care costs. LloydsTSB's policies are based on the belief that by offering employees peace of mind they are more likely to see greater productivity. By encouraging an overt and planned approach to leave for family issues, the company can also plan and arrange appropriate cover.

Retention is also improved since people appreciate working for a supportive employer. At the UK City of Bradford Council, staff appreciate council efforts to promote a good work–life balance, including its investment in services such as life coaching, cognitive behavioural therapy and alternative therapies. Staff can carry out voluntary work during council time if they match it with the same amount of their own time.

Flexible Working

Flexibility has been a buzz-word since the 1990s referring to both the need for organizations to structure themselves so that they are highly responsive to the changing environment and the effect this has on the nature of employment. Although flexible working is on the increase, many employees still work traditional hours with a commute at either end of the day. However, new technology at the office, such as wireless Internet and video conferencing, makes work more varied for the ‘nine-to-five’.

Currently around 29% of UK employees work part-time or in some other form of flexible working pattern. To date, flexible working has appeared to be driven by organizations to help them respond to the changing business environment, rather than to meet employee needs.

Part-time and shift working is, of course, well established in the manufacturing, retail and leisure industries. The number of part-time jobs is increasing faster than full-time ones. People working part-time (mainly women at the time of writing) can arrange their schedule in a variety of ways (working mornings only for example).

Firms may be reluctant to let staff go part-time but may be more willing to accommodate job-sharing. The Internet means that jobs can be shared across the globe. Flexi-workers tend to have a range of options: they can work annualized hours where an employee’s workload is calculated over a whole year, or compressed hours, where work is condensed into fewer days.

Charles Handy’s ‘portfolio workers’ create their own career profiles by juggling several roles. The term ‘sunlighting’ is used to describe people who take time off from their regular work to do paid work elsewhere. Contractors, consultants and freelance workers enable organizations to call upon a body of experts when they are needed rather than keep them on the payroll all the time. Contractors can juggle other jobs while maintaining a relationship with a company. This change in the employment model towards a more flexible one, with an increasing proportion of short-term contracts, has been given added impetus by a raft of employment legislation, such as the 2002 Employment Act, which introduced the ‘Right to Request’ flexible working for parents of children under six years of age and the Work and Families Act of 2006. Making flexible working possible in ways that support the needs of the business as well as of employees is a challenge which HR and line managers are starting to face.

However, the management of a flexible workforce will mean more accurate planning and corresponding changes in HR systems and thinking. In the Roffey

Park surveys, the most common form of flexible working on offer was part-time work, working from home, combined office and home working, and job-shares, followed by fixed-term contracts. Less common are term-time-only working, 'key-time' working, voluntary reduced hours, associate schemes, etc.

Over half the people in the Roffey Park *Management Agenda* survey (often employees of long standing) would like to work flexibly. These included people returning from long-term sickness, staff who have to travel long distances to get to work, individuals wanting to give more time to interests outside work and single people with a need for more time than money. The majority of people wishing to work flexibly were working mothers or individuals wanting to take time out to study. Working fathers and people with caring responsibilities, especially for elderly relatives, were also keen to work flexibly. Typically, respondents from larger organizations (1000–5000 employees) were more likely to want flexible working than employees from small organizations of 50 or fewer, and technical workers were the group most likely to want to work flexibly. But enthusiasm for flexible working is growing in organizations of every size, creating different types of challenge for employers. In a study of small and medium-sized organizations (CIPD, 2007) significant numbers of employers were offering part-time or variable working hours and even home-working. Extended leave arrangements are common as is study leave, demonstrating that employers are keen to support the needs and aspirations of their staff while also keeping the business operationally efficient.

Flexible working can be requested by anyone at Nationwide where more than 5000 staff work reduced hours while a number job-share, work from home or have term-time-only contracts. Staff can take a career break of up to six months during which they continue to receive all benefits, except pay. Other benefits include private health-care, concessionary mortgages, quarterly rewards and a long holiday entitlement. Employees can choose to retire at any time between 50 and 75. Everyone should have a decent pension to look forward to, as the company pays 23.8% of salary into a scheme, with staff contributing 5%.

The idea appears to be gaining ground that a much wider range of jobs can be based away from an office environment, thanks to technology. Working from home is increasing in some sectors including IT and employees are generally well equipped with the relevant technology to make teleworking feasible. Laptops, fast Internet speeds, mobile phones and other devices enable people to work from home, avoiding long commutes and heavy transport costs. People in sales roles are also able to stay out on the road spending time with customers, rather than having to come into the office to file reports.

Companies such as BT, who supply the electronic infrastructure and are introducing other technologies such as Solstra to enable people to work from home, have seen this side of their business grow significantly in recent years. Telecommuting produces a number of benefits for organizations. It allows office buildings to be disposed of and their capital released. It also means that people are more likely to focus on their job when they are meant to be working

since there are fewer ‘social’ distractions. However, there is some evidence that, despite the benefits to many telecommuting employees, such as being spared the physical commute to the office, some feel a sense of loss of the community aspect of organizations.

Many respondents predict the ongoing outsourcing of non-core activities. Managing intellectual capital is becoming a key priority in many organizations. For managers, to the challenge of managing a more flexible workforce which includes greater numbers of contractors and temporary staff, will be added the need to manage knowledge when staff have no strong loyalty to the organization.

Realizing the Benefits of Flexible Working

Some pointers about how HR can realize some of the benefits of flexible working for their organization can be found in research on flexible working in small firms by the CIPD for the British Chambers of Commerce (2007):

Understand your business. Flexible working arrangements that work well for another business won’t necessarily work in yours. Some jobs can be done from home, while in others, being there all the time is essential. Consider both what is right for your organization and where your employees’ needs lie. How can flexible working improve the service to your customers?

Communicate effectively. Making your people aware of the opportunities for flexible working can be built into induction programmes, and reinforced by training. Having a clear set of organizational values can also help in selling the benefits of flexible working.

Define roles and responsibilities. It’s important that managers and individuals understand their responsibilities for making flexibility work. People need to see it from the organization’s point of view as well as their own. It’s about give and take – not just individuals getting what they want. When there is a well-understood culture, teams can often sort out their own issues.

Try it out. You don’t have to do it all at once. If there are concerns about whether flexible working is feasible, it can be helpful to have a trial period of the proposed working arrangement. But think in the longer term about the effect on others whose jobs may be more difficult to do on a flexible basis. Ask people to come up with their own ideas.

Make flexible working acceptable. You may have comprehensive written policies, but bringing these to life can be challenging. If you and your managers are not seen to ‘walk the talk’, flexible working won’t be taken seriously. Explaining how flexible working benefits the business as well as employees is crucial. And senior staff need to lead by example.

Measure and evaluate. Remember: if you can’t measure it, you can’t manage it. And be open to ideas for improvement. Large organizations are not always good at evaluating the effectiveness of their flexible working practices. Our research shows that small firms are perfectly capable of monitoring the impact of flexible working on business outcomes.

LOOKING TO THE FUTURE

In the first decade of the twenty-first century the struggle for business survival in a fiercely competitive global environment is being superseded by the search for sustainable business performance. ‘Maintaining excellent results’ and ‘growing the business’ through expanding into new markets, improving existing products or developing new ones are just some of the goals which companies are embracing.

Aligning HR and business strategies involves taking into account key present and future trends, building specific goals with stakeholders and working towards these. One of the commonest reported future trends suggested by *Management Agenda* respondents is business growth through strategic alliances. HR can play a significant role in ensuring that employees working in such alliances have the skills they need for success in these complex arrangements, including influencing, political and strategic thinking skills.

Trends towards flexible working, outsourcing, using contractors, part-time and temporary staff appear to be well established. HR and managers may need to review how well they currently manage their flexible workforce and identify ways to create mutual commitment and benefits. Efficiency and tight budgetary controls are not enough to guarantee competitive advantage. Organizations will need creativity, innovation and continuous renewal if they are to sustain success. Those which are likely to be successful will be companies that continuously produce new products and services and where innovation is a ‘natural’ ingredient of every role. Globalization is driving the need for effective and efficient cross-cultural collaboration. HR can play a key role in designing structures, roles, processes and practices that facilitate creativity and enable knowledge to be captured and disseminated, so that wheels do not have to be continuously reinvented.

The steady change in the nature of work, the rising demand for new skills and the rise of the knowledge worker are making business success ever-more dependent on the skills and commitment of employees. The importance of learning for both the organization and the individual is greater than ever and it seems clear that the implications of the management of ‘intellectual capital’ in the ‘post-industrial age’ have not yet been fully grasped by some managers.

Leadership and management capacity will be of great importance in establishing environments where innovation can flourish. Transformational leadership, as exercised by senior management, will be a key ingredient in engaging employees, harnessing employees’ initiative and achieving innovative solutions to business problems. The ‘turn-off’ factor of inappropriate management styles will become a major risk factor for organization since it is a primary reason for people wishing to leave their organizations.

HR has a key role to play in actively monitoring the practice of leadership, improving the quality of current and future leaders, and enabling the development of distributed leadership. In particular, HR has a key role to play in ensuring that an ethical approach underpins business practices, leadership behaviour and decision-making.

Issues relating to talent management will continue to be central to the HR agenda. Delivering on recruitment and staffing, especially as skilled labour becomes harder to find and as employees' loyalty to single companies decreases suggest that workforce planning, recruitment, retention, talent identification, skills development, management and succession planning, as well as enhancing skills required to respond to an ever-changing environment, will all grow in importance. Attracting the best new talent in today's candidate-driven market, will require employers to develop an employer brand offer which distinguishes the company from its competitors.

Retaining key players is likely to become a major challenge in many organizations. Employees are making themselves increasingly employable, with or without the help of their organizations. Their enhanced skills, including strategic thinking, and their recognition of the importance of managing their own career suggest that people recognize that they have a choice. HR will need to be at the forefront of building a new psychological contract with employees and ensuring that their organizations become employers of choice for employees – current and potential – will be a likely strategic goal. This will mean developing effective policies to deal with the unprecedented pressures placed on many parts of the workforce by the ongoing demands for improved speed, quality and productivity. The long hours culture and demanding roles may be unsustainable and cause many employees to experience a lack of work-life balance, whereas for others this is a price they are prepared to pay for career advancement.

Organizations wishing to retain their knowledge workers will need to address the issues of balance, flexibility, learning, careers as well as management development. They will also need to find ways of maximizing the knowledge present in ever-more fluid organization structures and turn that knowledge to competitive advantage. The question of whether and how this can be achieved will be explored in Chapter 17.

CONCLUSION

Organizational change is, ironically, here to stay; rather than being the exception, it is the norm. In this changing context, the strategic HRM contribution is essential. Managers will need help in managing complex change and making both the formal and informal aspects of organization adapt effectively to a rapidly shifting environment. HR will need to ensure that they effectively manage restructuring processes, and build good employee relations. The HR professional should be in touch with the effects of change from the employee angle and be able to anticipate some of the priorities that will need to be addressed if organizations are to attract and retain a knowledgeable and committed workforce.

Building an organization that is capable of change and high performance, that has the structures, systems and processes with sufficient flexibility to allow them to adapt, and, most importantly, whose employees are committed to making a difference, will require HR to have vision, skills of organizational design and

development, the ability to understand and use organizational psychology, and to influence others. Engaging the workforce through developing a culture of participation and empowerment will call on HR to be able to operate both tactically, to address the needs of today, and strategically to build the organization that can succeed over time.

CHECKLISTS ON ORGANIZATIONAL DESIGN

Globalization

Globalization research carried out for the International Personnel Association in 1998 suggests that the three critical aspects of people management to the success of multinational companies in the global arena are as follows:

- The adoption of flexible management policies and practices worldwide
- The inclusion of the HR function as a strategic business partner in global business
- The development of global leaders.

Similarly, an article by Linda Stroh and Paula Caligiuri (1998) suggests that ‘successful multinational corporations recognize the value in having global managers with the expertise to anticipate the organization’s markets and to respond proactively. These organizations have learned that leaders who are flexible and open to the demands of the global market have made possible the organization’s international business success’.

- How does your organization manage across borders, i.e. is your organization predominantly:
Domestic?
Multi-domestic?
A simple export organization?
Using local agents?
International?
Truly globalized with a complex web of businesses, joint ventures and alliances across most of the world’s economies?
- What is the impact of globalization on HR organization, i.e. should HR be centralized, decentralized or a combination?
- How are international employees deployed and global leaders developed, e.g. on short-term assignments, expatriate postings, etc.?

Dealing with Ethical Dilemmas

- What ethical dilemmas exist at, and between, the following levels – corporate/organization, business unit, managerial, individual?
- What differences in values exist between those organizational levels?
- What potential conflicts exist between local and corporate cultures?

- How is authority held – formally/institutionally/informally?
- How can differences between local and corporate cultures be worked through?
- What is the role of HR in dealing with ethical dilemmas?

Flexible Working

- What types of flexible working will enable the organization to meet its needs? What types are requested by employees and can we accommodate these?
- What help will managers need in managing the flexible workforce?
- What form of training is received and how will this be carried out?
- How will communications and HR processes be tailored to ensure that flexible workers feel fully involved and committed to the organization?
- What team building will be required when new forms of team, especially ‘virtual’ teams, are set up?
- How can we enable employees – full-time or ‘flexible’ – to manage the new generation of knowledge through learning?

Balance

- How will we find out what ‘balance’ means to different groups of employees?
- What role will senior managers need to take in changing a ‘long hours’ culture?
- What innovative approaches can we use to create an employee-friendly culture?
- What other forms of reinforcement need to be in place within HR systems to ensure that employee-friendly policies are implemented?

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Transforming HR into a Strategic Partner

For many functions, HR transformation is currently one of their critical deliverables.

(Reddington, Williamson and Withers, 2006)

In Chapter 1 we looked at the evolution of Human Resources from its earliest stages to today's era of 'the strategic business partner'. The current period of HR transformation has been profoundly influenced by Dave Ulrich's thinking. In this chapter we shall examine in more detail some of the ways in which HR is being transformed, and look at the role of business partner in particular.

REINVENTING HR

We may be getting beyond the point where HR has to 'earn a place at the table' (Brockbank, 1997), although in many organizations this has still not been achieved and, rightly or wrongly, HR still suffers from a bad press. An article about HR in *Fortune Magazine* asked: 'why not blow the sucker up?' For Neil Hayward, formerly HR Director for Booker PLC, 'it is not enough to redesign, restructure or reposition HR. A re-invention is necessary'. That reinvention usually involves reengineering to improve the effectiveness of HR while reducing cost. Approaches to reengineering are considered later in this chapter. Reinventing HR means looking at new ways to deliver services and answering the question 'What is the purpose of HR in this organization?'

The 'Three-legged Stool'

Since the late 1990s, Dave Ulrich's thinking about HR roles (1997) has been highly influential on theory and practice of HRM in global companies. Indeed, of the 80% of organizations which have changed their HR function in the past five years, 57% have introduced some form of 'Ulrich model' (Reilly, 2007). The assumption behind the Ulrich model is that, in order to free up HR to do higher

value activities, different delivery models of ‘transactional’ administrative work should be found, leading to greater efficiency, higher quality and lower costs.

Where it has been introduced, the ‘Ulrich model’ has usually been interpreted literally as a functional design, though Ulrich himself insists that he was not describing a set of HR roles, in the sense of jobs, but a set of functions to be carried out. Nevertheless, when it has been implemented in structural terms the ‘Ulrich model’ has led to the splitting out of integrated HR teams that carried out the full range of HR activities, from administration to strategic direction and the creation of a structure based on the so-called ‘three legged stool’. This comprises a (small) corporate centre, with service delivery via business partners, centres of expertise and shared services.

