

Management for Professionals

Maike Andresen
Christian Nowak
Editors

Human Resource Management Practices

Assessing Added Value

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Management for Professionals

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Contents

Assessing the Added Value of Human Resource Management Practices	1
Maike Andresen	
Adding Value and HRM Practice	15
Dirk Buyens and Jasmijn Verbrigghe	
Realizing the Highest Value of Investments in Talent Management	31
Mariëlle Sonnenberg and Vera van Zijderveld	
How to Evaluate Employer Brands: A Monetary Approach	53
Pascal Güntürkün, Till Haumann, and Alfred Lukasczyk	
Assessing the Return on Investments in Human Resource Development	69
Cornelia Tonhäuser and Susan Seeber	
The Added Value of Expatriation	89
Yvonne McNulty	
A Look Into the Future: Is Working Time Freedom Apt to Add Value for Different Stakeholders?	107
Maike Andresen	
Creating Value Through Occupational Health Management	125
Karlheinz Sonntag and Ralf Stegmaier	
Investments in Work-Life-Balance Pay Off	147
Manfred Bührmann	
Investing in the Subjective Well-Being of Temporary Workers	163
Susanne Imhof	
Added Value of Employee Financial Participation	181
Erik Poutsma and Eric Kaarsemaker	

Does Employee Downsizing Really Work? 197
Deepak K. Datta and Dynah A. Basuil

Determining Outcomes of HRM Practices 223
Wolfgang Becker, Bianca Brandt, and Harald Eggeling

Assessing the Added Value of Human Resource Management Practices

An Introduction

Maïke Andresen

Abstract

In order to get management to listen and to gain credibility, HR managers would do well to document the added value of HR investments and their impact on firm performance. Highlighting the contribution of HR practices requires us to answer two core questions: What is the added value of investing in HR functions and practices? How can the added value created by HR functions and practices be assessed?

In order to address these central questions, a broad overview of a four-step-approach (ORMM-approach) is given that structures the process of determining the added value of HRM: Based on a definition of outcome variables (O), research/theory-based cause-and-effect-relationships (R) between antecedents and outcome variables need to be modeled. Finally, the added value needs to be assessed by using adequate measures (M) and to be managed (M). Moreover, in view of the broadly discussed theory-practice-gap, it is shown how this edited volume supports both researchers and practitioners in their work by giving an overview of the contributions in this edited book.

1 Human Resource Management Practices and Added Value

The potential added value of human resource management (HRM) to organizations and employees has already been discussed since the mid-1990s (see Legge 1995). Ever since, numerous studies have shown the positive impact of effective HR practices on the financial performance of a company (Paauwe 2009). Yet, in order to add value to the organization's distinctive competencies HR practitioners must strive to do much more than attracting, managing and developing people and

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build competitive advantage through HRM. In order to get management to listen to their advice and to gain credibility, HR managers need to quantify the added value of HR investments on firm performance.

Several publications have since then conceptualized which metrics HR professionals can use in order to empirically demonstrate the link between their practices and firm performance and to quantify the impact (e.g. Cascio and Boudreau 2011). However, the focus so far has been on the financial impact of HR investments, neglecting alternative outcome variables. Moreover, a broader empirical understanding of cause and effect between HR inputs, outcomes and performance, of the resulting consequences for the measurement of these relationships as well as of implications for the assessment of the added value of HRM is still lacking. With the present edited volume *Human Resource Management Practices – Assessing Added Value* we want to address two core questions:

- What is the added value of investing in HR functions and practices?
- How can the added value created by HR functions and practices be assessed?

In the following we give a broad overview of a four-step-approach (ORMM-approach) to structure the process of determining the added value of HRM: Based on a definition of outcome variables (O), cause-and-effect-relationships (R) between antecedents and outcome variables need to be modeled. Finally, the added value needs to be assessed by using adequate measures (M) and to be managed (M). Moreover, in view of the broadly discussed theory-practice-gap, it is shown how this edited volume supports both researchers and practitioners in their work by giving an overview of the contributions of the authors.

2 Indicators of the Added Value of HRM: An Extended View on Outcomes

In order to determine the added value of HRM, the first question to answer – according to the ORMM-approach – is to which outcome variables (O) HR practices should add. Traditionally, financial performance is seen as being the most important outcome variable (Cascio and Boudreau 2011).

This focus on *financial outcomes* is in accordance with Guest's model of HRM (Guest 1997), where the financial result in terms of profits and ROI is the target figure for evaluating HR practices. Financial outcomes again depend on employee performance in terms of e.g., productivity, innovation, quality, or turnover. Employee performance outcomes in turn are the result of employee behaviors, i.e. motivation, co-operation or organizational citizenship. Behavioral outcomes again are the result of HR outcomes, including employee commitment, quality and flexibility, which in turn are impacted by HR practices, especially hiring, training, appraisal, compensation and relations. HR practices need to be in tune with HR strategies which are invariably aligned with organizational strategies. Hence, the strength of Guest's theory of HRM is the indication of inputs and outcomes.

The comparably older Harvard approach of HRM (Beer et al. 1984), by contrast, not only highlights the improvement of *organizational effectiveness* as the ultimate aim of HRM, but also identifies *individual as well as societal well-being* as universally desirable outcomes. Thus, the Harvard approach not only focuses on financial outcomes but enlarges the relevant outcome variables to be considered by social objectives. HRM policy choices are impacted by various stakeholder interests and environmental factors. Albeit determinants and consequences of HR politics are extensively listed, the Harvard approach lacks a coherent theoretical basis for measuring the relationship between HR inputs, outcomes and performance. Particularly the relationship between different outcome variables, i.e. organizational effectiveness and individual and societal well-being, is not specified.

In the present book, value is understood to be added if HR practices produce positive outcomes for at least one of the most important stakeholders (e.g., employees, line managers, customers, investors) and, hence, help the organization to reach its goals and to gain from these actions. This means that not only *economic efficiency*, (organizational performance such as productivity or financial performance), but also *social efficiency* on the individual and societal level (for example, satisfaction indicating performance motivation or well-being indicating performance ability), are both ultimate formal objectives of HRM and, hence, indicators of the added value of HRM. When determining outcome variables, influencing factors need to be taken into account. For example, in order to avoid an oversimplified view of training effectiveness, individual or contextual influences need to be considered in the evaluation of training. An overreliance on financial and accounting measures can be misleading, particularly because not all human resource development programs require justification in monetary terms, but could, for example, be required by law (e.g. trainings in relation to the General Equal Treatment Act in Germany). In sum, this volume is intended to take an interdisciplinary stance and is aimed at examining the link between HR practices and operational/financial as well as attitudinal/behavioral outcomes.

3 Assessing the Added Value of HRM: Not Only the Outcomes, But Also the Processes and Cause-and-Effect-Relationships Are Pivotal

The measurement of the added value of HRM is not limited to the quantification of outcomes but requires – following the logic of the ORMM-approach – profound theory- and evidence-based knowledge of the cause-and-effect-relationships (R) in order to derive management implications. This is all the more important because for most nontrivial HR management problems, especially complex HR problems, no one best way exists (cf. Ford 1994). Different HR practices can yield similar results in terms of workforce performance, productivity, satisfaction, or happiness – in accordance with the principle of equifinality (cf. Gresov and Drazin 1997).

Although both HR models outlined above (Guest, Harvard) delineate important antecedents and outcome variables of HR practices and policies, they are not comprehensive. But again, instead of striving for a perfect model, a preferable aim is to delineate the relationships in a “good enough” model (Schwartz et al. 2002). This simplification makes sense, because even in case of a complete HR model of cause and effects, it may not be fully possible or even be impossible to know how all of the consequences will eventually play out, all the more as these consequences may be interdependent and change over time. Since practices may generate waves of consequences, a measurement of the added value of HR practices is not always (perfectly) feasible.

4 Measuring and Managing the Added Value of HRM: Issues of Prioritization and Maximization

Apart from the determination of outcome variables and the generation of an understanding of cause-and-effect-relationships regarding single HR-practices, a central requirement of the ORMM-approach is the determination of an adequate measurement instrument (M). In this vein, *organizations must strive to not limit themselves to measure what is easiest to measure*. In many ways, measurement systems in practice are like a person looking for the keys where the light is, not where they are most likely to be found: “Under a street lamp there stands a man, slightly intoxicated, who is searching for something. In the lighted area he searches over and over. A policeman comes along, asks him what he is looking for, and the man answers, ‘My keys.’ Now they both search. After a while the policeman wants to know whether the man is sure that he lost his keys here, and the latter answers, “No, not here, back there – but there it is much too dark.” (Watzlawick 1983, pp. 27–28). This means that approximate measures aimed at the right areas may be more instrumental in a measurement system than very sophisticated measures that do not get to the heart of the matter. Referring back to the training example above, it is preferable to get an approximate value of acquired soft skills than to ignore soft skills in the measurement system due to measurement problems. This means that *a measurement system needs to have adequate complexity*, because “If a simple process is applied to complicated data, then only a small portion of that data will be registered, attended to, and made unequivocal. Most of the input will remain untouched and will remain a puzzle to people concerning what is up and why they are unable to manage it.” (Weick 1979, p. 189). In the case of scalable cause-and-effect-relationships, the added value can be quantified and HR practices can be classified as being ‘right’ or ‘wrong’. Based on the concrete measurement results, a decision can be made on whether an HR practice should be perpetuated or abandoned. But since not all cause-and-effect-relationships of HR practices are scalable or they lack unambiguous criteria, alternative ways to assess the added value of HR practices are needed. In contrast to quantification, the assessment will lead to a classification in terms of ‘good (enough)’ and ‘bad’. Even more complex, different stakeholders – as included in the Harvard approach – can be expected to have

differing views of ‘good’ and ‘bad’ HR practices. In this case, HR management decisions become a matter of weighing of interests.

Managing (M) the added value of HRM leads to the questions of (1) priority setting of final objectives, on the one hand, and (2) maximization versus satisfaction of each goal, on the other hand. The first question of *priority setting* results from the pursuit of a duality of outcome variables, as – depending on the concrete context – the two formal objectives of economic and social efficiency can be complementary (partially) competing, or indifferent. Hence, decision rules are needed as to which of the two objectives – if at all – is superior and under which conditions. *Example:* A company set specific targets in terms of profit as well as moral behavior as final objectives. A potential general rule could be compliance with both outcome variables. The added value of a certain HR practice, such as a leadership style, would hence be best if the leadership style facilitates meeting the profit targets while complying with moral values. The added value would be comparably lower if the leadership style allows meeting the objectives in terms of profit but only under the condition of immoral behavior of the superior and/or subordinates. However, in order not to succumb to the threat of mediocrity, the respective ratio of utility and morality needs to be weighed according to the company’s situation. Thus, the company may decide to specify the general rule in a way that in situations of severe financial strain and fundamental restructurings, economic objectives have higher weight, whereas, outside of emergencies, moral objectives are allowed to outweigh economic outcome variables for awhile. In other words, the system is expected to endure situations in which HR practices fulfill moral objectives while sub-optimally or even negatively contributing to economic objectives (Andresen 2009). Thus, the challenge is to achieve the right balance between social and economic goals when interpreting the added value of HR practices.

With respect to the second question of *maximization versus satisfaction of objectives*, the standard economic view calls for the maximal achievement of economic outcomes (e.g. Varian 2010). By contrast, the position regarding maximization of social objectives is ambiguous. Taking the example of happiness as a very timely outcome variable, some researchers recommend maximizing happiness (e.g., Andresen 2009; Layard 2005), whereas others advise against a maximization of employees’ happiness due to the inherent incentive to manipulatively increase this outcome variable by both executive managers (e.g. Frey 2011) and employees themselves in order to avoid any conflict with the management (Osterloh and Frey 2013). Thus, companies need to position themselves.

To summarize, determining the added value of HRM requires a four-step ORMM-approach. In a first step, relevant outcome variables (O) need to be determined. In a second step, a model of cause-and-effect-relationships (R) needs to be outlined. In this model not only antecedents and consequences of HR practices but also the strength of the relationships need to be worked out. To develop the model, scientific research results, i.e. theories and evidence-based results, should be used. In addition, the model can be validated with data from the company in question, if available, and eventually be adapted. In a third and fourth step, the added value of HRM needs to be measured (M) and then managed (M). This means

that the added value of HR practices needs to be controlled medium- and long-term in regard to their effectiveness.

This ideal-typical four-step ORMM-approach presupposes sound knowledge about the state-of-the-art in research, on the one hand, and the ability to transfer this knowledge into action, on the other hand. However, in this respect, the observable theory-practice-gap is problematic.

5 Prerequisites to HR Valuation: Overcoming the Theory-Practice-Gap

Specialist knowledge is a prerequisite to identify, first, the relevant, verifiable antecedents as well as outcome variables connected to specific HR practices and, secondly, to measure the added value of HR practices: (1.) Both theoretical knowledge and evidence-based expertise is essential in order to understand the functional chain related to HR practices. Theories represent fact-based frameworks for describing a phenomenon. They provide a model for understanding human behaviors and thus help HR managers to predict outcomes. Evidence-based management, by contrast, describes the conscientious use of the best and most current scientific evidence available in making decisions about the management of human resources. Evidence-based knowledge might run counter to theoretical assumptions. This is, for example, the case in diversity-related domains where neither the social categorization perspective (Byrne 1971; Tajfel 1969; Tajfel and Turner 1979) nor the information/decision making perspective (van Knippenberg et al. 2004; Williams and O'Reilly 1998) is reliably supported in empirical research. (2.) Sound knowledge of techniques and measurement tools to assess the added value of HR practices is needed. Apart from calculable costs and benefits, hidden costs and benefits or positive and negative externalities also need to be taken into consideration (Domsch and Ladwig 2003). But since some effects in HRM may not be quantifiable, alternative measurement techniques are needed such as qualitative evaluations.

However, these requirements bear several imponderables. With respect to specialist knowledge, research studies showed that practitioners rarely apply theories to practice (Terpstra and Rozell 1997, 1998) and make limited use of the vast behavioral science evidence base relevant to effective management practice (Rousseau and Barends 2011). Moreover, HR managers are assumed to lack an adequate financial and statistical education to handle methods-related questions (Pfeffer 1998). The theory-practice-gap in HRM has led to several barriers from the individual to organizational level in the research and practice domain (see Table 1).

Theories are less likely to be applied to practice by practitioners if they seem to contradict HR managers' assumption grounds and thus are judged absurd and dismissed or if theories do not speak to HR managers' assumption grounds at all, so that theories are deemed irrelevant. Hence, it is most important to leverage HR managers' assumption grounds. Following the law of requisite variety (Ashby 1956), for an HR manager to register the complexity in his environment, the person

Table 1 Barriers explaining a theory-practice-gap in HRM

	Individual level	Structural level
Research-related barriers	<ul style="list-style-type: none"> • Researchers focus on a narrow aspect of specific topics (Short 2006) • Poor communication of research results and presentation of difficult to comprehend statistics by researchers (Brennan 2008) • Output generated by researchers often too abstract, complex and/or not relevant for practitioners; lack of practical implications and guidelines (Gelade 2006; Short 2006) 	<ul style="list-style-type: none"> • Lack of incentives in the system in which researchers currently operate to translate research into practice and to do research that contributes to practice (Ferguson 2005; Lawler 2007)
Practice-related barriers	<ul style="list-style-type: none"> • Perceived pressure of work and lack of time make it difficult for practitioners to take research into account (Brennan 2008; Short 2006) • Lack of competence of practitioners to understand the research findings and/or to implement them (Short 2006) • Managers' reluctance to change (Short 2006) • Practitioners' preference to base their decisions on intuition, experience/expertise and managerial judgment (Gera 2012) 	<ul style="list-style-type: none"> • HR role in the company and perceived (mis-) trust between management and employees may impact the ability to implement effective HR practices (Robinson 2006) • Organizational resistance to change (Robinson 2006) • Costs involved in the implementation of HR practices perceived as part of the long-term gains or purely seen as overhead (Robinson 2006)

must be at least as complex as that environment. Hence, HR managers and students need not only to learn theories that are valid and have received the most empirical support, but also to accumulate an extensive array of concepts and theories that may or may not prove useful in the face of future problems but that enlarge the requisite variety the HR managers can register in their environments. As any theory and conceptual tool has a limited application range, more theories and tools increase the potential to offset some of the blind spots. Moreover, theories are helpful to deal with HR-related problems that are unique, without precedent; thus experience does not help address it (Anderson 2007).

Also, with regard to evidence-based management initiatives, Courtright et al. (2012) found that practitioners struggle to implement these initiatives. This defensive attitude can even be observed when practitioners are well aware that the concepts they are trying to implement are backed by sound research evidence.

6 Researchers' and Practitioners' Contributions to a Clearer View on the Added Value of HRM: About the Edited Volume on *Human Resource Management Practices – Assessing Added Value*

The contributors to this edited volume draw on results from psychological research as well as from management, finance, and management accounting research that allow for the delineating and measurement of the added value of HRM-related decisions to organizational outcomes in a more comprehensive way in order to make best possible management decisions.

This book is targeted at academics and practitioners alike. As a practitioner, failure to be aware of the findings from research is likely to put one (and one's company) at a competitive disadvantage (Rynes et al. 2002). Practitioners shall profit from this book by getting already well-developed research-based answers to current questions in practice. Apart from the transfer of knowledge from research to practice, a transfer of practical experience to research is essential, as "Experience without theory is blind, but theory without experience is mere intellectual play" (Immanuel Kant 1724–1804). The international researchers involved in this book project summarize the state-of-the-art in research with respect to the assessment of the added value of numerous HR practices. These results give at the same time indications about existing limitations.

The structure of this book follows the ORMM-approach. In their chapter '*Adding value and HRM practice – Evidence-based HR*' Dirk Buyens and Jasmijn Verbrigghe lay the foundation and draft the prerequisites for the implementation of the ORMM-approach by outlining how companies should proceed in order to make informed HRM decisions. They argue that although HR has a lot of tools and practices, it still lacks an overarching decision science that defines how organizations can obtain strategic success through their human resources. In order to support companies' informed HRM decision-making, they recommend establishing a tradition of evidence-based HR practices. However, whether HRM succeeds to add value in a particular organization will depend not only on the roles it fulfills or its practices, but also on the way in which HRM is involved in the whole organization, especially the way and the moment in which the HR-department is involved in decision-making processes. Moreover, to remain competitive, the authors recommend that HR stops using over-engineered tools that limit the effectiveness of their HR practices in favor of sufficient HR practices.

In the following chapters, scientifically sound cause-and-effect-relationships (R), reasonable outcome variables (O) and appropriate ways to measure (M) and manage (M) the added value of several specific HR practices are outlined.

Mariëlle Sonnenberg and Vera van Zijderveld analyze '*Intended and unintended effects of talent management practices*'. By combining theory with empirical evidence they discuss relevant outcome variables, outline cause-and-effect-relationships of talent management practices and evaluate the effectiveness of specific (bundles) of talent management practices. In view of these results they argue, first, for an exclusive talent-differentiation strategy in which only certain

employees are seen as talents and specific talent management practices are accessible only to this group and, secondly, for a clear differentiation of an organization's employment deal compared to competitors on talent as the preferable strategy to maximize the added value of investments in talent management.

Pascal Güntürkün, Till Haumann and Alfred Lukaszcyk discuss '*How to evaluate employer brands: A monetary approach*'. To succeed in the ongoing war for talent, a strong employer brand gains a pivotal role for the attraction and retention of talent. However, appropriate key figures to evaluate employer brands and to assess the added value of employer branding are scarce. The authors present a monetary approach to evaluate employer brands in their relevant employee target group and competitive environment. In addition, they investigate the impact of relevant employer branding factors on the monetary employer brand score.

In order to continuously employ their human resources in the best possible way, organizations need to invest in the training and development of their employees. But how many interventions are needed, and which kinds of trainings add most value? *Cornelia Tonhäuser* and *Susan Seeber* focus on the economic added value of HR development in their contribution titled '*Assessing the return on investments in human resource development – Theory and practice*'. The authors claim that, in view of highly complex in-firm structures and environments the reconstruction of causal relationships between educational and training interventions and entrepreneurial success requires highly sophisticated models of evaluation. First, they suggest measuring the added value of HR development by calculating the return on investment and give a detailed overview of the measurement procedure. Both monetary and non-monetary effects are included. Secondly, based on these results they derive implications for the management of HR development. For this purpose they present a theoretical framework for the conduct of in-firm vocational training activities.

Yvonne McNulty gives innovative insights into '*The added value of expatriation – Assessing the return on investment of international assignments*'. She presents results regarding which kinds of international assignments and which types of international assignees add real value. Based on a review of historic definitions and measurement approaches of the expatriate return on investment, she outlines how the return on investment of international assignments should be evaluated in the future.

Maike Andresen takes '*A look into the future: Is working time freedom apt to add value for different stakeholders?*'. 'Working time freedom' or 'results-only work environment' (ROWE) has so far only been implemented in few companies in the US, but rarely in Europe due to legal restrictions. Based on first empirical evidence, theoretical models and expert interviews with a consultant (*Jody Thompson*), who implemented ROWE for the first time at Best Buy in the US, a labor union representative (*Hilde Wagner*) and a researcher (*Nick Kratzer*) from Germany, Maike Andresen analyzes functional and dysfunctional effects for different stakeholders of this total working time flexibility in order to determine its potential added value. While the added value of working time freedom is deemed to be

positive, several management practices are outlined as prerequisites for its success. One of the recommendations concerns occupational health management.

Karlheinz Sonntag and *Ralf Stegmaier* deal with the question of ‘*Creating value through occupational health management*’. Occupational health management aims to create work environments that are healthy and safe and allow employees to rely on resources that make them resilient. The authors present different approaches to promote occupational health and review and discuss research results regarding cause-and-effect-relationships of occupational health management activities and practices. In addition, the impact of occupational health interventions on both social and economic outcome variables, such as well-being or absenteeism, and financial outcomes, expressed as cost savings or cost-benefit ratios, are discussed.

In his chapter ‘*Investments in work-life-balance pay off – The case of Commerzbank AG*’ *Manfred Bührmann*, HR manager at Commerzbank AG, gives a best practice example of how HR practitioners can proceed empirically to demonstrate the link between specific HR practices (here: investments in childcare facilities) and firm performance as well as social outcome variables. Various cause-and-effect-relationships are presented and exemplary figures are provided.

The majority of empirical research in the HRM and performance debate mainly focuses on the core employees (managers and knowledge workers) of organizations (*Janssens and Steyaert 2009*; *Keegan and Boselie 2006*; *Pauwe and Boselie 2005*). Moreover, there is a general lack of attention to the subjective well-being of employees as an additional outcome variable to pure economic measures. Thus, *Susanne Imhof* contributes to the generation of further knowledge in both research gaps by assessing ‘*The added value of investments in the subjective well-being of temporary workers*’. In a cause and effect model, based on theoretical approaches and empirical results, she summarizes positive effects of increased subjective well-being of temporary workers on productivity, organizational citizenship behaviors, health and commitment, as well as negative relations to turnover intention and the risk of counterproductive work behavior.

In his chapter on the *added value of employee financial participation*, *Erik Poutsma* aims at investigating whether profit sharing and employee stock ownership can contribute to value creation. After having elaborated on available forms and incidence of employee financial participation, the author reviews results of empirical research on the impact of using this instrument. Overall, results reveal that employee financial participation is generally associated with positive effects. Moreover, empirical evidence suggests that financial participation is most effective when it is used in conjunction with other practices aimed at fostering the co-ownership of employees.

Deepak K. Datta and *Dynah A. Basuil* ask the question ‘*Does employee downsizing really work? The empirical evidence*’. With a view to contributing to a better understanding of the complex relationship between employee downsizing and firm value, they examined 55 studies. The authors show that the findings are equivocal with very little agreement among researchers on the efficacy of employee downsizing to create organizational value. The authors conclude that with a majority of studies indicating that downsizing does not, on average, result in anticipated

benefits, managers need to pay greater attention to the circumstances under which downsizing might be appropriate.

All of the HR practices outlined above are, of course, interlinked in practice and part of a larger HR system. Thus, an instrument is needed to integrate the different cause-and-effect-relationships and outcome variables in order to understand the overall system and systematics. *Wolfgang Becker, Bianca Brandt and Harald Eggeling* discuss benefits, opportunities and limitations when ‘*Determining outcomes of HRM practices*’. They stress the difficulties in measuring HR practices due to the complexity and multi-causality of the variables relevant in human resource management. The authors present the balanced scorecard as an important means to outline these mechanisms of action and to express the influence of HRM on the corporate level.

Albeit the strength of cause-and-effect-relationships as outlined by the contributors to this edited volume is likely to differ between companies, the results can be used by practitioners to identify potential influencing factors. The strength of the relationships can then be specified for each company using company-specific data. Moreover, as most of the relationships brought about by the authors are relatively stable, the results allow practitioners to deduce measures even without verification with own corporate data.

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Adding Value and HRM Practice

Evidence-Based HR

Dirk Buyens and Jasmijn Verbrigghe

Abstract

We argue that although HR has a lot of tools and practices, it still lacks an overarching decision science that defines how organizations can obtain strategic success through their human resources. In order to support companies' informed HRM decision-making, we recommend establishing a tradition of evidence-based HR practices. Evidence-based HR is a family of practices, combining research evidence with contextual information and individual judgment of HR professionals as essential sources of information. After having reviewed implications for HR practice from scholarly work, economic and societal trends as well as business tools from other managerial domains, we discuss the potential of Talentship as an evidence-based decision science and as a first step towards a general way of thinking to support HR decisions. As such, we believe the present chapter provides a significant contribution to the insights of practitioners and scholars into the further development towards evidence-based HR.

1 Introduction

As a result of 15 years of 'Dave Ulrich' thinking, HR professionals have made big steps towards becoming strategic partners in organizations (Ulrich 1997). Yet, leaders still struggle to make decisions regarding human resources that for sure will generate value. This is due to the lack of an evidence-based HR practice (Rousseau and Barends 2011), keeping companies from making informed human capital decisions. In order to fully develop HR's decision science commonly referred to as 'Talentship' (Boudreau and Ramstad 2002), it is necessary for

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managers and HR professionals to draw on evidence-based findings when making HR decisions. A decision science provides a logical, reliable and consistent framework that enhances decisions about a key resource. Although HR has a lot of tools and practices, it still lacks an overarching decision science, defining how organizations can obtain strategic success through their human resources. So, applying the decision science *Talentship* to HR practice means shifting the primary focus from “providing HR practices and programs” toward “supporting strategic HR decisions”.

The idea of using research evidence to help make managerial decisions is not new, though ‘evidence-based HR’ as a concept is rather new (EBHR; Anguinis and Lengnick-Hall 2012; Rousseau and Barends 2011). Just like evidence-based medicine and evidence-based management, evidence-based HR practice applies a family of approaches to support decision-making, typically building upon four sources of information: academic research findings, contextual circumstances, practitioner expertise and judgment, and the perspectives of stakeholders (Briner et al. 2009; Reay et al. 2009). We describe these sources of information, which eventually lead to an evidence-based HR practice, more in detail below.

First, academic research is the primary sort of evidence with the advantages of rigor and independence. In order to establish an evidence-based HR practice, HR practitioners should be aware of systematically reviewed scientific findings. Second, evidence-based HR is impacted by contextual circumstances. Although some scholars state that the research-practice gap in HR has grown larger over the years (Rynes et al. 2001), societal and economic trends are increasing the potential benefits of collaboration between HR scholars and HR practitioners (Tushman and O’Reilly 2007). Specifically, globalization and enduring crisis have forced HR professionals to actively look for new ideas that can help foster organizational performance (Van de Ven 2007). For example, the quadrant model developed by Ulrich (1997) in close collaboration with HR professionals, has had major impact on HR practice and has helped shape thinking on how HR can add value to organizations.

A third source of information for evidence-based HR, is practitioner expertise and judgment. In the end, evidence-based HR is something done by practitioners and their assessment of the situation, combined with their experience and expertise, offers a valued perspective for making HR decisions. To aid HR practitioners in making informed judgments, the authors of “Beyond HR” (Boudreau and Ramstad 2007) and “Retooling HR” (Boudreau 2010) explain how HR professionals can tailor existing managerial tools in order to make better HR decisions. Since these tools are already familiar to business leaders, they can enhance decision making by allowing a common language between all stakeholders. Fourth, the perspective of people affected by the decision-making process offers a final source of information. Main idea here is that, since each HR intervention is unique, the success of implementing an HR decision will also depend on the preferences and values of all stakeholders involved (Briner et al. 2009). As this source of information very much depends on the specific context, it is difficult to offer standardized guidelines. As such, we do not elaborate on it in this chapter.

In line with the progression towards evidence-based management, recently, several calls have been made to define a general approach or way of thinking that can be applied across HR decisions (e.g., Anguinis and Lengnick-Hall 2012; Rousseau and Barends 2011). Along this line, in this chapter, we want to contribute to HRM practice by offering several evidence-based insights that help make the value of HRM practice more tangible. In the end, HR will only be able to establish its added value with the support of carefully developed tools on the basis of solid research findings.

Below, we first discuss the current state of strategic HR thinking and the specific implications this has brought for HR practice. Second, we argue how societal and economic trends affect HRM practice, which helps setting up a challenging future research agenda for HR scholars. Third, we look at how HR can borrow proven business tools from other managerial domains as a source of information. Finally, we discuss ‘Talentship’ as a decision science for HR, allowing managers and HR professionals to make better business decisions.