Corporate HR, usually a small team, is responsible for the strategic direction and governance of the function. The term ‘business partner’ is used to describe the business-facing role through which relationships with key business units are built and maintained. Business partners act as internal consultants to leaders of business units and contract with former colleagues as suppliers. Centres of expertise provide professional support to business partners in specialist areas such as resourcing, employee relations, reward and training. Administrative functions are supplied through shared services, or through external or outsourced provision.

The widespread adoption of the ‘Ulrich model’ is evident in CIPD research (Reilly, 2007) which has found that many central HR teams in large organizations in the UK have decreased in size. There has been a noticeable shift to consultancy-type roles with many HR responsibilities devolved to the line. To some extent, these consultancy-type relationships have left HR with less direct power since the line manager becomes the ‘client’ to HR’s ‘supplier’. Service level agreements can reinforce these respective expectations. Operational HR roles have been the most endangered, with parts of the operation outsourced, such as pay and recruitment.

Many organizations have experienced problems with the quality of outsourced provision and the current trend appears to be to take back into the centre the areas of operations that leave HR most exposed if they go wrong. The most common HR structures appear to concentrate the strategic roles in the corporate centre, leaving operational support to the line being provided through divisional support units. Where such devolved support units exist, they sometimes report back to the head of HR, and are therefore clearly maintaining a strong professional link, while other units report to the divisional director, maintaining only a dotted-line relationship with the head of HR.

Shared Services

Administration service centres, providing shared services that deliver low-cost, highly automated transaction processing to employees (internally or externally), are replacing junior personnel officer and administrator roles. In some cases, call centres and help-desks have been established to ensure that operational HR support of some kind is available to line managers who may not have a regular HR contact.

The CIPD research into the changing roles of HR (Reilly and Tamkin, 2007) found that shared services is a large-organization phenomenon. For instance, Unisys has established an international online service centre which provides solutions to HR issues in a way that meets 'local' as well as corporate requirements. In terms of tasks, they carry out the transactional activities one would expect.

Overall, the structure of shared services varies by organization, especially in a global context. Only 4% of the CIPD survey respondents said that they wholly outsourced their HR shared services operation and around a quarter outsourced part of their shared services activities. There were other examples where shared services was insourced, and included multi-functional, as well as mono-functional cases. Call centres may or may not be part of the shared services operation. The important thing is to gain a track record of keeping basic HR processes in order. CIPD survey respondents reported positive experiences of call centres, although there are still challenges in terms of managing customer expectations.

Centres of Expertise/Excellence

Turning to centres of excellence or expertise, CIPD survey results (Reilly, 2007) indicate that nearly two-thirds of those organizations that have introduced shared services have also created centres of expertise. HR centres of excellence are typically made up of experts who focus on specialized consulting services providing mission-critical HR disciplines such as change management, executive compensation and bonus arrangements. In addition, rapid response teams are ad hoc groupings formed to provide services for specific needs such as a major acquisition or divestiture. Learning and development is the commonest centre of expertise, thereby helping to integrate learning and development and HR. In some organizations expertise is held within the business unit, not performed corporately, so that it aligns with specific unit needs.

Where problems with centres of expertise were reported, they mostly concerned interfaces with the rest of the HR organization. As units devolve there can be tensions which the function attempts to resolve in different ways. The centre can come to be seen as increasingly peripheral as most strategic decision-making takes place in the business units. This can be particularly challenging when HR attempts to take a corporate perspective on the development of high potential talent, for instance, since business heads can be reluctant to share information with the centre that might cause them to lose a 'star' employee to another region. One organization's approach to resolving such tensions is described in the case study about Dr Candy Albertsson, formerly of BP Amoco, in Chapter 11. Similarly, the market nature of relationships within which some HR teams operate can prove a barrier to a meaningful relationship with line managers. Some organizations are overcoming this difficulty by avoiding internal charging systems.

GETTING HR TRANSACTIONAL WORK ‘DONE DIFFERENTLY’

The process of transition to a new form of service delivery can be difficult. The challenge is to ensure that transactional work is delivered accurately, efficiently and cost-effectively, or else it undermines HR's ability to be seen to add value through more strategic work. If the basic HR administrative processes are not in good order, especially on sensitive issues such as executive pay, no strategic contribution is likely to be considered of value until the administrative problem has been fixed. If the problems recur, the credibility of HR teams can be at stake. Conversely, HR teams who concentrate on administration tend to be criticized as being ‘reactive’ and are regarded as a cost. Processing paperwork, addressing employee concerns and administering personnel policies are time-consuming and energy-hungry. Since a key aim of HR teams must be to improve cost-efficiency, business competitiveness and customer service (Ulrich *et al.*, 1995) the paradox must be resolved.

However, finding ways to get HR transactions done differently can have something of a catch-22 flavour to it for the HR function. The expectations of many internal customers/business partners and of some personnel specialists themselves about what HR can and should contribute may vary considerably, and line managers often still expect HR to deliver HR administrative services in conventional ways. It is understandable then that many HR teams choose to concentrate on delivering the core processes right without attempting to develop a more strategic contribution.

Looking at the relationships of the HR function with stakeholders, CIPD research into the changing roles of HR (Reilly, 2007) found that in the opinion of CEOs, HR's weakest area is the quality of HR processes. In terms of the relationship between HR and the line, CIPD found that the division of people management responsibilities between HR and the line has remained largely unchanged since 2003, despite HR's wish to have more work transferred to line managers.

The Early Challenges of HR Transformation

Early adopters of the Ulrich approach often lacked the infrastructure for HR to deliver on its value-adding promise. Devolving back to line managers the responsibility for routine aspects of HR delivery and supporting them via information technology with HR information systems and help-desks appeared one way of resolving the paradox.

Devolving to the Line

Devolution to the line was frequently hampered by poor or missing technology (e.g. self-service systems), limited HR technology skills, the extent to which line managers considered people management to be a key part of their role, and the skills and time available to them for people management tasks. Typically, little

support was available to line managers to help them develop the skills needed to carry out the devolved HR activities now expected of them if the new HR model was to work.

Even today, devolving to the line may not work if line managers are unwilling, unable or under-prepared for what is now expected of them with respect to personnel activities. Some managers feel that they lack the skills required and prefer the idea that there is a function they can turn to, or blame, if problems occur.

Devolution of HR activities to the line is often unpopular with line managers, who tend to reject the notion of internal consultancy unless they are also continuing to receive service delivery support. Line expectations about what Personnel is meant to deliver may well be rooted in the 'tea and sympathy' or the service delivery phase of evolution. As one line manager in a pharmaceutical company announced to his Personnel colleague when she came to tell him about her change of role; 'Don't tell me you're an internal consultant and here to solve my problems. Since you're leaving me to do my own recruitment, you are my problem.'

And even where responsibility for many aspects of people management has largely passed back to the line, a vicious circle is often evident which can be hard to break out of. Because line managers sometimes appear to lack the skills or the will to do what is required well enough, HR tends to lack trust in line managers, and therefore does not give them enough discretion. As a result, HR ends up focusing back more on administration than on strategic activity. Occasionally, too, HR professionals are reluctant to devolve responsibilities to the line for fear of losing professional control and consistency in the way procedures are being implemented.

What emerges from CIPD research into the changing roles of HR (Parry *et al.*, 2007) is that the 'value-add' of HR comes from two sources: its service delivery and facilitation roles. It has been easy over recent years, with the obsession with HR's strategic contribution, to overlook the fact that many managers value HR doing the bread and butter of people management work. Indeed, when HR devolves mainstream activity to line managers in order to focus on more strategic issues, HR is often criticized for failing to add value in the here and now.

In smaller organizations in particular the recruitment and retention of staff, and ensuring that they have the requisite competencies to do their work, are vital processes. HR has a key role in both supporting line managers with these processes directly and by enabling, encouraging and coaching managers to get the most from their staff.

If devolution to the line is to work effectively, line managers need to be upskilled for their key roles and the process of devolution needs to be well thought through and planned. For instance, it may be better to phase the devolution of some activities to the line rather than simply making line managers responsible for all aspects of 'transactional' HR. It is reasonable to expect that all line managers have responsibility for some core 'people' processes – such as managing performance, communicating well with their teams and developing employees they manage. Preparing line managers well for these tasks may

involve management development, providing user-friendly tools, learning groups and manager help-desks to ensure that managers can be reasonably expected to play their part.

ALIGNING HR STRUCTURES TO BUSINESS STRATEGY

Even where HR manages to free itself up to carry out a more strategic role, the HR function still struggles to focus on strategic matters beyond immediate business planning cycles, even though many of today's challenges in the competition for talent require longer-term solutions. Roffey Park and other research carried out in UK and multi-national organizations since the mid-1990s has consistently found that HR is still perceived as too reactive, producing piecemeal initiatives that go nowhere or solutions that do not match the need, and is constantly 'on the back foot' when dealing with key issues.

HR transformation is increasingly coming to be seen for what it is: a means to an end, rather than an end in itself. That end must be to build successful organizations which are able to compete effectively, as well as address short-term demands. It is crucially important that HR is able to identify and address some of the people issues that will affect their organization's success beyond the short-term. Today's global trends suggest that competition for scarce talent is going to increase, that competitive advantage can only be sustained through the skilful deployment and performance of highly talented and engaged employees; therefore today more than ever should be the era in which HR can make its mark as a contributor to business success.

Issues to consider when restructuring include:

- What sort of service do clients need as opposed to want?
- What do you believe are the strategic priorities?
- How can these be delivered, and by whom?
- What are the relative costs and benefits of different structures?
- If parts of the service are to be outsourced, how will you maintain service quality?
- If HR services are separated in this way, how can HR professionals develop the experience and skills to make transitions between different types of HR role?

Reengineering HR

A relatively radical approach is to reengineer the HR function. Hammer and Champy (1993) define reengineering as 'utilizing the power of modern information systems to radically redesign processes in order to achieve dramatic improvement in critical performance measures'. Reengineering can target the whole function or just a key HR process.

Reengineering HR typically happens when organizations restructure their central functions in order to encourage diversification within the business. Corporate centres are often thought to hold back individual businesses because

of their desire for a common culture, or for system compatibility. Corporate centre staff often see their role as managing the concerns of a range of stakeholders, including customers, suppliers and employees and community interests. Though these contributions are real they are hard to quantify and the trend to demerge or decentralize functions appears well under way.

Reengineering HR involves assessing how work is performed and how processes can be improved. Then processes that have the greatest potential for improvement and cost savings need to be identified. Internal customers' needs must be clearly defined and the people rearrangements for improving business fundamentals determined. The basics involve asking:

- Why is an activity done?
- Why is it done when it is done?
- Why is it done where it is done?
- Why is it done the way it is done?
- Who does it and why?

HR programme delivery can then be revamped accordingly. However, many HR teams have found that reengineering HR in a dramatic rather than incremental way is less effective than recreating the HR function to help an organization build and maintain the capabilities needed to execute business strategy better than competitors.

Arthur Yeung of San Francisco State University and Wayne Brockbank of the University of Michigan (1998) have identified two main ways of reengineering HR. One is technology-driven, where an 'off-the-shelf' system package is used and HR processes redesigned accordingly; the other is process-driven, which starts with a process redesign and then has systems custom-built to support the process. The most effective way of reorienting HR to make a more strategic contribution is when the HR team itself reviews what it would contribute as a function, and how it would structure itself, if HR operated in a 'greenfield site'.

Brockbank and Yeung advocate the technology-driven approach because:

- It allows suppliers to provide the technical support available from previous systems
- Since it builds on existing systems, costs should be lower
- Time-consuming technical hitches can be eliminated.

THE ROLE OF TECHNOLOGY IN HR TRANSFORMATION

Other theorists agree about the potential of technology to transform HR's capability. Mohrman, quoted in Weatherley (2005), describes the contribution of technology to different HR roles:

- A personnel services role: transactional self-service processes
- A business support and execution role: HR systems administration; employee and manager tools
- A strategic partner role: data analysis, modelling and simulation capabilities.

Technology is playing a very large part in HR transformation, supplying much of the infrastructure through which transactional work can be done differently and in value-for-money ways. Technology enables choice – to retain processes in-house or to use some form of external provision via outsourced solutions that need take no account of geographical location. With a strong technology platform help-desks and free access to HR information systems can be provided to managers and employees. Work that lends itself to being parcelled up as a process is typically a target for being delivered differently, for instance through outsourcing. However, the ‘total’ outsourcing of HR administration pioneered by BP, Accenture and BAE Systems, appears to have failed to take off on a major scale.

HR Information Systems (HRIS)

Many UK organizations now have some form of HRIS in place. Not surprisingly, companies in the advanced technology sector, such as Apple Computers and Hewlett-Packard, have led the field on this form of delivery of operational HR. Human Resource information systems are usually built on People Soft and SAP packages.

Cost reduction is a main driver behind HR reengineering efforts. The use of advanced information technology in order to transform the delivery of routine but important administrative activities is leading to greater efficiency and reduced HR-to-employee ratios. US-based IT networking company Cisco Systems developed a sophisticated intranet system for its own staff which saved about £1.75 million in ‘headcount avoidance’, or about 30 HR jobs. HRIS can help to improve processes and empower line managers. This, of course, brings down the cost of service delivery and should allow professionals to concentrate on adding value through knowledge-based, problem-solving activities.

However, the effectiveness of such systems is also open to debate. Reengineering can itself be costly, since the hardware, communications infrastructure and applications software need to be appropriate and require a heavy time commitment from staff involved (consultants, HR and IT staff). They can also be subject to poorly implemented software and spiralling costs.

Another driver for reengineering efforts is improving the quality and consistency of HR services. Yet in many companies, decentralized decision-making about IT systems has led to a plethora of HR systems being used which do not talk to each other, causing duplication and lost opportunities, especially when carrying out internal talent searches, for example. In situations such as this, IT systems can seem more of a constraint than a help.

Where they work well, HRIS do produce the intended benefits. One company has completely revamped its separate, people-related systems within a single shared system architecture. People management information has been streamlined, automated and integrated. This means that continuous HR process improvements can be easily incorporated, ensuring that the systems continue to be relevant and supportive to managers. Another company has been able to radically reduce

the cycle time in salary planning while increasing accuracy. Other organizations use IT to cope with the process of filling management positions, from forecasting needs to identifying suitable candidates. Increasingly, companies are using telephone and e-mail help-desks to answer and process routine enquiries about pay and benefits, medical and retirement plans and other issues where a 'human' response is required.

Reengineering HR processes, and providing user-friendly tools to acquire information on demand, can be helpful to managers who now have devolved responsibility for addressing employee issues directly, without the intervention of HR. Some companies make available online self-sufficiency tools such as internal job posting systems, directories of all employees and their locations/contact details, training courses and other important information.

Self-service

Employee Self-service (ESS) is one of the fastest-growing trends in the delivery of HR information. For instance, Unisys and IBM have found innovative technology-based solutions to providing an effective administration service to the line while freeing up HR specialists for more strategic work. According to the solutions architect for Cisco Systems, 'the concept of self-service frees up HR to concentrate on the value-added aspects of the business – analysis, leadership development and so on' (*Personnel Today*, 29 April 1999). The ESS at Nationwide allows employees to select their own benefits within the total value of the job. Nortel are also using Manager Self-service (MSS) to drive responsibility and decision-making further down the organization. It provides managers with a variety of HR tools, such as access to information about their subordinates, and the opportunity to analyse information in order to improve their effectiveness.