2 HRM Theory: Where Did Strategic HR Thinking Bring Us?

In the last decades, HRM has changed dramatically. HR professionals moved from administrators where they negotiate the terms and conditions of work to personnel specialists who have expertise in HR practices like recruiting, compensation and training to business partners (Lievens 2006). In the 1990s, scholars like Spencer (1995), Lawler (1995) and Ulrich (1997) argued that the HR function has to focus on what HRM contributes to the business instead of on the activities it does. This line of reasoning fits with ‘strategic human resource management’-thinking, defined as the link of HRM with strategic goals and objectives in order to improve business performance (Truss and Gratton 1994). Although there is still a long way to go to fully establish the added value of HR, strategic HR thinking has already made some crucial contributions to HR practice, which we describe in more detail below.

2.1 HR Roles and Competencies That Add Value

Spencer (1995) distinguishes three major areas in which HRM can deliver value for the organization. He argues that the relative importance of this added value differs between these three areas. According to Spencer, HRM’s main added value is situated in the strategic domain, secondly in HR-services and, finally, in administration, which offers the least added value. However, costs spend on these three domains are often reversed, implying that HRM has to refocus its activities by outsourcing costly but less value-creating activities, situated in administration and service-delivery. Ulrich provides a different model for the added value of HRM, distinguishing four key roles: management of strategic human resources, management of transformation and change, management of the employees, and

management of the administration of the organization (Ulrich et al. 1995; Ulrich 1997). In his book ‘HR from the outside in’ Ulrich and colleagues (2012) elaborated on this idea by identifying six competence domains that lead to effective HR professionalism by managing both people and business.

The competence domain ‘Credible Activists’ entails creating sustainable business outcomes with insight, sensitivity and impact. As ‘Culture and Change Stewards’ HR professionals coach managers in how their actions shape the company culture and integrate cultural standards into HR practices and processes. Furthermore, they are ‘Talent Managers and Organization Designers’, who have a vision for how the organization can perform now and in the future (i.e., ‘Strategy Architect’). Finally, besides from being ‘Operational Executors’, HR professionals should contribute to the success of a business by knowing the context in which their business operates (i.e., ‘Business Ally’).

So, in order for HR professionals to be successful and increase their added value, they need a combination of various specialized areas of knowledge and specific skills and abilities.

2.2 The Added Value of HR Practices

Asides from studying the roles and competencies of HR, HR scholars have investigated the added value of HR practices. This is in line with a shift from focusing internally on the HR function to what customers and investors need HR to deliver. A number of studies have examined the impact of high performance work systems on firm performance. For example, in their meta-analysis, Becker and Huselid (1998) observed that there is a relationship between HR practices and firm performance. According to their results, firms with the greatest intensity of HR practices have the highest market value per employee and improvement in HR practices can lead to significant increases in market value. A more recent meta-analysis by Jiang et al. (2012) confirms these findings. They conclude that HR practices are related to financial outcomes both directly and indirectly by influencing human capital and employee motivation, as well as voluntary turnover and operational outcomes.

Hence, by interacting with HR scholars, HR practitioners no longer need to persuade business leaders of the added value of HR practices, but are able to convince them based on solid research findings.

2.3 Adding Value Through Organization-Wide Involvement

The added value of HRM in a particular organization will depend not only on the roles it fulfils or its practices, but also on the way in which HRM is involved in the whole organization (Buyens et al. 1997; Buyens and De Vos 1999; Buyens and De Vos 2001). Taking into account decision sciences, the moment at which people intervene in a decision-making process, might determine the power one has to

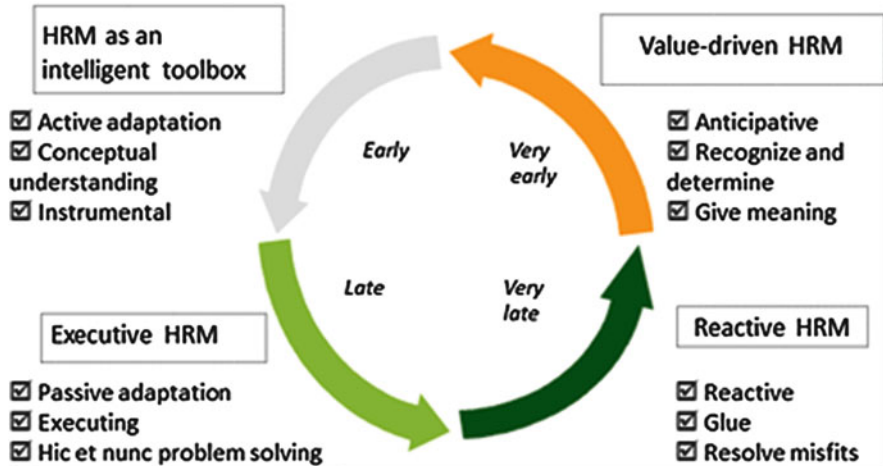


Fig. 1 Involvement of HRM in decision-making processes (Buyens and De Vos 2001)

influence the final decision (Cooke and Slack 1991). Along this line, the study of Buyens and De Vos (2001) demonstrated that the earlier HR professionals are involved in the decision-making processes within their organization, the greater their impact seemed to be on the decisions. That is, being early involved in strategy formulation enhances the chances of HR to have human resource concerns reflected in the strategy (Bennett et al. 1998). Therefore, the stage of involvement is an important indicator of the integration and appreciation of HRM within the organization.

Based on the above reasoning, Buyens and De Vos have developed a model in which the involvement of HRM is represented at different stages of the decision making process (Fig. 1; Buyens and De Vos 2001). The model covers decisions regarding highly diverse HR-issues, ranging from decisions about the HR-strategy to administrative decisions. The four stages of problem definition, development of a solution, implementation and control are the building blocks of our model for the involvement of HRM. Assuming that the decision-making process starts with the observation of a discrepancy between the actual situation and a desired situation, HRM is value-driven if the HR-professional is involved at the first stage of the decision-making process. HRM as an intelligent toolbox refers to the HR-professional who is actively involved in the decision-making process by creating instruments and supporting the line managers responsible for the implementation. If the involvement in a decision is restricted to the implementation of HR-activities without any active input from the HR-professional, it is called executive HRM. Reactive HRM implies that the HR-professional is involved only for controlling the implementation or when solutions don't work out as expected.

Although HRM can deliver value at each stage of the decision-making process, the way and the moment in which the HR-department is involved in decision-

making processes can be considered as an important criterion in the discussion about the added value of HR. More specifically, its perceived added value will be influenced by the integration of HR in diverse areas related with management of human resources, together with its involvement throughout the stages of decision-making processes.

2.4 Conclusion

By presenting solid academic findings and creating new knowledge, HR scholars help HR professionals convince managers of their added value. Looking at HR's evolution over the years, it becomes clear that HR scholars have already contributed significantly to HRM practice. Above, we discussed the contribution of HR scholars by defining the key HR roles and competencies that add value, by investigating the way in which HR practices add significant value and, finally, by looking at how HR can gain involvement throughout the company. However, still a lot needs to be done for HR to prove its value on top of other domains, which will also require HR scholars to go the extra mile. For example, proper to academics, a lot of emphasis is placed on the creation of knowledge, rather than on the diffusion (Boudreau and Ramstad 2007). Also, HR scholars need to keep close ties with practice and know about their key stumbling blocks, in order to help practitioners make the right decisions about people. For sure, HR scholars will also benefit from doing relevant research, as it increases their impact and helps refine conceptual models (Hodgkinson and Rousseau 2009).

3 Global HR Environment: Setting Up a Future Research Agenda

Societal and economic trends, such as globalization, technological evolutions and an increasingly faster business pace, are encouraging managers and HR professionals to look for ways that will help them improve the performance of their organizations (Cascio 2008). HR professionals are being challenged to offer new solutions and, given the current changes, many opportunities exist for HR professionals to increase their impact (Lawler 2005). While some HR professionals take up these challenges, others hold on to tried and tested, bulky methods. In order to fully establish the impact of HR professionals in the future, we believe a further thorough professionalization is needed, with even more attention for translating academic findings into pragmatic, effective tools. Below, we discuss how evolutions in the competitive environment of organizations impact HR practice, which also help define a future research agenda for HR scholars.

3.1 Thinking Globally, Acting Locally

The boundaries between countries and continents are blurring. Organizations are operating more and more globally, which offers several benefits to companies (Lawler and O'Toole 2006). Besides the ability to work 24 h a day, companies are also able to sell their products and services on a global basis (Cascio 2008). This creates a new global world in which organizations must think globally but act locally. As such, HR professionals need to design processes and tools to support competitiveness within the global organization (Gratton 2011; Buyens and De Vos 2001).

Specifically, globalisation affects the way the HR department is organized and how HR practices are designed, integrated, and aligned to business requirements (Ulrich 1997; Boudreau and Ramstad 2002). For example, companies are increasingly setting up corporate HR service centres and centres of expertise, which require a standardization of HR processes. The distance between corporate HR and local HR departments has an impact on the involvement of HR in the organization's decision-making processes (Buyens et al. 1997). Often, corporate HR creates a global list of best practices, in a way restricting what can be done to deliver high-quality HRM, as local HR professionals are expected to choose from this list.

Consequently, globalisation has made organization-wide involvement in decision-making processes even more topical, but more difficult at the same time. And so, a future research topic for HR scholars could be to help define interactions between corporate HR and local HR departments in order to avoid the impact of HR in global organizations being curtailed.

3.2 Changing Business Pace

An important influencing factor for HR practice at the moment is the increasing pace in which companies operate (Welbourne 2011). As time cycles are becoming shorter and the pace of change accelerates, managers and HR professionals need an organization that can respond to both predictable and unpredictable changes (Buyens and De Vos 2001). An important task for HR is to manage this change. Organizations must constantly ensure that the learning rate of their employees matches the rate of change of the environment (Buyens and De Vos 2001), requiring of HR professionals to define an organizational model for change and to help implement this model throughout the whole organization. This way, HR professionals help shape the culture of the organization, enabling a new strategic direction within the company.

The risk for HR is in not going fast enough and then not being able to deliver in time for the business and its stakeholders (Welbourne 2011). HR tends to create big, heavy systems and processes, which slow the organization. So, to remain competitive, it will be key for HR to stop using over-engineered tools that limit the effectiveness of their HR practice (i.e., 'Good-enough' HR versus 'world-class'

HR; Dunn 2010). Research has shown that once a solution can solve 60 % of the client's needs, there is a law of diminishing returns (Hinssen 2010). By adding more elements, the product will be so complex that no one will use it. As a consequence, we believe HR should also use the principle "Good enough beats perfect" as a rule of thumb (Hinssen 2010, p. 49).

Hence, the increasingly faster pace of business is continuously shifting the focus of the HR function. More and more, HR professionals need to be 'Culture and Change Stewards' forcing them to deliver fast service. As a response to this, HR scholars will need to keep monitoring and refining the building blocks of the HR role by maintaining close ties with HR practice and by keeping an eye on environmental trends.

3.3 Technological Evolutions

Technology is dramatically affecting the workplace and the way people work. This implies that managers and HR professionals must explore the beneficial effects of technology to redefine work and the HR function in their organizations (Buyens and De Vos 2001). With regards to the HR role, the implementation of HR strategies, policies and practices in organizations through the use of web-based technology has been termed e-HRM (Ruel et al. 2006). Research has suggested that e-HRM can increase the efficiency of HR activities and improve HR service delivery by offering self-service tools to employees and managers (Lawler 2005; Parry 2011). Additionally, this allows HR to focus on outcome language and determine strategic HR policies by using analytical tools to track data and trends (Lawler 2005).

Although technology has already influenced HR practices significantly, HR professionals are still facing particular challenges. In one of our recent studies where we interviewed over 100 HR professionals, we frequently heard comments on the lack of creative use of new technologies (Buyens et al. 2012). For instance, practitioners are wondering how they can make optimal use of social media. Another difficulty seemed to be that the automation of processes can make HR activities more efficient, but less effective. For example, a lot of organizations are increasingly automating R&S activities which enhances efficiency, but practitioners have the feeling this decreases the quality of candidate experience.

Hence, although there are existing meta-analyses on the added value of HR practices (Becker and Huselid 1998; Jiang et al. 2012), there is not a lot of data on the impact and overall effectiveness of technological evolutions in HR. In order to steer these evolutions in the right strategic direction, HR professionals need new, sound theoretical insights in line with the new HR reality.

3.4 Conclusion

As business challenges become more complex with global, technological and competitive pressures, HR professionals are in constant need of new, clear

evidence-based insights. Above, we highlighted three specific evolutions in the environment of companies and how they impact HR practice. For HR professionals to respond to these evolutions in an adequate way, they require support from HR scholars. However, the effectiveness of partnerships between practitioners and scholars at the moment can be questioned (Briner et al. 2009; Pfeffer and Sutton 2006). It is often the case that HR professionals do not read scholarly journals, nor do they attend academic conferences. On the other hand, HR scholars often do not publish their findings in practitioner-oriented magazines or present them in a transparent way. This has led both parties to develop different assumptions, goals and interests over the years (Rynes et al. 2001). Nevertheless, we believe setting up a clear HR decision science will further develop an evidence-based HR practice and increase future collaboration, which will allow both parties to grow their impact.

4 Retooling HR: Making Better Business Decisions by Using Proven Business Tools

The importance of being involved in decision making processes outside HR (Boudreau and Ramstad 2007; Buyens and De Vos 2001), has significant implications for the way HR defines success. HR professionals must not only create instruments or best practices and support line managers with the implementation, but actually help managers redefine the problem and build a decision framework that allows generating value. Through finance and marketing, concepts such as ROI and customer segmentation have become part of the vocabulary of managers, eventually shifting how managers think about resources like money and customers (Boudreau and Ramstad 2002). For HR to shift how managers think about human resources, HR can take advantage of the logical, straightforward frameworks from other domains and apply them to making HR decisions.

For instance, borrowing from accounting, a body of research has attempted to develop methods to identify and measure the economic value of people to organizations (Flamholtz 1999). This field has come to be known as Human Resource Accounting, which involves measuring the direct and indirect costs to recruit, select, hire, train and develop human assets. Findings from the HR Accounting-domain broaden the perspective of HR practitioners, as they might reveal certain gaps in their reasoning. This was also demonstrated in our study on the R&S process (Buyens et al. 2012). Based on our analysis of qualitative data, it became clear that HR professionals mainly take into account direct acquisition costs, with no clear view on the indirect acquisition costs, nor the learning or separation costs (see Table 1).

Next to this, HR has also borrowed insights from the field of marketing. A growing body of research in HR is related to employer branding, first mentioned by Ambler and Barrow (1996). More and more, marketing concepts like branding have been applied by HR professionals to attract, engage and retain candidates and employees, in the same way that marketing applies these tools to attract and retain customers.

Table 1 Direct and indirect costs of the R&S process (Buyens et al. 2012)

	Direct costs	Indirect costs
Acquisition costs	“We expect 5.500 to 6.000 € for recruitment of new employees. We consider the announcement of the ad, search selection activities. This does not involve the salary cost of the recruiter.”	?
Training costs	?	?
Separation costs	?	?

Borrowing from other domains allows HR to share a common mental model with business leaders (Boudreau and Ziskin 2011). A mental model is an explanation of someone’s thought process about how something works in the real world (Klimoski and Mohammed 1994). Since managers are already familiar with logical frameworks and tools from disciplines outside HR, mental model theory suggests it may be useful to draw upon those tools and frameworks to improve the quality and usefulness of mental models regarding HR decisions (Boudreau and Ziskin 2011). Following this line of reasoning, we describe three specific examples more in-depth below, demonstrating how HR can take advantage of the logical, straight-forward frameworks from other domains.

4.1 From Balanced Scorecard to HR Scorecard

The balanced scorecard is a strategy performance management tool that can be used by managers to keep track of performance at different levels (Kaplan and Norton 1992). Since its development, the balanced scorecard has evolved towards an effective framework that provides a roadmap for strategy execution. Building on the proven balanced scorecard model, Becker et al. (2001) describe the implementation of an HR scorecard. In their view, HR professionals should develop a measurement system, demonstrating the impact of HR on business performance. This will allow managers to understand exactly how people create value and how to measure the value-creation process. And it will also allow HR professionals to measure their contribution, so they could be at the table and not on the table (Buyens and Davidson 2010). Just like the balanced scorecard, the HR scorecard encompasses measures of customers, internal processes, learning, and growth besides from traditional financial measures, moving HR from focusing on doables to deliverables.

4.2 From the Boston Consultancy Matrix to the Nine-Box Grid

The Boston Consultancy Matrix is developed as an analytical tool in brand marketing, strategic management and portfolio analysis and helps companies allocate

resources to their products or business units (Henderson 1970). The matrix is built up of two axes, namely the market share and growth rate of products or business units. These axes give shape to four quadrants that entail a different investment strategy: cash cows, dogs, stars and question marks. A similar framework is the McKinsey nine-box framework, also developed in the early 1970s. Rather than relying on the prediction of how products or business units will evolve, this tool allows companies to judge a product or business unit by the attractiveness of the industry and the competitive strength within that industry (Coyne 2008). Motivated by the success of this tool, McKinsey also applied this framework to making investments in employees. This latter framework is what we now refer to as a 'nine-box grid' in talent management and was originally developed for GE (Lawler 2008; Morrison 2010).

Originating from the Boston Consultancy Matrix, the 'nine-box grid' in talent management is a matrix tool that is used to categorize a company's talent pool, based on two factors, which most commonly are performance and potential (Lawler 2008). Performance can be estimated by looking at performance reviews, potential refers to an individual's ability to grow one or more levels in a managerial or professional capacity. Nine-box grids are actively used during the talent review process. During this process, a group of managers work together to place individuals on the axes to help identify who are the highest potential individuals, who needs development, and who needs coaching on performance improvement. These multiple perspectives provide a balanced view of an employee's skills and growth areas.

4.3 From Total Cost of Ownership to Total Cost of Employership

Total Cost of Ownership (TCO) is a financial estimate which helps managers determine direct and indirect costs of a product or system (Bruggeman and Slagmulder 2001). Similarly, this concept can be applied to HR, providing a cost basis for determining the value of an investment in HR activities. In a previous study, we put the costs of R&S practices against the 'Total Cost of Employership' (ToCoErs) index (Buyens et al. 2012). In analogy to the 'Total Cost of Ownership' analysis, we developed a simple index comprising five different elements: (1) the total budget of the HR sourcing department including payroll and operational costs (IBHR), (2) the total external budget of the HR sourcing department containing all annual 'out of pocket' costs related to recruitment and selection activities (EBHR), (3) the total number of recruits annually, expressed in number of people, (4) the average cost of an employee to an employer, and, finally, (5) the average tenure within the organization, expressed in number of service years. Combining these indicators results in the following ratio:

$$\text{Total Cost of Employership} = \frac{\text{EBHR} + \text{IBHR}}{\# \text{ hirings}} + [\bar{X} \text{ labor cost}] \times (\bar{Y} \text{ tenure})]$$

This ratio indicates the average total cost of a new hire. Assuming that, if it is the right candidate for the organization, he/she reaches an average number of service years and entails an average labor cost to the employer. Box 1 further illustrates the use of the ToCoErs.

Box 1

Illustration of the ToCoErs Index (Buyens et al. 2012)

The company 'Unosmall' is a medium-sized knowledge company employing 220 people. Five (5) employees (FTE's) work at the HR department, and two (2) of them are responsible for sourcing. Unosmall has about 35 vacancies each year. The annual internal HR sourcing budget is 150.000 €, they spend 60.000 € externally on 'HR sourcing at large'. The average tenure in the company is 12 years. The labor cost (cost to the employer) per employee averages 75.000 per year. This results in the following ratio:

$$\text{ToCoErs index} = \frac{150.000 + 60.000}{35} + (75.000 \times 12) = 906.000 \text{ Euro}$$

The latter figure represents the Total Cost of Employership for an employee with an average wage and 12 years of service. The total hiring cost, which amounts to 6.000 €, only represents 0.6 % of the ToCoErs. In other words, only a very small proportion of the ToCoErs is determined by the hiring costs. Even if we would double the investment costs in R&S-activities, it would still only amount to 1.2 % of the ToCoErs over a period of 12 years.

4.4 Conclusion

Next to academic findings and changes in the environment of organizations, the experience and judgements of HR practitioners is an important source of information for evidence-based HR. To increase the effectiveness of the judgements and decisions made, Boudreau and Ramstad (2007) suggest HR professionals to tailor existing managerial tools in order to make better HR decisions. That is, taking elements from the mental models of other disciplines and retooling them to apply to HR decisions may enhance HR mental models and their capacity to make use of evidence. Above, we illustrated three specific tools HR can borrow from other managerial domains. These, and other tools allow a common language, which can help shift how managers think about human resources. In the end, making informed decisions based on scientific findings, while keeping in mind contextual circumstances and with the support of face valid tools, will help build HR's evidence-based decision science.

5 Talentship: Towards an Evidence-Based HR Practice

Each time an HR practitioner makes a decision, solves a problem, or introduces a set of practices, the intervention is unique (Briner et al. 2009). In the absence of an evidence-based approach, practitioners typically apply intuitive mental models to new HR situations (e.g. Rousseau and Barends 2011). This is even the case when practitioners know about the evidence (Pfeffer and Sutton 2006). In recruiting, for example, it is more and more known that unstructured interviews are far less effective than more structured approaches, and yet many managers still prefer unstructured interviews (Buyens et al. 2012). At the same time, HR departments are criticized for following the latest fads, moving rapidly from one new programme to another (e.g., from competency management to talent management; Gibson and Tesone 2001). Rynes et al. (2007) stress that to truly bridge theory and practice in HRM, managers must acknowledge and implement scientific evidence with the support of pragmatic, evidence-based tools.

Starting from this premise, the future of HRM lies in improving its ability to make decisions based on evidence. In 2002, Boudreau and Ramstad coined the term ‘Talentship’ to refer to HR’s decision science, stating that “Talentship stands to HR like marketing to sales and like finance to accounting” (p. 10). A decision science provides a logical, reliable and consistent framework that enhances decisions about a key resource. For example, finance can be seen as the decision science for financial resources, which helps define strategic success by allocating financial resources to the areas of highest return on investment. A second example is marketing, the decision science for customer resources, defining strategic success as allocating product resources to the customers with the greatest impact on the organization’s competitive success (Boudreau and Ramstad 2007). Although HR has a lot of tools and practices, it still lacks an overarching decision science, defining how organizations can obtain strategic success through their human resources.

Boudreau and Ramstad (2002) use the metaphor of a bridge to describe the linking elements between decisions in human resources and sustainable strategic success. The three anchor points of their model are efficiency, effectiveness and impact. Efficiency looks at the level and quality of HR practices in relation to the resources spent. Effectiveness takes a broader perspective, focusing on the relationship between HR practices and the quality of human capital. Finally, impact takes an even broader perspective in examining the relationship between the changes in the quality of the human capital and the competitive success of the company. The linking elements in the model can be used to define HRM measures, which give a view on the added value of HR.

In other words, the added value of HRM in a particular organization will not merely depend on its efficiency or the roles it fulfils, but also on the way in which HRM is involved in the whole organization (Boudreau and Ramstad 2002; Buyens and De Vos 2001). HR’s perceived added value will be influenced by its integration in diverse areas related to management of human resources, together with its involvement throughout the stages of decision-making processes. After all, just

like in finance and marketing, the majority of decisions that impact human capital are made by managers outside HR functions. So, the greatest opportunity to improve HR decisions is by having an impact on decision making processes and improving those decisions that are made outside the HR function.

For HR to have an impact on the decisions made by managers outside the HR function, they need to educate managers about the quality of their talent decisions. Traditionally, HR has been defined in terms of persuading others to apply a certain initiative or HR programme (Boudreau and Ziskin 2011). However, often, there has been no clear view on the return on investment of these initiatives or programmes, while they take a significant amount of time, money and energy from managers and employees. Evidence-based HR, on the other hand, is defined more by education than persuasion (Boudreau and Ziskin 2011), allowing practitioners to make informed HR decisions.

In this chapter, we displayed how evidence-based HR is already happening in a number of ways, although it is a radical change from HR 'as usual' (Rousseau and Barends 2011). We demonstrated that evidence-based HR is a family of practices, combining research evidence with contextual information and individual judgement of HR professionals. Although HR research is already well developed at the moment, with bodies of evidence related to the main HR domains, there are still quite some gaps. This makes that HR practitioners are in need of new evidence-based findings. Current challenges in the environment of organizations increase this need even more. Moreover, HR practitioners require an overall framework, a general approach or way of thinking to support all HR decisions. The definition of HR's evidence-based decision science, Talentship, can be seen as an important first step in this regard. All stakeholders can play a part in further building Talentship. As such, we believe the present chapter provides a significant contribution to the insights of practitioners and scholars into the further development towards evidence-based HR.

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Realizing the Highest Value of Investments in Talent Management

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Abstract

In this chapter, we present research-based insights into where and how, and under what circumstances, Talent Management (TM) adds value for an organization. Since 2008, we have been performing a regular large-scale TM study to investigate the value of TM where we combine academic concepts and extensive practice-oriented analytical procedures. A total of 2,660 respondents within 21 large internationally oriented organizations in Europe participated. The outcomes show that organizations experience difficulties in effectively designing TM. In this chapter, we provide avenues for resolving this. We provide clarity on the components of an effective talent definition and strategy, and explain why an exclusive talent-differentiation strategy is preferable. We explain why it is extremely important that all relevant stakeholders have the right perceptions of this definition and the differentiation strategy. More than ever, it is today important to show the financial value of investments in what are often specific and expensive TM practices. We show the advantage of using analytics to enhance the effect that both current and future TM investments have on the attitudes and behaviors, such as intention to leave and commitment, of relevant employees. These are variables that can easily be transformed into a financial business case. TM does not necessarily involve investing in standard TM practices; there are many alternatives that are worth considering, such as investing in individualized arrangements (i-deals) and improving employees' opportunities to perform. Also it is recommended to clearly differentiate the organization's employment deal compared to competitors on talent. Based on

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our research, we provide insights that could enable organizations to maximize the value of their TM approaches and be well prepared for the future.

1 Introduction

Talent Management (TM) is increasingly seen as a strategic priority for organizations, but one that comes with many challenges (Farndale et al. 2010). Organizations are suffering from the downturn in the economy at the same time as they have to deal with the impact of changing demographics, globalization, and rising skill shortages in their talent population (e.g., Cheese et al. 2009; Collings and Mellahi 2009). As a result, organizations search for better ways to find, develop, motivate, and retain talent. An essential component in realizing this is to have data-driven insights into what existing and potential employees value in their employment relationship, now and in the future.

Employees' wishes concerning their employment relationships are changing. For example, increasing numbers of employees are engaging in flexible working relationships, they shift more easily from employer to employer, and they desire more customization/individualization in their employment relationship (e.g., Cheese et al. 2008; Rousseau 2001). It is therefore becoming increasingly important to have a clear understanding of what drives current and future talented employees and of how to manage their perceptions, attitudes, and behaviors to achieve maximum value.

In this chapter, we present research-based ideas on where and how TM can add value, now and in the future, and provide insight into the drivers of employees. We first present an overview of the research design and the data on which we base our reasoning. After that, we focus on key considerations in defining a TM strategy. Organizations vary in their definition of talent and the degree to which they make a distinction between 'talented' and 'other' employees explicit. For most organizations, the impact on employees is unknown. In attempting to fill this void through research, we discuss the effects of talent and the differentiation strategies of an organization on the employment relationship.

Focused, fact-based, and aligned investments in TM practices are rare since organizations often find it hard to build a business case for TM. The use of relatively simple analytics can help you make the right TM choices for your organization. The data needed are relatively easy to obtain, whilst the added value of analysis will be apparent throughout this chapter. Since this is an area with a huge potential for value creation, we will present our ideas on making data-driven choices over investments in TM practices.

Repeatedly, research and experience have shown that organizations experience difficulties with designing TM such that it is fit for the future. To truly compete in terms of talent, an organization must be prepared to do more than just fill in gaps by adding people and offering standard TM programs. In the next section, we therefore provide several ideas on which one can focus to ensure that a TM approach is

future-proof, such as improving employees' opportunities to perform and negotiating i-deals.

Managing talents effectively enables organizations to realize excellent performance, not only in the short term but especially in the longer term. Our hope is that the findings presented in this chapter serve as an inspiration and give focus to TM in your organization.

2 Research Design

The empirical study involves a sample of 21 large (more than 1,800 FTE) internationally oriented organizations in Europe in a range of public and private sectors, such as logistics and transport, business services, life sciences, and financial services. Our eligibility criteria were primarily related to size: organizations had to be sufficiently large to provide at least 100 talented employees, have an international orientation, and dedicate attention to TM.

The data collection took place between 2008 and 2012 and involved interviews with the TM executive of each organization plus an online survey among employees of the participating organizations. The TM executive of each participating organization was asked to supply two lists of employees: one including at least 100 employees that the organization considered 'talents' (we did not provide a definition) and a reference group consisting of at least 100 'other' employees. This number of employees per group was chosen as large enough to represent the population of talents in an organization while minimizing business disruption.

Both groups, as defined by the TM executives, received an identical online questionnaire. Although the links provided differed, this was not visible to the respondents. The online survey included questions about demographic characteristics, their type of employment relationship, the desired work relationship, work attitudes, TM practices, and the talent-differentiation strategy.

A total of 2,660 employees responded to the survey. Most of the respondents were male (69 %), highly educated (87 %), Dutch (88 %), and enjoyed a permanent contract (94 %). Of the respondents, 44 % had been defined, by their TM executive, as talents and 56 % as other employees. The majority of the respondents (70 %) perceived the talent-differentiation strategy applied as exclusive, rather than inclusive (30 %). Alongside being asked about their organization's approach to talent distinction, all the respondents were asked whether they perceived themselves as a talent in their organization. Most employees (88 % overall: 94 % of the 'talents' and 84 % of the 'others') in fact considered themselves as a talent for their organization. In the case of the 'other' employees, we know that the participating organizations see things very differently.

Twenty TM practices were included in this study (18 based on CIPD 2006; plus 2 taken from Hewitt 2008). These were internal coaching, external coaching, mentoring and buddying, in-house development programs, high-potential development schemes, graduate-level development programs, cross-functional job

assignments, internal secondments (i.e. a temporary transfer to another job or post within the same organization), external secondments (i.e. a temporary transfer for a temporary assignment outside their organization), job rotation, job shadowing, courses at external institutions, MBAs, development centers, succession planning, assessment centers, 360-degree feedback, action-learning sets, vitality programs and special projects.

In line with Lai et al. (2009), i-deals are operationalized by asking respondents whether or not they have a special agreement or arrangement with their employer that deviates from the standard regulations. I-deals were described as “*the kind of requests that individual workers make to their employer to obtain atypical or non-standard employment arrangements. These requests cover a host of issues from working conditions (e.g., schedule, working at home), development opportunities (e.g., special training, assignments) as well as other benefits*” (Lai et al. 2009, p. 550). The question was formulated to receive either a ‘yes’ or a ‘no’ answer.

In line with Ng and Feldman (2008), psychological-contract unreplicability was measured in terms of the following six employer obligations: level of pay, advancement opportunities, skill training, career development opportunities, job security, and support with personal problems. Respondents were asked to what extent they agree with the statement “*This organization promises me... that other organizations are unlikely to provide*” (on a five-point Likert scale: 1 = absolutely do not agree, 5 = fully agree). An average score across the individual items was calculated for each respondent, with high scores indicating a high perceived contract unreplicability. The Cronbach alpha was .75.

Psychological-contract fulfillment was operationalized using the Tilburg psychological-contract questionnaire developed by Freese (2007). Psychological-contract fulfillment was measured using eight items. Respondents were asked to what extent their employer fulfilled the employer obligations listed. These obligations covered eight domains: job content, career development, social atmosphere, organizational policies, work-life balance, rewards, and in-role and extra-role behaviors. The items were rated on a five-point Likert scale, ranging from 1 = ‘not at all’ to 5 = ‘a very great extent’. Higher scores indicate a higher degree of perceived psychological-contract fulfillment. A factor analysis confirmed that these items belonged to a single scale. The Cronbach’s alpha was .82.

Affective commitment was measured using the Affective Commitment Questionnaire (ACQ) questions by Allen and Meyer as presented in the Tilburg Psychological Contract Questionnaire (Freese 2007). The scale consists of seven items on a five-point Likert-type scale (with answers ranging from 1 = totally disagree to 5 = fully agree). These items were measured by asking the question: “*To what extent do the following statements apply to you?*”. Example items are ‘I am extremely glad that I chose to work for this organization’ and ‘I don’t feel part of this organization (reverse item)’. The Cronbach alpha calculated from the responses to these seven items was .85.

Turnover intention was measured using the Tilburg Psychological Contract Questionnaire (Freese 2007). The scale includes eight items that assess an

employee's tendency to remain in the organization. Respondents are asked to indicate on a five-point Likert scale (1 = I totally disagree, 5 = I fully agree) to what extent they agree with each statement. Example items are 'I often think about quitting' and 'I would leave this organization if I was offered the same job in another organization'. The Cronbach alpha calculated from the responses was .85.

Employability was measured using 17 items from de Vos et al. (2011). The scale consists of two components of employability, self-perceived employability ($\alpha = .82$) and perceived marketability ($\alpha = .75$). Self-perceived employability was measured using 11 items from de Vos et al. (2011) on a 5-point Likert scale. Example statements are "I consider myself competent to provide information on my work in a way that is comprehensible; "I can easily adapt to changes in my workplace". Perceived marketability was assessed by six items which were based on the scale of Eby et al. (2003). Items regard the extent to which respondents believed to have the necessary capabilities and expertise to adequately perform various tasks and responsibilities of a job (e.g. "*I consider myself competent to provide information on my work in a way that is comprehensible*").

Measurement of well-being was operationalized by the use of two scales of affective well-being at work: (1) anxiety-contentment and (2) depression-enthusiasm, developed by Warr (1990). Measurement of employees' 'work related anxiety-contentment' was assessed by questions regarding feelings of for instance tension and unease regarding their job. For 'work related depression enthusiasm' respondents were asked about work-related feeling of for instance depression and gloominess regarding their job. The two scales were combined into one scale in which all individual scores ranged from (1) 'never' to (6) 'all the time'. The Cronbach alpha calculated from the responses was .85.

3 Key Considerations in Defining a Talent Management Strategy

High performing organizations ensure they have the best talent on board, and this is widely seen as a key differentiator and source of competitive advantage. Many business leaders even regard the search for talent as the single most important managerial concern of the present decade (e.g. Thunnissen et al. 2013). However, when asked, the relevant representatives of an organization (such as talent managers, human resource managers, line managers, and employees) often have a hard time in giving the definition of talent used within their organization. Logically, a starting point in determining a valuable TM approach is the definition of the concept of talent.

4 Talent Definition

There is no universally accepted definition of talent, which makes it a subject with many perspectives and perceptions. When an organization's executive defines talent, it is usually defined in broad terms and linked to a specific function, sector, and industry (e.g. Tansley 2011). Whatever talent definition an organization uses, one would expect these 'talents' to score highly on the criteria used in the Resource Based View of the firm (Barney 1991; in Paauwe 2004): that is they are *valuable, rare, inimitable, and non-substitutable*. TM is concerned with attracting, involving, and retaining these valuable, rare, inimitable, and non-substitutable employees, and can be defined as the "*additional management processes and opportunities that are made available to people in the organisation who are considered to be 'talent'*" (Blass 2007, p. 5).

Not all organizations have a single specific definition of the term talent (Blass 2007). Even if there is a definition, this definition might vary between different functions, levels, parts of the organization, and can change over time. Certainly, talent definitions vary within an organization. This is for valid reasons that stem from the differing business performance criteria. Situations differ within an organization but, without a unique definition of talent, many different perspectives on what constitutes talent arise, creating a lot of confusion that impacts on the actual value of investments in TM.

Although it might not always seem the case, in reality, most organizations do make some form of distinction and various stakeholders implicitly have an understanding of who the 'talents' in their organization are. Further, many organizations that do make an explicit distinction tend not to label a specific group as talents. Labels such as 'high-potentials' and 'high-performers', or some combination of the two, are widely used (e.g., Blass 2007; CIPD 2007; Tansley 2011). 'High-potentials' have been defined as employees who have the ability, engagement, and aspiration to become future leaders of the organization. 'High-performers' could be those who have already shown these kinds of attitudes, skills, and behaviors (Wang-Cowham et al. 2012). However, environments change and so do the requirements for being seen as a high performer or having a high potential. A further complication is that current behavior is not necessarily a good predictor of future behavior.

In practice, this leads to difficulties as the talent identification process often changes more slowly than the environment does. This can lead to different meanings of the term 'talent' and different labelling of an individual at the same point in time. Also, when it comes to defining talent for a specific organization (or a function therein), many actors are involved such as talent managers, human resource managers, line managers, and employees who might all have different perspectives on the meaning of the term talent.

All this creates the possibility of misconceptions between the employee and the organization as to who is considered as a talent. Discrepancies between conceptions of talent have negative consequences for organizations in terms of reduced commitment and increased turnover of key talent, and associated costs including

additional employment and training costs (Loi et al. 2006; Sonnenberg and Van Zijderveld 2014a). Our results show that 88 % of the employees in our sample considered themselves as part of the ‘talent’ of their specific organizations. We know that for the 84 % of the ‘other’ employees who saw themselves as such, that their organizations saw things differently. What is the consequence of the ‘wrong’ group of employees perceiving themselves as talent and would be treated as such by their employer. The value of investing in TM could become negative: investing in an unintended group of employees, and thereby creating misperceptions and false expectations, can be hugely expensive and devastating. Additionally imagine that the talented employees, who were the intended group, will not perceive any investment being made in them, and the consequence will be that the organization misses out on an opportunity to improve the performance, the commitment, and other favorable outcomes of this group. This clearly should be avoided. In order to have the desired impact on employees’ attitudes and behaviors, it is essential that employees’ perceptions are in line with those of the organization. Although it can be beneficial not to adopt a universal definition of the term talent, it is important that the various stakeholders adopt the same perspective for each specific situation.

5 Talent-Differentiation Strategies

A key question in the TM debate is whether a talent-differentiation strategy should be inclusive or exclusive. In an inclusive strategy, all employees are seen as talent and all have access to the same TM practices whereas, in an exclusive strategy, certain employees are seen as talents and specific TM practices are accessible only to this group. Traditionally, the exclusive approach is the dominant strategy in managing talent. However, the inclusive perspective is gaining popularity (Cheese et al. 2008; CIPD 2006).

In an exclusive talent-differentiation strategy, organizations explicitly define the employees they perceive as crucial for the organization (the ‘talents’). Those employees are offered special developmental opportunities (Blass 2007) such as development programs, coaching, MBA opportunities, and succession planning (CIPD 2006). They receive special treatment compared to other employees. According to CIPD (2006, p. 2) such an exclusive strategy often focuses on “*one or two segments (or talent pools) of the workforce who are either at the top, or who are identified as having the potential to get to the top, by demonstrating high levels of potential or performance*”. Blass (2007) illustrates how the focus is often on top performers, high potentials, senior managers suitable for director positions, or people suitable for other critical roles in the organization. Similarly, Garrow and Hirsch (2008) argue that, in effective talent-differentiation strategies, the focus is often on employees with the potential to take another career step, on employees with leadership potential, on functional or professional groups, or on specific critical posts that are hard to fill. As note earlier, there is no single best/universalistic definition of talent, so the focus of an exclusive strategy will differ between organizations and parts of organizations.

Arguments in favor of an exclusive talent-differentiation approach stem from the idea that for sustained competitive advantage it is more important/effective to focus on managing those specific employees that are key to realizing the strategy than to manage all employees. Boudreau and Ramstad (2007) and Cascio and Boudreau (2011), for instance, made cases for investing in so-called pivotal talent pools, i.e. those jobs or groups of jobs where small improvements in quality or quantity lead to large returns in terms of measures of strategic interest. Investing in these specific groups of employees is shown to have a greater impact in terms of increasing operational productivity, as well as sales and profits, compared to investments in all employees.

Arguments in favor of an inclusive talent-differentiation strategy often stem from the (idealistic?) view that all employees possess some talents that are valuable for the organization, and that it is therefore most effective for the organization to focus on developing the talents of all its employees (CIPD 2006). Others argue that the negative consequences associated with an exclusive approach are too high. According to Guthridge et al. (2008) and to Walker and Larocco (2002) such an approach can damage the morale of the rest of the employees and, as a result, overall performance. In addition, they highlight the risk of selecting the wrong people in an exclusive talent-differentiation strategy.

The results of our study on the effects of the talent-differentiation strategy in terms of the employment relationship, and the attitudes and behaviors of employees, indicate that, in general, talents seem to favor an exclusive strategy, and other employees seem to prefer an inclusive approach. Our findings suggest that, in an inclusive talent-differentiation strategy, both talents and other employees have similar perceptions of their employment relationship and display similar attitudes and behaviors, for instance in terms of commitment and wellbeing. With an exclusive talent-differentiation strategy, we saw larger differences between talents and other employees. For instance, the exclusive approach results in ‘talents’ having a higher perception of fairness than other employees.

Many organizations support an inclusive talent-differentiation strategy in the sense that they promote the (idealistic?) view that they see talent in all their employees. In our study, 62 % of organizations favored an exclusive strategy (according to the TM executive), and 70 % of the respondents perceived their organization’s talent-differentiation strategy as exclusive. However, there were many discrepancies between intended and perceived strategies: 30 % of the respondents did not perceive the strategy as it was intended. In particular, half of the employees working under an inclusive strategy perceived the strategy as exclusive.

In reality, a fully inclusive talent strategy is not practical. Most organizations make some form of distinction between employees, and in the TM practices they offer these employees. One can therefore assume that when organizations declare they have adopted an inclusive approach that, in reality, distinctions are made between groups of employees (such as between talents and others). The results of our study (see also Sonnenberg and Van Zijderveld 2014b) show that, in an inclusive approach, more room exists for misunderstandings: it is less clear to

employees what distinctions are being made and what this means for the specific employee in terms of being perceived as talent for the organization. The organizations with an inclusive strategy were found to apply various distinction-making terms, such as ‘high performers’, but not to communicate this openly to all employees.

In line with this, the results indicated that an exclusive strategy leads to a higher TM value since there is less misperception of talent, and the TM practices consequently reach the desired employees. However, this comes with a warning; an organization has to be absolutely certain that the designated talents are the right people. As such, the results provide arguments for both strategies, dependent for instance on the strength of the talent identification and performance management process. Most importantly, organizations should be aware that the choice they make regarding their talent-differentiation strategy carries significant consequences for the entire workforce and not only the talents.

6 General Guidelines for Defining a Talent Management Strategy

- It is recommended that one communicates clearly to all employees who the organization considers as talent. This is not about a specific definition of talent, but about achieving clarity and matching perceptions about who is considered as talent by the stakeholders involved (talent managers, human resource managers, line managers, and employees). The value achieved from investing in TM is highly dependent on consistent talent perceptions.
- Talent definitions will alter over time to reflect changing situations. As such, the talent strategy, processes, and practices should be flexible so that they can be adapted to new business requirements.
- Important building blocks for an effective definition of talent are the degree of context-dependency, the value added, the scarcity, and irreplaceability.
- As soon as organizations differentiate, no matter how they do it or how they label it, it affects those employees that are labelled as talents, and also those that are not. Mislabeling can be enormously negative in terms of the resulting attitudes and behaviors of all employees.
- Although many organizations currently support an inclusive talent-differentiation strategy in the sense that they promote the view that they see talent in all their employees, in practice our results suggest that an exclusive strategy seems to be more effective. In an exclusive strategy, selected employees are seen as ‘talents’ and specific TM practices are accessible to this group only.
- An exclusive strategy leads to a higher TM value in terms of perceived fairness and the retention of desirable employees.

7 The Value of Investments in Talent Management

For most organizations, the aim of investing in TM is to attract, develop, motivate, and retain talented employees. In order to gain greater insight into the value of TM investments, it is therefore important to take account of certain types of outcome variables: e.g., are talented employees more committed, do they stay at the organization longer, are they more employable? Clearly, many organizations are not yet at this stage, and do not make the connections between these kinds of data. In this section, we show how relatively simple analytics, using data that are often easily accessible, can make a large difference to the insight.

When exploring the value of investing in TM, there is a concept, the psychological contract, that it seems important to take into account. In line with Rousseau (1995, p. 9), the psychological contract can be defined as “*an individual’s belief, shaped by the organization, regarding reciprocal obligations*”. The results of our analysis, in terms of effective TM, repeatedly underline the importance of fulfilling the psychological contract, i.e. living up to the expectations ‘promised’ by the organization. As such, this should be a core variable in evaluating the effectiveness of TM investments.

Investing in TM is one way for organizations to show that they are paying attention to the talent of their employees. TM practices thus have some sort of communication value, based on which employees make sense of their employment relationship and how they think the organization perceives them, including in terms of talent value and potential. In this context, investing in TM practices is expected to yield positive results, but only provided the employees correctly perceive these TM practices. The gap between intended TM practices and how the practices are actually perceived is therefore important when analyzing the value of TM investments.

8 Building a Business Case for Talent Management

As a result of various factors including the global financial crisis, those in an organization responsible for TM are under pressure to provide fact-based insights into the effects of the TM investments. More than ever, it is important to be able to provide insight into the effects of the often specific and expensive TM practices. We asked the TM executives of the organizations in our sample to indicate in what ways they currently do this. The most frequently used measures were:

- retention of those identified as ‘high potential’
- feedback from line managers
- the number of internal promotions
- implementation of formal succession plans

This is in line with other research (e.g., CIPD 2006; CIPD 2012) and shows that most organizations use basic process-related, and often anecdotal, information to

Table 1 A business case for Talent Management

	Low investment	High investment	Change
	≤ 3 practices	≥ 14 practices	
Psychological Contract Fulfillment (5 point scale)	3.5	4.0	14 %
Affective Commitment (5 point scale)	3.2	4.2	30 %
Turnover intention (5 point scale)	3.3	2.3	-31 %
Employability (5 point scale)	3.5	4.4	26 %
Well-being (6 point scale)	3.4	4.9	43 %

evaluate the effectiveness of their TM practices. Given the current analytical techniques and the availability of data, we believe that there is room for a large improvement here. A starting point would be to investigate the effect actual investments in TM have on the attitudes and behaviors of relevant employees, such as their intention to leave and commitment. These are variables that can easily be transformed into a financial business case. This could be used to better guide investments in TM.

Our research has repeatedly shown a clear business case for investing in TM practices. Although the results differ by practice and by organization, in general, a high level of perceived investment in TM practices (>14) has large benefits in terms of drivers of employee behavior compared to where the investment is perceived as low (≤ 3) (see Table 1).

A high investment in TM practices, as against a low investment, is related to a higher psychological contract fulfilment of 14 %; affective commitment of 30 %, a lower turnover intention of 31 %, and a higher well-being by 43 %. Further, when more TM practices are offered, this seems to result in a higher perceived employability (26 %). These are all desirable outcomes, and emphasize the value that TM practices can have for your employees. Given the cross-sectional design of our study, the actual relationships may be in the opposite direction to that argued (e.g. a greater turnover intention leads to fewer TM practices), but this seems unlikely. Nevertheless, this possibility of reversed causality exists with all the suggested relationships.

As such, increasing the number of TM practices on offer can create desirable and advantageous outcomes, but only if the organization fulfils its promises towards its employees (as measured by psychological contract fulfilment). Our analyses regarding the value of TM in terms of employee attitudes and behaviors have repeatedly highlighted the importance of the psychological contract and, thus, that it is important for an organization to live up to the expectations and promises made (as shown graphically in Fig. 1).

This approach to designing a business case shows that the use of relatively simple analytics can help to make the right TM choices for your organization. The data we used are generally relatively easy to obtain, and the added value of this kind of analytics will be apparent to all the relevant stakeholders.

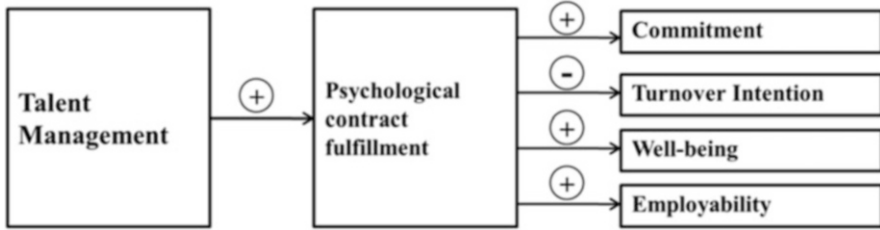


Fig. 1 Overview of the relationships between Talent Management and relevant outcome variables

9 The Value of Specific TM Practices

Every TM practice employed represents a choice made by the organization and with it a message of what it expects of the employee and what the employee can expect in return. In short, it provides clarity on what the organization believes is important. As shown in the previous section, the more TM practices offered, the better in terms of desired employee behavior. Further, an organization can differentiate itself from others by having more practices than other organizations. As a result, an employee can have more development opportunities than at other organizations. An organization can also differentiate itself by the type of TM practices it offers. A key insight that organizations need is to know what practices are the most effective.

According to research by CIPD (2006; 2012) concerning specific TM practices that organizations have invested in over the years, it seems that the TM practice that is rated by line managers as the most effective is coaching, followed by in-house development programs. Alongside seeking the view of line managers, it is of possibly even greater value to investigate the impact that TM practices have on employees. In our study, we compared TM practices on the extent to which they lead to talented employees sensing psychological contract fulfilment. The results are presented in Fig. 2. The vertical line represents the overall mean fulfilment level of the total sample.

The largest differences in psychological contract fulfilment when experiencing or not experiencing a TM practice can be seen for succession planning, in-house development programs, and 360-degree feedback. This indicates that, at least for the sample studied, these practices can be considered as the most effective in that they have the largest effect on psychological contract fulfilment. The impact of offering these practices, as opposed to not offering them, is much larger than with other practices, suggesting one should focus on these. Interestingly, these are not the practices that are most often employed in the surveyed organizations, namely external coaching, offering courses at external facilities, vitality activities, and special projects.



Fig. 2 The value of TM practices in terms of employee psychological contract fulfilment (five-point Likert scale; T-test confirms that differences are all significant)

Further, a key driver of TM value is whether employees actually experience the TM practices that are available to them (e.g. Wright and Nishii 2013). Our study shows that, in the majority of cases, a TM practice is not perceived as the organization intends. This tends to be a situation where an employee believes the organization is offering them a certain practice but, in reality, this is not so. There are also situations where employees believe the organization is not offering them a certain practice where it, in fact, is. We also saw instances where employees were unclear or simply did not know what TM practices were available to them. From a TM value perspective, this suggests that there is considerable room for improvement. As a step in improving the value of TM investments, we would recommend investigating whether there is a gap in understanding between the intentions of the organization and the perceptions of the employees. There are several points when this can occur (see Fig. 3). Clearly, if a TM practice is not perceived by the employees, it is unlikely to have the desired effect on employee behavior and on other organizational outcomes. Employees can be unaware of a TM practice for several reasons, including poor communication of its availability, content, and focus.

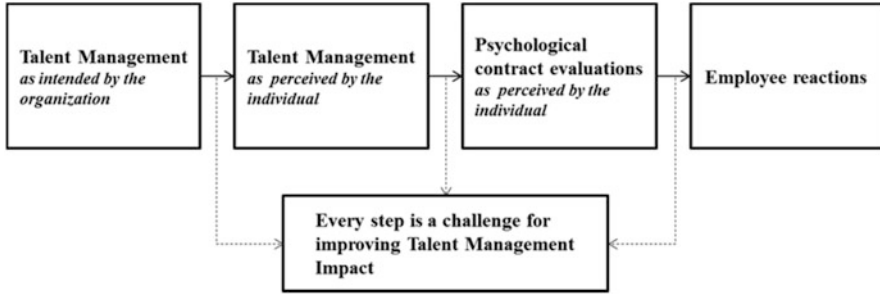


Fig. 3 Process model of Talent Management effectiveness – inspired by the work of Wright and Nishii (2013) – (see also, Sonnenberg and Van Zijderfeld 2014a)

10 General Guidelines on Improving the Value of Investments in Talent Management

- There is a clear business case for investing in TM. The more TM practices that an organization offers, the better since this is related to higher levels of commitment, well-being, and employability, and to reduced turnover intentions.
- While increasing the number of TM practices offered leads to better outcomes, an organization needs to ensure that it fulfils its promises towards its employees.
- In theory, every TM practice signals information to employees on what is expected of them and what they can expect in return. However, this is only true if clarity exists as to whether a practice is available or not. As such, an important step in improving the value of TM is closing the gap between intended and perceived TM practices.
- Our results show that most of the participating organizations use simple metrics and anecdotal information to evaluate the value of investments made in TM practices. This situation could be improved by employing more advanced statistical techniques, such as quantitatively analyzing relationships between TM investments and their effect on the attitudes and behaviors of employees.

11 Alternative Talent Management Approaches

TM can be seen as the management of those employees considered by an organization as talent. This does not necessarily imply investing in specific, fairly standard, TM practices. In this section, we discuss alternative approaches to TM, such as differentiating oneself more clearly from other organizations and investing in creating opportunities for employees to actually use their experience and skills. Also, employees increasingly desire customized employment relationships and it could therefore be of great value to organizations if they take this into account as part of their TM approach.

12 Clarifying the Components in the Employment Relationship That Differentiate You from Other Organizations

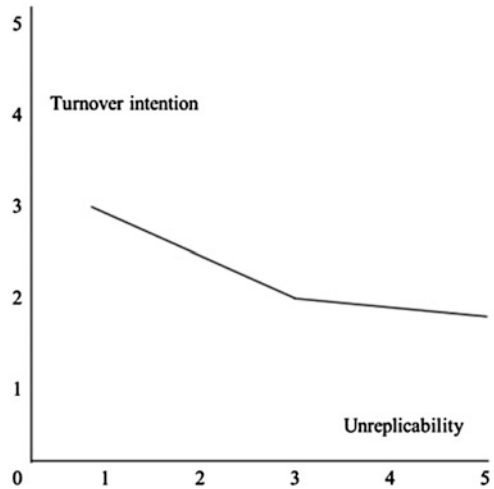
Organizations aim to differentiate themselves from other comparable organizations by the TM approach adopted and the practices offered. This is done with the goal of attracting, developing, and retaining the right talents for the organization. Other opportunities in the external labor market increasingly influence the perceptions of employees regarding their present employment relationship and the extent to which they are committed to and intent on staying at the organization.

When employees believe their current employment relationship would be hard to achieve in another organization, this can have positive effects for the organization in terms of developing, and retaining the right talents. This is also referred to as ‘psychological-contract unreplicability’ (Ng and Feldman 2008). If employees perceive their psychological contracts to be unreplicable, they believe that they will not get the same or better conditions elsewhere in terms of pay, advancement opportunities, skill training, career development opportunities, job security, and support with personal problems. For employees in the organization it is an indicator of their attachment to the organization. In our study, we found a significant relationship between perceived psychological contract unreplicability and turnover intention (as shown in Fig. 4).

As it can significantly reduce the turnover intention of employees, increasing perceived psychological contract unreplicability could be a very powerful concept to focus upon. Employees who experience a high degree of psychological contract unreplicability are not expected to easily switch to a new employer since they would expect their situation to deteriorate if they were to take this step. In addition, we found a significant relationship of degree of psychological contract unreplicability with the affective commitment of employees (Sonnenberg et al. 2012). This can be explained using ‘social exchange theory’ (Blau 1964) which argues that in situations where the current organization is offering something that is perceived as not easily attainable elsewhere, employees will reciprocate by positively adjusting their attitudes and behavior, such as in a lower turnover intention and higher commitment. Especially when such changes in attitudes and behaviors concern ‘talented’ employees, this will be of great value to organizations.

Boosting psychological-contract unreplicability can therefore help organizations in recruiting, motivating, and retaining talented employees. Making clear what you as an organization offer in terms of differentiating components in the employment relationship, compared to other organizations, can be of great value.

Fig. 4 Relationship between psychological contract unreplicability and turnover intention



13 Investing in Individualized Arrangements

As with many aspects of life, employment relationships are becoming less standard and increasingly customized to the individual's needs and wants. Through the negotiation of idiosyncratic deals (i-deals), employees can shape their individual employment relationship with their employer (Rousseau 2005).

I-deals can be seen as special individual arrangements that an employee negotiates with their employer (and ones that their colleagues do not have) that deviate from standard working conditions (Rousseau 2005). The idea behind i-deals is that they are beneficial for both the organization and for the individual employee. I-deals vary in scope and content. Example components include the possibility for an individual employee to attend a personal development course that is not available in the general offering, or being given the opportunity to work outside the job description in order to gain relevant experience for a future internal placement. In these and other ways, employment relationships can be adapted to personal preferences.

An important advantage of investing in i-deals is that they are seen as binding employees to the organization. As such, i-deals might therefore be a powerful TM tool. In our latest 2012/2013 study, 18 % of all employees in the sample had arranged i-deals, of which 53 % were seen as talents and 47 % as other employees (see Fig. 5). A further 30 % of all employees intended to try to arrange an i-deal in the near future. Consequently, close to half of the employees could soon have i-deals.

I-deals have been positively associated with higher affective commitment (e.g. Hornung et al. 2008). I-deals are at odds with the traditional assumption that all employees in the same position are treated the same. As employees seek greater customization and become less satisfied with standardized conditions of



Fig. 5 I-deals frequency and distribution (Sonnenberg and Van Zijderveld 2014a)

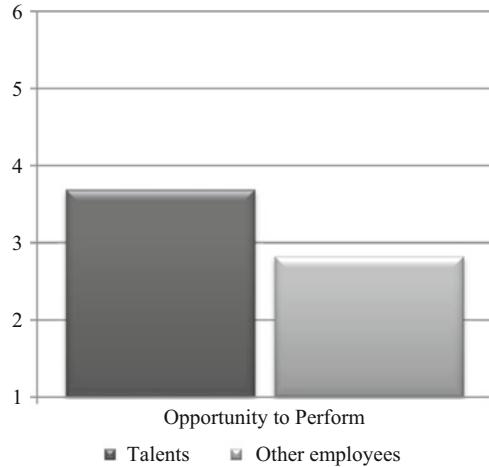
employment, i-deals seem to be an appropriate vehicle for organizations to better fulfil the expectations of especially their valuable employees and in this way to show they are willing to invest. The idea is that i-deals create a new platform for flexibility and innovation in the workplace. The potential downside is that, at the same time, i-deals raise issues of fairness and consistency (Rousseau 2005).