So HR information systems are part of the transformation story and a number of key messages about how to use them to advantage emerge from a CIPD/Cranfield report *HR and Technology* (Parry *et al.*, 2007). This report argues that the use of technology is more likely to lead to cost savings when used in conjunction with other changes to the HR function, such as the move to a shared services function. Nortel's shared service for instance ensures that transactional HR services are delivered consistently and that any change request approved by the line manager is within company guidelines.

Making the Most of HRIS

Another key to making the most of HRIS is appointing an intermediary to bridge the gap between HR and IT teams. In the UK, the National Health Service (NHS) is in the process of implementing the 'electronic staff record' (ESR), a national, fully integrated HR and payroll system to be used by all 600-plus NHS organizations from the end of 2008. The senior management team from IT contractors McKesson meet the NHS project staff working on the electronic staff

record on a daily basis. In Nortel, a special HRIS team manages the relationship between HR and IT to avoid the communication gaps which can lead to delays in developing and implementing the system.

Once the processes have been reengineered, additional training is generally required to help staff, line managers and HR professionals use the new processes effectively. Training can overcome one of the commonest pitfalls, which is that users do not understand the new system. Some resistance can be anticipated since reengineering can also present risks to existing systems and threats to jobs. The level of psychological resistance should not be underestimated. In the NHS, training for ESR users was designed in consultation with staff whose preferred method of training was classroom-based. Training was designed on that basis but a blended approach was also adopted, including an element of e-learning, to overcome transport difficulties for some staff. E-learning is also evolving with training packages moving away from long videos to shorter clips, viewable via mobile technology.

Various organizations evaluate the impact of technology on HR processes using customer satisfaction ratings as a measure of success. Norwich Union examines the accuracy of data entry in order to assess improvements and at Transport for London (TfL), HR services have set service level agreement targets (such as response time for answering calls, and the time it takes to close a case), which are measured daily using the new technology.

Technology is a key element of enabling a change in HR structure. In TfL business partners have found their roles have changed from 70:30 administration: strategy to 30:70 since the move to an HR service centre. Assuming that the new processes are correctly targeted, championed from the top and add value, this allows HR professionals to focus on areas where their contribution can significantly move the organization forward.

HR Outsourcing

Reengineering the transactional functions is one solution to the challenge of freeing up HR to focus on more value-adding activities. Outsourcing is another. The potential benefits of outsourcing are also wide-ranging and include:

- Cost reduction
- Increasing administrative efficiencies
- Access to updated technology
- Reducing risk
- Providing expertise not available internally
- Moving HR up the value chain.

Outsourcing can potentially deliver administrative efficiencies, for example by taking advantage of the streamlined, simple proven processes that an outsourcing provider has in place. Indeed some pundits argue that outsourcing most if not all the HR function's delivery is the future of the HR profession.

For instance, SPV management, a UK-based entity, decided to outsource the entire UK HR function following its acquisition by a large US company in 2002, avoiding the need to recruit or train people internally to understand and deal with UK employment law issues.

Another potential driver for organizations to consider HR outsourcing is access to up-to-date technology. As the use of technology generally, and HR information systems, in particular, continues to accelerate, organizations might look to replace fixed costs associated with technology investments with variable costs associated with an outsourcing arrangement. In this way, they reduce the capital they have tied up and the need to re-invest in these capital costs as technological advances dictate.

I think that total outsourcing of HR is an unlikely prospect. Indeed, there has been some media hype about the transformational business process outsourcing arrangements that various multi-nationals have embarked upon over the past five to ten years. This might lead organizations to believe that outsourcing is growing fast and is the preferred option to service provision in every circumstance.

However, research (WERS, 2004) indicates otherwise, suggesting that outsourcing is specific to certain activities and limited in extent – training, payroll and resourcing of temporary positions are most commonly outsourced. Similarly, a 2003 CIPD survey of HR practitioners concluded that the outsourcing market was broadly static, with some organizations increasing their use of external providers and others cutting back. In addition, most of the publicity surrounding outsourcing focuses on large organizations that may lead those operating in the small and medium-sized enterprise (SME) market to believe that outsourcing is of more limited relevance to them. Smaller organizations might not believe that they have sufficient volume of activities to benefit from these, though linking with other organizations to pool their administrative activities into one shared service or outsourcing centre might enable smaller organizations to gain the benefits of outsourced arrangements.

For those organizations that do decide that outsourcing is an appropriate way forward for them, the transition from in-house provision to outsourced solution requires careful consideration. Appropriate choice of outsource provider to reflect a good cultural fit, together with carefully articulated requirements, agreed performance measures and effective contract management are important to ensure that the arrangement delivers the maximum desired benefits. The typically long-term nature of outsourcing arrangements means that, as important as these contractual arrangements are, it is even more important to build good working relationships with the outsource provider.

Preparing for HR Transformation

For organizations that are considering reengineering their existing HR service provision, it is important to first consider it in detail, and then ask whether you need to change the way you currently operate. If you decide that changes are

appropriate, two further questions arise. First, what is the extent of the changes that you need to make? Do you need to introduce wide-ranging transformational changes, for instance, or are you actually looking at more minor tweaks? (See Figure 3.1)

The next question is whether retaining internal capability is important, or whether entering into an outsourcing arrangement will be the most appropriate solution. Alternatively you might realize that you can deliver the changes internally or with the help of an external consultant.

Winning support for such changes is essential if they are to succeed. When planning to reengineer HR, therefore, it is important to be clear about why it is needed and how reengineering fits with the overall strategy to achieve business goals. Typically, reengineering is triggered by problems with existing systems and the need to address specific goals. It is important to think through the sources of problems and pick the right HR process from the outset rather than launch programmes that are too complex and never get completed.

Setting clear and realistic goals can help achieve buy-in from top management. Clients need to perceive the benefits to them of supporting the development and implementation of new systems. It is important to develop a centralized system that can flex to allow local autonomy and meet the varying needs of the business. Ideally, forming coalitions with internal clients who are champions of change can help create a culture supportive of change within the organization.

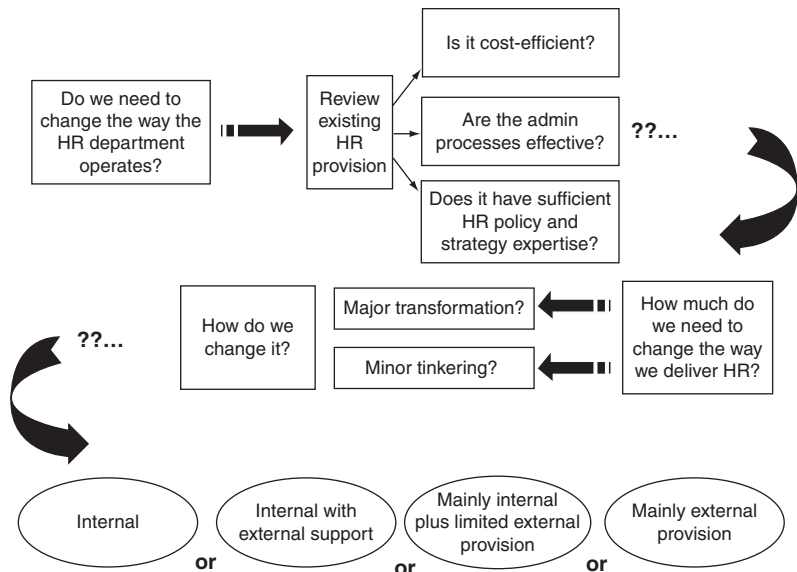


FIGURE 3.1 HR transformation process (after Reddington *et al.*, 2006).

A steering team, usually consisting of senior HR managers, line and MIS managers, is formed at an early stage. This team helps to find out the key concerns of users of the proposed process, works out the problems with the current process, sets new targets for the process and develops an implementation plan. Implementation teams are formed to provide solutions to each of the proposed processes and action plans and milestones are established. Implementation teams need to be held accountable to clear and measurable targets. Monitoring the processes and communicating results helps maintain support for the change.

INTERNAL CONSULTANCY

By devolving some responsibility for operational personnel issues to line management, many Personnel functions have freed themselves up to add more value. Moving up the value chain requires new approaches, such as formally acting as internal consultants to line managers and business unit leaders, the aim being to ensure that the business can benefit from focused solutions, delivered in a timely and effective way. This requires HR to develop consultancy skills, including relationship management, diagnostic and problem-solving skills which enable them to identify causes and appropriate solutions. Some organizations prefer to retain a 'rump' of the core Personnel function to provide generalist service delivery while other team members provide internal consultancy.

Early implementers of the internal consultancy approach typically experienced a number of challenges with working it through in practice. Of course, effective consultancy is a highly skilled process and consultancy skills are now a vital part of an HR professional's toolkit. Yet success as an internal consultant is not always easy and in some ways can be harder to achieve than working as an external consultant since you have a longer-term set of relationships to maintain and perhaps a set of client expectations of your function which can help or hinder what you can achieve.

THE ONGOING CHALLENGES OF HR TRANSFORMATION

However, despite the potential benefits of freeing up time through automation, functional transformation does not automatically mean that HR will spend more time on 'value added' activities, as research by Lawler and Mohrman (2003) concluded.

Too Internal a Focus

Ironically, CIPD research suggests that it may be the very process of HR transformation itself which runs the risk of creating something of an 'own goal' phenomenon for HR with respect to effectiveness. So much time, effort and expenditure is typically put into transformation that HR can become too internally or overly focused on 'ideal' HR processes and roles with the effect that

become ‘cleverer at being HR’; as a result they run the risk of losing sight of client needs and business relevance. Pragmatic and gradual shifts of role may be more effective than leaping into complete restructuring in pursuit of an ‘ideal’ delivery model. As one respondent advises: ‘do not worry about the theory, worry instead about what the business needs and what you currently have’.

What Happens to HR Careers?

Another issue for HR functions that have separated out into different roles – ‘business partners’ whose role is to act as internal consultants to leaders of business units and to contract with former colleagues as suppliers through shared services or centres of excellence, or else look for external solutions to diagnosed needs – is the question of what an HR career looks like. For HR specialists who may find themselves in only one ‘leg’ of the ‘three-legged stool’, for instance managing an outsourced call centre/help-desk, career development may look very different from that of a business partner for whom progression may more obviously be towards HR director roles. We return to the skills implications of HR careers in Chapter 12.

Lack of Teamwork

Similarly, the move to transform HR by creating business partner roles and using various ‘arm’s length’ solutions, such as outsourcing, shared service centres and help-desks may be restricting the amount of real teamworking across the function as a whole. In the early days, for instance, debates raged between HR colleagues about who ‘owned’ the ‘client’ – business partners acting as internal consultants, or those who supplied the service? If excellence is being developed in each of the channels, the challenge for the HR function is to act as organizational role model of cross-functional learning and sharing of good practice.

Short-term Agendas

While internal consultancy does provide value at local level, it alone is not enough to enable HR professionals to really add value to the organization. Part of the problem is that the more highly client-focused you are, the more likely it is that you will be delivering solutions that fix that particular client’s immediate problem, perhaps at the expense of corporate needs. Typically, internal clients of HR are interested in solving problems that affect them in the short term; they are less interested in what they fear will be the over-engineered corporate solution which is delivered too late to be of real use. There is also the human tendency to reject solutions that are ‘not invented here’.

Consequently, internal consultants can often find themselves chasing local issues where the business head has seen a ‘people problem’ and tried to fix it. It can be hard to challenge a powerful player who perceives you to add value only

if you do what they say. The focus on short-term issues then gets in the way of being able to produce the bigger wins for the organization in equipping it for its future challenges because you are too busy focusing on, or repairing damage in, the short term.

The vicious cycle of lots of activity without clear strategic goals can lead to ineffectiveness. The real value that can be added through HR, including work-force planning, the development of effective talent management and succession strategies, and strategic recruitment for the organization as a whole, can get dissipated at business group level, and make it difficult to create breakthroughs on significant issues. Indeed, Dave Ulrich challenges HR professionals to distinguish between the ‘do-ables’ that represent day-to-day activity without reference to more strategic goals and the ‘deliverables’, or activities with a real purpose, which will make a real difference to the business and organization.

Heavy Price to Pay

With respect to transactional HR, the cost of new supply arrangements, including outsourced or off-shored solutions, has often been greater than anticipated; line managers have frequently been under-prepared for what has been required of them, and the loss of what many HR professionals have considered their heartland has been a source of regret for some.

AND YET ... THERE ARE BENEFITS

Despite the ‘growing pains’ of HR transformation, the benefits of change are beginning to come through more obviously, and much learning has taken place about what works in real contexts. For instance, there is growing recognition that higher-level skills are required for HR roles today than in the past, though 40% of CIPD respondents still report shortages of resource and 38% describe skills gaps within the HR function. These days, the early implementers of the ‘three-legged stool’ have tended to put in place training and development to help business partners understand their role and equip them for it. Typically, the number of business partners has been trimmed down to focus on key internal business relationships and challenges. ‘Strategic business partners’, usually HR directors, manage the most senior relationships and take an overview role about where value needs to be added. Some HR functions have retained or reinstated a rump of HR generalist support provided directly to business units in the traditional way, or via shared services. Better preparation of line managers for their role is helping free up business partners to add value.

Building HR Strategic Capability at Microsoft UK

Of course, creating the HR organization that can add value does not happen overnight or in a vacuum. Dave Gartenberg, HR Director of Microsoft’s UK organization at the time of writing, has a clear vision for HR. He believes that HR

should be a driving force in the business, helping it hit its potential through its employees and leaders. For Dave, critical success factors include:

- Exploiting (getting the best from) talent
- Reducing the need for external hires
- People being able to grow and have work–life balance
- People feeling they have made a difference.

Dave values the Ulrich model but recognizes that when he arrived at Microsoft UK in 2005 even the transactional work was not being done well. Drawing on his previous experience in the chemicals industry, Dave introduced a deep process orientation, using principles from Total Quality Management and Six Sigma. Having mapped key transactional HR processes, the team improved them, and thereby managed to reduce some of the dissatisfaction with HR. This was a stepping stone to higher value-added contributions. An HR shared service centre was formed which pulled much of the administrative work off the generalists' plate so it could be redeployed to higher value-added spaces (as well as improving the cycle times for employee requests for the administrative support).

The next stage was to find out how HR could help the business to grow. Dave introduced the role of Organizational Development Director to the team and created roles for Business Partners whose roles were to understand the business drivers and goals, identify the barriers to success and use HR levers to help the business achieve success. At the same time Dave introduced an ongoing programme of formal and informal on-the-job development for the HR team, helping them to develop business acumen and consultancy skills.

Even so, Dave recognized that as the team developed, the organizational design for HR was still not right. For business partners, being an end-to-end generalist for the client groups meant that the ability to focus on any one part of the HR agenda was seemingly random. Too much effort was still being put into transactional and generalist HR, with the effect that more strategic initiatives were being starved of time and attention.