A major issue to address with regard to i-deals is the procedural and distributional fairness that seems to be challenged by going against the wisdom that systematic and consistent treatment of the workforce ensures fair treatment for all (for an in-depth review of the concept of fairness see, for instance, Deutsch 1975, Colquitt 2001, Greenberg and Colquitt 2005). In our study, we found that employees perceived their own i-deals as more fair than those of other employees. In addition, they feel that their colleagues' i-deals are fairer if they have one themselves. It seems that these consequences are inevitable when implementing i-deals. Being aware of this can help in selecting the right tools when implementing i-deals, such as using communication to increase transparency and being able to provide a sound reasoning for introducing an i-deal. Also organizations need to recognize that decisions need to be made about the tracking of i-deals: to what extent are i-deals documented (only verbally, or are they written down, signed, and approved?) and how will i-deals develop over time (will they last a fixed period, can they change over time, will you re-evaluate them, and what if one party wants to end the deal?). In our study, only one-fifth of the organizations registered the number and type of i-deals and actually followed them up over time. This approach could impact on the potential of i-deals to create value. As Rousseau (2005) noted, the tension between consistency and flexibility is not a problem to be solved but a reality to be managed. Organizations have to decide whether or not they will offer i-deals and, if they do, they also have to define a solid strategy for dealing with the consequences.

14 Investing in Providing Employees with Opportunities to Perform

Investing in talent means that these employees gain the opportunity to develop new knowledge, skills, and abilities that can be useful for the organization and for themselves. In order to have an effect, it is essential that these newly acquired

Fig. 6 The extent of experienced opportunity to perform by talents and other employees (Sonnenberg and Van Zijderfeld 2014a)



competences are actually used, and thus that employees have the opportunity to perform (e.g., Appelbaum et al. 2000; Boxall and Purcell 2003; Herzberg et al. 1959). It is important that a transition takes place in which the newly acquired knowledge, skills, and abilities are put into the daily practice of the organization. This is captured in the concept of ‘opportunity to perform’ (Schleicher et al. 2006). It encompasses, as instances, the opportunity to participate in decision-making, to show capabilities within the organization, and to influence what happens in the job.

This is an area of human resource management in general, and TM specifically, where there is a lot of room for improvement. Most practices and approaches focus on improving the skills and capabilities of employees but little attention is paid to the actual use of these attributes in daily work despite this being an important aspect of value creation.

When asked about the opportunity to perform they experienced, the talents in our survey gave an average score of 3.7 on a six-point scale and other employees an average of 2.8 (Fig. 6). When analyzing the underlying items, we found that the difference in these scores was largely due to the ‘talents’ communicating more often with their managers and with experts outside their work group about work issues, and their work allowing them to more often take part in making decisions that affect their work.

In general, employees who perceive a greater opportunity to perform are more committed and have a lower turnover intention. They seem more often to be enthusiastic, optimistic, and more energized compared to colleagues who perceive less of an opportunity to perform. Our results indicate they also experience a stronger loyalty towards the organization, and are more optimistic about the jobs available in the organization (given their skills and experience).

The opportunity to perform plays a role in determining the commitment and turnover intention of all employees. Giving employees the opportunity to use their

capabilities in their work, creating room for new ideas, sharing expertise and knowledge, all benefit the success of an organization.

15 General Guidelines on Alternative Talent Management Approaches

- TM does not necessarily demand investment in fairly standard TM practices. There are many alternatives worth considering, such as investing in individualized arrangements (i-deals) and improving employees' opportunities to perform.
- There is lot to gain by ensuring a clear differentiation between the conditions of the exchange relationship you are offering compared to those of your competitors. This differentiation from competitors can be captured in the concept of 'psychological contract unreplicability'. When employees perceive their psychological contract as unreplicable, they believe that they will not get equal or better conditions elsewhere, such as in terms of pay, advancement opportunities, skill training, career development opportunities, job security, and support with personal problems. Perceiving one's employment relationship to be unique and very difficult to match in the external labor market will strengthen commitment and lower turnover intention.
- Even if considerable investments are made in talents, if employees are not given the opportunity to perform, these investments will be of no value. Providing employees with more possibilities to use their talents will impact not only on their commitment but also on the value they can add through their work. Opportunities to perform can be enhanced amongst others by increasing employees' autonomy in decision-making, communication, and self-directed team membership
- Empirical evidence is emerging that investing in customized deals, such as i-deals, with employees is an effective approach in managing talent and influencing the commitment of such employees. The evidence is that a growing number of employees plan to negotiate i-deals, and it will be very difficult to resist this trend. What is required is for the organization to make clear choices, such as to what extent i-deals will be documented and followed up over time, and what strategy to use when implementing i-deals to deal with issues that arise regarding fairness and consistency.

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How to Evaluate Employer Brands: A Monetary Approach

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Abstract

The attraction and retention of superior talents is increasingly becoming a key challenge for many organizations. To cope with the ongoing shortage of talented people, academics and practitioners agree on the pivotal role of an attractive employer brand to succeed in the persistent war for talent. The evaluation of employer brands is therefore of critical importance for human resource managers to assess their potential to attract talents and to benchmark the effectiveness of their employer branding activities. However, appropriate key figures to evaluate employer brands are scarce. In light of this shortcoming, the chapter presents a monetary approach to evaluate employer brands. Moreover, this study investigates the impact of relevant employer branding factors on the monetary evaluation of employer brands. The presented employer brand value score model provides a monetary key figure that allows a detailed and monetary evaluation of employer brands in comparison to relevant competitors and with respect to different target

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groups. Results of the empirical study support the validity of the model to capture the evaluation of employer brands in a monetary key figure and highlight the importance of a segmented approach to employer branding.

1 Assessing the Added Value of Employer Branding

What keeps me up at night is to be sure that everywhere we go, we are the desired employer for the best talent. If we get the best talent in the company, now and for years to come, I am very confident for the future, knowing that the best talent will figure out whatever challenges we will face. That's my priority. (Paul Polman, Chief Executive Officer of Unilever, 2012)

Superior talent is increasingly seen as the prime source of organizations' sustainable competitive advantage (Hiltrop 1999; Pfeffer 1994). Nevertheless, many organizations are chronically suffering from a wide-ranging shortage of talented skilled people (Chambers et al. 1998) due to a demographic shift towards an aging population in many developed countries (European Commission 2011, Little and Triest 2001). At the same time business environments are growing more complex and the demand for professionals and executive managers with multi-cultural fluency, technological literacy, entrepreneurial skills, and the potential to manage cultural and structural diverse organizations is continuously growing (Chambers et al. 1998; McGregor and Hamm 2008). These diverging trends are continuously tightening the market for human capital and are thereby fueling the ongoing war for talent.

As a competitive response to the emerging shortage of talented people, academics and practitioners agree on the pivotal role of employer branding in attracting and retaining talent (Ambler and Barrow 1996; Backhaus and Tikoo 2004; Barrow and Mosley 2005; Dell et al. 2001). Employer branding stands for the application of an internal marketing perspective in which potential and actual employees are seen as customers and jobs are seen as products of an employer brand (Berthon et al. 2005). As such, employer branding has become an umbrella program that connects previously separated processes and strategies of human resource management and marketing (Edwards 2010).

Although employer branding has gained widespread acceptance in organizational practice and academic discourse (Barrow and Mosley 2005; Dell et al. 2001; Edwards 2010), appropriate key figures to evaluate employer branding activities or the added value of a strong employer brand remain scarce. However, holistic key figures to evaluate employer brands are critical for human resource managers to assess their overall potential to attract and retain talents and to benchmark the effectiveness of their employer branding activities. Moreover, to get top management to listen to their advice and to succeed in the competition for intra-organizational resources, human resource managers are in need of clearly communicable measures to substantiate the added value of their activities.

In light of this shortcoming, this chapter presents a monetary approach for a holistic evaluation of employer brands. Building on brand equity theory we propose a monetary employer brand score (MEBS) model that allows a detailed evaluation of employer brands within their competitive environment and with respect to different target groups.

Moreover, this article provides a validation of the MEBS model on the basis of a sample of 1,108 master students. The study's findings support the applicability of the MEBS to capture the evaluation of employer brands in a monetary key figure and highlight the importance of a segmented approach to employer branding. Moreover, we demonstrate the possibilities of the MEBS to benchmark the effectiveness of employer branding against competitors and its suitability as a management tool for successful employer branding.

The chapter is organized as follows: First, we elaborate more on the concept of employer branding and draw attention to the need for a holistic monetary key figure to evaluate employer brands. We then turn to the conceptualization of the MEBS and provide information on its measurement and interpretation. Next, we present the empirical validation of the MEBS and highlight several of its practical advantages. Based on the findings of the study, we additionally show the benefits of a segmented approach to employer branding. The chapter closes with a discussion of the results and implications for theory and practice.

2 Theoretical Backgrounds and Practical Application of the Employer Brand Perspective

2.1 The Employer Brand Concept

The term employer brand is defined as “the package of functional, economic, and psychological benefits provided by employment, and identified with the employing company” (Ambler and Barrow 1996, p. 187). It stands for the application of an internal marketing perspective to human resources by seeing current and potential employees as customers and job as products of the employer brand (Berthon et al. 2005). Hence, analogously to a corporate brand representing the benefits customers derive from purchasing its products, an employer brand marks the benefits that employees attain from working for a specific organization.

Employer branding is the strategic and operational process of managing an employer brand (Böttger 2012). Its main objective is the establishment of a strong employer brand that attracts, motivates, and retains current and potential employees (Dell et al. 2001). The strategic process of employer branding basically comprises three main stages. In the initial phase, organizations have to assess the status quo of their employer brand. This involves a market-oriented analysis of their current position as an employer within their competitive environment and the identification of strengths and weaknesses as an employment organization (Łukaszcyk 2012). The second phase involves the development of an employer value proposition. The employer value proposition summarizes all attributes that uniquely characterize an organization as an employer (Barrow and Mosley 2005). Thus, the employer value proposition establishes the identity of an employer brand and fosters its differentiation from competitors (Backhaus and Tikoo 2004). The third phase comprises the implementation of the employer branding strategy and the ongoing management and control of the employer brand. Specifically, this phase captures the operational process of communicating the employer value proposition to specific target groups

and the continuous reassessment of the status of the employer brand to be able to react to changing market dynamics (Lukasczyk 2012).

In sum, employer branding advances human resource objectives by the application of marketing techniques and concepts and therefore summarizes organizations' efforts to communicate to all relevant audiences that it is a desirable place to work (Lloyd 2002 cited in Berthon et al. 2005; Backhaus and Tikoo 2004). Employer branding is thus a holistic concept of managing an organizations image "as seen through the eyes of its associates and potential hires" (Martin and Beaumont 2003, p. 15).

2.2 Existing Concepts to Measure Employer Branding Success in Organizational Practice

[...] employers are choosing to measure what is easiest to measure. (Dell et al. 2001, p. 32)

The establishment of an attractive employer brand is seen as a key success factor in the competition for talents by practitioners and academics (Barrow and Mosley 2005; Dell et al. 2001; Edwards 2010). The concept of employer branding has thus gained huge interest and implementation in organizational practice within the last years (e.g., Barrow and Mosley 2005; CIPD 2009; Dell et al. 2001).

However, despite the widespread popularity of employer branding, it remains less clear for organizations how to measure and evaluate the added value of an attractive employer brand (Dell et al. 2001). Recent surveys document that most quantitative indicators used to measure the success of employer branding in organizational practice are rather narrow and focused on sub processes of employer branding (Yapp 2009). Specifically, for most companies the success of their employer branding activities is often determined by conventional metrics such as quality per hire, time per hire, or the number of applicants (Minchington 2011).

Although these metrics are undisputable important for assessing partial employer branding objectives, they fall short of a holistic evaluation of the attractiveness of an employer brand (Dell et al. 2001). With respect to the theoretical conceptualization of the employer brand, a measure of the added value of employer branding should result in a holistic key figure that summarizes all relevant aspects associated with an employment organization.

Moreover, most of the measures currently used in organizational practice are rather abstract and do not reflect a monetary return on investment, thus making it more complicated for human resource managers to communicate the success of their employer branding activities to top management. This shortcoming is however critical, as it is important for human resource managers to demonstrate the added value of their practices to legitimate future employer branding budgets (Yapp 2009). While there are clear monetary metrics for the return on investment in most other departments, human resource managers are still in need of an adequate measurement tool for evaluating the added value of their employer brand and to assess the effectiveness of their employer branding activities.

3 A Monetary Approach to Evaluate Employer Brands

3.1 Conceptualization of the Monetary Employer Brand Score (MEBS)

We propose an approach that aims to fill the present gap between the theoretical conceptualization of the employer brand concept in the marketing and human resources literature and its measurement in organizational practice. Specifically, we build on brand equity theory (Aaker 1991; Keller 1993) to develop a measurement approach that is consistent with the holistic definition of the employer brand and provides a monetary key figure that can easily be interpreted and communicated in organizational practice. Furthermore, we exemplify how human resource managers can employ the monetary employer brand score (MEBS) model to benchmark the effectiveness of their employer branding against competitors.

Brand equity theory has been developed in the marketing literature and deals with the added value of products and services that is uniquely attributable to the brand (Aaker 1991; Farquhar 1989). Generally, it can be distinguished between customer- and firm-based brand equity. While a firm-based approach attempts to measure the overall value of a brand, a customer-based approach to brand equity allows a more precise measurement of brand equity by focusing on the individual consumer level and is therefore often regarded as advantageous (Keller 1993).

Customer-based brand equity refers to consumers' individual evaluation of a product's or service's brand that affects their preference and purchasing decision relative to other unbranded or differently branded products or services with similar attributes (Aaker 1996; Keller 1993). Thus, attractive brands can generate a competitive advantage by enabling the organization to charge higher prices for products or services with comparable attributes (Aaker 1996; Park and Srinivasan 1994). For example, consumers are willing to pay considerable higher prices for products of more attractive brands than for products with the same attributes but from unbranded or less equitable brands. Thus, the added value or equity of an attractive brand reflects in consumers' higher willingness to pay.

We transfer this rationale of customer-based brand equity theory from the corporate to the employer brand context to establish the conceptual basis of our model. Specifically, we follow the notion that if consumers are willing to pay higher prices for purchasing products and services from attractive corporate brands, then employees should be willing to accept lower salaries for jobs at organizations with more attractive employer brands (Cable and Turban 2003). Accordingly, lower (higher) salary expectations are associated with more (less) attractive employer brands. Building on this notion, we developed an approach to measure the evaluation of employer brands using a monetary key figure.

3.2 Definition and Interpretation of the MEBS

To capture the attractiveness of an employer brand in a holistic and monetary key figure, we use a multi-stage procedure to determine individual-based salary expectations for a set of employer brands. This approach involves two basic steps.

First, subjects are asked to name the employer brand which they perceive as most attractive and specify the annual gross salary below which they would refuse to accept a job offer from this specific (and any other) organization. This minimum salary expectation marks the reference value against which salary expectations for accepting jobs at other organizations can be matched.

In a second step, subjects are asked to specify the employer brands that they perceive as second, third, and fourth attractive and to rate the attractiveness of each of these employer brands. Moreover, subjects are asked to specify how much additional salary they would demand for a switch from their most attractive employer brand to the other employer brands from their evoked set.

Based on this information, explicit salary expectations can be obtained for each of the mentioned employer brands. The explicit salary expectation reflects the monetary value below which an individual would refuse to accept a job offer from a specific organization. For the employer brand perceived as most attractive, the explicit salary expectation is equal to the minimum salary expectation. However, for less attractive employer brands the explicit salary expectation will exceed individuals' minimum salary expectations. The divergence between these two values thus increases with decreasing attractiveness of an employer brand. This emerging deviance determines the MEBS.

The monetary employer brand score or MEBS for an employer brand is thus defined as the difference between an individual's explicit monetary salary expectation towards this employer brand and the explicit salary expectation for the employer brand that is perceived as most attractive (i.e., the individual's minimum salary expectation). Hence, a lower MEBS stands for a higher attractiveness of an employer brand as individuals are willing to work for that respective organization for a lower salary. At a MEBS of zero,¹ an employer brand is most attractive as (potential) employees' would work for this organization for their minimum salary expectation. Higher levels of the MEBS indicate that employees demand higher salary levels to accept a job offer at the respective organization. Theoretically, the MEBS is not bounded above. However, to avoid overly high and unrealistic MEBSs, the procedure to determine the MEBS accounts for individuals that are not willing to switch to an organization that is associated with a less attractive employer brand for any salary increase.

The MEBS has several advantages. First, the MEBS captures the attractiveness of an employer brand in a monetary key figure. The benefit is that the MEBS can be

¹ For aggregated data, however, the MEBS can also take values below zero. Nevertheless, the interpretation remains the same, as lower MEBS are generally associated with more attractive employer brands.

implemented as a management tool for the employer branding process, because it allows an easy interpretation and communication of the success of employer branding activities to top management.

Second, the MEBS enables human resource managers to assess the added value of their employer brand in comparison to relevant competitors. In contrast to frequently used employer image rankings, the MEBS has the advantage to provide a more differentiated overview of the competitive environment of an employer brand.

Third, the MEBS provides the opportunity to benchmark the effectiveness of employer branding activities. When assessed on a regular basis, the analysis of changes in the MEBS can be used to evaluate the success of employer branding activities.

Fourth, as the MEBS is operationalized at the individual level it allows to distinguish between different target groups and thus offers the opportunity for a segmented approach to employer branding. As the influence of specific characteristics on the attractiveness of employer brands may vary between different target groups, such a segmented approach to employer branding can increase overall employer branding effectiveness by addressing the needs of different target groups more precisely.

4 Empirical Validation and Practical Applications of the MEBS

4.1 Sample and Measures

To empirically validate the MEBS model, a large scaled online survey among German university master students was conducted. To achieve a sufficient and representative sample of students we cooperated with an institute specialized on data collections among universities and colleges of higher education.

We choose students as subjects of investigation because the topic of employer choice is highly relevant for this group in their current stage of life. Moreover, students represent the largest group of potential new employees and are thus especially relevant for organizations' employer branding activities.

The resulting data set comprises 1,108 master students from three fields of study. Specifically, 26.9 % of the master students studied engineering, 24.5 % studied natural sciences, and 48.6 % studied management or economics. 63.3 % of the students are male and the mean age was 25. In total, these students evaluated approximately 800 organizations.

To validate the MEBS the following variables were included in the survey. First, participants were asked to provide general information about their subject of study, specific majors, and academic performance. Next, participants were asked to specify the relevant information needed for determining the MEBS as described above. We additionally measured established outcome variables such as the perceived probability of accepting a job offer at a specific organization (Resick

et al. 2007) and general employer attractiveness (Lievens and Highhouse 2003) which we used to assess the validity of the MEBS.

Furthermore, we identified established predictors of organizational attractiveness to test the reliability and validity of the MEBS. A thorough review of the academic and practitioner's literature revealed that job characteristics and organizational culture and values are two of the most important antecedent dimensions of employer brand attraction and job choice (e.g., Chambers et al. 1998; Chapman et al. 2005). The relevance of these two dimensions is also apparent in the theoretical conceptualization of the employer brand perspective. Specifically, job characteristics relate to functional benefits associated with an employer brand while organizational culture and values reflect the symbolic benefits identified with an employer brand (Backhaus and Tikoo 2004). To capture these two core dimensions of organizational attractiveness we measured 10 essential *job characteristics* like attractive work tasks, opportunities for advancement, or job security (adapted from Posner 1981) and 12 core *organizational values* like fairness, creativity, or tradition (adapted from Brown and Trevino 2009; O'Reilly et al. 1991; Schwartz 1996) as antecedents of the MEBS.

4.2 Validation of the MEBS

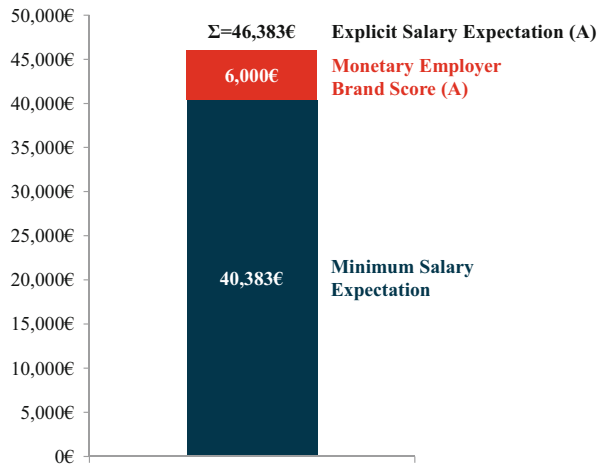
The resulting data set allows a first validation of the MEBS model by regressing the MEBS on the probability of accepting a job offer at the focal organization and a general measure of employer attractiveness. Our results show that a decrease of the MEBS for a specific employer brand significantly increases the probability of accepting a job at this organization ($\beta_1 = -.41, p < .001$). Moreover, the MEBS is significantly negatively associated with employer attractiveness ($\beta_2 = -.44, p < .001$).

We additionally test the validity of the MEBS by assessing its relationship with established antecedents of organizational attractiveness and job choice. Our findings confirm the validity of the MEBS by showing that job characteristics and organizational values account for substantial amount of variance in the MEBS and are thus meaningful predictors of the MEBS. Overall, these results substantiate the validity of the MEBS model and support its appropriateness as an important monetary key figure for the evaluation of employer brands.

4.3 Empirical Findings and Practical Applications of the MEBS

After assuring the validity of the MEBS model, we now exemplify the calculation of the MEBS and demonstrate some of its practical applications and advantages based on the collected data. In the sample, the mean minimum annual gross salary expectation over all participants of the study yields 40,383€. Thus, in sum, students would refuse to accept a job at the organization associated with their most favorable employer brand if the annual gross salary is below approximately 40k€. This

Fig. 1 Example of the constituents of the monetary employer brand score (MEBS) model and their interrelationships



minimum salary expectation can therefore be taken as the lower limit or reference value against which the attractiveness of employer brands can be matched.

This reference value also constitutes the point of origin for the MEBS (in this specific sample). Hence, explicit salary expectations above this point lead to an increase of the MEBS for an organization. Again, higher MEBS are related to lower attractiveness of an employer brand.

Figure 1 shows an example of the relationships within the MEBS model. In this example, individuals have a mean explicit salary expectation of 46,383€ for employer brand A. This value exceeds the average minimum salary expectation of 40,383€ by 6,000€. Thus, the mean MEBS for employer brand A is 6,000€. In other words, on average individuals demand a 6,000€ higher salary for accepting a job at organization A.

An advantage of the open ended question for individuals' most favorable employer brands is the fact that organizations can gain knowledge on their relevant competitors in the war for talent. In times of increased internationalization of job markets and a rise in small and medium sized companies, it becomes increasingly difficult for human resource managers to know with whom they compete for the same talents (Chambers et al. 1998). However, information about the competitive environment is crucial for the development of a successful employer branding strategy. The MEBS approach can thus help human resource managers to identify the organizations with whom they compete for talented employees.

Moreover, the MEBS model offers the opportunity to benchmark the attractiveness of an employer brand against a set of relevant competitors. Figure 2 demonstrates an example of the position of employer brand A in its competitive environment. As illustrated before, the MEBS of employer brand A is 6,000€. Among its competitors B (MEBS_B = 2,500€), C (MEBS_C = 5,000€), and D (MEBS_D = 9,000€), organization A thus ranks third in employer brand attractiveness. However, over and above this ranking the MEBS allows a detailed evaluation

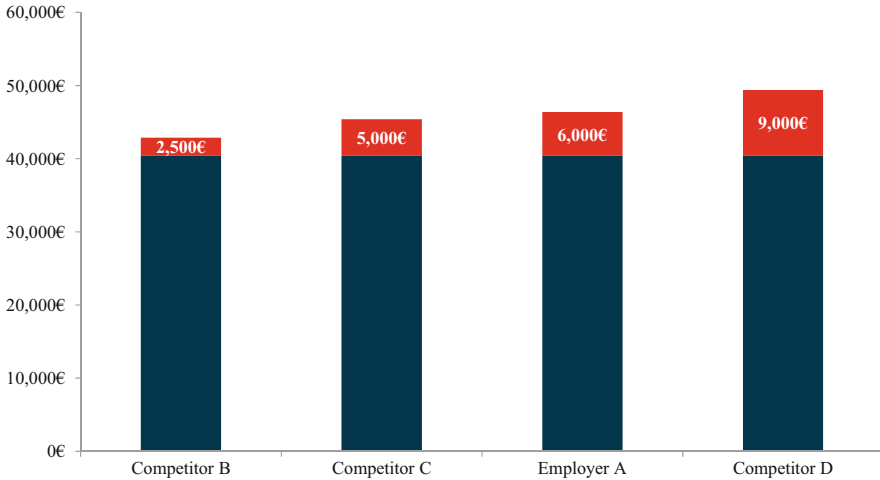


Fig. 2 Example of competitive benchmarking using the monetary employer brand score (MEBS)

of the position of an employer brand within its competitive environment. For example Fig. 2 shows for employer brand A, that the absolute difference between its own MEBS and the MEBS of its competitor C is rather small ($\Delta 1,000\text{€}$) while the absolute differences to competitor B ($\Delta 3,500\text{€}$) and D ($\Delta 3,000\text{€}$) are substantially larger. This example illustrates how the MEBS overcomes the limitations of pure employer brand rankings by providing a metric unit which allows a deeper understanding of the actual position of an employer brand in its competitive environment.

4.4 A Segmented Approach to Employer Branding

Beyond the possibilities for evaluating the added value of an employer brand through various detailed analyses, the MEBS also facilitates human resource managers to identify the employer branding factors with the highest potential to further increase the attractiveness of their employer brand. The analysis of the antecedents of the MEBS within our study reveals that among all participants the attractiveness of work tasks and organizational values such as altruism and social responsibility are the employer branding factors with the strongest impact on the MEBS. Thus, the improvement of these factors offers the highest potential to increase employer brand attractiveness which is reflected in a decrease of the MEBS.

However, the importance of these factors does not seem to be equal for the whole sample. Specifically, multiple group analyses show that the strongest predictors of the MEBS differ in their influence between subgroups as defined by the students' field of study and their academic performance. Overall, Fig. 3 gives an impression

Group	All Groups	Engineering	Engineering (high-performers)	Engineering (low-performers)
Rank 1	Attractiveness of work tasks	Sociable co-workers	Opportunities for Career Advancement	Sociable co-workers
Rank 2	Altruism	Attractiveness of work tasks	Teamwork	Attractiveness of work tasks
Rank 3	Social Responsibility	Job Security	Attractiveness of work tasks	Variety
Group	All Groups	Natural Sciences	Natural Sciences (high-performers)	Natural Sciences (low-performers)
Rank 1	Attractiveness of work tasks	Altruism	Altruism	Social Responsibility
Rank 2	Altruism	Social Responsibility	Opportunities for Career Advancement	Altruism
Rank 3	Social Responsibility	Opportunities for Career Advancement	Attractiveness of work tasks	Location of Organization
Group	All Groups	Business & Economics	Business & Economics (high-performers)	Business & Economics (low-performers)
Rank 1	Attractiveness of work tasks	Attractiveness of work tasks	Valuation of Employees	Attractiveness of work tasks
Rank 2	Altruism	Experimentation	Success	Experimentation
Rank 3	Social Responsibility	Good Leadership	Social Responsibility	Good Leadership

Fig. 3 Example of differences in the importance of factors influencing the MEBS between different target groups and performance levels

how the importance of specific employer branding factors differs among various segments of students.

For example, when considering the group of engineering students in Fig. 3, it becomes evident that only one of the three most important factors identified in the global model has a significant impact on the MEBS within this segment. While attractive work tasks are also considered as an important antecedent of employer attractiveness, job characteristics like sociable co-workers and job security are highly relevant factors for this group. A further differentiation between low and high performing engineering students reveals that with the exception of attractive work tasks the preferences between both groups differ from each other. Specifically, high performers value opportunities for career advancement and teamwork as important factors of employer brand attractiveness while low performers are attracted by sociable co-workers and an organizational culture that is open to variety.

Analogous differences between high and low performing students can be found within the groups of natural sciences and management and economics students. In

sum, it can be concluded that the importance of specific employer branding factors can be quite heterogeneous between various segments. This implies that employer branding strategies that are aligned to the preferences of a specific target group may be more efficient in improving the MEBS of a specific audience. On the other side, these findings indicate that a standardized employer branding strategy might bear the risk of attracting potential employees that are not necessarily intended to be attracted by organizations (i.e., low performers).

5 Discussion

5.1 General Discussion

Organizations increasingly engage and invest in employer branding to succeed in the tightening war for talent. However, adequate key figures to measure and communicate the added value of employer branding activities are scarce in organizational practice. Therefore, a main purpose of this study was to propose an approach that allows human resource managers to evaluate employer brands within a monetary key figure.

Based on the theoretical conceptualization of employer branding and the theory of brand equity, we put forward the MEBS model which provides the core advantage of capturing the attractiveness of an employer brand in a monetary value. We validate this approach using a large scale data set comprising students from three different subjects of studies and demonstrate its key benefits for human resource managers. Specifically, the MEBS offers possibilities for a detailed evaluation of the attractiveness of an employer brand in comparison to its relevant competitors and allows the identification of the most important employer branding factors for different target groups in order to improve the effectiveness of employer branding activities.

In sum, the MEBS provides a monetary key figure to measure and communicate the success of employer branding in organizational practice and therefore may serve as a helpful management tool for the strategic employer branding process.