Dave recognized that demand for the work of the HR consultants can at times be a bit unpredictable. Similarly, there was no easy way for resources to flow across businesses when there were seemingly random (but consistent) spikes in HR issues in the businesses since in the 'intact' team design it was very difficult to move resources from one business to others. As a result, there was not always consistent alignment between what the client's needs were and the Career Stage Profile (level) of the generalist on that business. Nor was HR consistently challenging managers and business leaders to establish and help drive a strategic HR plan that is aligned and supports the business. For HR professionals, the levelling and career path within HR was seemingly random.

Accordingly, Dave's new design takes both the needs of the business and the career development needs of HR professionals into account. He and his team came to the conclusion that they needed to divide the HR work into two areas. In terms of responsibilities, a simple way to describe the split is that the 'consultants' will

drive front-line manager capability and resolve employee issues, and the ‘business partners’ will work with the leadership teams on the overall HR agenda and strategy. Responsibilities look like this:

HR consultants

The focus of the role is to work with employees and front line managers – the kind of activities that tend to be more immediate in nature, and very problematic if not done exceptionally well:

Front line manager induction and onboarding

Manager coaching

Employee relations and performance issues

Trends and statistics in employee relations

Initiating the recruitment process for information technology positions

Redundancy situations

Shared responsibilities

- On interview loops for all people manager openings. Providing feedback on manager competencies
- Review model implementations

HR business partners

The focus of the role is to work with managers and their leadership teams – the kind of activities that tend not to be as urgent in nature, but critically important to the longer-term health and capability of the organization

Leadership team (LT) induction and onboarding

Leadership coaching

Leadership team effectiveness

People review

Talent management

Work with leadership teams to define HR priorities/agenda

The second change is how the team is organized. The consultants were formed into one team, which allowed for many benefits but the most significant are (1) giving one team line of sight to the manager capability issues which can help the team identify root causes, and (2) allowing for a critical mass under one manager who can easily see where the peaks and troughs in demand are, and flow the resources accordingly. So the consultants have a primary alignment to organizations, but know they’ll receive back-up when peaks hit their business, and conversely they will back their peers up when they are in a situation of having ‘bandwidth’. As a result, HR and line managers have the benefit of deep understanding of given business areas but the capacity is available in the design to ensure a high degree of flexibility and responsiveness.

The generalists who were switching client groups and/or roles met with the people taking over the responsibilities. During these handovers they covered issues like:

- Key business issues facing business units (BU)
- A walk-through BU organization chart

- Key people in the organization
- Any employee relations issues in the works
- Which managers are either new and/or not (yet) strong.

Business partners are a ring-fenced resource to help drive BU HR plans and constructively challenge BU leadership teams with respect to discussions about people, organization and culture. This should allow for a more strategic approach to a variety of key talent and organizational issues. For Microsoft this should prove a very useful model, and has the potential to be applied elsewhere.

In many organizations, shared services have developed so effectively that they are now able to operate, as in the case of Fujitsu Services, as a profit centre, providing outsourced HR solutions to other companies.

HR Transformation at Fujitsu Services

(based on Reilly and Tamkin, 2007)

In Fujitsu Services (formerly ICL) HR is emerging from a period of major transformation which has resulted in HR being at the top table. In the six years since Fujitsu ceased to be a manufacturer of computer mainframes and moved to being a professional services company there has been a clear recognition that the company's only real asset is people and that margin is to be gained through the intellectual property they represent. Therefore being able to identify, develop and retain talent is right at the top of the CEO's priorities and is at the heart of business strategy. Resourcing and talent management are therefore central to HR strategy.

During those six years of transformation, the company has been almost completely reengineered, roles have changed and the skill-sets required for success have changed too – yet the overall headcount remains at 18 000. Role distinctions between technical and programme management are breaking down and a key requisite therefore for anyone working in Fujitsu Services is the ability to adapt and potentially be mobile. At the same time the organization has a strong task culture which can sometimes cause teamwork and relationships to break down and potentially lead to employee relations problems. In such circumstances, HR has a key role to play in coaching senior managers, building effective relationships and leveraging expertise. In particular HR has to 'walk the talk' through facilitating and acting as beacons of expertise within the business.

In common with many organizations, the HR team at Fujitsu Services concludes that HR's contribution to business is hard to quantify and assess, but that does not stop HR paying attention to what appears to matter most. Typical measures of HR contribution include:

- Attrition
- Failed recruitment
- Benchmarking, e.g. costs of recruitment, rewards, ratios HR : line
- IIP accreditation – which is seen as key to access to government bids.

In transforming HR, Fujitsu's business partner model is based on demand-pull. So HR operates principally as an internal consultant. Acting as internal

consultant involves having to deal with ambiguity in order to find the right solution for the client. This has required a mindset change, with the business being treated as a customer rather than a partner, and where the business strategy is translated into the HR agenda. It has also required a change of language for HR professionals, away from HR jargon to 'business speak,' underpinned by a deep understanding of what the business is about and where it is going.

HR transactions are user-friendly and there has been a deliberate simplification of processes following a major review of all services from the user perspective. Employees can access Internet-based forms for calculating their pensions, for example. They can also update their own personal information so that employees can guarantee its integrity.

To achieve this transformation has required training for all HR practitioners, resulting in customer-friendly teams. The HR Academy training programme has included a series of modules covering the whole employment cycle. The role of business partner is understood by all as being about distilling best practice in HR and 'finessing' it in the way the organization can understand and use it. The business partner role is seen very much as protecting the organization from HR, making sure that HR delivers to tough service level agreements, as well as delivering on internal projects. The focus is on identifying problems, aligning initiatives, focusing on the benefits to be delivered to the organization as well as on direct interventions, in the client's language and focused on their problem.

Given the ongoing growth of Fujitsu Services through acquisition, change management is a key responsibility of business partners and a range of tools and methods are applied to achieve effective integration. Use of a change network map helps clarify key roles and responsibilities for sponsors and change agents. Force field analysis and behavioural profiling are just two of a range of other tools in regular use which help focus effort appropriately. These help all concerned take a strategic approach to organizational design and development. Behavioural profiling, for instance, is a means of creating culture audits. It is then possible to decide the target profile of the new organization and the initiatives required to achieve that.

HR's other key focus is on directly supporting business development. As a provider of professional services to other companies and public sector organizations, Fujitsu Services is active globally providing near-shoring, off-shoring and outsourced solutions. As a result of supporting bids the HR team has amassed a wealth of experience of the Transfer of Undertakings (Protection of Employment) or TUPE and business transformation which it is putting to good use not only within Fujitsu Services but as an external consultancy in its own right providing HR business outsourcing. HR operates as a profit centre and external consultancy is becoming a major part of senior HR practitioners' roles. Andy Montrose (2007), Fujitsu's Head of HR, UK Public Sector, for example spends about 80% of his time being externally facing and is supported by a team providing the resources required.

In switching from a product-based economy to a people-based economy, Fujitsu Services is at the forefront of knowledge-intensive organizations in coming to grips with a new business model fit for the twenty-first century. The people-based

economy has greatly enhanced the importance of HR to the business. HR's ability to effectively manage change and to build talent strategies that work puts it rightly at the top table. As HR's evolution continues, business partners will be contributing directly to the bottom line. Being demand-led and equipping HR and its clients for success clearly works!

HR COMPETENCIES

HR practitioners can and do carry out a range of roles, variously described as strategist, mentor, talent scout, architect, builder, facilitator, coordinator, champion of change. The art is to have the awareness of, and flexibility for what is needed in different situations. Many an HR strategist takes up a new role in an organization that is apparently ripe for change but has deeply embedded practices that are difficult to shift. The strategist usually experiences great frustration as he or she sees their attempts to bring about change wither away. The pragmatist works within this context to make change happen at the pace which is likely to lead to the embedding of new approaches, rather than seeking to bring about widespread initiatives in order to make their mark.

The skills of the HR specialists are key to the effective development and implementation of people strategies. First and foremost, professionals need to be credible, demonstrating good understanding of the business and able to translate business needs into their organizational implications. Credibility is often gained or lost on the ability to both shape strategy and implement it.

While line management is responsible for the growth and operation of the business, HR has a key role to play in partnering with the line to prepare the organization and its employees for future challenges. This is where HR operational effectiveness is enhanced by a strategic perspective. Strategic thinking is clearly essential if HR professionals are to be capable of making the decisions to drive the organization forward. This requires developing a tolerance of ambiguity and a willingness to take risks.

Winning the right to contribute strategically comes from delivering results. HR functions need to systematically assess and improve all basic HR processes. This requires focusing on improving administrative services and separating them from strategic tasks in order to increase efficiency and effectiveness. HR Operations should then be managed, monitored and measured in the same way any other business process would be.

If HR is to truly act as a business partner, specialists need to really understand the business and be able to reflect that understanding in their actions. For example, for Ulrich and Brockbank (2005) an HR perspective that is both unique and powerful is one that establishes the linkages between employee commitment, customer attitudes and investor returns. Basic consultancy skills, such as gaining entry and diagnosis, should be part of the professional toolkit. Being able to use data effectively to make a convincing case is part of the HR toolkit. Good analytical skills are also important, so that HR can use relevant metrics and understand the implications

of trend data. While HR generalists do not need to be experts, they should be able to use creative approaches to designing HR processes that really meet needs.

Similarly, part of the art of the HR business partner is knowing when to take the lead in initiating a new people-related process and when to begin by building line ownership; how to build the corporate from the local and vice versa. This means that HR has to be on the look-out for useful initiatives that have begun elsewhere in the organization which can be built on in order to create greater coherence and avoid 'death by a thousand initiatives'.

More importantly, HR professionals need to be able to manage culture, recognizing what needs to be maintained, strengthened or changed, as well as to manage change. The skills of bringing about change extend beyond being able to take a longer-term view. Project management skills and the ability to work successfully in cross-boundary teams can be essential to effective delivery of outcomes. They need to be able to cope well with change and help others to do so. They need to understand their organization's cultures and be able to work out – with others – what needs to be strengthened, because it supports what the organization wants to do and what does need to be changed.

Perhaps the core expertise for strategic roles lies in managing ongoing change and working with managers to develop a robust and resilient workforce able to thrive on change. Project and programme management skills are essential. Bringing about change requires HR specialists to be able to influence key players and to have the confidence to challenge. This means being politically aware and being prepared to use various forms of influence, including power, to get the job done. Of course, the most easily available form of power is personal power, which stems largely from an individual's personality. This kind of power is reflected in being respected as a professional, being a team player and being the kind of person who is trusted and to whom people at all levels can turn. We shall return to the subject of HR skills in Chapter 12.

Prioritizing the HR agenda does require stepping out of the vicious cycle of constant delivery in order to choose the key areas of focus if value is really to be added. Radical choices may or may not be the consequence, but you do not know until you try. According to Keith Walton, a member of IBM's management consulting unit, 'HR is traditionally seen as a cost. If you can separate the operational from the strategic, you can see that the strategic side adds value.'

CHECKLISTS ON THE ROLE OF HR

From Operational to Strategic

The following questions are intended to offer the basis for an HR team self-assessment:

Expectations of the Role of HR

- What business are we in? What should we be in? Who are our customers?
- How do our customers perceive our services?

- What are managers' and employees' expectations of HR?
- In reengineering processes, what are the implications for roles and responsibilities of HR professionals?
- In what ways can managers and HR specialists work more closely to link strategy and personnel practice?
- If we had fewer services, do we know what trade-offs our customers would be willing to make?

Adding Value

Test Question:

Would you manage HR differently if your personal circumstances were impacted upon directly by bottom-line performance?

- What current organizational or managerial issues, if resolved, could result in substantial business improvement?
- Where do we add value? Proportionately how much time do we spend on value-adding activities?
- What is the relationship between cost and value of the work we perform?
- (How) do we invest in HR practices that deliver business results?
- What does our organization need from HR currently – and in the next few years?
- What changes could we make to increase the effectiveness of HR in our organization?
 - How will we measure the success of reengineering efforts?
 - How will we let people know?
 - How should we structure HR to add value?
 - What should be the ratio of HR to the line?

Changing the Focus of HR

- Where are we now in terms of our HR function?
- How much does IT play a part in our overall HR strategy?
- Who will champion reengineering efforts?
- In what ways will reengineered processes be superior to existing ones?
- In moving from operational to strategic, how should the gap be filled, and by whom?
- If we devolve aspects of HR to the line, how do we maintain consistency?
- How should line managers be prepared for their role?
 - What should we offer?
 - What new competencies and skills do we need?
 - What flexible practices will enable us to shift from operational to strategic?

The Influence of HR

- Is HR represented on the management board or involved in actually devising the HR strategy?

- Which body makes the strategic decisions in practice?
- How does that body receive information about, and take decisions on, managing people? How is HR involved?
- Will the organization give a higher or lower priority to managing people in the next five years?
- If the priority will be lower, what impact will that have on retention of key people?
- If we change what we do, which process would we begin with?
- How will we minimize resistance to change?
- How shall we deal with managers who cannot make the transition?

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Measuring the Impact of Strategic HRM

The only HR actions which have value in any organization are those which contribute to the achievement of its goals.

(Phelps, 1998)

For many Human Resource practitioners, it's an act of faith that people management is a key factor in determining profitability and HR practitioners are under pressure to prove that value is being added by HR activities. Implementing effective people management and knowing which approaches are working is difficult enough; assessing how much effective people management impacts on the bottom line is even more difficult. Even during talent shortages, the great debate about how to measure human capital and what to measure rumbles on, somewhat inconclusively.

Amongst investors there appears to be a self-fulfilling prophecy at work: since there is little evidence of comparability, consistency or predictability in workforce metrics, these are easily discounted. Even when well-meaning executives are sincere in their belief that employees count, they are often at a loss as to how to translate this belief into policies and practices which work well, both for the business and for individuals. People-related metrics are easily dismissed.

Part of the problem is that the dominant means of measuring and assessing organizational success are quantitative and financial. After all, what is valued, or seen as critical, tends to be what is measured and reported. So much of what is reported as 'fact', i.e. financial performance data, fails to explain how the figures have been achieved. Since so many people management practices are intangible, and are therefore treated as invisible or 'soft', evidence of the link between these practices and business results often appears indirect and non-explicit. Without 'hard' proof of the link with business results, belief that good people management is critical can remain at the 'hunch' level. Should all investment in training for instance be required to produce a measurable return on investment (ROI)?

Even though strategists often condemn the narrow focus on financial data as 'driving with the rear-view mirror', the general trend among management teams

and boards is to use measures which track familiar sorts of data. These may seem to offer fewer risks than those which appear unproven, especially when the only company results that tend to be publicly reported reflect the short-term bottom line. Of course, setting measures based solely on 'lag', i.e. retrospective performance, is unlikely to lead to business success in changing times. The real challenge is to identify and report on the 'lead' measures – parameters for future success as well meeting the need for control in the here and now.

THE BUSINESS CASE FOR ADDRESSING EMPLOYEE NEEDS

The growing recognition that financial performance is based on various other forms of performance – almost all of which are carried out by human beings – is evident in the growth of performance-measurement models. Acceptance of the business case for investing in the 'soft' employee issues, such as communications and training, appears to be accelerating. In the UK, the Investors in People (IiP) movement has long highlighted the importance of employees to business and social success and the number of organizations seeking to achieve or maintain their IiP status is growing. IiP has become a prestigious accolade and many of the leading organizations in all sectors can now claim to have achieved IiP status. Indeed, the UK Labour Party has achieved IiP accreditation and government departments are being encouraged to gain IiP status. This is to be achieved against a backdrop of ongoing change and the reshaping of public services to achieve a key feature in achieving the UK government's objectives.