5.2 Theoretical Implications

Our study extends literature on employer branding in two ways. First, we contribute to prior research on employer brand equity by examining antecedents of individuals' minimum salary expectations towards employer brands. Although some previous evidence has suggested the application of brand equity theory in the employment context (Cable and Turban 2003; Collins and Stevens 2002), our findings provide additional insights by investigating how organizations can alter individuals' minimum salary expectations by enhancing employer branding factors such as job characteristics and organizational values.

Second, the study addresses calls for a deeper examination of the relative use of segmented versus standardized employer branding strategies (Chapman et al. 2005). Specifically, our results indicate that a segmented approach to employer branding may be superior to a standardized employer branding strategy as it optimizes the effectiveness of specific employer branding activities within different target groups. However, a segmented approach has to be considered carefully as diverse employer branding value propositions also bear the threat of blurring the employer brand identity.

5.3 Managerial Implications

The presented MEBS model offers several advantages that are especially relevant for organizational practice. First, it facilitates a monetary assessment of the attractiveness of an employer brand and thus provides the opportunity to evaluate the success of employer branding within a monetary key figure. This can help human resource managers to evaluate their employer branding activities and clearly communicate successes to top management.

Moreover, the MEBS provides multiple opportunities for analyzing the attractiveness of an employer brand. For example, the MEBS can be utilized to benchmark the attractiveness of an employer brand against relevant competitors and with respect to different target groups.

In addition to a comprehensive analysis of the status quo of the attractiveness of an employer brand, the MEBS model can be used as an instrument to track the effectiveness of employer branding activities over time. Through a continuous measurement of the MEBS human resource managers can assess the successes of their employer branding activities by comparing the MEBS before and after specific employer branding actions.

Another advantage of the MEBS is its potential to identify the employer branding factors that have the strongest potential to enhance the evaluation of an employer brand. Thus, human resource managers can obtain information on the employer branding factors that their respective target group values most. However, our results also show that a standardized employer branding strategy may not always lead to optimal results. Specifically, our findings indicate that a segmented approach to employer branding may be more efficient to address specific employee target segments when target group preferences are heterogeneous.

While the MEBS model offers numerous advantages for evaluating the added value of employer branding it is not without limitations. First, firms aiming to implement the MEBS as a management tool for employer branding should be aware that this approach may be associated with additional efforts and costs for data collection and analysis. This may be especially relevant when the MEBS is assessed and analyzed on a regular basis to effectively track the success of employer branding over time. Moreover, while the MEBS model offers a holistic monetary key figure to capture the overall success of employer branding, it may be useful to complement this measure by additional metrics for assessing more specific aspects

of employer branding (e.g., employees' organizational embeddedness). Overall, we believe that the MEBS model can complement the strategic employer branding process as a valuable management tool and thereby help human resource managers to succeed in the ongoing war for talent.

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Assessing the Return on Investments in Human Resource Development

Theory and Practice

Cornelia Tonhäuser and Susan Seeber

Abstract

Current studies attest that companies are increasingly investing in the in-company further education of their staff. A substantial reason for this trend is the positive economic effect regarding the company's success which these investments in further education are intended to accomplish. Education controlling is the specific part of HRM which deals with the checking of training measures as well as its success, utility and effectiveness via the sub-function that is the evaluation. Against this background the article concerns itself with outcome evaluation, which assesses the success of further education measures from an economic perspective. Until now there have been very few theoretical approaches, concepts and models with which one can determine the cost effectiveness of training investments. Business controlling uses economic key performance indicators (KPI) to verify the utility of investments made by the business. One of the most significant KPIs is return on investment (ROI). As the discussion of utility verification of in-company further education measures, especially in regard to the calculation of the ROI on educational investments and the need to establish what deficits exist in the theoretical and empirical foundations of education controlling, in the relevant subject literature has been controversial, this article will address the question how the economic effects of in-company training measures can be determined from a theoretical perspective. To this end, an overview of the current state of research regarding education controlling and especially the return on investment of in-company training measures will be given.

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1 Introduction

Recent demographic changes have confronted enterprises with several distinct challenges: the ageing workforce and a diminishing supply of young skilled employees make it difficult for them to remain competitive, in particular with regard to an ever-accelerating obsolescence of knowledge and skills. Thus, the mechanisms of introducing innovations are shifting away from the traditional intergenerational sequence towards a demand for additional training opportunities for those already on the job. It follows that staffing policies will have to target the whole age range among the existing employees, focusing on a range of different interests and competencies. The implications for the employers are threefold. (1) In terms of further education, firms will have to move in the direction of flexible individualized in-firm training opportunities, also improving chances for combining training activities with the work process. (2) Informal modes of learning – e.g. learning integrated into the work process – are of growing importance, (3) Enterprises are facing a growing need for new forms of further education that are science- and technology-based and apt for combining, in an attractive way, the specific horizon of older employees with new domains of knowledge.

Current studies have shown that companies are increasingly investing in the training of their staff (BMBF 2013; Seyda and Werner 2012). The reason for this trend seems to lie in the presumed positive economic effects of such staff training investments: 86.6 % of German companies are convinced that staff training positively influences net value and company success (Seyda and Werner 2012). Furthermore, proponents of Human Resource Management (HRM) have pointed at evidence that companies, especially in some industrial European and Asian countries, are already facing or at least expecting shortages of key specialists. They appear to react to the anticipated demographic developments by trying to retain their staff, particularly by training employees in a way that enhances the match between existing qualifications and the requirements of their workplace.

In light of the present developments, the rapid pace of technological innovation and economic globalization, and the aforementioned demographic changes, it seems hard to deny the importance, for companies, of investing in the training and qualification of their staff. This approach to HRM has been demonstrated as a way of achieving strategic competitive advantages (Weiß 2007). In the case of Germany, a steadily increasing expenditure for staff training is clearly associated with growing levels of cost consciousness (Falk 2000). Weiß (2007) considers work-related adult education as an opportunity to attain strategic and operative business goals as well as to increase the firm's profitability. In line with this tendency, the companies' training divisions are faced with the task of recording not only the costs of staff training on the job, but also its output and use i.e. to demonstrate that the expected objectives are met (Seeber 2000).

Educational Controlling has become a more important task within HRM during the last decades. Firms' economic rationality implies an intensification of planning and control referring to individual development. The success of workplace related training can be judged from two perspectives: From an economic point of view, the cost and revenue structures can be analyzed; these play an important role in quantifying the utility which the company derives from the training measures. Educationally speaking, there is an interest in measuring the individual resources and the development of skills resulting from successful learning (Seeber et al. 2000). This second approach highlights the point that educational controlling should not be restricted to a mere calculation of the cost-effectiveness of particular interventions. Thus, educational controlling is a strategic instrument which is intended to improve the efficiency and effectiveness of in-firm training measures. Alternatively, the term HR accounting is also frequently used. The task of educational controlling is to gauge the success, utility and effectiveness of in-company work training, and thereby contribute to the legitimization and optimization of training measures. By controlling the educational processes via ex-post-observation (i.e. by evaluating with the benefit of hindsight), maldevelopments can be made transparent, and correctional measures implemented. The common aim of the various approaches to educational controlling is therefore the making of assertions about the rate of return on education investments (Seeber 2000). The central benchmark for educational controlling is maximizing the usage of the human capital to achieve the company's targets. Summarized, it is a systematic and holistic instrument for the optimization of planning, implementation, and controlling of educational measures (Vaudt 2011).

Another reason for companies' increasing attention to educational controlling relates to the aspects of quality assurance and cost-cutting efforts in companies. Currently dominating tendencies such as high cost-awareness and strictly result-oriented thinking have gained influence in the domain of work training, too. Despite the long tradition of evaluation research (e.g., Cannon-Bowers et al. 1995; Kirkpatrick 1998; Tannenbaum and Yukl 1992), the evaluation of workplace related training has long been neglected, and the assessment of the results of human resource management (HRM) is only now gaining importance in companies. This said, there has been a long-standing critique that personnel development has often paid little attention to economic factors (Backhausen and Thommen 2003). This is true, although studies have shown that the evaluation of the economic benefits derived from in-company work training are of great importance to the directors of companies (BIBB 2009a; K apflinger 2009; Tonh auser 2010). Nevertheless, other evidence shows that many companies do not practice a systematic and consistent evaluation of in-firm training (BIBB 1997, 2009a; Kabst and Giardini 2009). Other studies (BIBB 1997, 2009a) reveal significant contradictions with regard to the importance attributed theoretically by business to educational controlling on the one hand and the actual practice on the other hand. Moreover, the existing empirical evidence as to the success of in-firm training programs is mainly restricted to subjective views concerning personal satisfaction and self-perceived improvement on the part of the course participants (BIBB 2009a; Tonh auser 2010).

The aim of educational controlling is to gauge the efficiency and effectiveness of in-firm training, thus contributing to the legitimacy and optimization of the respective measures. A crucial aspect of this is the cost-benefit analysis which enables companies to determine the actual economic value derived from an investment in work training. Thus far, there have been relatively few attempts to provide the instruments required to perform this task.

As part of the process of controlling, firms use economic key performance indicators (KPIs) to ascertain the benefits gained from relevant investments. One of the most significant KPIs is return on investment (ROI) which determines the rate of return on individual investments (equity return). The pertinent literature has been somewhat controversial, however. As a consequence, this article will first review the theoretical positions in the corresponding debates, followed by a theoretical framework suggested for the conduct of in-firm vocational training activities.

2 Typology of In-Firm Training Activities

In all phases of HRM, in-firm training measures play an important role. They complement formal and informal learning modes. The following diagram classifies different further education measures (see Fig. 1) according to their proximity to the workplace with regard to time, content and space; it is based on the work of Conradi (1983).

Staff development measures classified here as “Into-the-job” encompass all measures which prepare potential employees for entry into a new business, or prepare him or her for the labor market, e.g., apprenticeships, internships, introductory programs and the induction of new employees. “On the job” measures take place directly at the workplace and during working hours, as opposed to “off the job” measures, which are conducted in spatial, temporal and material distance from the workplace (Becker 2007). Examples for this are trainee programs, group training and project work. By being in their normal work environment, the learners are also introduced to new methods, techniques and working processes (Becker 2002). Good examples of this are provided by assignments emphasizing support activities for senior colleagues, job-enlargement, job-enrichment or job-rotation. Examples of “parallel to the job” learning are coaching or supervision. “Near the job” learning takes place in spatial, temporal and material proximity to the workplace, but not during actual work. Research (e.g., Wunderer and Dick 2002; von Rosenblatt and Bilger 2008) shows that there is a growing trend towards replacing “off the job” measures such as internal or external seminars, workshops and courses by “on the job” and “near the job” measures. The same appears to hold true for “into the job” programs such as internships, training schemes or inductions, which had long dominated the further education sector. In contrast to the (former) prevalence of work-related in-firm learning, the contents of “parallel-to-the job learning programs” are less oriented towards the current requirements and problems of the

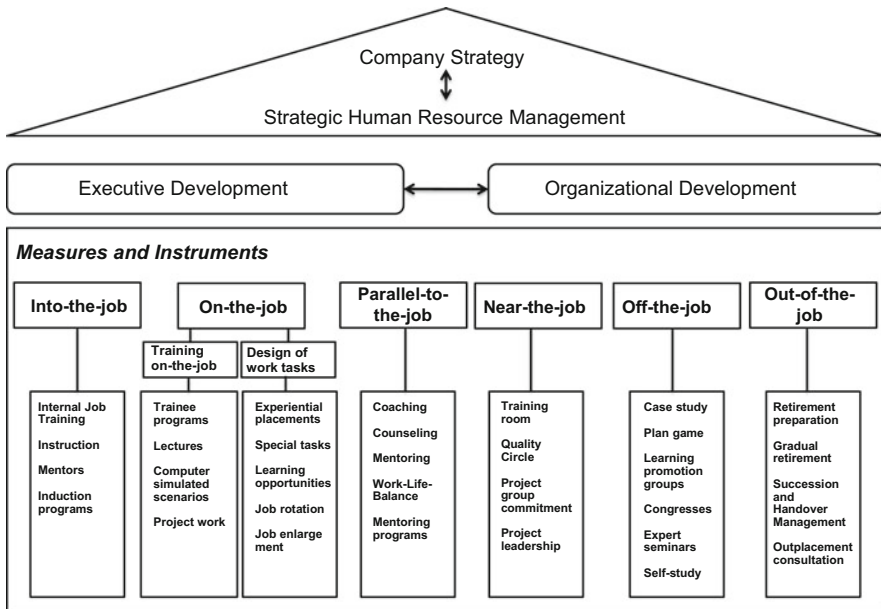


Fig. 1 Classification of further education measures (following Wunderer 2003)

workplace – and thus the direct interests of the firm. Off-workplace learning may be seen to impede a direct transfer of the acquired skills and competencies into the current work context, but it may enhance the transferability to other context, e.g. an alternative job. As opposed to this, measures which are, on the contrary, designed relatively close to the reality of the current workplace, have been shown to have a higher success rate regarding direct transfer while rendering less returns to the trainee as opposed to the employer (Becker 1993).

3 Functions of In-Firm Training Measures

The primary task of HRD is to ensure that the supply of qualified staff is sufficient at all times. This is done by aligning available skill-profiles with the job specifications. Thus, the primary task of HRD is to increase employee competence and thereby the ability and willingness of the entire workforce to perform. Several sub functions of HRD constitute this approach:

- Identification of employees who require further training in view of changes in the workplace and its scope of operations (initial diagnostics);
- Provision of the necessary development and education measures, including information for the staff concerned as to their individual options (strategic preparation);
- Planning, implementing, and controlling the envisaged HRD measure.



Differentiation of learning places Variants of work-related learning (Dehnbostel, 1992; Weinert, 2004)	Degree of organization of the situation (Jarvis, 1987; Straka, 1999; Simons, 2000)	Differentiation according to intention (Lompscher, 1981; Schurer, 1984; Dulisch, 1986; Kell, 1989; Achtenhagen et al., 1992; Hacker, & Skell, 1993)	Differentiation according to awareness affinity (Marsick, & Wartkins, 1990; Eraut, 2004)
Work-oriented learning: Central learning places like schools and learning centers <i>(off-the-job)</i>	Formal Learning-/ Work situations: Strict organizational requirements and clear hierarchies; little self-determination	Learning situation/ Learning activity: Alteration of the self is the primary goal	deliberative learning (requires awareness; formal learning)
Work-linked learning: Learning places near the workplace; e.g. Quality Circle, Training, Rooms, etc. <i>(near-the-job)</i>	Non-formal Learning-/ Work situations: A compromise between the two polar opposites		reactive learning (awareness-compatible; informal learning)
At-Work learning: Learning place = Workplace; e.g. Instructions at the workplace, learning during work processes <i>(on-the-job)</i>	Informal Learning-/ Work situations: No official rules, but adherence to social norms; high degree of self-determination	Work situation/ Work activity: Alteration of the environment is the primary goal	 implicit learning (not awareness-Compatible; casual Learning; socialization)

Fig. 2 The company as a place of learning (adapted from Rausch 2011)

In-company learning comprises more than just the organization of formal learning processes in the shape of external or internal seminars, workshops, courses and training events; measures intended to promote informal learning and at-work learning are also included. Following the internationally established distinctions, work-related learning is differentiated into three types of activity: formal, non-formal and informal learning (cf. Fig. 2; see Commission of the European Communities 2000). These types of learning vary according to the degree of institutionalization and the form of organization. Since learning at work and informal learning encompass, by definition, implicit learning activities outside formal learning settings, it is extremely difficult to ascertain their impact (see “State of Research on ROI” for the specific problems of ROI).

As Fig. 2 also illustrates, a pluralization and dissolution of boundaries is to be noted both with respect to learning locations in the firm and the forms of learning applied. The oldest and most widely encountered location for in-firm educational work is the immediate workplace: In this mode, the place of learning and the place of work are obviously identical, and learning takes place during working hours.

While formal and non-formal learning require an institutional and organizational framework and take place in spatial and temporal distance from everyday work, informal learning and on-the-job training occur directly in the world of work. There

is a direct transfer of the learning content (the acquired competencies) to the workplace (the application of that content). Conversely, learning is necessarily dependent on specific tasks and opportunities to apply said learning to novel and challenging situations in real work situations (Dohmen 1996). It is this inextricable connection between learning and work that makes it virtually impossible to measure how much time is taken up by learning as such. This is also true for informal training, which is noticeably gaining significance at present. However, a considerable advantage of informal learning at the workplace is that it is far less cost-intensive in comparison to formalized training, since there are neither direct costs (e.g. seminar and tutor fees) nor indirect costs arising from employees' missing work hours. At the same time, there is clearly a need for more stringent models and concepts in this field.

Depending on what targets are set, further education measures can be classified as follows:

- Alignment qualification measures comprise further education activities which refresh existing professional expertise and skills, or adapt these to changes in the workplace. It takes place when the tasks and requirements of a job change.
- Promotion qualification and development: encompasses the acquisition of necessary skills and abilities as well as further training which an employee requires in order to function in a more senior position or a more challenging workplace. It is to be noted that this type, too, usually takes place in the firm, in particular in the case of future business leaders. A special mechanism is the channeling of employees identified as suitable into certain career paths (Hax 1977).
- Attitude development aims to alter the value system of employees. It is of particular importance during organizational changes, for example.
- Behavioral development is intended to alter (social) behaviors in order to facilitate changes in social conduct and communication patterns between the leading employees and their subordinates (Drumm 2005). Behavior-oriented measures are of particular importance in the context of initiatives aimed at improving leadership qualities or establishing new guiding rules in an organization.

At the core of any strategy for in-firm educational work lies the question of which measures are suited to realizing the company's mission and goals (Fig. 3; cf. Euler 2004) and which operative contribution any in-company educational work can be expected to make. There is a broad consensus that the range of work training offered by companies should relate closely to the company's visions, goals, and strategy (e.g., Holling and Liepmann 2004; Müller 2009; Solga et al. 2005). As depicted in Fig. 3, different strategic foci can be chosen for the practice of in-firm educational work. The education management of a company should be capable of providing the requirements and contents of all four sections depicted in this graph, with special emphasis on sections III and IV (Ottmayer et al. 2010).

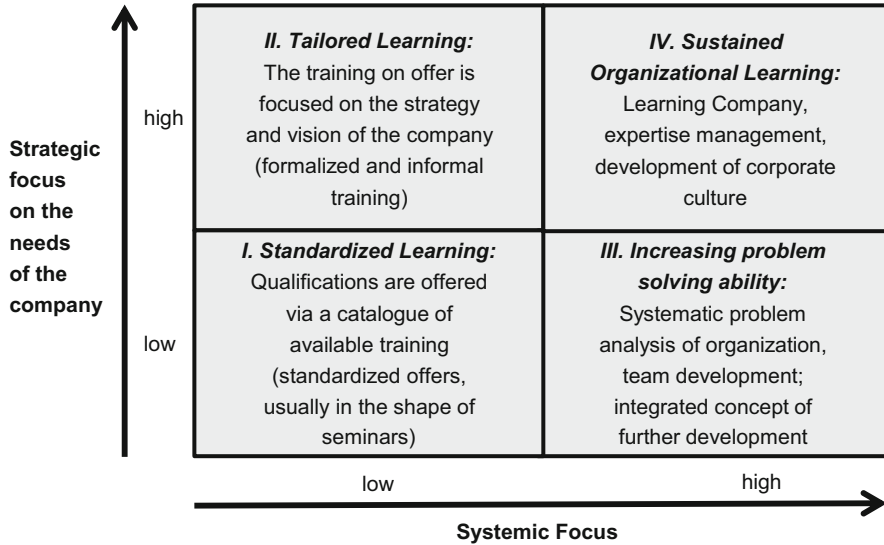


Fig. 3 Strategic focus of in-firm educational work (following Ottmayer et al. 2010)

According to the results of the Adult Education Survey 2012 (BMBF 2013) in-firm work training is the largest single sector within the further education industry across Europe. The European company survey CVTS3 (BIBB 2009b) states that 60 % of all European companies offer work training measures. An indicator of the companies' continuously rising commitment to internal work training is their respective financial expenditure (Seyda and Werner 2012; Werner 2006). To illustrate this for the case of Germany: whereas about €21.4bn were spent on this sector in 2001 (Werner 2006), this figure had gone up by approximately 34%, to €28.6bn in 2010 (Seyda and Werner 2012). Calculating the amount of invested in in-firm work training, the IW Work Training Survey 2011 found that German businesses spent an average of €1.035 per annum and employee (not including apprentices). €314 (30.4 %) of this amount consisted of direct costs (course- and participant fees, travel, catering and accommodation costs, media and learning materials as well as rent); €97 (9 %) were spent on the organization of the work training (including educational staff), and €624 (60 %) were the indirect costs resulting from work time missed by the participants (ibid.). The increased work training commitment by businesses and employees thus emphasizes that, indeed, in-firm work training is perceived by many employers as the adequate response to the challenges of the changing demographic and economic realities.

4 State of Research on ROI

Having outlined the conceptual underpinnings of ROI regarding human resource development, an overview of the current state of pertinent research may be in order. Given the aforementioned increased interest in this approach, the apparent lack of relevant research is surprising, particularly considering the costs associated with HRD, and specifically with further vocational training (cf. Sect. 2). Thus, it appears useful to discuss some of the seminal studies which offer general insights into the acceptance and practical use of educational controlling. This is done in conjunction with the presentation of key models for the computation of the ROI.

The studies that do exist unanimously underline the growing importance of educational controlling. According to the surveys conducted by the Federal Institute for Vocational Education and Training, 45.2 % of German companies applied educational controlling in 1997 compared to 47.5 % in 2007 (BIBB 1997, 2009a). There are, however, big differences between the companies, which are mainly due to company size. Large enterprises are much more likely to rely on educational controlling than small and mid-sized companies. The demand for the evaluation of cost-benefit records has also grown. Taken together, the findings of the two surveys (BIBB 1997, 2009a) underscored that companies consider the cost-benefit perspective, conducted with regard to in-company work training, to be very important. Thus, the registration of costs was the most frequently named within the set of implemented education controlling measures (51.3 % as of 2007). At the same time, there has been a decrease in the use of objective utility determination. Subjective utility was recorded by 24.9 % of the companies surveyed. As can be seen, there is an obvious discrepancy here, as measures of effectiveness and cost-benefit analyses in particular were named by more than 50 % of the companies as an important prerequisite for successful further education, far more frequently than the evidence on actual usage suggests (BIBB 2009a).

The studies presented above do not, however, record to what extent businesses apply instruments for the comprehensive evaluation of the economic utility of in-firm work training. Such information is provided by a 2005 study (Kabst et al. 2009a, b). According to this survey, 62 % of companies evaluate implemented work training measures (Kabst and Giardini 2009), while 46 % of them determine the total amount of training days per employee and year. A mere 7 % of all companies have determined the ROI of their work training measures (Kabst et al. 2011). It is difficult to escape the conclusion that the use of valid outcome indicators plays no role whatsoever in the vast majority of the surveyed businesses, and its overall significance, computed across all business, is minute indeed. It is clear, then, that controlling in the domain of work training is mostly neglected in the real working world, despite all the assurances that it is gaining recognition and importance, especially in large companies.

The methodology of measuring the ROI of training measures in the field of HRD is still in its infancy. It was not until the 1980s, that the term 'return on investment' was used in the context of the evaluation of training measures (Wang et al. 2002).

According to Wang, the analysis of the ROI in the field of HRD ought to be founded on the 4-level evaluation model of Kirkpatrick (1959, 1998), with only the 4th level being relevant for measuring the ROI. However, even at the 4th level, the model does not provide sufficient information on the real utility of training interventions, since it does not contain any algorithm for quantitatively determining the net value of training programs (Wang et al. 2002). Kirkpatrick's typology of the different levels of evaluating training programs is mainly based on heuristic considerations; his assumptions as to causal relationships specified in the model need to be viewed rather critically. Even so, it is the best-known and most widely used model for the evaluation of in-firm work training (Kauffeld 2010). Kirkpatrick distinguishes the following levels: At level 1, the subjective satisfaction of the participants (their reactions to pertinent stimuli) is recorded, which in reality amounts to little more than the traditional practice of a seminar-evaluation (Ralphs and Stephan 1986). Learning success, i.e. the absorption, processing, and mastery of the learning content, is determined at level 2 by the participants, which includes any perceived boost in competence, if applicable. At level 3, changes in the participants' behavior are examined, focusing on the extent of improvements in their capabilities and respective applications, as well as transfer success, which implies the application of the learned material to a novel work context. Evaluation at the 4th level concerns the determination of results at the organizational level. Its focus is on identifying the effects of the educational measure on the firm's output, e.g., increased productivity or revenue, reduced error rate, less work-related accidents, minimization of fluctuations. Hard evidence as to the effects of HRD interventions on the business performances, is indeed, very hard to produce, due to the large number of potentially influential factors. In practice, the evaluation of educational measures only rarely considers all four levels. Van Buren and Erskine (2002) have found that level 4 (results) is evaluated in only 7 % of all cases and level 3 (behavior and transfer) only in 9 %, whereas level 1 (reactions) is evaluated in 78 % of all cases, level 2 (learning) in 32 %.

In view of HRM's increasing interest in obtaining evidence for the effectiveness of its training measures and programs and in light of increasing cost awareness and rationalization efforts, Kirkpatrick's heuristic model has been further developed. Phillips (1997a, b) has expanded it by an additional level, namely the ROI. In order to determine the reflux of money from an educational investment, he has defined an appropriate accounting equation. His suggestion did not pass without controversy, as many critics from the area of educational measurement consider it difficult to quantify the financial impact of any particular measure (e.g. Radel 2011). As stated above, Kirkpatrick's level 4 (results), is concerned with the evaluation of the outcome of a training measure at the organizational level. Even in this case, however, the positive effects of a training measure cannot be offset against its costs, as the utility is not converted into monetary values (Phillips et al. 2001). Following this argument, the evaluation model has been expanded by a 5th level,

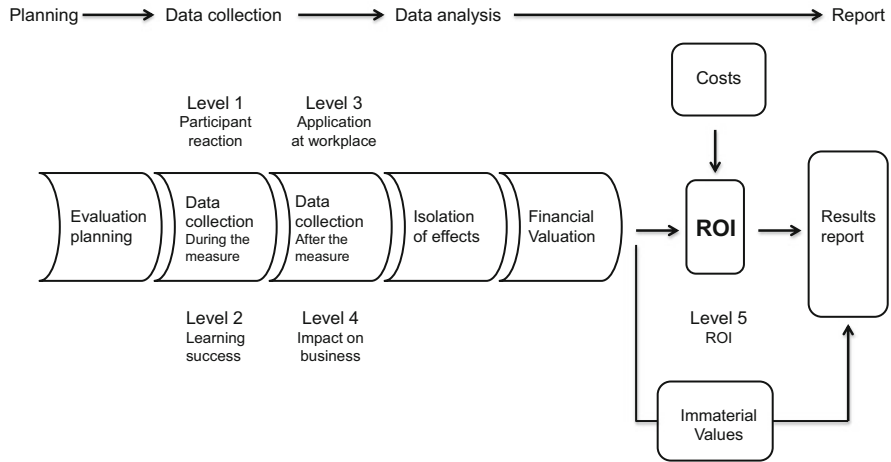


Fig. 4 ROI process model based on Phillips and Schirmer (2008)

which is intended to solve the problem of uncertainty regarding the economic value of training measures (Phillips and Schirmer 2008). These authors consider the calculation of the ROI to be part of a comprehensive evaluation process, and in order to meet the objection of prohibitive costs of a level 5 investigation, they recommend that the ROI be measured for a sample of 5-10 % of work training activities.

ROI in education is a key performance indicator for business decision-makers. It is calculated as the percentage ratio between the net revenue generated by an in-firm work training measure and the expenditure entailed. After multiplication of the obtained value by 100, the resulting number refers to the percentage of the investment which one can expect in return, if Proceeds > Costs. The equation is therefore (Phillips et al. 2001; Phillips and Schirmer 2008):

$$ROI \text{ (in \%)} = (\text{Proceeds} - \text{Costs}) / \text{Costs} \times 100$$

Or

$$ROI \text{ (in \%)} = \text{Net-Measure-Utility} / \text{Measure costs} \times 100$$

In order to determine the monetary utility ('proceeds') and the costs which are both needed for resolving the equation, an ROI process model (Phillips et al. 2001) has been developed, which provides a comprehensive theoretical context for the determination of the economic effects of in-firm work training measures (cf. Fig. 4).