Arie de Geus, the world-renowned strategic planner, contends that 'economic' companies whose focus is predominantly short term and bottom-line driven are likely to be outpaced by so-called 'living' companies which base their decisions on the company's and employees' potential as a living entity (see Chambers, 1997). He argues that if managers wish to extend a company's lifespan they must focus on developing brain-rich companies that can adapt to a changing environment. This involves forming relationships with employees and using conservative financing to govern their growth.

Indeed, Professor Jeffrey Pfeffer (1995) of the Stanford Graduate School of Business argues that the basis for competitive success has changed. In a rapidly changing marketplace deregulation of industries such as the airlines, telecommunications and the financial services has led to a proliferation of competition from many quarters. Protected markets are disappearing and the technologically-driven demand for ever-more innovative products makes many products quickly obsolete.

Traditional sources of competitive advantage such as investing heavily in capital equipment or aiming for economies of scale have become less important in this era of mass customization. Customers want goods and services which are tailored to their needs but they do not wish to pay premium prices for those goods. For Jeffrey Pfeffer 'what remains as a source of competitive advantage, in part because it is difficult to imitate and in part because other sources of success have

been eroded by competition, is organizational culture and capability, embodied in the workforce'. If Pfeffer's assertion is correct, the importance of strategic Human Resource activity should not be underestimated. In the UK there is also increasing research evidence that there are substantial returns to managing the workforce effectively.

Ulrich and Brockbank (2005) also highlight the role of HR as a source of competitive advantage. Competitive advantage exists when a firm is able to do something unique that competitors cannot easily copy. And what it does better than its competitors must be highly valued by its customers, owners, employees, or managers. The creation of competitive advantage can be simplified as the 'wallet test', i.e. what customers will willingly pay for because they perceive value and what subsequently adds value to investors. Ulrich and Brockbank argue that HR passes the wallet test when it creates human abilities and organizational capabilities that are substantially better than those of the firm's competitors – and thus move customers and shareholders to reach for their wallets.

The UK's CIPD (Patterson *et al.*, 1997) commissioned research that was carried out by the Institute of Work Psychology at Sheffield University and the Centre for Economic Performance at the London School of Economics. The findings suggest a strong link between good people management practice and business results. The research, carried out in more than 100 medium-sized UK firms, found that people management is not only essential to the success of an organization but also that it outstrips technology, quality and competitive strategy in its impact on the bottom line (see Pfeffer, 1995).

The CIPD findings suggest that good personnel policies and practices can improve productivity and performance by enhancing skills and giving people responsibility for making the best use of their skills, but the combination of policies and practices which produces these effects varies by context.

WHAT TO MEASURE?

There is widespread confusion about what measures should be used for what kinds of analysis. For example, some studies, including Brewster, Hegewisch and Lockhart (1991), have suggested measures for assessing the strategic importance of HRM, such as whether there is an HR specialist in the top management team, the role of the line in HR responsibilities and the contribution of HR to the development of business strategy. Other studies have focused much more on specific aspects of human resource management and development.

Level of Impact?

Various theorists, including Boudreau and Ramstead (2003), suggest that, whatever the 'content', the focus of measurement should be on efficiency, effectiveness or impact. Reilly and Williams (2006) propose a balanced approach to assessing performance which combines both efficiency and effectiveness,

both from the people management and from HR's functional perspective. Key for them is measuring both what is within the domain of management (such as retention and engagement) and what is within the domain of HR (such as policy formulation and execution).

CMI suggests a three-tier model of different levels of metrics which provides a useful framework for understanding the value and application of workforce and Human Capital Management (HCM) measures:

- Basic measures – quantitative data and employee profile statistics
- Standard comparable analytic measures – comparable quantitative data indicating contribution to performance
- Strategic measures of workforce capability – capable of reflecting alignment of workforce capability to business strategy.

These are not comparable and depend on an organization's life cycle and strategic context but it is these measures, CMI argues, that are of the greatest value to stakeholders. At the same time, the quest to find some common measures which establish the link between good people management and organizational performance continues.

Human Capital Indicators and their Underlying Factors

CIPD research confirms strong ties between attitudes and performance and highlights two areas of HR practice which above all relate to improvements in productivity and profitability. These are the acquisition and development of skills (through induction, training, selection and appraisal practices) and job design (as assessed by the degree of teamwork, flexibility, autonomy, responsibility, problem-solving and variety). In the firms studied it became evident that enabling employees to use their creativity in practical ways, leading to business innovation and improvements, was a feature of the more successful companies. Ironically, the average cycle time in many organizations is so short that employees' roles are constrained, preventing the realization of some of the capability of employees.

The CMI highlights five key areas of HCM which directors, stakeholders and investors agree are most likely to affect the future performance of organizations:

- Leadership
- Employee motivation
- Training and development
- Performance improvement
- Pay and reward structures.

Leadership, training and development and employee motivation appear to be the three most important measures of workforce in indicating future financial performance of organization by sector, geographical market and size (Scott-Jackson *et al.*, 2006).

Similarly, Bassi and McMurrer (2005) recommend a set of human capital indicators which they consider to be central to the management of a knowledge-based workforce:

Leadership practices

- Communication – managers and executives
- Inclusiveness – managers and executives
- Supervisory skills
- Executive leadership
- Systems – for identifying and developing the next generation of leaders

Employee engagement

- Job design
- Commitment to employees
- Time – does the workload allow employees to do their jobs right; make thoughtful decisions; and achieve an appropriate balance between work and home?
- Systems – and processes to retain good performers by continually evaluating trends in employee engagement and using this information to determine the key drivers of productivity and customer satisfaction

Knowledge accessibility

- Availability
- Collaboration and teamwork
- Information-sharing
- Systems – that collect and store information and make it available to all employees who might need it

Learning capacity

- Innovation
- Training
- Development
- Value and support – i.e. the behaviour of leaders which consistently demonstrates that learning is valued and managers make learning a priority
- Systems – i.e. a learning management system that automates the administration of all aspects of training/learning events, provides reports to management and includes features such as content management or competency management

Workforce optimization

- Processes – well-defined and that help get work done; where employees are well trained on these processes and efforts made continually to improve processes
- Conditions – where employees have the materials and technologies they need to be effective
- Accountability – where employees are held accountable for producing quality work; promotion is based on competence; poor performance

appropriately handled and employees trust their co-workers to get the job done

- Hiring decisions – selection is based on skills requirements; new hires receive adequate induction
- Systems – and processes are in place for managing employees' performance and talents. These help employees realize their full performance potential in their current jobs; identify development opportunities for those experiencing performance difficulties and prepare motivated employees to progress their career fields.

Of these various factors, Bassi and McMurrer's (2005) research suggests that leadership practices are often a 'binding constraint' on other aspects of human capital management and development. The absence of leadership practice may be limiting both the use of, and the return to, employee skills-building. The negative effect of lack of leadership is particularly noticeable with respect to learning capacity and knowledge accessibility measures. This is then something of a vicious circle, since without effective leadership there tends to be an under-investment in employee training and vice versa. These authors argue that investments in leadership skills would lead to improved human capital management and yield an exponentially high return for organizations that have a deficiency in this regard.

Other research, by performance development consultants Lane4, focuses more specifically on return on investment (ROI) around key HRM practices. However, they too found that the top three areas that HR directors wanted to measure in terms of ROI were improved leadership, skills development and employee engagement. Again, the same research suggests that 68% of HR Directors and business leaders surveyed found difficulty translating the benefits of training into financial figures and many considered attempting to do so was both costly and time-consuming. Indeed it might be argued that restricting the measurement of ROI to finances is too narrow and that achieving improved scores for customer service and employee engagement are desirable ends in themselves.

Moreover, employers are still often inconsistent in how they measure human capital and use systems and methods that are too complicated and confusing, according to the CMI study. A clear gap emerged between what was valued by Directors and Analysts and what was actually analysed:

- Only 68% measured the contribution made by the whole workforce and fewer still (53%) focused on the impact of senior management.
- The survey explored 45 different workforce factors, but while more than eight out of 10 respondents claimed to examine static measurements such as 'total employment cost', just two out of 10 measured dynamic indicators such as 'evidence of absence management' or 'talent management'.

These low levels of measurement were admitted despite respondents believing that each issue had strategic importance to future performance.

Measuring the Success of a Talent Management Programme

The fact that it is difficult to link changes to profitability should not prevent measurement providing an understanding of what has been achieved by, for example, a talent management programme. The important thing is not to focus only on data related to the activity and the process, but on what is being achieved by these with respect to the HR objectives for the organization as a whole.

According to Likierman (2007) it is important to first define the differences between talent management and what HR does anyway; establish how this links to corporate objectives, not those of HR; then break down 'talent management' into its constituent parts (e.g. proportion of posts covered by the programme, choices available for vacant posts etc.) to form the basis of effective measures. It is also essential to consult with senior and line managers to shape their expectations, avoiding the temptation to overstate what can be achieved by the talent management programme.

The next task is to improve the data, which starts with ensuring that your database provides the right variables in the right timescale – i.e. that these link with the organization's strategy. New measures could arise for instance from surveys and exit interviews. In any event, the data needs to be targeted and at the right level of detail to ensure that the right conclusions can be drawn.

Comparisons can then be made between similar internal divisions or units, as well as externally as a result of swapping data on other talent management programmes or elements, such as selection criteria and the definition of high potential. It is useful to set up a series of 'monitorable' (i.e. not necessarily quantitative) milestones which will show comparisons with the original plan.

The focus should be on outputs and outcomes, not activity. Output measures will generally be interview-based and could include interviews of employees and their line managers and the results of exit interviews. They could also come from regular reporting and feedback on issues such as retention and employee engagement. Indicative outcome measures include the numbers of candidates available for internal posts, how easy it is to make internal appointments to identified key posts and how the programme contributes to organizational success compared with competitor organizations over time. Measurement should be accompanied by a commentary to explain any gap between what was hoped for and actual performance. Likierman suggests that the commentary should take into account external factors such as the competitive environment so that the changes in the employment market can be taken into account when discussing the results of the programme.

Auditing Organizational Capabilities

Ulrich and Smallwood (2004) argue strongly that what organizations should be measuring is not specific approaches to management or individual HR practices but organizational capabilities, such as the ability to innovate, or respond to changing customer needs. These 'intangibles' are what drive growth. These

authors suggest that an organizational capability is a bundle of activities, rather than a single factor to be measured. They offer the following capability framework as the basis for audit:

- *Talent* – do our employees have the competencies and the commitment required to deliver the business strategy in question?
- *Speed* – can we move quickly to make important things happen fast?
- *Shared mindset* – do we have a culture or identity that reflects what we stand for and how we work? Is it shared by both customers and employees?
- *Accountability* – does high performance matter here to the extent that we can ensure execution of strategy?
- *Collaboration* – how well do we collaborate to gain both efficiency and leverage?
- *Learning* – are we good at generating new ideas with impact and generalizing these ideas across boundaries?
- *Leadership* – do we have a leadership brand that directs managers on what results to deliver and how to deliver them?
- *Customer connectivity* – do we form enduring relationships of trust with targeted customers?
- *Strategic unity* – do our employees share an intellectual, behavioural and procedural agenda for strategy?
- *Innovation* – how well do we innovate in product, strategy, channel, service and administration?
- *Efficiency* – do we reduce costs by closely managing process, people and projects?

The audit allows leaders to focus in on a few targeted capabilities with the aim of making these world class. Ulrich and Smallwood recommend gathering data from multiple groups on current and desired capabilities. The data should then be synthesized, patterns analysed to identify the most critical capabilities requiring managerial attention. The three most important capabilities required to deliver strategy goals should then be brought to the attention of leaders, identifying which will have most impact as well as which will be the easiest to implement. Then an action plan should be put together, with clear steps to take and measures to monitor, preferably within a ninety day timeframe.

PREDICTORS OF BUSINESS RESULTS

Employee Satisfaction

The CIPD research highlights the predictive nature of employee satisfaction for business results. Satisfaction was based on many aspects of working life, such as recognition for good work, pay and conditions and relationships with supervisors and team members. This indicates that effective people management is about more than traditional HR practices such as training and has to take into account a wide range of aspects of employee satisfaction, including employee needs for

growth and development. While the job satisfaction of individuals is typically a poor indicator of performance, the researchers found that it is the overall levels of satisfaction across staff which seem to affect business performance.

The Organization as Community

Another predictor of business success is how employees see their company as a community, where people feel socially included rather than alienated. In particular, the more successful organizations in the research were ones where there was a positive ‘human relations’ climate brought about by concern for welfare, the removal of status barriers, good communication, high-quality training and respect for employees. Kwik-Fit, for example, enjoys a high reputation within the motor repair industry for honest dealing and excellent customer service. The company’s substantial sales and profit growth reflect the customer reaction to Kwik-Fit and its services. Employees are encouraged to delight the customer and have the freedom to respond to immediate customer requirements. Each Kwik-Fit location builds links with the local community and has a high degree of delegation of responsibility so that small groups can make a difference. It remains to be seen whether the ‘community’ feel of Kwik-Fit’s operations can be maintained since its recent acquisition by Ford.

Research by the Gallup Organization about Great Managers and Great Workplaces (Buckingham and Coffman, 1999) also suggests that measures linked with employee satisfaction, such as turnover, are predictive of profitability. Gallup’s research had a focus on four outcome variables: employee retention, customer satisfaction, productivity and profitability. Researchers noticed that organizational excellence was based on high-performing workgroups, rather than the organization as a whole. They found that a number of situational factors such as pay, parking, etc. which are often elements of an organizational strategy, do not make a difference to the most productive workgroups in the companies studied. What did matter were a number of factors which are more firmly the responsibility of managers, with HR support.

The Right Roles and Recognition

These factors included employees being clear what is expected of them through the setting of explicit expectations by the manager. However, individuals need to find their own way of achieving these expectations if they are to feel ownership of their job. Managers therefore need to be able to judge how to help each employee take responsibility and be able to get the best out of the different members of their teams. Employees also need to have access to the resources and equipment to do their work effectively. They need to be offered roles which make the best use of their talents. Matching the right person to the right job is a challenge for many managers, and the support of HR to enable managers to make the best use of talent can be vital. This is particularly the case with another key factor – helping

people to develop. The researchers also found that praise and recognition are critical: ‘the new knowledge-based worker relies and depends upon praise and recognition as the means of defining what is valued by the organization’.

HOLISTIC FRAMEWORKS – THE BUSINESS EXCELLENCE MODEL AND THE BALANCED SCORECARD

Recognition that effective performance management is key to the achievement of business results has been popularized in two influential models which have been adopted by many organizations to good effect. The Business Excellence model suggests clear links between business outputs (results) and organizational inputs, such as leadership and effective people management. The model provides a means of measuring and tracking the impact of employee-related initiatives on the bottom line.

Measures should be set around both the ‘outputs’ and the ‘enablers’ so that progress can be tracked. The Business Excellence model can be used to measure all aspects of a set of integrated HR processes, including training and development. The balanced scorecard advocates a top-down approach to business performance management, starting with business strategic intent expressed through the organization down to operationally relevant targets. It ‘translates an organization’s mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system’ (Kaplan and Norton, 1998).

Very widely adopted by major companies such as BP, BAT, Sainsbury, Microsoft, the scorecard typically shows how the financial bottom line of an organization is not obtained as a simple accounting exercise but that performance is needed in each of several perspectives if financial success is to be achieved. First and foremost, all these key areas need to be pulling in the same direction – that of the vision and strategy of the organization. Strategic goals, critical success factors and measures need to be established in all scorecard areas.