As Fig. 4 illustrates, four different implementation phases can be distinguished; for detail, see the portrayal in Phillips et al. (2001) and Phillips and Schirmer (2008). First, during the evaluation planning, both the data collection and the ROI

analysis are conceptualized. As part of the ROI analysis plan, the method of isolating the effects of the training measures and converting them into monetary values is determined. Moreover, appropriate methods for calculating data collection costs, for measuring immaterial values, and for communicating the results within the company are chosen. Secondly, during the phase of data collection, an important distinction needs to be made between data to be collected during and after the training measure (Phillips and Schirmer 2008). So-called “hard facts” (such as costs, time, productivity, and quality) and “soft facts” (such as work- and customer satisfaction) are obtained by means of a whole array of techniques: surveys, tests, interviews, supervision or the analysis of business key performance indices. This phase includes all four levels of Kirkpatrick’s evaluation model (Phillips et al. 2001). The third phase is data analysis, where the 5th level of the evaluation, the calculation of the ROI, takes place. The first step towards this goal is the identification of the effects of the training measure, without which no valid links between the training measure and improvements in employee performance can be established. It is, therefore, the most critical element here. The guiding principle is to control for other possible influences (Phillips et al. 2001). Phillips and Schirmer (2008) suggest nine possible methods: control group design, trend-line analysis, prognostic methods, estimations by participants, superiors, management, and experts, estimates of other factors, and the evaluation of the impact by customers. It is clear, however, that only a control group design meets the requirements of producing conclusive evidence. The other methods mentioned above will render inferences which can at best claim a certain degree of plausibility based on the line of reasoning and the collected data (Ottmayer et al. 2010). Only then, with reference to the identified effects, can the aspired financial valuation of the educational intervention take place, provided that the demonstrated effects can be converted into monetary units. This conversion can be accomplished by way of different methods. While some hard data, e.g., key performance indices such as the number of produced units (productivity), unit cost (costs), defectives (quality) or the required set-up time (time) can be obtained and converted into monetary values fairly easily, the same does not apply to the so-called soft facts such as work satisfaction, capacity for teamwork, employee commitment, or reduction of social conflicts (Phillips and Schirmer 2008.). In these cases, existing data should be recorded descriptively as immaterial values and not converted into monetary units (Phillips et al. 2001).

The conversion of the identified effects into monetary values should be done according to the following steps (Phillips and Schirmer 2008):

1. choice of the pertinent variable
2. determination of a base value (V)
3. identification of the change – e.g. over a month – in the variable which is attributable to the measure (Δ PMONTH)

4. extrapolation of the change to the timespan of a year (Δ PYEAR)
5. calculation of the annual value of the improvement

In order to achieve this, the costs which were incurred due to the training measure are to be recorded in their entirety. All direct and indirect costs are to be included. If the training measure is a one-off intervention, all costs are registered and assigned to the measure. However, should a measure be implemented repeatedly, direct and divided costs must be distinguished. In the case of the latter, the costs of the need analysis or the development costs are to be divided over the entire duration of the training measure (Phillips and Schirmer 2008). Having obtained all the relevant information, the calculation of the ROI can be performed on the basis of the equation given above, which finally facilitates the required comparisons with the utility of other investments (Phillips and Schirmer 2008).

The fourth and final phase of the ROI process model is the reporting.

Several case studies that include the calculation of the ROI in accordance with Phillips' ROI process model can be found in the relevant literature (e.g., Phillips et al. 2007; Phillips et al. 2001), but unfortunately these are not always sufficiently detailed. However, a commendable example of calculating the ROI for a training measure is provided by Kauffeld (2010). The assumption given here is that a small business wishes to increase its revenue. The computation of the net utility – i.e., the ROI – is then demonstrated in detail. It remains to be seen whether such examples are followed by publications on real applications. In order to achieve this increase in revenue, a training measure for its staff is implemented. Its content consists of the optimization of sales pitches, improvements of product presentation and accident prevention. One year after the measure, the monetary effect of the training measure is determined. Following Phillips, the total costs of the training measures are calculated first (cf. Table 1). All direct and indirect costs are included.

Table 1 Calculation of the total costs of the training measure (based on Kauffeld 2010)

	Amount in €
<i>Direct costs</i>	
Trainer fee	4.327
Material	1.619
Rent for room	2.860
Travel costs	6.977
Catering	582
<i>Indirect costs</i>	
Administrative costs	84
Wages	6.644
Other	1.355
Total costs of measure	24.448

Once the total costs of the training measure have been determined, the calculation of the utility of the measure can take place (cf. Table 2):

In this case, the ROI is €21.70, i.e. for every Euro invested in the training measure, €21.70 had been gained after a year.

Due to the criticism of the computation of the ROI discussed herein, there have been a small number of attempts at suggesting alternative possibilities for obtaining valid measures of the monetary effects of HRD. One example for this is the study of Wang et al. (2002). Here, a well-defined theoretical approach to measuring the ROI in the HRD sector was chosen, which included all economic returns, i.e. monetary returns (e.g. total revenue and profitability) as well as non-monetary ones (e.g. customer and employee job satisfaction). The initial assumption is that investment and returns in HRD differ significantly from those in the accounting and financial sectors, since it does not pertain to fixed assets, but includes individual, collective and organizational learning processes, ultimately aiming at changing – improving – human performance and/or behavior. But it is particularly difficult to convert the utility of attitudinal and behavioral changes into monetary units. Therefore, it is assumed that a comprehensive ROI measurement for HRD interventions or program's needs “to identify and measure the impact of the HRD subsystem on the output of the production system” (Wang et al. 2002, p. 213). Included in the evaluation are input measures (number of employees, HRD investment in dollars, in staff, time, material, equipment for instruction), process variables (quality of the HRD intervention and the corresponding learning success), and output indicators (performance improvement and behavioral change of employees as a result of the HRD intervention). The evaluation takes place analogously to the first three levels of Kirkpatrick's model (1959, 1998). But in order to determine the effects of the HRD subsystem on the production system and/or business success, an analytical framework for measuring the ROI of an HRD intervention in a production system scenario, which considers the manifold factors that need to be considered in the determination of the ROI, was developed. For a detailed description of the computational procedures see Wang et al. (2002). This approach relates to the entire HRM process. The authors point out that their approach is more suitable for measuring the benefits of entire HRD programs and less so for measuring the impact of just one single short-term intervention (e.g. a one-day teambuilding training event). The key advantage of this concept may be seen in the use of data that are available within an organization, and in the avoidance of subjective judgments. This ROI approach therefore appears to present an opportunity to measure more comprehensively the net impact of HRD intervention on the overall business output, taking further relevant variables into account. It is to be noted however, that this approach still seems to be lacking real-life applications and subsequent empirical evidence. Further research along these lines would be highly desirable.

5 Conclusion

Despite the broad consensus in science and industry regarding the necessity to obtain measures of the efficacy of training measures, this form of evaluation is, in practice, largely restricted to assessing the satisfaction amongst participants and of their self-reported learning success. Only a small part of the enterprises surveyed conducts educational planning, assesses educational requirements, implements cost analyses and evaluation of instruction, output and potential transfer into the workplace. Economic benefits can be derived from an intervention if, and only if, the acquired qualifications can be transferred from the instructional setting to the workplace. In order to maximize positive transfer, appropriate concomitant measures have to be designed, coordinated and evaluated (cf. Seidel 2012). Educational controlling definitely does not mean to decide on in-firm education and training from a mere cost-benefit-calculation-perspective, particularly in regard to the problems discussed above which relate to estimating the benefits; educational controlling also encompasses the development of quality in-firm education and training. That means identifying concepts which are accepted by the specific learning groups, to ensure training methods which are appropriate for the target group, to establish learning environments which support the learning process and motivate the participants, to introduce workplace characteristics which are conducive to transfer as well as to remove transfer-impeding factors.

Unlike this, the computation of the net monetary value – the ROI – of in-firm training is only rarely applied. A number of reasons for this have been given above, suggesting that the technical difficulties of calculating the ROI are the most significant obstacle for the implementation of this procedure. It is clear, nevertheless, that the proceeds of training measures, whether of monetary or non-monetary nature, should receive increased attention in future evaluation exercises, because this appears to be a key element in advocating in-firm training. This is no less justifiable than the advocacy of an economically rational course of action in the face of scarce resources (Seeber 2000). In the face of highly complex in-firm structures and environments the reconstruction of causal relationships between educational and training interventions and entrepreneurial success require highly sophisticated models of evaluation.

Despite the existing technical problems, there are also still the problems presented by inaccessible data which in turn can lead to a loss of credibility in the computation of the ROI. Nevertheless, the ROI process model suggested by Phillips appears to be the most appropriate available method for the calculation of the ROI of training measures. It should be noted that the work of Phillips (1997a, b) has significantly contributed to the growing awareness of the need for methodologically sound evaluations in the field of in-firm work training and HRD. This also holds true for other approaches to the calculation of the ROI, in particular the approach of Wang et al. (2002). This predominantly quantitative model facilitates the inclusion of non-monetary effects in the measure, primarily those aiming at attitudinal and behavioral change. The fact that neither of these models have led to a well-established practice of their regular application underscores not only the need

for further research, but even more so the need for real-life experience with this set of methods.

In general, educational controlling can live up to the expectations attached to it if it moves away from a merely economic orientation, and pays more attention to real educational concerns. Thus, educational controlling should be seen as a comprehensive system of planning, analysis, and governance for education and training in organizations. But not every control technique imaginable needs to be implemented in every case. Data collection efforts and their practical usefulness need to be balanced and tuned to the specific context. There is, indeed, an impressive array of available methodological options. What is needed, then, is the application of intelligent judgment and parsimonious choice.

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The Added Value of Expatriation

Assessing the Return on Investment of International Assignments

Yvonne McNulty

Abstract

Expatriation is undoubtedly an expensive undertaking. Companies spend billions of dollars annually to send their employees on international assignments, and yet, based on recent reports (e.g. Brookfield Global Relocation Services, *Global relocation trends survey report*, Woodridge, IL, 2012) the return on investment (ROI) from expatriates has been altogether ‘unsatisfactory’. And so, year-on-year, organizations still struggle to define what international assignment success really means, and have made little to no progress on expatriate ROI in practice. More alarmingly, few have a clear strategy for how to measure expatriate ROI in a meaningful way (Cartus & Primacy, *Global mobility policy and practices survey*, Wilmington, NC, 2010). In addition, these same companies often have a short-term profit-driven focus, ignoring such forces as international careers and the “global war for talent.” Many also fail to run their mobility programs like they often do other areas of their business: with rational strategic practices, and a clear strategy and focus to ensure an acceptable level of “success” (McNulty and Inkson, *Managing expatriates: A return on investment approach*, Business Expert Press, New York, 2013). The question then is: if expatriates are among an organization’s most expensive employees, surely we ought to be able to justify the money spent and manage them more effectively?

The purpose of this chapter is to delve deeper into the “added value of expatriation”. Specifically, what purpose does expatriation serve and which types of international assignments *and* international assignees add real value? How has expatriate return on investment (‘ROI’) been historically defined and measured? And how should the return on investment of international assignments be evaluated in the future?

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1 The Value and Purpose of Expatriation and International Assignments

Expatriation plays a vital role in an organization's global operations, for a variety of reasons. Early research (e.g., Edström and Galbraith 1977; 1994; and more recently Harzing 2001) shows that companies have three major purposes for using expatriates: (1) to fill international positions when qualified locals are not available, (2) for management development, and (3) to help control, coordinate, and assist in the transfer of a firm's culture. These purposes have been validated by several industry surveys in which it has been found that the top six reasons for using expatriates are to: (1) fill a skills gap, (2) build management expertise, (3) launch new endeavors, (4) transfer technology, (5) enable managerial control, and (6) transfer corporate culture (Brookfield Global Relocation Services 2010; Cendant 2002). McNulty and Inkson (2013) found that in addition to the above, expatriates are also used for: (1) corporate culture reasons (such as an old boys network, or continuing to use expatriates because they have always been used), (2) functional requirements in terms of project-based mobility where a client requires consulting staff on-site, (3) financial reasons including for bottom-line driven objectives or the cost advantages associated with using expatriates from a certain location (e.g. India), and (4) convenience reasons, for employees requesting self-initiated transfers for their personal benefit. These reasons illustrate that just as organizations differ greatly across industries, they will also have different reasons for using expatriates. However, the motives for expatriation are not always mutually exclusive: there may be more than one reason for using expatriates and there may be more than one benefit to be gained or multiple potential failures and lost opportunities.

Many of the researchers who study expatriation and global staffing (e.g., Collings et al. 2009; Lazarova et al. 2010; Pinto et al. 2012; Scullion and Collings 2006) have focused on a particular form known as the 'international assignment'. This typically involves a manager or technical specialist, often (but not always) from an organization's home-country base, who is assigned temporarily to fill a specific role or complete a specific project in an overseas subsidiary, usually over a predetermined period, perhaps 2 or 3 years (Dowling et al. 2013; KPMG 2011). After that time, the expatriate typically returns home through a process of repatriation and is then re-integrated within the organization (Lazarova and Cerdin 2007). If the expatriate has an immediate family (as the majority do), then the family's needs in the foreign setting (for example, children's education) must also be dealt with both abroad and once back home (Lazarova et al. 2010; McNulty 2012).

Recent research (e.g., Collings et al. 2007; Mayrhofer et al. 2008; McNulty and Inkson 2013; Meyskens et al. 2009; Tait et al. 2012) and industry surveys (e.g., Ernst & Young 2011; KPMG 2011) suggests, however, that the continuing preoccupation with single long-term 'there-and-back' assignments is an outdated model upon which expatriation is continuing to be run, but which is creating problems for sponsoring organizations. Indeed, the there-and-back assignments popular in the 1980s and 1990s were undoubtedly easier to manage than today's more diverse and

Table 1 The meanings of ‘international assignment’

Type of assignment	Definition	Advantages and disadvantages
Long-term assignment	Temporary transfer normally lasting between 1 and 5 years, though often extended; the employee’s family typically relocate	+ deep knowledge development – costly
Short-term assignment	Temporary transfer of between 3 and 12 months duration; the employee’s family typically do not relocate	+ less expensive – family problems
Commuter assignment	Temporary transfer that allows an employee to reside in his or her home country on a regular basis, usually on weekends, while commuting to work in a host country, usually on weekdays	+ less expensive – burnout
Frequent business travelers	Temporary transfer of between 3 and 6 months duration typically on a business visa rather than a work permit of the host country; the employee and their family do not relocate	+ less expensive – burnout
Flexpatriates	Short-term temporary transfer where an employee travels from the home country to other parts of the world in response to business requiring face-to-face and in-person contact, and then returns to the home country shortly thereafter; also known as frequent flyer assignments; the employee and their family do not relocate	+ less expensive – burnout
Accommodation assignment	Employment provided by an organization in a host country at the request of an employee for a specific period of time that is solicited/ initiated by the employee and used predominantly when the employee’s spouse/ partner is offered an assignment by his or her employer to that host country	+ employee retention – often not budgeted
Interregional assignment	Temporary transfer where the home and host countries are both within a defined geographical area (e.g. Southeast Asia)	+ builds regional talent and expertise + less expensive (fewer benefits provided)
One-way transfer	Permanent transfer where an employee severs ties with the home country and becomes a local employee of the host country, with no company-funded option to return to the home country	+ no repatriation required – turnover risk increases in host-country
Localization	Transitioning of an assignee to an employment status/package in the host country equivalent to that of host country nationals (locals)	+ cost control – turnover risk increases in host-country
Indefinite assignment	Temporary transfer that does not have an anticipated end date, but which is still intended as a temporary (rather than permanent) assignment	+ facilitates achievement of assignment objectives in real time – costly over long-term

(continued)

Table 1 (continued)

Type of assignment	Definition	Advantages and disadvantages
Rotational assignment	Temporary transfer requiring an assignee to work for a designated number of consecutive days in the host country, followed by a designated number of consecutive days leave (taken in the home country, host country, or another “leave location”)	+ no disruption to family in home-country – burnout
Sequential assignment	Assignee is expatriated to another host country at the immediate conclusion of the original assignment without returning to the home country	+ builds international competencies – lack of connection to HQ
Unaccompanied (split family) assignment	Temporary transfer where the employee’s immediate family remains in the home country or a third location	+ less costly – increase in family problems

complex ones. These alternative types of assignments are outlined in Table 1 and include commuter, short-term, sequential, and one-way transfers, among others.

In line with alternative assignments, other research (e.g. Arp 2014; Moeller et al. 2010; Thite et al. 2009) also points to a change in the types of assignees that accept an international assignment, beyond only parent country nationals (PCNs). In order to help meet changing and broadening demands for talent in key markets, new meanings of ‘expatriate’ are emerging (see Table 2 for an overview), among them third country nationals (TCNs), expatriates of host country origin/returnees (EHCOs), foreign executives in local organizations (FELOs), localized expatriates (LOPATS), and inpatriates.

In addition to the above, many non-traditional expatriates have begun to emerge that have previously not been acknowledged or adequately researched. As McNulty (McNulty 2014, p. 67) points out,

the context within which expatriation takes place has for years been dominated by the traditional view that international assignees are typically senior male staff in their late 40s or early 50s, sent by a corporate western headquarters to a subsidiary office in another country [and] they are almost always accompanied by their (often non-working) wife, and children. Over the past decade this view has changed, largely because conventional wisdom concerning the traditional international assignee has become not just unproductive, but counterproductive wherein using the ‘traditional’ type of expatriate has caused an unnecessary reduction in the available talent pool.

Today, the demographic data suggesting ‘who’ is an international assignee has been turned on its head. Non-traditional expatriates now include more women, married couples with no children or single and unaccompanied people, same-sex partnerships, and younger expatriates (Fischlmayr and Kollinger 2010; Gedro 2010; Harvey and Moeller 2009; McNulty 2014; Shortland 2009). There are also increasing numbers of non-Western, particularly Asian, expatriates (Goby et al. 2002) as

Table 2 The meanings of ‘expatriate’

Type of Assignee	Definition	Where to find
PCNs: parent country nationals	Citizens of headquarters country location of a company from which they are then sent abroad	Home-country
TCNs: third country nationals, foreign local hires	Originate from neither the home country where corporate ‘headquarters’ is located, nor the host country where they are employed, but a third country where they have lived either temporarily or permanently before agreeing to move to the host country	Host-country region
EHCOs: expatriates of host country origin/returnees	Permanent resident of the parent country but belongs to ethnicity of the host country and is hired and/or transferred by the parent country organization to the host location on a temporary assignment or permanent transfer	Host-country
FELOs: foreign executives in local organizations	Foreign individuals at the executive level who hold local managerial positions supervising HCNs in local organizations where these organizations have their headquarters	Host-country
LOPATS: localized expatriates	Expatriates that originate from a home-country and are localized in the host-country	Home-country
Inpatriates: reverse expatriates	HCNs and TCNs of a subsidiary sent to the parent country headquarters on an international assignment to provide them with an international perspective, exposure to corporate culture and a network of contacts	Host-country
Millennials	Individuals who are members of “Generation Y”, those born 1982–2000	Home-country

Adapted from McNulty and Inkson (2013), p. 16

companies attempt to expand their talent pool options while struggling to fulfill their global staffing needs.

2 Defining International Assignment Value

For more than a decade, measuring the return on investment from expatriation has been the “holy grail” of the global mobility industry (Johnson 2005; Russ-Eft and Preskill 2005; Welch et al. 2009). Yet the *Brookfield 2012 Global Relocation Trends Report* shows that there has been very little improvement in expatriate ROI-based management techniques: of the 123 companies surveyed, only 9 % formally measure expatriate ROI. The main barriers include not knowing how to achieve it (39 %), not having time (18 %), and it not being important to their organization (11 %). None of the companies rated their ROI from expatriation as “excellent.” While 42 % estimated their ROI as “very good” or “good”, 58 % said it was “fair” or “poor.” Clearly, these figures indicate a massive waste of time,

money, and resources to secure a return on investment that is considered marginal at best. How can this be so?

Part of the problem lies in defining what a return on investment from expatriates really means. The most common definition historically among practitioners has been that of Brookfield⁴: “*achievement of the assignment objectives at the expected cost.*” Yet, research shows this definition is inadequate because expatriation is more than simply a financial ‘cost’ – there is also a non-financial cost and value that needs to be included (Scullion and Collings 2006). This shortcoming has led to the development of an alternative definition that has come to be widely accepted and cited in academia, and increasingly among practitioners:

a calculation in which the financial and non-financial benefits to the firm are compared with the financial and non-financial costs of the international assignment, as appropriate to the assignment’s purpose (McNulty and Tharenou 2004, p. 73)

An advantage of this definition is that it explicitly recognizes that while the concept of expatriate ROI should include and acknowledge a financial cost and benefit component, it must also include a non-financial component, which represents what many managers believe is the primary reason for using expatriates, particularly those on long-term international assignments. The focus is therefore not on financial cost alone, but on *value*.

Undoubtedly, the objectives of an international assignment may be too nebulous for some companies to identify, making expatriate ROI clearer for some organizations than for others. For example, objectives such as “professional development”, “succession planning”, and “building leadership capabilities” are often difficult to articulate in a meaningful way. For this reason, a definition, such as the one above, needs to deliberately avoid being overly prescriptive, to instead allow the definition to be customized according to a wide range of financial and non-financial costs and benefits appropriate to different assignment purposes and company expatriation strategies. This is essential because there are multiple reasons for using international assignments, which makes it impossible to determine a “one best” definition of expatriate ROI that will fit every company or every assignment. Indeed, investments in expatriation are likely to be defined differently across various assignment types within different business units, industries, and regions. As one manager indicated in a recent study on expatriate ROI,

companies have got different end points that they wish to achieve . . . [so] it’s fatally flawed to think that one answer suits everyone because it doesn’t (McNulty 2010, p. 181)

What is apparent from the McNulty and Tharenou (2004) definition of expatriate ROI is that *strategic intent* is of paramount importance. How is the international assignment intended to contribute to the organization’s strategic goals, and the elaboration of these goals in tactical and operational terms? If an international assignment does not have a clear purpose from which expected assignment outcomes and value can be determined, then how can it be evaluated and how can the company ever know whether the investment was justified? Strategy then must be a key *determinant* of assignment purpose.

Beyond strategy, however, there are other reasons that knowing the assignment purpose matters. McNulty and Tharenou (2004) suggest that differences in assignment purpose will lead to different choices in the HR practices used to support expatriates. For example, if the purpose of an assignment is to control, coordinate, and assist in the transfer of a company's culture, then expatriates will be selected, trained, and compensated differently than if the purpose of the assignment is mostly knowledge transfer or to fill a technical position. The purpose of an assignment also moderates the costs and benefits arising from international assignments. For instance, more expatriate ROI may be gained by pre-departure training of an expatriate who will be a chief executive abroad than of an expatriate who will provide the technical skill for a company project. On the other hand, the purpose of an assignment will also dictate who is selected to go in terms of the individual factors relating to expatriates themselves and the ways in which these may ultimately impact on expatriate ROI, where the choice of candidate for a developmental assignment (for example) should be dictated by what the assignment is intended to achieve.

3 Measuring International Assignment Value

While obtaining a measure of expatriate ROI has been a high priority for many companies for at least the past decade (e.g., Johnson 2005; Schmidt and Minssen 2007; Welch et al. 2009), predominantly on the basis that doing so will assist in making critical decisions about global staffing, McNulty et al. (2009) found that most firms do not have formal procedures in place to measure expatriate ROI. Instead, there is a heavy reliance on informal practices that are seldom aligned to a global strategy in an attempt to measure *something*, even if that something wasn't particularly meaningful in terms of guiding future decision-making.

But as McNulty et al. (2009) found, the use of ill-defined informal measures, the observation of only a few factors or outcomes within a limited context (e.g. assignment failure), and ignoring the possible inter-relatedness of various factors that simultaneously impact on expatriate ROI creates problems for many companies. Furthermore, focusing only on isolated factors and their outcomes tends to focus too much on the global mobility program alone, rather than on other wider organizational and international forces. Consequently, inappropriate data on their own reveal very little about *why* certain expatriate outcomes occur.

What we can learn from prior research on expatriate ROI (e.g., Johnson 2005; Schmidt and Minssen 2007) is that existing measures of ROI do not account for the total "expatriate management system" (McNulty and De Cieri 2011), a conceptual and theoretical foundation based on systems theory (Ackoff 1971; Von Bertalanffy 1972; Wang et al. 2002). The core argument as to why an expatriate management system matters is that when companies fail to adopt a systems approach, the subsequent limited focus on isolated factors prevents mobility managers from reframing international assignments in the broader context of their organization's overall strategic capabilities. At best, such "measures" give the perception that

Table 3 Informal ROI measures used by mobility managers

Informal measure	%	Sample quote
1. Anticipated outcomes: Expected ROI calculated in a paper-only exercise as a decision making tool	24	By the time we find someone who is going on an assignment it is a done deal. The estimate and the approval process is just a formality.
2. Short-term financial: Determine whether costs of assignment exceed budget or revenues increase	30	In terms of ROI . . . we're able to determine it from apportioned revenue from the individual in what they charge . . . it's relatively easy for us to determine how much somebody bills and offset that against assignment costs and look for baseline data to determine ROI.
3. Short-term functional: Immediate benefits assessed in local objectives met (e.g. knowledge transferred), local successor groomed, repatriation turnover, premature returns/failures, among others	41	It comes down to really the success in the assignment, are they actually doing the job . . . it's got to be the fact that we increase sales by X or we design something new or we do whatever we needed to do . . . the actual fundamental job you sent them to do.
4. Long-term strategic: Benefits assessed beyond end of assignment in long-term retention rates, promotion rates, talent management and succession planning objectives being sustained, building career expats, increasing brand recognition and relationships, and overall value gained	31	The return on investment would be that we continue to have a viable talent which is enhanced by the overseas experience . . . somebody who is able to get the job done, but who is now more culturally savvy and can be counted on again for an assignment.
5. Individual measures: Benefits accruing to expatriate employee rather than firm (e.g., career capital enhanced, financial gain)	12	Mobility has very much more to do with what is the net cash position going to be to the employee, and are we doing the right thing by the employee.

Source: Adapted from McNulty et al. (2009)

Note: Managers provided multiple responses, so percentages do not add up to 100

measurement is in some way driving the desired organizational actions expected from expatriates, even if the impact is not visible or is misleading. At worst, careless measurement may drive the wrong actions and create long-term problems of improper resource allocation and increased costs (see McNulty 2013b).

To illustrate this point, McNulty et al. (2009) found the informal measures of expatriate ROI that have been used include: (1) anticipated outcomes; (2) short-term financial measures; (3) short-term functional measures; (4) long-term strategic measures; and (5) individual measures. Table 3 provides examples of these informal measures and their levels of usage by organizations, along with sample quotes from various mobility managers.

McNulty and Inkson (2013) are highly critical of these informal measures for a number of reasons. First, the reported outcomes from these measures was found to be based mostly on ad hoc data and subjective perceptions of reality, with many mobility managers admitting that their assessments were based on "intuition", a

“feeling”, a “belief”, or an (often biased) interpretation of an actual outcome. As one informant in their study admitted (p. 151):

We have all the data in the systems which are trackable, all the costs are trackable, and that’s no issue because we can call them out of the system without much difficulty . . . it’s not difficult to do. But we don’t do it I’m afraid to say . . . it’s all basically perception.

A further problem is that these informal measures relate to past performance and provide only retrospective data as observed once the assignment has terminated, thereby diminishing managers’ ability to obtain predictive information upon which they might act. Additionally, because informal measures are easier to obtain, they typically produce quantitative indices (e.g., turnover rates, failure rates) that often lead to inferences about unobserved relationships (McNulty and Tharenou 2004).

4 Assessing the Return on Investment of International Assignments

4.1 Individual ROI

Although this chapter is focused predominantly on the return on investment of international assignments to companies – what McNulty et al. (2013) coin ‘corporate ROI’ or ‘cROI’ for short – it is important that in considering corporate gains we also must focus on returns for the individual expatriate in terms of his or her personal return on investment, or individual ROI (iROI). This is because expatriates are the very people that companies rely on to deliver the value they seek – the *e* in eROI (expatriate ROI) – given that they are making their own investments of time, energy and skill into an international assignment so that the company will ultimately benefit.

Corporate ROI (cROI) is defined as *the return on investment to companies arising from expatriation*, whereas individual ROI (iROI) is a construct that draws on individuals’ motives for undertaking and accepting international assignments and the benefits they expect to gain by doing so. Individual ROI is defined as *the perceived benefits that accrue to expatriates arising from international assignment experience in relation to professional and personal gains*. In simple terms, expatriate ROI, then, is an amalgamation of corporate and individual costs and benefits that combine to impact on the overall return on investment from expatriates companies expect. Thus:



Source: McNulty and Inkson (2013).

In thinking about iROI, it is important to note that the definition both draws on, and extends, what is commonly referred to as expatriates' "career capital", i.e. their energy, values, skills and networks built up over their working lives, enabling each to acquire competencies that can be used within, as well as across, companies (Dickmann et al. 2008; Stahl et al. 2002). Some of the beneficial iROI outcomes that expatriates receive through their international assignments include personal *career enhancement* and *family and personal opportunities* (Hippler 2009; McNulty et al. 2013). Similarly, Cartus found that 90 % of companies report *career development* as a major reason for their employees to engage in global mobility (Cartus and Primacy 2010). But there are individual costs that expatriates also incur, in areas such as family difficulties, and decreased compensation arising from local-plus and localization strategies deployed by their companies (McNulty and Aldred 2013). Why does iROI play such a critical role in overall expatriate ROI?

The answer lies in an increasingly dual-dependency relationship that is emerging in the employer-employee relationship during expatriation, insofar as the relationship is no longer dominated *only* by the interests of the company. As McNulty and Inkson (2013, p. 36) note:

Gone are the traditional days when expatriation was a solely company-controlled activity, used by firms as a somewhat ruthless tool to reward, incentivize, and direct employees as faceless commodities and resources for the company's overall gain. As countless studies and reports now attest, the increasing internationalization of work, the changing nature of employment (for example, where individuals are now expected to have upwards of seven or more career changes during their lifetime), and the routine acceptance of global mobility as an inevitable part of one's working life, have compelled many employees to seek out long-term international assignments as a way to ensure continued employment. Thus, employees, and expatriates in particular, are nowadays increasingly focused on how best to negotiate the opportunities that international work presents, and how personal investments in global mobility can ensure "lifetime employability".