The Scorecard perspectives are:

- Customers, and the activities required to ensure that service matches customer needs as well as the vision
- Learning and growth, and the activities required to build sustainable growth
- Internal business processes and the careful prioritization of key business processes at which the organization can excel
- Financial, and the activities required to succeed financially in the eyes of shareholders.

The Scorecard is dynamic and should reflect the specific needs of an organization at a point in time. Indeed, different parts of an organization may have different scorecards depending on their circumstances and priorities. In some organizations, the scorecard notion is used to develop real-time personal scorecards. Some parts

of the corporate scorecard may have greater priority at some times more than at others.

The process for developing a balanced scorecard is as follows:

1. Establish the vision
2. Determine strategic goals
3. Analyse each goal – what critical success factors (CSF) influence the goal
4. Assign at least one measure per factor
5. Assign a target for the current budget exercise.

When organizations establish a ‘vision’, 3–5 strategic goals are set to focus the organization’s efforts over the next 3–5 years. With the Balanced Scorecard, there can be 3–5 goals per focus area, each broken down into a number of factors that influence that area. Business objectives need to reflect the critical success factors (CSFs) which are internal or external features of the organization’s environment which have a major impact on achieving the organization’s aims and are vital for a strategy to be successful. According to Jack F. Rockart (1979), there are four basic types of critical success factors:

1. Industry
2. Strategy
3. Environmental
4. Temporal

Then key performance indicators (KPI) need to be set. KPIs are measures that *quantify* management objectives and enable the measurement of strategic performance in meeting their CSFs.

An example:

- KPI = Number of new customers
- CSF = Installation of a call centre for providing quotations

The measures used to manage the performance of a business typically comprise the following:

- **Strategic measures:** market attractiveness (industry structure, growth, concentration, innovation, customer power, logistical complexity) and competitive strength (relative market share, relative quality; intellectual property, customer coverage).
- **Organizational measures:** culture, leanness, incentives, training and development, structure, purpose, process.
- **Operational measures:** customer satisfaction, product or service excellence, capacity utilization, capital intensity, productivity, outsourcing.

Depending on the emphasis placed on different measures in an organization, its information and performance measures can vary between operational fixed (for example, the 99% replenishment rate on the shelves of a Sainsbury’s store) and strategic flexible (for example, Microsoft’s goal of standards ownership on

the information superhighway). According to this method, an Objective (tactical aim) is composed of a CSF plus a KPI plus a target.

The key message behind these models is that financial success does not occur in a vacuum and that all areas of the Scorecard have to be attended to if success is to be achieved. They therefore need to be carefully measured, tracked and potentially require investment.

THE EXECUTIVE SCORECARD

This scorecard has been devised by Saratoga Europe, part of Saratoga Worldwide, to examine the same perspectives as the Balanced Scorecard but viewed from an HR focus. Saratoga has amassed a databank of human resource measures and benchmark data from its client group. The assumption is that 'anything we do with people in any organizational setting ought to have some output and eventual impact upon results'. Data are gathered against some ninety human resource measures to assess impact on:

- Improved production
- Cost reduction
- Quicker cycle times
- Improved quality
- Positive reactions from human beings.

The Saratoga measures, both quantitative and qualitative, are grouped under the following categories of key human resource activities in which there are clear measures of success:

- Organizational effectiveness (revenue, cost, profit and added value per employee)
- Compensation and benefits
- Recruitment
- Absenteeism and turnover
- Training and development
- Occupational health and safety.

The assumption is that if employees are working effectively, they will add value through their positive effect on customers, who will in turn purchase more and produce a positive impact on the bottom line and, where appropriate, improved shareholder value. These can be measured through increased revenue growth, customer retention, etc. Conversely, where employee commitment and competence are low, there is likely to be a negative effect on the bottom line. Indicative measures would include negative customer reaction, absenteeism, turnover, etc. The Saratoga approach is to develop a strategic improvement cycle using researched people criteria incorporating internal performance trends and external benchmarks. Client organizations can then benchmark themselves against other

organizations to assess their relative positions. Typical target positioning includes revenue per employee – top 25% – and cost per employee – bottom 25%.

AVOIDING MEASUREMENT FRENZY

The pressure on HR departments to prove that they add value tends to push practitioners into a measurement frenzy. One way to avoid becoming lost in a bureaucratic muddle of measures which are difficult to make sense of is to use a tool such as Activity Based Costing of the HR function. This approach focuses on identifying the key activities to be measured and checking the potential knock-on effects on other aspects of HR provision of measuring only certain activities in order to avoid ‘skewing’ the data or causing unintended consequences.

For example, in the UK the East Sussex Police Force, like all other UK police forces, was subject to government-imposed targets and measures on response times to emergencies. What the East Sussex police noticed was that, in order to comply with response targets, they were having to drive faster than was advisable and the number of accidents involving police vehicles rose. The police took the decision to revise the government targets at local level so that they could achieve an acceptable response time with far fewer accidents.

HR activities regarded as key should be linked with other organizational functions to develop clarity about how HR contributes to performance in other parts of the organization. These measures are then integrated to produce a holistic picture of how HR’s contribution is integral to the success of other parts of the business. The emphasis should be on measuring the impact of HR-related policies and actions using business language.

Calculating the return on investment from HR is extremely difficult, even with a superficially straightforward equation such as:

$$\text{ROI} = \frac{\text{Benefit} - \text{Cost}}{\text{Cost} \times 100\%}$$

This kind of equation is usually applied to apparently discrete areas of HR activity such as the evaluation of training. The difficulty with trying to prove the real and longer-term differences which training and other HR activities can make to an organization’s effectiveness is that there are so many other variables to take into account. Therefore, making firm claims about the value of an individual activity can seem specious to people who need to be convinced by numbers. That is not to say that measuring activities and trying to assess the effect of HR interventions is a waste of time. However, measurement should ideally be used to help HR select the functions and processes for action which are real priorities for the business and where there is the maximum possibility of creating a direct impact on the bottom line.

Take a notoriously ‘loose’ concept such as empowerment, for instance. Effective empowerment initiatives are aimed at improving an organization’s

bottom line by giving employees the freedom to make decisions and by treating employees as partners. Unfortunately many organizations do not achieve this goal because they fail to measure empowerment and link it to their costs and profit (Ettore, 1997). HR has a key role to play in ensuring that management understands what empowerment is really about and that measures are set which are linked to strategic goals and processes as well as to individual accountability. HR also needs to identify and set in place ways of tracking the impact of other elements known to be essential to the success of empowerment programmes such as stable leadership at the top, few redundancies, profit-sharing and power-sharing schemes and emphasis on innovation at all levels.

WORKFORCE MEASURES

The following are adapted from examples of workforce measures identified as useful by Scott-Jackson and Tajer (2005):

Corporate values

- A vision, mission or values statement
- An HR/People Management strategy that is demonstrably linked to the organization's vision, mission and values and business plan
- Objectives within the People Management strategy that are SMART, project managed and evaluated

Organizational profile

- Pay bill for the organization (as a proportion of capital employed/turnover)
- Head count
- Workforce expressed as full time equivalents (FTEs)
- Workforce expressed as % full- and part-time
- Workforce expressed by age band

Leadership

- Overall cost of leadership development – evidence of competencies, evaluation, benefits etc.
- Evidence of leadership pipeline and succession planning

Performance improvement

- Commitment to EFQM, Investors in People etc.

Recruitment

- Number recruited and at what levels
- Overall cost of recruitment
- Number black and minority (BME) ethnic groups recruited

With respect to recruitment, consultants SHL argue that the next-generation recruiting solutions, e.g. outsourcing, will offer consistent and effective measures that link recruitment directly to contributions of individuals and the company overall. They consider that there is a value pyramid with regard to recruitment processes, with different metrics applied to each level of value. For example, at

the lowest level – *processing applicant data, sifting out unsuitable candidates and identifying the best candidate(s)* – metrics can be applied to ‘traditional savings’ to demonstrate streamlining, reduced time (therefore staff costs) and less paperwork. Medium-value tasks that are clearly measurable can be tied to savings in terms of reduced churn and recruitment costs, although they still relate directly to the bottom line. High measurable values are those which focus on people, jobs and organizations at every level, and show improved performance, an increased top line and demonstrable enhancements directly related to people (higher sales/greater potential revenue/productivity) and value (profitability/share price). SHL argue that such sustaining organizational value metrics will lead organizations to a long-term Human Capital Management programme.

Training and development

- Overall costs of training and development activities
- Average spend per employee
- Access of staff from minority groups to training and development activities
- Evidence of performance needs analysis against competencies, training design and evaluation
- Personal Development Plans (PDPs) which comply with the business plan
- Training evaluated for impact post event

Performance appraisal

- Percentage held on time
- Succession plans
- Personal development plans achieved

Retention

- Overall percentage of leavers and hard numbers (including trends in specific business areas/departments)
- Percentage of leavers by BME, gender, sexual orientation, disability as a percentage of their numbers within the organization
- If available, cost of turnover overall and per employee
- Average length of service and standard deviations

Staff motivation

- Headlines on staff opinion survey
- Number of grievances, Employment Tribunals

Pay and reward structures

- Details of incentives, to include work–life balance
- Employee support statistics, e.g. health provision/employee facilities

Diversity – percentage of workforce

- From BME groups, by gender, with disability/impairment (as per Disability Discrimination Act), by sexual orientation (where disclosed)
- From each of these groups by organizational level

Absenteeism

- Number of days lost per employee (average)
- Percentage of days lost as a result of stress-related absence

- Total cost to the organization of such absences
- Clear evidence of management of absence
- Provision of occupational health facilities
- Evidence of health and safety and stress management strategies

Ideally, all HR activity should be classified according to the level of importance and impact on the organization (Figure 4.1). This will allow practitioners to determine which activities are core, which are administrative and which are critical. Taking a hard look at which activities must remain an essential part of the HR portfolio and which might be outsourced is a first step. Working out the relative costs and payback periods for the investment made is a next step. Of course, much strategic HR activity, whether it is change management, succession planning, or training and development, has much longer payback periods than the normal business cycle. Nevertheless, the payback of HR activities should result in significant competitive advantage for the organization. Maurice Phelps (1998) of Saratoga Europe suggests that 'payback means measurable improved performance, and for your people that payback can only show through in improved organizational performance'. This means demonstrating an improving performance relationship against others competing in the same markets and servicing the same customers.

This is where HR practitioners who feel obliged to justify their existence need to master the art of collecting and presenting people-related data in a way

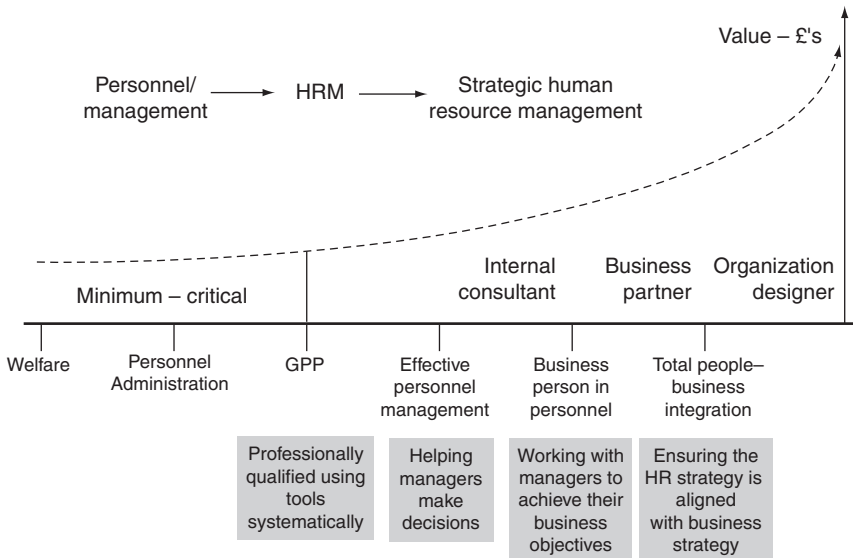


FIGURE 4.1 Moving up the HR ROI scale.

Source: Paul Kearns, *The Bottom Line HR Function* (Chandos, 2001)

which makes clear the business benefits of investing in longer-term returns in order to secure the organization's future viability. Employee behaviour needs to be measured in output terms, so that the links with hard business performance can be understood.

Similarly, HR needs to be able to apply risk management techniques to the different aspects of HR strategies. What would happen if recruitment were not carried out strategically, but dealt with in a stop-gap way? What would be the cost of failing to retain groups of key workers during a period of organizational turbulence? What would be the dangers to the organization of not developing individuals with the organizational knowledge as well as the skills to be the future business leaders? A key area of business partnership for HR is to translate employee-related policies into practice in a way that really makes a difference to the business and its employees. These policies need to help establish the link between what the business aims to achieve and the way in which employees are managed and enabled to achieve those aims. The policies should reflect the organization's strategy at the highest level, with detailed HR goals, targets and measures cascading from this.

BENCHMARKING

Part of the business of data gathering is to know how well your HR provision compares with the 'best' HR practices elsewhere and for this, benchmarking can be a useful tool. Benchmarking gains a bad press when organizations use it for the purposes of copying 'best practice' from one organization and try to apply the ideas wholesale in another. However, benchmarking can be a means of finding out what exactly is meant by 'added value' in different contexts, how this is measured and HR's role in adding that value.

Benchmarking is, in general terms, the comparison of aspects of one organization's business or practices with those of other organizations. It should be an ongoing process of measuring products, services and operating practices against competitors or those considered as market leaders and is very much linked to a philosophy of continuous improvement. Benchmarking is often specifically aimed at comparing product quality so that improvements to one's own processes can be identified and implemented. In some cases, comparisons are made with firms whose products may not be the same. So a computer firm, for example, might compare its indicators with those of a biscuit manufacturer. Aspects of the organization's processes are compared to find where other firms gain speed, efficiency, quality or cost savings from their process.

Benchmarking allows organizations to identify where in their own processes there is duplication, waste or superior practices. Typical areas for benchmarking operations include:

- Customer service levels
- Inventory control

- Inventory management
- Quality process
- Purchasing practices etc.

International companies often benchmark on their perceived company image, especially the value of the brand and the place it occupies in the minds of customers. Benchmarking usually focuses on existing products and services, so at best it might be described as helpful in enabling organizations to catch up with good practice.

If HR and line managers are trying to understand how other firms run their operations, a benchmarking audit can provide useful insights into 'good' practice. Typically, such an audit is based on finding out:

- What does the organization do?
- Who are its customers?
- Where is it located – national, regional, international?
- What is its corporate strategy?

Then explore its operations by looking at:

- Supply-chain linkage
- Quality and just-in-time philosophy and policies
- Forecasting procedures
- Inventory management
- Work environment, physical organization and layout
- Technology used
- Financial status
- Customer relations.

However, benchmarking rarely gives insights into planned future developments which might be modifications of what you are being shown. Despite this, information provided by other companies can often seem impressive to busy line managers. Benchmarking HR services allows you to identify how appropriate your HR provision is to the needs of your business relative to other HR providers, and to position your HR service along a sliding scale. This can then steer you towards useful targets for improvement, and/or supply information which can be used to justify what you propose.

With respect to benchmarking the Human Resource function and activities, it is important to identify the key HR drivers and performance indicators so that a meaningful set of measures can be developed. By gathering internal client feedback about existing HR processes, performance and practices, and documenting these, the critical success factors within the HR function can be prioritized and the appropriate focus for benchmarking can be selected.