As a result, the company's stance as the dominant stakeholder in the expatriate employment relationship is weakening. Because today's companies need expatriates more than ever, this then affects the expatriate ROI that can be expected, not in the least because finding expatriates is one of the biggest challenges they face. As the inevitable scramble to fill their international subsidiaries with qualified staff then ensues, the fallout from this talent shortage has given rise to alternative forms of global staffing that enable firms to build a dynamic pool of candidates but which at the same time renders them unable to rely on only PCNs, over whom they have historically had considerable control.

As Table 2 shows, assignees today are increasingly being drawn from different candidate pools, including HCNs, foreign local hires, inpatriates, FELOs, and expatriates of host-country origin (returnees). While it is true that many of these alternative assignee types cost less to employ, and deploy, many also receive less support in their international roles in comparison to PCNs, in areas such as reduced compensation, benefits, and career support, thereby causing additional unforeseen problems particularly in relation to iROI and their subsequent loyalty and retention with the company in expatriate ROI terms.

4.2 Hidden Costs and Benefits

One of the most important, and significant, hidden costs and benefits that need to be considered when assessing the ROI of international assignments is that, with the emergence of a dual-dependency perspective that is heavily focused on iROI outcomes, many expatriates – and especially those that are company-assigned – are no longer as loyal to their employers as they once were. For expatriation, this represents a dramatic shift in the expatriate employment relationship, not least because the traditional view of expatriates' commitment to their firm has rested on the assumption that there are significant “ties that bind” them to their organizations as a result of the ‘bells and whistles’ compensation package they receive that then minimizes financial and other risks they face in being abroad.

Unfortunately, as McNulty and Aldred (2013) explain, the introduction of local-plus compensation as a cost-saving measure for companies has resulted in diminished loyalty among many expatriates. A local-plus package is one where employees are paid according to the salary levels, structure, and administration guidelines of the host location, as well as being provided with limited ‘expatriate-type’ benefits such as transportation, housing, and dependents’ education in recognition of the employee’s ‘foreign’ status (Stanley 2009). As such, today’s expatriates are increasingly more inclined to reject the traditional safety net afforded by company-assigned expatriation in favor of having more control over their international careers and their family life. Indeed, in their study of 31 Asia-Pacific based expatriates, McNulty et al. (2013) found that nearly 40 % of expatriates were moving away from long-term loyalty-based international assignment contracts (i.e. many assignments with the same firm), towards more short-term transactional type contracts (i.e. many assignments with many firms). “Vertical mobility” (i.e. promotion) to enhance career growth in only one firm was found to be less important than “lateral mobility” across a range of jobs, functions, borders, and employers.

These changes signify a change in expatriates’ career orientation, from company-controlled ‘servant’, to free-agent ‘entrepreneur’ (McNulty 2013a). In simple terms, expatriates are increasingly pursuing ‘boundaryless careers’, a term that implies the progression of career moves across multiple employment settings and multiple borders (Thomas et al. 2005). What matters for expatriate ROI is whether, and how, this change in career orientation occurs – are expatriates *pulled* by a deeply held desire to ‘work and travel abroad’ over which companies have no control, or *pushed* inadvertently by employers who are unresponsive to their personal and career needs? The often hidden but long-term cost in terms of expatriate ROI to the company can be significant if expatriates leave and take their newly-developed expertise to other companies, particularly competitors.

What the reality of iROI highlights is that, aside from the benefits accruing from international assignments, there are also many hidden costs that have thus far not been anticipated, nor addressed, that are brought about by the emergence of iROI. McNulty and Inkson (2013, p. 38) suggest that these can cause new retention problems for companies including,

that “external marketability” to other employers has emerged as a new and valuable iROI commodity on the international labor market; that the personal goals of expatriates seem often to be in conflict with the strategic goals of the companies they work for; and that the values, types of work, careers, and lifestyles that expatriates now wish to pursue appear to be changing.

McNulty and Inkson (2013, p. 38) further contend that the problem overwhelmingly seems to lie with,

companies [that] do not reward and support today’s modern expatriates in a way that matters [where] there exists a very wide gap between the value that companies perceive their expatriates’ hold and the feeling by expatriates’ that they are even valued by the companies that employ them.

4.3 Evaluating International Assignment Value

If prior attempts to evaluate international assignment value using measures of expatriate ROI have been criticized for lacking rigor and substance (e.g., Johnson 2005; McNulty et al. 2009; McNulty and Inkson 2013; Welch et al. 2009), how then should the return on investment of international assignments be evaluated? There are two schools of thought.

Doherty and Dickmann (2012) illustrate how organizations attempt to assess ROI by reporting on the development of a range of metrics. Using an action research approach, and working in close collaboration with nine multinational companies, they developed a set of metrics to explore and gauge the ROI of international assignments by analyzing the purpose of expatriation, investment, performance, promotion, and repatriation and retention as the key foci of measurement. Key insights from their study were then synthesized to provide actionable outcomes for participating companies.

Using case study data on each of the nine organizations, the researchers’ measured expatriate investment starting from the company systems and calculating the costs for each of the international assignees. They found that during the process of developing the metrics, organizational representatives were afforded the opportunity to debate the purpose of metrics and influence the type of measures produced. The measures that were then developed were valuable, meaningful, and useful to the participants because they were subsequently used in internal reviews and benchmarking across organizations, as well as incorporated in companies’ systems thereby leading to corporate policy changes. The researchers’ contend that this ‘action research approach’ helped to overcome the problems of buy-in and the lack of a skills base to develop measures, as found by McNulty et al. (2009). A shortcoming of the study was nonetheless that the reliability and validity of the metrics developed for the project could not be tested, for which further research is needed.

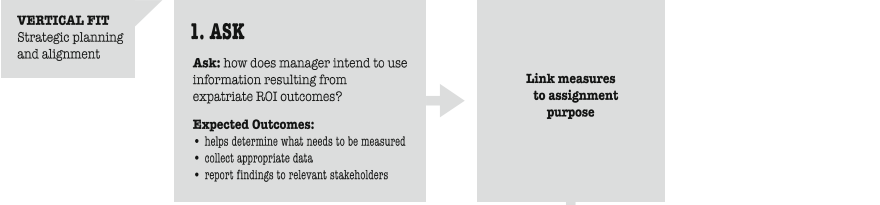
A different school of thought relies less on metrics to instead focus on ‘an evaluation framework’. McNulty and De Cieri (2013) propose that such a

framework is an essential first step *before* metrics are developed and selected. They argue that when there is no underlying mindset to metrics’ usage – no expatriate ROI philosophy applied to the choice of measure and what value the metric can ultimately deliver – then the metrics can be somewhat meaningless, ill applied, and, in some cases, quite misleading. The reasoning behind their approach is that metrics may tell a company *what* it got, but it won’t tell the company *why* it got that particular result. Consequently, if the company doesn’t know why, it will not be able to improve or repeat those practices that have helped it achieve some measure of lasting return from its global mobility program.

McNulty and De Cieri’s (2013) central argument is not that metrics are unimportant but that more rigor is needed around metrics selection and use. On the basis that many global firms will continue to invest in expatriation and international assignments, moving toward a measurement approach that can more accurately account for the value to be gained from expatriation will undoubtedly be crucial. As such, their evaluation framework is designed to guide both the choice of expatriate ROI metrics (vertical fit/strategic alignment), and how expatriate ROI measurement should be approached (horizontal fit/operationalization). Figure 1 outlines two phases and five criteria for building an evaluation framework.

In Phase 1, the vertical fit of metrics to a company’s broader strategic objectives is key. Before deciding on actual metrics, the organization must first determine

PHASE 1



PHASE 2



Fig. 1 Evaluation framework (Source: McNulty and Inkson 2013)

(ASK) how senior managers across all business units intend to use the information arising from the chosen metrics. In addition, what purpose will it serve in the broader scheme of achieving organization-wide objectives? The point of Phase 1 is to therefore ensure that the choice of metrics is linked to a purpose to (a) improve the accuracy and reliability of outcomes, and (b) to help foster greater strategic alignment of global mobility to other areas of the company.

In Phase 2, the concern is with how to choose metrics that can be implemented and used appropriately on the ground, i.e. horizontally, across business operations. Using four criteria, the first step is to ensure a MIX of financial and non-financial metrics are selected, ideally a combination of traditional accounting metrics as well as intangibles (for example, development gains). Doing so pushes managers to capture international staffing value beyond just the (much easier to measure) financial costs associated with international assignments. This is particularly important for assignments where the main purpose is to achieve intangible or “softer” results, such as acquiring inter-cultural capabilities or enhancing leadership skills. Examples of metrics include revenue per full-time employee (FTE), profit per FTE, cost per FTE, remuneration/cost ratios, and human capital ROI (Fitz-enz 2002; PricewaterhouseCoopers 2006, 2010).

The second step in Phase 2 is to choose metrics that are *clear, feasible, and useful* (USEFULNESS). Clarity requires that any ROI metric be well defined and avoid ambiguity, trivialization, or irrelevance through the use of too few, too many, or the wrong metrics. Feasibility assesses whether a manager can actually collect the required data that a metric demands in a systematic and chronological manner. Usefulness implies that outcomes stemming from the expatriate ROI metrics can be utilized effectively in terms of strategic fit: If an ROI metric has clarity and is feasible, but the outcome will not tell a company what it needs to know about the value gained from international assignments, then the metric has little meaning.

A third step is to avoid being overly prescriptive by attempting to measure the impact of every global mobility activity or every outcome expected from international assignments (SIMPLICITY). This is important because it makes more sense to measure carefully selected mobility and international staffing activities using just a few key metrics, thereby ensuring a greater likelihood that there is a clear intention for the use of the resulting data, given that less – but more important – data will be collected.

The final step is to measure expatriate ROI at the appropriate time (TIMING), recognizing that the outcomes to be expected from international assignments may not be fully realized for several years. Assessments of international assignment value also can be made at more than one point in time – for example, during the assignment (via performance reviews), at the immediate conclusion of the assignment, during and/or after the point of repatriation (if appropriate), and in subsequent years as the benefits accrue. Timing is critical, because it shifts the measurement of ROI beyond the traditional accounting approach that expects assessments of value to be conducted in the same period in which the initial financial investment occurs. Instead, international assignment value can and should be assessed when the value that is gained is expected to be most apparent.

5 Summary

This chapter began with the premise that we need to be able to delve deeper into the “added value of expatriation”. By focusing on expatriate ROI and the various ways that its measurement has been approached, a key contribution is that recent improvements in measuring international assignment value by various researchers’ (e.g., Doherty and Dickmann 2012; Johnson 2005; McNulty and De Cieri 2013; Schmidt and Minssen 2007; Welch et al. 2009) can elevate the mobility manager function from an internally focused and program-based “advisory” role to instead make him or her accountable for *business results*. The use of an evaluation framework as suggested by McNulty and De Cieri (2013) allows, for example, the capturing and combining of hard outcomes such as sales and profits with softer outcomes such as developing expertise and building leadership. In doing so, the accuracy of expatriate ROI assessments improves, thereby improving overall global staffing decisions. Furthermore, their framework it is sufficiently flexible to be adapted when new trends and learning needs emerge, and therefore to account for changes in organizational priorities over time, particularly in relation to changes in a broader corporate strategy.

A further contribution is that the suggestion by various researchers (e.g., Doherty and Dickmann 2012; McNulty and De Cieri 2013) to utilize a mix of metrics that better suit the purposes and expected outcomes of each type of international assignment represents an important ‘paradigm shift’ from using only one ‘best’ measure to assess outcomes from every type of international assignment. By accounting for differences in assignment purposes, including different assignment types (short-term, long-term, commuter and so on), the resulting value from international assignment outcomes is likely to be far more accurate. Additionally, shifting the focus to *evaluating*, rather than “measuring”, is likely to avoid metrics that are not relevant, timely, or useful, because as McNulty and Inkson (2013, p. 163) suggest,

it is not the measurement of [expatriate] ROI itself, but what we *do* with the insights gained from the measures that matters and drives business performance.

In addition to the above, we have also introduced the construct of ‘expatriate ROI’ as a means of conceptualizing and evaluating not only individual ROI but the overall global mobility of the company. While expatriate ROI has become a kind of “holy grail” that many organizations aspire to utilize but few have made progress towards, the measurement approaches illustrated here (including a critique of the shortcomings of those that have proven to be unreliable) illustrates how progress towards a strategic and expatriate ROI-based approach to international assignments is not only necessary but can be impeded by “status quo” forces within the organization if not carefully managed and monitored. In noting that expatriate ROI requires clarity in terms of the purposes for expatriation against which its returns are measured, it is clear that international assignments can indeed continue to add value as part of organizations’ overall global staffing approach.

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A Look Into the Future: Is Working Time Freedom Apt to Add Value for Different Stakeholders?

A Discussion with Experts in the Field

Maike Andresen

Abstract

A potential future scenario in the field of working time flexibilization is that input control (recording working hours) will be replaced by output control (recording goal achievement). The underlying work time model is referred to as ‘working time freedom’ or ‘results-only work environment’ (ROWE). The implementation of working time freedom presupposes a collective effort to change the organizational culture so that employee control over the time, timing, and location of their work becomes the norm for all or a large group of employees at all levels of the occupational hierarchy. Traditional attempts to flexibilize working hours (such as part-time work, telecommuting, compressed work weeks), by contrast, rely on individual agreements with select employees and require a supervisors’ permission as a basic principle. ROWE has so far been implemented in few companies in the US, but rarely in Europe due to legal restrictions. This chapter discusses functional and dysfunctional effects of a ROWE for different stakeholders based on first empirical evidence, theoretical models and expert interviews. While the added value of working time freedom is deemed to be positive, several management practices are outlined as prerequisites for its success.

1 Introduction

A potential future scenario in the field of working time flexibilization is that input control (recording working hours) will be replaced by output control (recording goal achievement). This means that organizations move away from equating working hours with productivity, and, instead, focus on results and performance only.

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This refocus implies that employees are granted the sovereignty to autonomously dispose their working hours in terms of their duration and timing (including timing of breaks, vacations and days off), as well as their place of work while taking company-related and private requirements into account (Andresen 2009). The underlying working time model is termed ‘working time freedom’ (Andresen 2009) or ‘results only work environment’ (ROWE) (Ressler and Thompson 2008). These synonymous terms will be used interchangeably in the following analysis. According to Thompson (2013), *“In a ROWE, working hours are fluid and flexible and determined by each person. There are no set schedules, and employees are trusted to be where they need to be, when they need to be there. Employees use common sense to decide how to complete their work based on agreed-upon measurable outcomes. Managers do not direct when/where an employee does work.”* This implies that with ‘working time freedom’ or in a ROWE employees are no longer limited in their flexibility that hitherto could only be used on the condition of their supervisors’ permission. Instead, in a ROWE flexibility is made the normal way of working and becomes an integral part of organizational practices and culture (Perlow and Kelly 2014; Ressler and Thompson 2008). Thus, the traditional notion that long hours and constant availability signal commitment is challenged (Kelly et al. 2011).

The added value of working time freedom, however, is debated controversially among different stakeholders, in particular employers, employees, and works councils. A major challenge in this debate is that practical experience with working time freedom is limited. Whereas US-American cases show that working time freedom is implemented at numerous companies and at all hierarchical levels (Ressler and Thompson 2008; cf. www.gorowe.com), working time freedom is used less in European countries and appears primarily at higher hierarchical levels due to frictions with the Working Hours Act in many countries (see also European Working Time Directive 2003/88/EG). The Directive regulates the maximum working week (48 h is the norm), rest periods, night work and paid annual leave of a minimum of four weeks. In Germany, for example, working time freedom can legally still only be applied to the group of executive managers (leitende Angestellte) as they are not subject to the working time protection law (see Sect. 5 subparagraph 3 BetrVG/industrial relations law). While there is agreement that EU rules on working hours need to be reviewed and adapted, a consensus is not yet reached with businesses calling for more flexibility and the unions striving for more effective protection. Currently, the European Commission which is to decide on the review of the Working Time Directives analyzing possible options and carrying out an impact assessment taking full account of both social and economic aspects (European Commission 2014). Due to the limited application of working time freedom in practice and, as a consequence, a lack of scientifically proven empirical evidence regarding cause-and-effect-relationships, many of the arguments in the debate necessarily are based on hypothetical assumptions and derived from broadly similar working time models such as trust-based working time.

In the following, potential functional and dysfunctional effects of working time freedom shall be discussed in order to estimate its potential added value in terms of

economic gain and the achievement of social objectives, e.g. subjective well-being. Moreover, implications for management for the purpose of optimizing the added value are derived. The discussion presented in this chapter is based on empirical results and theoretical arguments, as well as interviews with three experts in the field from the US and Germany:

- Jodi Thompson, co-creator of the results only work environment (ROWE) at Best Buy and co-founder of CultureRx, LLC, USA,
- Dr. Hilde Wagner, Industrial Union of Metalworkers (IG Metall), Germany, and
- Dr. Nick Kratzer, Institute for Social Science Research, ISF Munich, Germany.

Any empirical data reported in the following is based on these two countries.

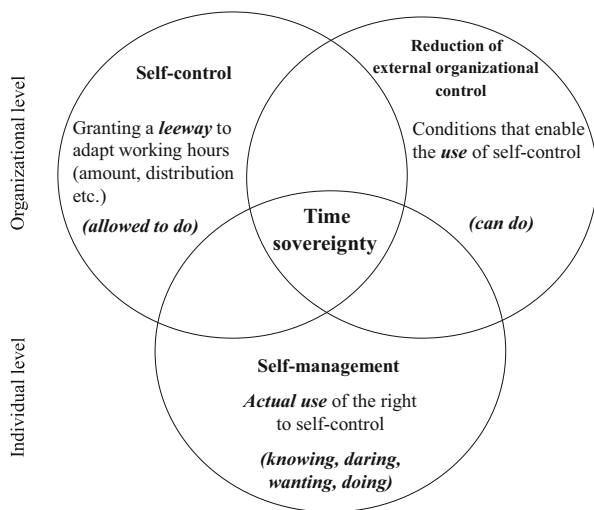
2 Characteristics of Working Time Freedom as Compared to Traditional Working Time Models

Three central variables characterize working time freedom (Andresen 2009; cf. Fig. 1):

1. deregulation,
2. results-oriented control and
3. time sovereignty.

ad 1: Deregulation denotes the absence of a recording of working hours. Whereas in trust-based working time systems the weekly hours of work are still specified in the employment contract, the contractual indication of hours of work is

Fig. 1 Time sovereignty
(Source: Andresen 2009, p. 14)



omitted in case of working time freedom. While time recording by the employer can be waived in case of trust-based working time, time recording is made obsolete under the condition of working time freedom (Andresen 2009).

ad 2: Results orientation implies that working time disappears as a performance measure. Instead, performance is measured based on the achievement of predetermined results (indirect control) while deemphasizing where and when work is completed and the amount of “face time” employees spend at the office (Andresen 2009; Perlow and Kelly 2014; Ressler and Thompson 2008). As a result of this, employees are directly exposed to market pressures and confronted with business dilemmas – such as costs versus quality, customer satisfaction versus high sales figures – that they are supposed to manage (Andresen 2009; Kratzer 2013). The focus on results also implies a striving for the elimination of low-value work, such as meetings that are held only as needed and are no longer seen as a regular part of work routine.

ad 3: Time sovereignty includes three components. Following the logic of AMO-theory (Appelbaum et al. 2000), the first two represent the opportunities on the organizational level and the third component describes the ability and motivation on the individual level as a prerequisite for effective time sovereignty. The first component is the *right to self-control*, i.e. employees’ autonomy to (co-)determine the amount of time required for task completion, the distribution of their work hours as well as the sequence of their own actions, and, to some extent, how they do their work while taking business requirements as well as personal goals, needs, and interests into account, without seeking permission from a manager or even notifying one (Hill et al. 2013; Kelly and Moen 2007; Moen et al. 2013a; Perlow and Kelly 2014; Reisch 2002; Ressler and Thompson 2008). The second component of time sovereignty is the *reduction of external control* by the employer so that employees are enabled to exert self-control without risk of being penalized in performance evaluations when working uncommon hours or away from the office (Andresen 2009; Kelly et al. 2011). Typical levers to reach this goal are the organization of work and the design of job profiles. The third, and last, component concerns *self-management*, i.e. employees’ ability and willingness to make use of their right to self-control and to work self-directedly (Andresen 2009; Munz 2006). Thus, employees are expected to manage their job performance like self-employed persons and to act in an entrepreneurial manner while staying dependent (“dependent self-employed persons”; Andresen 2009). How autonomy is made use of by employees depends on their prior experience with autonomy but also their desires, values and competencies. This implies that self-management affords the opportunities to employees to work traditional hours in the office or to work at different times and places according to their own preferences.

The implementation of ROWE presupposes a *collective* effort to change the organizational culture so that employee control over the time, timing, and location of their work becomes the norm for all or a large group of employees at all levels of the occupational hierarchy. Traditional attempts to flexibilize working hours (such as part-time work, telecommuting, compressed work weeks), by contrast, rely on *individual* agreements with select employees and require a supervisor’s permission

Table 1 Key characteristics of working time freedom

FROM:	TO:
<i>Regulation</i>	<i>Deregulation</i>
Recording of working hours as specified in the employment contract	Absence of a recording of working hours; omission of a contractual indication of hours of work
<i>Input orientation</i>	<i>Results orientation</i>
Working hours as a performance measure; focus on time spent at work; visibility, availability as evidence of good work	Focus on job requirements and achievement of predetermined results in due time (indirect control) Definition of specific nature of job and expectations
Meetings as regular part of work routine;	Meetings held only as needed (elimination of low value work)
Reliance on face-to-face interaction	Multi-channel communication, i.e. varied methods of virtual and transparent communication
<i>External time management</i>	<i>Time sovereignty</i>
Supervisor sets hours, schedules	Individual and team set hours, work times, schedules
Flexibility arrangements negotiated between individual and supervisor	Flexibility as the norm, i.e. team members cross-train to cover for one another and set schedules
If work needs are met, presence is still required	Customized work time and schedules aimed at achieving goals
Attempts to flexibilize working hours consist of individual agreements with select employees	Collective agreement presupposing a change of the organizational culture

Source: Andresen (2009) and Moen et al. (2009)

as a basic principle (Hill et al. 2013; Kelly and Moen 2007; Moen et al. 2013a). In the following Table 1 the key characteristics of ROWE are summarized as compared to traditional working time models:

3 Assessing the Added Value of Working Time Freedom: Functional and Dysfunctional Effects

The implementation of working time freedom is likely to have functional and dysfunctional effects for different stakeholders involved, i.e. the employing organization as well as the employees. The desired outcome of working time freedom is to improve work process through planning, prioritization, elimination of low value work, efficiency, and effectiveness. Moreover, life-flexibility, predictability, and control shall be improved (Perlow and Kelly 2014). In the following, empirical results regarding functional and dysfunctional outcomes of ROWE are summarized.

Table 2 Dys-/functional effects of working time freedom from the organizational perspective

Functional effects	Dysfunctional effects
<u>Employee retention:</u>	
<ul style="list-style-type: none"> • Decreased voluntary turnover and turnover intention leading to a reduction of costs related to rehiring, retraining^{a, b} • Retention of older workers and gender equality due to employees' flexibility and control over work hours, the timing of work, and the seasonality of work^c 	
<u>Employee performance and productivity:</u>	
<ul style="list-style-type: none"> • Lower costs of impaired work productivity due to reduced presenteeism and health-care costs (due to temporary flexibility to consult a doctor when sick)^{d, b} • Higher work performance level and productivity^{e, b, f} • More efficient allocation of labor^e • Decrease of wasted time^b • Higher productivity and shorter processing time (e.g., due to less unproductive meetings, low-value work)^b • Higher organizational efficiency due to increased output volume at constant cost^b 	<ul style="list-style-type: none"> • Increased probability of unrealistic objectives leading to excessive demands due to omission of working hours as a performance measure and, thus, of the basis for a realistic workload planning and cost calculation^e • Increased absences due to burnout and mental health problems^f
<u>Operations:</u>	
<ul style="list-style-type: none"> • Lower real estate need and costs due to lower need of office space in company building^b • Less paper usage and costs due to virtual work^b • Reduced costs related to the provision of relocation services due to opportunities for distance work^b • Reduction in labor costs due to less workplace amenities, lapse of overtime, reduced vacation liability^b 	<ul style="list-style-type: none"> • Cost increase of IT infrastructure as workforce mobility increases^b

Sources: ^aMoen et al. (2011a), ^bThompson (2013), ^cCorrell et al. (2014), ^dMoen et al. (2009), ^eKratzer (2013), and ^fWagner (2013)

3.1 Functional and Dysfunctional Effects of Working Time Freedom from the Organization's Perspective

From the organizational perspective working time freedom makes several functional effects possible, but also has different dysfunctional effects (see Table 2).

3.1.1 Employee Retention

In terms of employee retention, actual voluntary turnover as well as turnover intention decreased in a ROWE (Moen et al. 2011a; Thompson 2013). In their

study of 775 employees at corporate headquarters of Best Buy in the US, Moen et al. (2011a) showed that upon implementation of ROWE turnover rates were reduced by 45.5 %, with 6.1 % among employees in ROWE as compared to 11.1 % in traditional departments. The reduction effect of turnover rates remained, regardless of employees' gender, age, family life stage, occupational level, tenure, and various appraisals of life-course fit (work-home spillover appraisals, self-reported health symptoms, job satisfaction, income adequacy, organizational culture, job security). Especially the retention of older workers and gender equality are of importance in the war for talent (Correll et al. 2014). These results suggest a high efficacy of ROWE in reducing turnover rates by offering broad flexibility and control over work hours, the timing of work, and the seasonality of work as the corporate norm. Reduced turnover rates again allow companies to reduce labor costs resulting from hiring and training employees to replace those who leave.

3.1.2 Employee Performance and Productivity

With respect to employee performance, presenteeism, i.e. a behavior of going to work despite a sickness, is lowered (Moen et al. 2009). As working hours are no longer recorded and employees are granted time sovereignty, (sick) employees are less likely to feel compelled to go to work in order to reach a specific quota of hours per week, but can rather adapt their work pace. Presenteeism can have negative health implications in the long-term for persons concerned and, in consequence, for organizations. From an employer's perspective, the costs of impaired work productivity due to illness are considerable and exceed the costs related to absenteeism (Steinke and Badura 2011).

There is a consensus among the three experts, Kratzer, Thompson, and Wagner, that work performance and productivity levels clearly will increase and the allocation of labor will become more efficient under the conditions of working time freedom. However, the interviewees disagree as to whether employees are pushed or pulled to higher performance.

Conservation of resources (COR) theory (Hobfoll 1989, 2002) posits that individuals are motivated to obtain, protect, and retain valued resources, or those things they personally value. This motivation arises out of individuals' essentially hedonistic nature, i.e. individuals prefer to create situations that are pleasurable for themselves and, at the same time, avoid situations that can lead to the loss of valued resources (Hobfoll 1989). One of these resources is job performance. Individuals who seem to have sufficient resources at present will still be pulled to keep accruing resources in order to protect themselves in the future (Hobfoll 2001). Based on this continuous resource acquisition premise, working time freedom is likely to enhance individuals' motivation to acquire even more resources in the work domain and to increase work outcomes (Wright and Hobfoll 2004).

In line with this theoretical argument, Thompson (2013) observed that employees are intrinsically motivated and, hence, pulled to perform better when working under the conditions of working time freedom. *“When employees have clarity about what they need to achieve and the ability to use their common sense every day about how to meet the demands in their lives (including work), they have*

more energy and are better able to decipher which activities are worth their time and will contribute to identified outcomes. Managers understand that rewarding efficiency with time is critical to fostering intrinsic motivation so they cease the punishing behavior of piling on more work when efficient employees deliver. Over time, this sets the stage for employees to begin asking for more work – a very different, and more productive, scenario for any organization.” These positive effects of results orientation are also confirmed by Kratzer (2013) who – based on about 450 interviews with employees and approximately 150 interviews with executives from 35 organizations in Germany – could not observe any direct dysfunctional effects in terms of free riding. The indirect control of employees’ conduct via results is enforced by social control, i.e. co-workers who would often be obliged to pick up the slack. In sum, employees with working time freedom are incentivized to become more efficient and feel comfortable aiming for individual efficiency.

As the performance intensity of employees usually is high and the output volume increases quantitatively at constant costs, organizational efficiency rises (Kratzer 2013). Wasted time is decreased as employees – being in complete control of all of their time – relate their activity directly to getting the work done. In addition, because of fewer unproductive meetings, productivity can rise and processing time can be reduced (Thompson 2013).

A potential indirect negative effect of working time freedom on employee performance and productivity results from the omission of working hours as a performance measure and, thus, as a basis for the workload planning and cost calculation. As a result, the probability of unrealistic objectives increases (Kratzer 2013). Thus, Wagner and Kratzer stress that employees with working time freedom are not only pulled but also pushed to higher work performance. Negative effects are likely to arise if employees – in accordance with results orientation and indirect control – are expected to act autonomously, independently and in a self-organized manner, but are not conceded increased influence on basic conditions such as work organization, staffing, workload or deadlines. In consequence, employees may be forced to manage the resulting high pressure to perform and to meet autonomously the high performance requirements under the condition of fewer or maximally constant resources. The ultimate effect is increased absences due to burnout and mental health problems (Wagner 2013). However, Kratzer (2013) points out that the heightened pressure to perform is not inherent to working time freedom, but caused by setting excessive to unachievable objectives. Similarly, Moen (2009) states that the hardest part of ROWE for most organizations and for managers as well as employees, is to clarify what exactly are the results to be achieved.