The area for benchmarking should be chosen with care. Pick a specific aspect of the HR organization or operation which needs improving. This may be internal client relationships and satisfaction levels, delivery time for a service etc.

Review your own process to fully understand how the current procedures work and choose another organization which excels at that specific aspect. The people who are going to be involved in implementing improvements should be involved in the benchmarking visits. Visits should be short and reciprocal – you should at least be willing to answer questions which you wish to ask the other company. The data provided through benchmarking should be used for internal purposes only and treated as confidential.

HR benchmarking often focuses on issues such as:

- Ratio of HR to line staff
- Management levels of HR staff
- Involvement in management decision-making and types of decision on which HR contribution is sought
- Relationships with line management
- How HR processes operate
- How HR is structured – centrally, decentralized etc.
- Roles of HR staff, e.g. consultancy, administrative – numbers and skill levels of those in roles
- How HR operates as a team, especially in an international organization
- Accuracy rates for aspects of operational HR, e.g. monthly salary operations
- Retention rates for key worker groups
- Percentage of new recruits who are still with the organization after six months
- Forms of succession planning
- Use of technology by HR
- Training provision – types of training provided, percentage of salary bill spent on training, how training budgets are controlled
- Evaluation practices.

Although generally carried out with external organizations, internal benchmarking can also be helpful in large companies for spreading awareness of how good results can and are being achieved in different parts of the business. This can be very relevant to specific areas of HR interest such as spreading good practice on team communication, for example. The use of such internal benchmarks can be motivating for those identified within the organization as having a ‘world-class’ approach to some aspect of people management.

THE SERVICE-PROFIT CHAIN

The link between investment in people, providing technology to support front-line workers, improved training and recruitment practices and profitability is most apparent in service organizations. The ‘new economics of service’ are perhaps most evident in a number of US companies such as Taco Bell and MCI, where a radical shift has occurred in the way they manage and measure success. This involves making customers and employees paramount. The techniques used

assess the impact of employee satisfaction, loyalty and productivity on the value of products and services delivered. This in turn is calibrated against building customer satisfaction and growth of customer loyalty. It has been estimated, for instance, that the lifetime value to a fast-food retailer of a loyal pizza eater can be \$8000. These techniques put a 'hard' financial value on 'soft' measures.

According to a *Harvard Business Review* article by Heskett *et al.* (1994), the service-profit chain clarifies the links between the following:

- Customer loyalty drives profitability and growth
- Customer satisfaction drives customer loyalty
- Value drives customer satisfaction
- Employee productivity drives value
- Employee loyalty drives productivity
- Employee satisfaction drives loyalty
- Internal quality drives employee satisfaction
- Leadership underlies the chain's success.

Leaders of successful service companies emphasize by their words and actions the importance of each employee and customer. In the UK, Julian Richer (1995) has turned Richer Sounds into the biggest and most profitable hi-fi retailer in the country, with the highest sales per square foot of any retailer in the world. Richer's recipe is to recruit the right people, motivate them and provide them with the training they need to provide excellent customer service. He suggests that good management is 'all about achieving the right balance between control and motivation'. In other words, staff are set clear standards and robust procedures. All staff are engaged in continuous improvement through learning. Reward systems are aligned to behaviours which the organization values and wishes to encourage, such as innovation and outstanding customer service. Richer argues that it is possible to achieve a happy balance between strong central control and empowerment – and have both.

So clear is the mandate to staff that customer satisfaction is key to business success that employees are given a degree of freedom in using their initiative to ensure that customers' needs are met. Bureaucracy is kept to an absolute minimum so that speedy action can delight customers. Richer also consults staff widely on business and employee issues. As he tells staff: 'It is your responsibility to tell us what you think. We want to improve the business continually, and we can't do so unless you tell us where we are going wrong.' Employees also have the satisfaction of seeing many of their suggestions implemented.

Performance is measured weekly against a range of criteria including obvious ones such as sales and customer service. Julian Richer and members of his management team personally go through the figures each week with store managers in a third of the shops. Other measures include both positive matters such as whether staff met for suggestion brainstorming sessions, and the number of suggestions from individual employees put through, as well as negative aspects such as absenteeism. Central departments are also measured on their (internal) customer service and problems must be tackled immediately.

In the United States, companies such as Xerox are attempting to quantify customer satisfaction. Xerox has polled customers annually regarding product and service satisfaction using a 5-point scale from 5 (high) to 1 (low). They have found that providing excellent service (gaining a 5) was significantly more likely to lead to repeat business than giving good service (scoring a 4). Xerox aims to create ‘apostles’ who are so delighted with the service they have received that they tell others and convert sceptics. They also want to avoid ‘terrorists’ or unhappy customers who speak out against a poorly delivered service. Other organizations have also calculated that the real ‘cost of quality’ is more dramatically linked to the lost opportunities caused by an unhappy customer spreading bad news about the company than to the loss of that customer alone. Xerox recognizes that the key to customer satisfaction involves ensuring employee satisfaction and giving people the behavioural and other tools they need to do their job.

Human Resource processes and activities can and do affect every element of the service–profit chain. Employee loyalty has a direct cost to businesses when employee turnover is the consequence of a lessening of loyalty. These costs are not only the losses incurred by the cost of recruiting and training replacements but also the loss of productivity and decreased customer satisfaction when valued employees leave. The impact on customer relationships can be huge. Members of the Harvard Business School faculty have put a cumulative loss of at least \$2.5 million in commissions on the unscheduled departure of a valued broker from a securities firm.

Many research surveys, including my own, have suggested that dissatisfied employees are more likely to express the intention to leave a company. Conversely, satisfied employees are more likely to stay. At Sun Microsystems UK employee turnover in a highly competitive labour market was cut to 4% due to imaginative career and other development opportunities and correspondingly high levels of employee satisfaction. Another key factor which drives employee satisfaction is internal quality which links with employees’ perceptions of their ability to meet customer needs. This is where employees have the systems and other resources they need to do their job and where thought is put into identifying how to help employees to provide the most professional service. In some companies dedicated phone lines are used to answer employees’ questions, remedy situations and alert senior managers to potential problems to be addressed.

MCI carried out a study of seven telephone customer service centres and found clear relationships between employee satisfaction, customer satisfaction and customer intentions to continue to use MCI services. Factors relating to job satisfaction included:

- The job itself
- Training
- Pay
- Advancement fairness

- Treatment with respect and dignity
- Teamwork
- Company interest in employee well-being.

All these factors are areas for strategic HR intervention and a shared responsibility between HR and the line.

Another American Company, Taco Bell, a subsidiary of Pepsi-Co, has integrated measurement data about profit by unit, market manager, zone etc. with the results of customer exit interviews. They found that those stores which were the top performers on customer service also outperformed the others on all measures. Consequently, managers' compensation in company-owned stores is now closely linked to both customer satisfaction and profits.

Above all, perhaps the single biggest element underlying the chain's success is leadership commitment to developing a corporate culture which centres around service. Such leaders make their priorities evident in their behaviours, such as spending time listening to customers and employees, and by the attention paid to selecting, tracking and enabling employees to provide excellent service. Corporate value statements about customer service are not enough – senior managers' behaviour and their focus on employees and customers appear to make the difference.

THE SEARS TURNAROUND

Perhaps one of the most well-known examples of a business turnaround using the employee–customer–profit model is that of the US retailer Sears Roebuck and Company, which is documented in a *Harvard Business Review* article by Rucci *et al.* (1998).

In 1992, following a period of steady and serious business losses, the new head of the merchandising group, Arthur Martinez, instituted a turnaround plan which benefited from the willing support of employees who were keen to make the business successful and from the residual loyalty of customers to the Sears brand, despite low levels of customer satisfaction. The company's service strategy was revamped, store operations were reengineered and there was a heavy emphasis on training, incentives and the elimination of unnecessary administration for sales staff. A range of other business initiatives, including Sunday deliveries, contributed to the superb results achieved by 1993 (a sales increase of more than 9% in existing stores and market share gains in a number of major goods).

The initial business turnaround was used as the springboard for more fundamental change so as to avoid the dangers of complacency identified as a primary source of failure of so-called 'excellent' companies by Peters and Waterman (1982). While the turnaround strategy had been implemented in a conventional 'top-down' way, Martinez saw the need to engage managers' and employees' hearts and minds in developing the company's future. A strong driving vision to achieve world-class status was established. The team at headquarters in Phoenix created an algorithm $work \times shop = invest$. This emphasized the point that for

Sears to succeed financially, the stores had to be a compelling place to work (i.e. that employees would be highly motivated) and to shop (that the best merchandise alone would not ensure the company's success). This became known as the three Cs – 'to be a compelling place to work, to shop, to invest'.

Task forces were established to explore issues relating to financial performance, innovation, values, customers and employees. The innovation group did external benchmarking. Employees in the Values group were involved in gathering the views of all 80000 of their colleagues to identify the six core values which Sears employees felt strongly about. These included honesty, trust and respect for the individual. The customer task force studied customer surveys going back several years and found that, broadly speaking, customers wanted Sears to succeed. The employee group conducted a survey and found that employees were generally proud to work for Sears.

The data gathered by all the task forces was used to establish goals, including to build customer loyalty and to provide excellent customer service by hiring and holding on to the best. Measurement was a key feature in ensuring that the turnaround was not a flash in the pan. The task force data provided preliminary measures within each of the three elements of the vision. So, under a *compelling place to work* were measures relating to personal growth and development, empowered teams etc. Under a *compelling place to shop* were measures relating to customer needs being met and customer satisfaction. Under a *compelling place to invest* were financial measures linked to revenue growth, sales per square foot, inventory turnover etc. The Phoenix team wanted to see if there were any links between the three areas of measurement. During 1995 metrics of every kind were gathered and causal pathway modelling applied to establish cause and effect.

The result of this analysis was that clear links were established between employee attitudes and customer service, employee turnover and the likelihood that employees would recommend Sears to their contacts. A key discovery was the positive impact of an employee's ability to see the connection between his or her own role and the company's strategic objectives. Managers began to see how a change in training or business awareness could have a direct impact on revenues. Another key finding was that attitude towards the job and towards the company had a greater effect on employee loyalty and service to customers than all the other dimensions measured. These became the main focus of subsequent ongoing employee surveys which are based on a revised model of the employee–customer–profit chain. The measurement of Total Performance Indicators or TPI has become embedded in the Sears culture.

Having isolated the 'soft' issues which make a difference to the 'hard' business results, Sears can now see that a 5-point improvement in employee attitudes will drive a 1.3-point improvement in customer satisfaction which in turn will lead to a 0.5% improvement in revenue growth. The TPI model has proved sufficiently accurate for Sears that it can be used for predicting business performance – based on employee attitudes.

Measures alone were not sufficient to maintain high performance. A major training and learning initiative was launched to change the perceptions and attitudes of the workforce, help employees understand how the business worked and to improve their own approach to customer service. 'Learning maps' were used which informed employees of the changing economic and social context of retailing. The goal was economic and business literacy. Town hall meetings built on the learning and converted it into action.

Sears management recognized the importance of leadership to the development and maintenance of a high service culture. A leadership model was developed which incorporated every aspect of the transformation, including operational competence. The 15 top executives identified the skills and qualities they looked for in appraising their direct reports and from this data, 12 leadership skills were agreed, to be used as the basis for promotion, recruiting and selecting future leaders. The skills are assessed using 360-degree feedback and form the basis of leadership training. All courses at the Sears University are linked to one or more of the 12 leadership skills and more than 40 000 managers have now been trained.

In a further move to align managers' behaviour to the direction of the company, the rewards and compensation of executives have been altered so that long-term incentives are now based on non-financial as well as financial measures. This is based on the reliability of the TPI as a leading indicator of business performance. These combined efforts to create customer satisfaction through improving employee satisfaction are paying off through handsome increases in revenues and vastly increased market capitalization.

HOW DOES THE ROYAL BANK OF SCOTLAND USE EMPLOYEE ATTITUDE DATA?

The Royal Bank of Scotland (RBS) has built up a powerful reputation for its sophisticated use of employee attitude data to build human capital. I am grateful to Greig Aitken, Head of Human Capital Strategy at RBS, and also to the CIPD, for the following case study which appears in CIPD's *Change Agenda: Reflections on Employee Engagement* (2006).

The RBS Group has over 140 000 staff based in 30 countries. Its brands include NatWest, Direct Line, Tesco Personal Finance, Coutts and Ulster Bank. In an organization of its size, understanding the effectiveness of its people strategy and employee proposition is a strategic imperative. RBS has developed a human capital strategy that provides its business leaders with a detailed understanding of how effective the group is at attracting, engaging and retaining the best people and how its people strategy drives business performance.

At the heart of this approach is RBS's 'human capital toolkit', a comprehensive suite of online resources that provide HR staff with desktop access to a range of diagnostic tools, benchmarking resources, employee research and measurement tools. Together these resources provide RBS businesses with a deeper

understanding of the links between effective people management and superior service and financial performance. This is a sophisticated, business-focused strategy within which employee attitude surveys play a key role.

The human capital toolkit provides consolidated information on the global employee base of RBS and is split into six core elements:

- *Surveys* – these provide access to analysis tools, presentations and action planning support across the group's entire range of employee surveys. This includes joiner, leaver, pulse and employee opinion surveys as well as acquisition surveys and management/leadership effectiveness surveys.
- *Benchmarking* – RBS has developed tailored benchmarking information for each business and function (for example, IT, call centres and head office departments). Forty human capital measures have been benchmarked against RBS's competitors in all their markets (for example, insurance, US credit cards, UK retail banking etc).
- *Research* – this resource provides access to internal research across the group on topics such as call centre performance, performance measures and organizational development. It also offers direct access to external research and employee research partners. HR staff can commission custom research across any HR topic from their desktop – and researchers in Washington and London are used to ensure their questions are answered quickly. Staff can discuss the findings with the researcher.
- *Measurement* – HR staff can investigate the links to business performance themselves by first accessing key metrics derived from HR's global data warehouse. Metrics can be delivered in seconds at a range of levels, from the whole group down to individual cost centres and business units.
- *Reporting* – this gives access to human capital reports on a variety of topics such as absence, staff turnover and diversity. It includes reports to the group's board, executives and senior HR staff, giving a deeper understanding of how key HR issues relate to business performance. Access to all external reports is also provided.
- *Business intelligence* – this is a 'one-stop shop' for business information relating to RBS's competitors and links to RBS business information. It's aimed at keeping HR staff updated with business context and competitor analysis.

A key resource in RBS's human capital strategy is its annual survey of employee attitudes. The 'Your Feedback' survey is delivered to over 140 000 staff in 30 countries in nine languages and is completed online and on paper (depending on business access). RBS conducts this survey anonymously through its survey partner, ISR, to get direct employee feedback and to compare their results to peer. The results are compared to ISR's financial services sector and global high-performing benchmarks, which tell RBS how it is performing against its competitors and provides managers with a powerful tool on which to base decisions. At 86% RBS's response rate for its employee survey is 20% higher than the market average.

The survey results are communicated to internal and external audiences in various ways:

- The chief executive communicates to all staff the group's results and each division delivers local presentations.
- Managers receive online reports relating to their area.
- The results are reflected in continuing employee communication and engagement.
- Results are reflected in discussions with financial analysts and in an annual corporate social responsibility (CSR) report.

Findings on employee engagement can be used to monitor business performance, alongside those on, for example, communication, diversity, leadership and work-life balance.

Managers are also provided with an online survey results toolkit and an action planning booklet so that, at a local level, tangible actions are agreed and targeted:

- This includes the report for their individual business unit, bank branch and so on, as well as broader business results.
- There is detailed analysis, for example, of their top and bottom ten scores and data on how they compare.
- The toolkit provides a capability to automatically generate a tailored PowerPoint presentation for the meeting expected to take place with the manager's team.

As part of its human capital strategy, RBS is an enthusiastic user of peer benchmarking – internal and external – across its employee surveys:

- Managers are able to compare their results against other parts of the group (for example, their call centre compared with the RBS call centre norm and the external call centre norm).
- RBS has pre-selected 24 benchmark groups – by geography, market and business type – to use for external comparison.

Key to the company's success has been cross-business executive support. RBS has established a human capital board to manage its work in this area. Chaired by the Head of Human Capital Strategy, it consists of business executives, HR directors and the group's deputy chief economist. Under the governance of the group's HR leadership team, this board is responsible for prioritizing human capital initiatives based on human impact. The strong support from the group director, HR and his leadership team has been instrumental in setting the human capital agenda, and ensuring the approach continues to receive strong business leadership.

RBS publishes human capital measures in its annual accounts and in its corporate responsibility report. This includes a review of performance, workforce demographics and the results from its global employee survey, together with how RBS is positioned against its peers in each category. The detail that RBS reports externally is extensive and is audited under the ISAE3000 assurance standard by Deloitte, who also audit the group's financial reporting. By reporting how the

people strategy drives business performance, and by sharing the approach to developing a highly rewarding and productive workplace, RBS Group differentiates itself as a great company to work for, invest in and bank with.

STRATEGIC PLANNING IN DOW CORNING

This case study is prepared by Leslie Patterson, HR Director, Dow Corning. Leslie describes how a strategic HR planning framework is used to align business and organizational strategies in Dow Corning.

Dow Corning Company Profile

Created in 1943 by Corning Glass Works (now Corning, Incorporated) and The Dow Chemical Company, Dow Corning was organized to explore the potential of silicones, materials that combine the temperature and chemical resistance of glass and the versatility of plastics. In little more than a half-century, that exploration has resulted in over 10000 products and speciality materials used by about 50000 customers worldwide representing virtually every major industry. Headquarters are in Midland, Michigan, USA, with area headquarters located in Brussels, Belgium, and Tokyo, Japan. Dow Corning has 8300 employees worldwide with 1800 in Europe. In 2000 revenues were \$2.75 bn with a net income of \$104.6 m.

Strategic HR Planning Process

Description

Strategic HR Planning (SHRP) was developed by Professor Wayne Brockbank of the University of Michigan. It looks at the linkages between business strategy and human resource management and assesses the degree to which these are in alignment. The closer the alignment, the better the organizational responsiveness will be and hence the ability to adapt to customer needs and maintain competitive advantage (see Figure 4.2).

Desired Outcomes

- The articulation of the culture, behaviours and competencies which are necessary to ensure successful execution of business strategy.
- The development of a plan of HR initiatives to enable the desired culture, behaviours and competencies to become more prevalent in the organization (see Figure 4.3).

Case Study

In 1993, Dow Corning restructured into three geographic areas (the Americas, Europe and Asia) and two business groups:

- Core Products Business Group (CPBG), to produce the backbone technology, dimethylsiloxane, and deliver fluids, rubber, sealant and silicone at the lowest possible total cost.

- The Advanced Materials Industries Group (AMIG), to grow current sales and profit while focusing on the acceleration of long-term growth of silicon-based materials.

In 1997, the European CPBG general manager approached HR for help with what he believed was a communications problem. He explained that he was

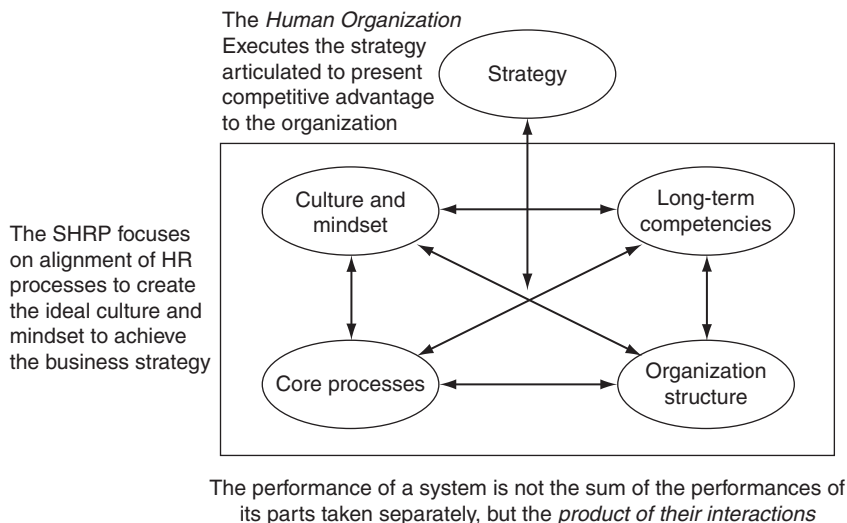


FIGURE 4.2 The components of the ideal human organization.



FIGURE 4.3 The strategic HR planning process.

concerned about the poor perception of CPBG as compared to AMIG and felt the time had come for the CPBG board to take some action to reverse the situation. Examples of what he wanted to change were:

- The AMIG business had a much more positive culture; they called themselves the ‘amigos’, turning their AMIG acronym into an appealing name. How could CPBG do the same?
- CPBG was losing good employees to AMIG and it was becoming difficult to attract high potentials to CPBG. How could CPBG reverse this trend?

In checking whether the same phenomena were occurring in the other geographic areas, several differences were noted. In the Americas, for example, there were more employees leaving AMIG and going to CPBG than in the other direction. Further probing uncovered the following:

- Although CPBG was a global term, the scope in Europe and the Americas was different. The Americas CPBG also included the semiconductor business, the highest growth sector at the time.
- CPBG and AMIG had different measures linked to variable compensation plans: AMIG goals were linked to sales of new products and CPBG’s to manufacturing site quality goals. Pressure from AMIG to get new products out faster had resulted in some manufacturing problems. CPBG ‘blamed’ AMIG for under-performance on CPBG targets while AMIG targets were being met.
- AMIG was generally perceived as the ‘place to be if you want to get on in Dow Corning’. The perception was that AMIG was outperforming CPBG yet the business results did not reflect this.

The main conclusion from the research was that while communications were going to be part of the solution they were not the real problem. It was agreed that it was time to check that the CPBG culture was aligned to the needs of CPBG’s external customers and that the HR processes were providing the appropriate reinforcement and reward. The process used to do this was the HR Strategic Planning Process developed by Professor Wayne Brockbank of the University of Michigan which had already been used with some success with several groups in Dow Corning.

Over the course of several sessions with the CPBG board in 1997–8, the following three organizational characteristics for the CPBG culture and mindset were identified:

- Honest winners
- Confident change agents
- Customer maniacs.

These characteristics were the distillation of many long hours of reflection and discussion. However, not all were unanimously accepted. For instance, the use of ‘maniacs’ caused much debate. For some, this was too strong a word and had negative overtones. For others, it was good because it sent a strong message and attracted attention.

For each characteristic, we then did a gap analysis (on a scale of 1 to 5) of the extent to which it was aligned with the current culture and the impact (high, medium, low) it would have on the key business strategies if it were fully aligned. Table 4.1 is a summary of this assessment.

The next step was to assess the three characteristics against HR practices using a quality function deployment (QFD) analysis to check:

- The degree of alignment *today* (1 = aligned; 3 = not aligned)
- The potential impact if the HR practice were fully aligned (1 = low; 3 = high).

The results are shown in Table 4.2.

At this point in the CPBG process, Dow Corning announced a new corporate direction: to become a customer-driven company. External research showed that key drivers of customer satisfaction were employees who displayed the following behaviours:

Able to build relationships

- Listen, learn and work together with our customers to anticipate their needs

Act with a sense of urgency

- Our customers' priorities are ours: speeding up internal processes is a must

Display a can-do attitude

- Focus the full force of our talents on our customers and 'make things happen'

Act with integrity

- Inspire long-term trust in line with our values.

TABLE 4.1 Integration of organizational characteristics with business strategies

Business strategies	Organizational characteristics		
	Customer maniac	Honest winner	Confident change agent
Business strategy #1	H	H	M
Business strategy #2	H	H	H
Business strategy #3	H	H	M
Business strategy #4	M	H	H
Business strategy #5	L	H	H
Gap analysis	0 – CPBG-wide	2	1
(1 = low; 5 = high)	3 – some parts		

The closeness of the research findings to the three CPBG characteristics did not go unnoticed by the CPBG board and it gave them added confidence that they were on the right track! Indeed, initial discomfort with the use of ‘maniac’ turned into positive acceptance. However, before going into detailed action planning, the CPBG board felt it was time to do a reality check and share their thinking with CPBG employees. These sessions provided useful input on the content but, more importantly, they served as an essential step in change management by engaging CPBG employees in the process and by role modelling the leadership’s interactive approach to communications. Feedback was very positive and typical comments included: ‘These sessions are an indication that the process has started’ and ‘I feel like we are participating in our customer-driven company program’.

The output of the process was a project charter entitled ‘Creating a Customer-Driven Organization in CPBG–Europe’ with the purpose of developing a culture of unswerving devotion to customers and their satisfaction. Specific initiatives covered the HR practices of leadership, appraisal, development and reward and recognition. The subsequent restructuring of the corporation in late 1998/early

TABLE 4.2 Assessment of organizational characteristics against HR practices

HR practices	Impact – honest winner	Impact – customer maniacs	Impact – confident change agents
Recruitment	4	4	6
Promotions	6	9	6
Outplacement/redeployment	9	4	9
Appraisal	6	9	6
Rewards and recognition	9	9	9
Training	6	9	2
Developing	6	9	6
Benchmarking	6	6	3
Communications	9	6	6
IT systems design	?	6	3
Organizational structure	4	6	9
Reengineering	6	9	6
Physical setting	2	4	6
Leadership	6	9	6

Notes

- Rewards and recognition were the only HR practice with ‘9’ in all cells.
- Outplacement (redeployment) which had a ‘9’ for two characteristics.
- Customer maniacs has highest number of 9’s (seven versus three for the other two characteristics) which reflects and reinforces the gap analysis where customer maniacs score.

1999 resulted in the disbandment of the CPBG and AMIG businesses but the pioneering work started by the CPBG board members has continued in the new organization.

Case Study Summary

The work with CPBG provided many benefits and learning at different levels:

- Professor Brockbank's process provided a structured methodology for making tangible and clear to management the linkages between external customers, business strategies, company culture and HR practices.
- CPBG understood that they were not competing with AMIG for the same resources.
- The CPBG board accepted that creation of the appropriate culture to achieve their business goals was a leadership responsibility.
- Completing the Brockbank process was in itself an excellent team building exercise for the CPBG board and illustrated the key role of sponsorship in change management.

Update

In the years following the writing of this case study, the strategic HR planning process became fully integrated into the annual corporate planning and budgeting process at Dow Corning. All business units now complete a critical review of the alignment of business strategy with their human organization and the projects resulting from this SHRP process are prioritized as part of the overall planning process. While the model used is no longer Brockbank's but Noel Tichy's Ideas–Values–Emotional Energy–Edge model,* the fundamental point remains: a key determinant of balanced growth for any organization is its human resource system. For HR, the challenge is to ensure that the HR processes for staffing, performance management, rewards and development which make up the human resource system are mutually reinforcing and aligned to the business direction.

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CONCLUSION

HR is under pressure to demonstrate a payback from HR activities, whether these are team building, innovation or family-friendly initiatives, culture change or total quality management. The extent to which this pressure is felt in any organization is a reflection of the organization's culture. Senior line managers too are under pressure to achieve outstanding performance measured in bottom line terms. The partnership between line and HR needs to result in a workforce with the skills and motivation to help the organization survive and thrive in an increasingly competitive environment.

Senior managers have a vital role in creating an organization which views investment in talent and people management as a source of competitive advantage. In service organizations in particular, managers need to manage their investment in people – both customers and employees – and set both qualitative as well as quantitative measures to assess the impact of that investment. Employee commitment and confidence are key determinants of employee behaviour. Research suggests that these can be measurably improved if managers focus on enabling skills development and creating a community in which employees feel able and willing to give of their best.

HR needs to focus their activity on areas that are critical to the business in the short and medium term. Though I shall argue later that many of HR's critical interventions do not lend themselves to easy measurement in the short term, the extent to which unmeasured activities will continue to be seen as justifiable in the long term is questionable. HR practitioners need to prioritize the areas that will make a difference to their organization and identify, measure and track the effect of the initiatives they put in place to address these. Whichever measurement framework or guiding principle is used, HR should be in a position to identify the few things that must be managed in order to produce the biggest benefits. Profitability depends not only on assigning financial value to 'soft' measures but also on linking those different measures into a complete service-profit picture.

Collaboration between HR and other managers is extremely important. A shared vision and an agreed set of bottom-line objectives are starting points. A joint belief in the vital nature of people-related activities is imperative to an organization's success. Both parties need to recognize that HR activities are crucial to achieving their mutual objectives and ensure that both are involved in the setting of the strategic business, and therefore HR, agenda at an early enough stage. Perhaps then the value of HR's contribution can speak for itself.

*For more detailed description of the model, refer to *Leadership Engine – How Winning Companies Build Leaders at Every Level* by Noel Tichy (Harper Collins 1997), and *Every Business Is a Growth Business* by Noel Tichy and Ram Charan (Times Books 1998).

MEASUREMENT CHECKLISTS

Customer Value

- How does your organization define loyal customers?
- How do you understand changing customer demands and why customers defect?
- Are customer satisfaction data gathered in an objective, consistent and regular way?
- Where are the listening posts for obtaining customer (and employee) feedback in your organization?
- How is information concerning customer satisfaction used to solve customer problems?

- How is information about customers' perceptions of value shared with those responsible for designing a product or service?
- How will changing customer needs affect the competencies required of employees?
- How do you measure service value?

Employee Value

- How do you measure employee productivity? How well does the company deliver on its value proposition to customers?
- How do you create employee loyalty and what is the right level of employee retention?
- Is employee satisfaction measured in ways which can be linked to similar measures of customer satisfaction sufficiently frequently that trends can be established for management use?
- Are employee-selection criteria and methods geared to what customers as well as managers believe to be important?
- Do employees know who their (internal or external) customers are?
- Are employees satisfied with the support (technical and personal) they receive to do their job?
- To what extent are your organization's leaders energetic, participative, good listeners, motivational and able to walk the talk by personally demonstrating the organization's values?
- How much time and effort is put in by senior managers to creating a culture centred around service to customers and fellow employees?

Use of Measurement

- In order to survive, what must your organization do over the next three years?
- How clear are the strategic challenges to the HR team, and employees as a whole?
- Do you use measurement to challenge assumptions, check health or to cause compliance?
- Are the measures used 'lag', i.e. based on standard operating data which assumes the status quo, or 'lead', i.e. are you measuring the areas which you believe will make a difference to the organization in the future?
- To what extent are measures of customer satisfaction, customer loyalty and the quality of service output used to recognize and reward employees?

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