3.1.3 Operations

Internal operations are supposed to improve in that companies profit from lower real estate needs and related costs due to a higher number of employees working off-site, resulting in a reduced need for office space in the company building. Moreover, the consumption of office materials (e.g. paper usage) and related costs shrink in consequence of virtual work. Due to opportunities for distance

work, the provision of relocation services can be reduced, leading to lower costs. In addition, labor costs can be expected to shrink due to fewer workplace amenities, elimination of overtime, lower presenteeism, and reduced vacation liability. However, the latter effect presupposes that working time freedom is not unnecessarily combined with an obligation to track vacation: “*One of the main tenants of a ROWE is each person has unlimited paid time off as long as the work gets done. And, as people begin managing all of their time without management direction, the need to track vacation becomes ludicrous (abstruse). So initially, if a company is carrying a vacation liability, this liability will increase as people do not see a logical way to track this time.*” (Thompson 2013). However, Thompson (2013) states that working time freedom implies increased costs for IT infrastructure as workforce mobility increases.

3.2 Functional and Dysfunctional Effects of Working Time Freedom from the Employee’s Perspective

Potential functional and dysfunctional effects of working time freedom for individuals are summarized in Table 3.

3.2.1 Employee Satisfaction and Well-Being

Working time freedom shows to be positively related to employee satisfaction and well-being. Employees in a ROWE have been shown to be able to increase their time control – in terms of gains in both *schedule control* and *time adequacy* (Kelly et al. 2011; Moen et al. 2009; Moen et al. 2013b; see also Thompson 2013). Schedule control is defined as “employees’ sense of latitude or control regarding the timing of their work, the number of hours they work, and the location where they work, which affects their commuting time and total time away from home” (Kelly et al. 2011, p. 267). Gender differences were found with mothers, but not fathers, in ROWE reporting increased schedule control and improved time adequacy (Hill et al. 2013; Kelly et al. 2011). And managers reported a smaller average increase in schedule control than non-supervisory employees (Kelly et al. 2011). This difference between jobs may be due to a perceived incompatibility of coordinating the work of several employees with shifting their own hours or to work at home or, alternatively, may reflect the fact that managers had less room to grow due higher schedule control at baseline (Moen et al. 2008). Moen et al. (2013b) argue that this time sovereignty is especially important for the *well-being* of contemporary employees, given the increasing time pressures, time speed-ups, and work-family time conflicts many are experiencing.

COR theory suggests that individuals who have accumulated surplus resources in one life domain may redeploy or invest those resources for use in other domains as needed (Hobfoll 1989). When resource deficits occur in one domain, resources from other domains (such as time and energy) can be transferred into it to minimize losses (Hobfoll 1989, 2001). Based on this resource transfer premise, it is to be expected that individuals who experience increases in time sovereignty will have

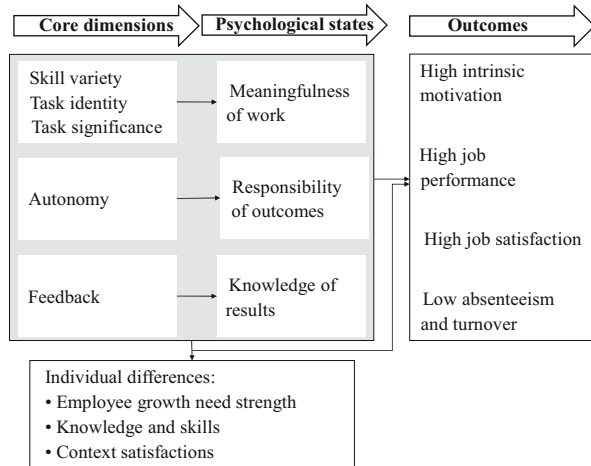
Table 3 Dys-/functional effects of working time freedom from the individual's perspective

Functional effects	Dysfunctional effects
<p><u>Employee satisfaction and well-being:</u></p> <ul style="list-style-type: none"> Increases in employees' work-time control in terms of gains in both schedule control and time adequacy with positive effects on employees' well-being (reduced work-family spillover and conflict, improved work-life-fit and work-family fit; increased family meals)^{a, b, c, d, e, f, g, h} Time sovereignty granted corresponds with employees' sense of responsibility for accomplishing results, intrinsic motivation and professional aspiration^l High job satisfaction and organizational commitment^e 	<ul style="list-style-type: none"> Demotivation due to lack of appreciationⁱ Increased existential pressure^{i, j} Self-exploitation^l
<p><u>Stress:</u></p> <ul style="list-style-type: none"> Time sovereignty granted moderates perceptions of time pressure and pressure to perform; increase of employees' sense of personal mastery due to work-time control^{e, i} Improved health behavior, e.g., increase of reported hours and quality of sleep, energy levels, self-reported health, and exercise frequency, while decreasing tobacco and alcohol use; reduced levels of exhaustion and depressive symptoms^{d, e, f, g} No impact on work hours in consequence of increased schedule flexibility (48 h a week on average)^{e, f, g} 	<ul style="list-style-type: none"> Excessive work hours or overtime^k high performance intensity and pressure stress and health hazard such as physical complaints, mental health problems and illnesses^{i, j} Drawback of time sovereignty: missing addressee to blame when objectives are not met → missing external easing of the burdenⁱ

Sources: ^aHill et al. (2013), ^bKelly et al. (2014), ^cKelly et al. (2011), ^dMoen et al. (2013a), ^eMoen et al. (2009), ^fMoen et al. (2013b), ^gMoen et al. (2011b), ^hThompson (2013), ⁱKratzer (2013), ^jWagner (2013), and ^kWagner (2000a, b)

more resources to transfer to the private domain to enhance their work-life balance. Accordingly, it has been shown that employees' sense of schedule control led to decreased work-family conflict and improved work-family fit, while – contrary to expectations – no change in parents' actual time spent with children was found (Hill et al. 2013; Kelly et al. 2011; Moen et al. 2009; Moen et al. 2011b). In addition, ROWE reduced negative work-to-home spillover (Moen et al. 2013a). Both effects, increases in schedule control and work-family conflict and fit, showed to be similar among employees regardless of job demands and hours worked (Kelly et al. 2011). Thus, according to COR theory, by helping employees generate surplus resources (such as more time flexibility in the work domain), working time freedom allows individuals to invest more of those resources into the private domain and to avoid conflicts between life domains. In an analogous manner Kratzer (2013) states that “While time sovereignty and autonomy granted cannot hinder the experience of

Fig. 2 Job characteristics model (Source: Hackman and Oldham 1980)



time pressure and pressure to perform (quite the contrary!), they moderate related perceptions of pressure and lead to higher work satisfaction”.

“Time sovereignty responds, in addition, to the desire of employees for freedom of discretion, conforms to their sense of responsibility, intrinsic motivation and professional aspiration”, Kratzer (2013) postulates. Time sovereignty also fits with the self-understanding of highly qualified employees who do not need to be motivated, but rather can be demotivated when the freedom of discretion once granted is withdrawn. Thus, managers tend to value time sovereignty as an integral part of their status (Kratzer 2013). In the same vein, Moen et al. (2009) were able to show greater organizational commitment and more job satisfaction among ROWE employees.

However, working time freedom may demotivate employees, because employees risk systematically experiencing a lack of appreciation (see also job characteristics model; cf. Fig. 2) due to an orientation on results only instead of an orientation on input. Kratzer (2013) explains: “The introduction of a consequent results-orientation means that working time disappears as a performance measure. In consequence, major parts of employees’ work effort and performance remain invisible and, hence, are not appreciated. The problem results from the fact that performance and success are decoupled. Example 1: An employee works long hours, e.g. to acquire a new customer, but in the end the project fails. This missing success is – according to the logic of results-orientation – equated with complete non-performance. The employee is faced with a dilemma that he or she worked hard but this work does not count. Example 2: It can be observed that employees invest an increasing amount of time in organizational work such as meetings that does not directly contribute to the generation of results. However, the related input that employees deliver in terms of self-organization does only become visible when they

fail in their core work (e.g. they fail to meet the deadline).¹ Furthermore, it becomes ambiguous for the employee what performance is and how he or she can demonstrate performance beyond the agreed results.”

3.2.2 Stress

Both actual and perceived losses of resources can lead to *psychological distress* (Brotheridge and Lee 2002; Xanthopoulou et al. 2009). “*There is an implicit understanding that if measureable results aren’t achieved, then no job*”, as Thompson (2013) explains. This condition potentially adds an increased existential pressure on top of the performance requirements. “*The enormousness of work and performance leads in many cases to stress among employees and employees’ health is jeopardized. This phenomenon is reflected in the continued high rate of physical complaints, in the rapidly increasing number of mental health problems and illnesses as well as in the increase of absenteeism due to this development. Absences due to burnout and mental health problems are often of long duration*”, Wagner (2013) explains. Kratzer (2013) also confirms the risk of additional costs in consequence of psychic strain: “*In pursuit of success, employees get into conflict with their own interests, logically increasing the risk of self-exploitation.*” In consequence, a work-life imbalance might occur. “*Time serves as a boundary between work and private life. When time is omitted as a performance measure, both spheres erode, which might be intended by the employee. However, lines need always to be definable by employees when dealing with customers, corporate demands, performance culture, and family in order to replace institutionally missing limits. As employees need to decide themselves where to set the limits and to justify them, they experience pressure.*” Kratzer (2013) elucidates. “*Defined working hours represent the limit of individual freedom and of corporate domination: An employee sells his workforce for a specified number of hours to an employer who needs to make use of this idle resource. Under this logic, employees bow to corporate domination. That is why unions pressed for the dissolution of time as an instrument of power. Thus, the introduction of trust-based working time accommodates this requirement, because the domination dimension of time fades into the background. Yet, looking at the development in practice another dimension of dominance becomes obvious: Predetermined working hours are also a limit of dominance in that a company may follow their employees only’ as far as the company’s gate”. With the introduction of working time freedom, by contrast, employers may follow their employees to their homes. It becomes unclear where the sphere of domination of the company ends and how employees can ward off interferences.*” An additional drawback related to results orientation is that in case of non-achievement of objectives, an addressee to blame and, thus, an external easing of the burden, is missing (Kratzer 2013).

¹Note: This means that employees are blamed for their bad time management and an overly investment in low-value work.

Empirical results in the US at Best Buy by Moen, Kelly and colleagues, however, draw a more positive picture regarding the stress level. Improvements with respect to health behavior of employees profiting from working time freedom were found. ROWE employees showed to experience an increase of reported hours and quality of sleep (more than 7 h a night), energy levels, self-reported health, exercise frequency (three or more times a week), and perceptions of adequate time for preparing/eating healthy meals, while decreasing tobacco and alcohol use (Moen et al. 2013a; Moen et al. 2009; Moen et al. 2013b; Moen et al. 2011b). In addition, ROWE employees were more likely to go to the doctor when sick compared to employees in traditional departments (Moen et al. 2011b).

Consequences of working time freedom in terms of the *number of working hours* are less clear so far. Analyses of empirical data based on the German SOEP (Socio-Economic Panel) show that – under the condition that time recording is repealed (deregulation) – actual working hours usually increase by 2 to 5 overtime hours in case of trust-based working time (Kratzer 2013; Wagner 2013) and rise on average to up to 53 h per week depending on the qualification level within the context of working time freedom (Wagner 2000a, b). Moreover, case studies confirm that employees with trust-based working time develop a greater willingness to reduce their spare time in favor of work and take fewer days off than would be due to them, explains Wagner (2013). Interestingly, working hours appear not only to increase when a deregulation in terms of time recording is omitted (as is typical for trust-based working hours and working time freedom), but even in regulated working time models when time sovereignty is granted (Kratzer 2013). With reference to COR theory, an explanation of this increase in working hours is that individuals who are already showing high performance in their organizations may continue to invest some of their surplus energy into work activities nonetheless, even if those resources (their performance) seem sufficient at the present time, in order to buffer themselves against potential resource losses in the future (De Cuyper et al. 2012; Hobfoll 1989). The increase of work effort and working hours might be less due to employers' eventual expectations regarding physical presence of their employees, but could rather be explained by requirements of customers or patients as well as functional requirements by the organization that employees respond to self-reliantly. Being directly confronted with the market, employees start to rationalize themselves in order to become more efficient or strive to maintain the standard by working extra hours.

By contrast, Thompson (2013) argues that in a ROWE, working hours are fluid and flexible and determined by each person, i.e. employees have in principle unlimited paid time off as long as the work gets done. Accordantly, in their empirical study at the white-collar organization Best Buy in the US Moen, Kelly and colleagues did not find statistically significant differences between ROWE and comparison-group respondents without ROWE in terms of changes in the hours they put in on the job (Moen et al. 2009; see also Moen et al. 2011b) and in time demands in terms of work hours and psychological time demands (Moen et al. 2013b). Work hours averaged about 48 h a week (Moen et al. 2011b). ROWE employees were able to save commute times to and from work, had greater

control over where and when they work, chose to work at home or off campus more frequently, had greater variability in their work hours and schedules each week, experienced fewer interruptions at work, did less low-value (unnecessary) work, and felt less pressure to work overtime (Moen et al. 2009).

However, COR theory suggests that resource surpluses and losses do change over time (Hakanen et al. 2011; Hobfoll 1989). Thus, COR theory implies that not only is the number of working hours likely to be dynamic, rather than static, in nature and to change over time, but the outcomes associated with working time freedom are likely to change over time as well. This might explain the non-finding of a clear effect in terms of working hours in the above mentioned US-based studies by Moen, Kelly and colleagues that measured differences in a short period of 6 months between pre- and post-study surveys.

To conclude, working time freedom fulfils many facets that have been shown to be keys to motivating employees for maximum performance, commitment, and satisfaction as well as contributing to low absenteeism and turnover. In line with Hackman and Oldham's job characteristics model (see Oldham and Hackman 2010), employees in a ROWE are granted autonomy (self-control) allowing them to accomplish their job according to their individual preferences (self-management) and giving them a feeling of responsibility for the outcomes. Moreover, employees are provided with feedback and recognition to let them know about their results and reinforce good performance. Finally, working time freedom is expected to be conducive to skill variety, task identity and task significance, leading to a meaningfulness of work as employees are given trust and support to accomplish objectives (see Fig. 2). Thus, in line with the job characteristics model, employees in a ROWE are presumed to be dedicated, motivated, capable of improving the way they work and highly engaged to contribute significantly to organizational performance (Perlow and Kelly 2014).

However, several dysfunctional effects were also found, especially based on German samples (Kratzer 2013; Wagner 2013). The summary of empirical findings underlines the need for additional (longitudinal) data stemming from different kinds of employees, jobs, hierarchical levels, companies and cultures in order to draw well-founded conclusions.

4 Overall Impact of Working Time Freedom on Value Creation

Comparing functional as well as dysfunctional direct and indirect effects of working time freedom from an employer's perspective, it seems reasonable to conclude that introducing working time freedom can, at least potentially, contribute to value creation. Thompson (2013), who is convinced of the positive effect of ROWE argues that "*ROWE sets the stage for value creation in the 21st century in a way no other workforce strategy can. When teams and organizations make the transition to a ROWE, they are setting themselves on a trajectory that will keep them evolving and progressing long into the future.*" And also Kratzer (2013) opines that, for

employers the functional effects of time sovereignty and results-orientation outweigh the dysfunctional effects. Wagner (2013) agrees that it is possible, in the short run, to improve the revenues of single companies through extensification and intensification of work. However, she estimates the overall positive effect on the corporate level as being minor because of the rather small share of personnel costs of the total costs in many large companies. In the long-term, Wagner (2013) expects, however, working time freedom to be counterproductive for organizations due to the social and health-related “costs” for the employees and, as a consequence, for employers. From the employees’ perspective, working time freedom may not hinder the experience of time pressure and pressure to perform, but results orientation coupled with time sovereignty are likely to moderate related perceptions of pressure and lead to higher work satisfaction. To conclude, working time freedom has the potential to generate both economic gains as well as to contribute to subjective well-being.

However, several conditions need to be created on the management level in order to allow the functional effects of ROWE to fruit and to ensure a “healthy” work behavior of employees. Thompson (2013) stresses that the following elements must be in place:

1. Recognition for results (as opposed to long hours, face time, etc.),
2. Clear, objective, measurable results,
3. Ongoing objective performance conversations,
4. Clear, direct and timely consequences for not performing,
5. Rewards for efficiency,
6. Equal parts autonomy and accountability, and
7. Language that is focused on the work and not on how people spend their time.

In the same vein, Perlow and Kelly (2014) stress that apart from motivation-enhancing trust and autonomy to boost performance, leadership development is needed to implement flexible work. In accordance with the seventh element in the list above, new communication norms need to be developed that include replacing comments that arise from the current culture, e.g., “Just getting in?”, “Your kid is sick again?”, with responses that do not reinforce the old expectations about time norms, e.g., “Is there something you need?” (see e.g. Hill et al. 2013). Moreover, working managers need to adjust their understanding of their role from directing when, where, and how the work is done to supporting employees in reaching individual and team goals. Part of it is to protect employees from the high demands and related entrepreneurial dilemmas (Andresen 2009; Kratzer 2013). This may be especially relevant for highly intrinsically motivated employees.

However, “*in view of a certain helplessness and powerlessness of superiors to influence requirements and/or resources, an employee-oriented leader is important, but limited in its influence on the creation of a healthy working environment*”, argues Kratzer (2013). Thus, Kratzer (2013) adds the following elements as prerequisites for a sustainable work behavior of employees:

8. Realistic objectives that are planned based on a logic reflecting the actual workload,
9. Time sovereignty in combination with time recording, and
10. Climate of trust

By granting the freedom to solve business problems autonomously, employees experience compulsion and freedom simultaneously. This management approach presupposes an effort-oriented measure of performance. Expected results and objectives and agreements of deadlines need to be linked to realistic performance capabilities in order to avoid overload of employees. Moreover, while keeping results orientation and time sovereignty, deregulation (i.e. third of the central variables that characterize working time freedom) needs to be omitted. Speaking to the same purpose, Wagner (2013) stresses the importance of time sovereignty in combination with a clear documentation of working hours, which, on the one hand, makes it easier for employees to manage their working time on their own and gives them the opportunity to enforce their right to time off (self-determination). On the other hand, time tracking prevents that the co-determination rights of the works council are undermined. However, time tracking must not become a control instrument in accordance with a climate of trust, but control needs to be exerted via results. The more control is exerted via outcomes, the more time recording is needed.

Finally, in view of the boundarylessness of many careers a final element needs to be added:

11. Results orientation not only based on economic objectives, but complemented by social, humane-oriented results

The achievement of economic objectives becomes part of objective career success in many jobs, in that the higher the degree of target achievement, the higher the variable income, the more likely an employee is to be promoted, etc. Objectives that may be sufficient in terms of career advancement in one organization, may be insufficient to come out on top in the highly competitive external job market. Thus, especially employees in a boundaryless career (Arthur and Rousseau 1996) might be inclined to over-achieve. Example: Academic careers are identified as boundaryless careers (Arthur and Rousseau 1996; Baruch and Hall 2004), because “top researchers” careers (i.e. academics who have been recruited primarily for their scientific reputation in the academic field, which gives them superior access to positions in different universities) do not depend on any single organization, but top researchers search for the best opportunities offered by universities (Musselin 2009). Top researchers risk becoming involved in a rat race (Landers et al. 1996) and, in the long run, being overloaded, becoming unproductive or even suffering from burnout. As the definition of collective performance targets is unrealistic, the current organization has the responsibility to limit overperformance. One way to protect employees from themselves is to add social, humane-oriented goals in addition to economic performance targets. These could be objectives regarding

regular exercises, healthy and regular meals, sufficient hours of sleep, etc. that contribute to sustainable workability.

To conclude, working time freedom leads to a win-win-situation for organizations and employees in theory. In practice, organizations tend to be at an advantage over employees unless employers refrain from deregulation by granting employees the right to track their working hours and strive to carefully set realistic, economic as well as social performance objectives. In view of the added value of ROWE, a new look at wage and hour laws should be taken at a national level to see how they might be updated, protecting employees but moving away from the old lock-step ideas about working time flexibilization.

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Creating Value Through Occupational Health Management

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Abstract

In this paper we want to review and discuss research on the effects of occupational health management activities and services on different outcomes like employee health and well-being or absenteeism and other economic outcomes. In part I we outline goals and functions of occupational health management (OHM), then characterize typical occupational health promotion interventions and describe principles for implementing and organizing OHM. Part II focuses on different OHM activities and services such as creating healthy and safe workplace, reducing work-family conflicts, providing counselling via employee assistance programs and implementing health circles or stress management interventions. We will also discuss intervention design and sample studies as well as meta-analytic data relating to the effectiveness of these interventions. Finally, part III is about the economic impact of OHM. Findings from a management evaluation approach for OHM will be discussed. Then we will concentrate especially on data linking health promotion interventions to absenteeism and financial outcomes expressed as cost savings or cost-benefit ratios. The concluding part summarizes key findings of this paper.

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1 Introduction

Creating safe and healthy work environments is a key concern for organizations. Trends, like aging workforces, increasing work demands, and growing employee expectations with respect to work-life balance, underscore the importance of professional occupational health management activities. Investments in occupational health management are also an instrument for employer branding to attract and retain talent and demonstrate corporate responsibility. From a management perspective it is therefore important to understand the effects of different occupational health management activities on employee health and well-being. In addition, the economic impact of these interventions needs to be assessed. With this understanding, it is easier to allocate resources and budgets and to make decisions between competing activities and intervention options. Following an evidence-based approach should lead to a more efficient resource allocation, thereby increasing organization members' acceptance of health and safety promotion interventions.

In this paper we want to review and discuss research on the effects of occupational health management activities and services on different outcomes like employee health and well-being or absenteeism and other economic outcomes. In part I we outline goals and functions of occupational health management (OHM), then characterize typical occupational health promotion interventions and describe principles for implementing and organizing OHM. Part II focuses on different OHM activities and services such as creating healthy and safe workplace, reducing work-family conflicts, providing counselling via employee assistance programs and implementing health circles or stress management interventions. We will also discuss intervention design and sample studies as well as meta-analytic data relating to the effectiveness of these interventions. Finally, part III is about the economic impact of OHM. Findings from a management evaluation approach for OHM will be discussed. Then we will concentrate especially on data linking health promotion interventions to absenteeism and financial outcomes expressed as cost savings or cost-benefit ratios. The concluding part summarizes key findings of this paper.

With this paper, we want to provide an overview about various OHM approaches and activities for fostering employee health and well-being. In addition, we aim to contribute to a better understanding of the value that different OHM interventions can create for individuals and organizations. We also identify areas where further research and evaluation studies are required. The discussed and reviewed findings can inform management decision making related to investments in OHM activities and structures. Communicating evidence-based results on the value of OHM interventions should also strengthen OHMs positioning within the organization.

2 Occupational Health Management

2.1 Functions of Occupational Health Management

Occupational health management (OHM) aims to create safe and healthy work environments, to prevent injuries and work-related illnesses, and finally to support employees in developing and maintaining resources and building resilience (Aldana and Pronk 2001; Sonntag and Michel 2009; Tetrick and Campbell Quick 2011). Healthy employees experience mental, physical and social well-being and are able to cope with work demands and stressors (Reese 2009; Sonntag et al. 2012). Furthermore, well-being or happiness has been linked with success in multiple life domains such as friendship, marriage, work performance or health (Lyubomirsky et al. 2005; Sonntag 2014). It can therefore be expected that OHM related improvements in employee health and well-being should be accompanied by better work performance.

Typical corporate health functions are employee assistance programs, safety and health services and employee health management programs (EHMP) or health promotion interventions (Wolfe et al. 1994). An employee assistance program includes “services to provide employees with confidential, professional assistance for solving personal problems in a wide range of areas” (Wolfe et al. 1994, p. 25). Typical areas for counseling are marital, financial, legal, mental health, stress or substance abuse problems (Cooper et al. 2011). In addition, safety and health services comprise “preventive organizational measures that seek to reduce the incidence of deaths, injuries, and illnesses, attributable to occupational causes” (Wolfe et al. 1994, p. 25). Examples for safety and health services are ergonomic evaluations, safety compliance checks or hazard exposure analyses (Smith and Carayon 2011).

2.2 Health Promotion Interventions

Employee health management programs can be defined “as ongoing organizational activities designed to promote the adoption of personal behaviors conducive to maintaining and/or improving employee health. Typical EHMP components include smoking cessation, stress management, weight control, exercise and fitness, health risk appraisal, high blood pressure detection, nutrition education, prevention of back problems, and accident prevention activities” (Wolfe et al. 1994, p. 23). This health promotion activities should help participants to decrease health risks and prevent the start of diseases (Aldana and Pronk 2001). A recent literature review assessed the effectiveness of health promotion interventions (Kramer et al. 2009). Participation in fitness programs prevented muscle related disorders and reduced feelings of exhaustion or strain at work. Labeling of food and providing healthy meals in the cafeteria encouraged employees to develop more healthy dietary habits. Furthermore, group interventions and individual counseling proved successful in helping employees to smoke less.

Gebhardt and Crump (1990, p. 263) discussed three different levels of employee fitness and wellness programs. Level I interventions are about creating employee awareness for health related matters (e.g., health fairs, screening sessions). Interventions of Level II make use of behavior modification principles to encourage a more healthy lifestyle (e.g. exercising in a corporate fitness center). Finally, Level III interventions shape a work environment that supports employees in developing and maintaining healthy behaviors (e.g. offering healthy food). A general fitness program can be distinguished from a job-related fitness program, that “focuses on the specific physical capabilities and critical tasks required for successful job performance (e.g. upper body strength, aerobic capacity)” (Gebhardt and Crump 1990, p. 264).

Especially companies investing in on-site fitness centers want their employees to make use of this opportunity for physical activity. To increase participation, barriers keeping employees from exercising in a corporate fitness center need to be removed. Schwetschenau et al. (2008) identified such internal and external barriers and their respective effects on employee health related behavior. External barriers such as lack of equipment, crowding, high costs or long travel distance made it more likely that employees did not join the center or reduced their exercise time per visit. Internal barriers like feeling embarrassed exercising next to coworkers were associated with less frequent visits to the fitness center. “Increasing the size of the gym, amount of equipment, and number of exercise classes offered” is likely to remove external barriers and internal barriers could be reduced by “separate exercise classes for supervisors and nonsupervisory employees and for men and women” (Schwetschenau et al. 2008, p. 378).

2.3 Implementing and Organizing Occupational Health Management

To successfully implement occupational health management requires strategies, structures, processes and resources for creating healthy work environments and fostering employee health through health promotion interventions (Michaelis et al. 2010). Firstly, OHM must be integrated with other management systems like HRM or quality management. Secondly, interventions should be evidence-based and systematically planned, implemented and evaluated (Sonntag 2001). In addition, intensive collaboration of occupational health experts from different professional backgrounds is required. Also, interventions with a prevention orientation should be strengthened. Finally, it is important to encourage employee participation in health management activities.

There are different strategies to increase employee participation in health management programs (Luczak et al. 2002; Wolfe et al. 1994): Programs should be conveniently accessible (e.g., on-site programs, easy time scheduling) and take place in pleasant facilities. It is also recommendable to tailor health interventions to specific needs of different groups within the organization. In addition, employers can subsidize program costs and allow participation during work time.

Confidentiality related to employee health data must be guaranteed. Also, top management should act as a role model for a healthy life style and reward employee participation in health programs. Finally, corporate practices like healthy food in cafeterias, non-smoking policies, flexible work time or health events can further promote a health conscious lifestyle.

3 Occupational Health Management Activities and Interventions

3.1 Creating Healthy Workplaces

Work design is an important instrument within occupational health management activities and services. Several work characteristics like autonomy, feedback, role clarity, meaningfulness of work, cooperation requirements, work time, work demands and work control have been consistently linked with employee health and well-being (Büch, Sonntag and Stegmaier 2010; Moen et al. 2013). Reducing physical stressors and work demands such as noise and heat or chemical and biological agents further contributes to a healthy work environment. In addition, ergonomic interventions help in preventing muscle related pain and illnesses (Helander 2006). We want to demonstrate how important work characteristics are for employee health and well-being by focusing on sample studies related to work time/work demands and a model of a healthy work organization.

3.1.1 Work Time and Work Demands

Many studies examined a possible link between hours of work and employee health and well-being. A meta-analytic review from Sparks et al. (1997) linked weekly hours of work to employees' health symptoms. Based on 21 samples representing data from 37,623 participants the mean correlation between working hours and overall health was .13. For physiological health symptoms (e.g., coronary heart disease, severe occupational hand injury) the mean correlation with working hours was 0.66 and for psychological health symptoms .14 (e.g., anxiety, depression, poor sleep).

A recent study by Moen et al. (2013) examined how two aspects of work time, namely work-time demands and work-time control, related to positive and negative health outcomes of employees in a longitudinal design with a quasi-experimental intervention. Two dimensions of work-time demands (work hours, psychological time demands) and two dimensions of work-time control (schedule control, time adequacy) were assessed. Work hours measured average hours worked per week. Psychological time demands assessed time-pressure (e.g. due to tight deadlines or high workload), uncertainty about the timing of work requests and problems distancing from work. Schedule control captured employees' decision-making autonomy about time, place and duration of work. Time adequacy reflected whether enough time was available for employees to engage with their family, be active in their or community or take care of personal matters. Survey data from

550 employees were collected directly before an intervention promoting flexible work arrangements (Results Only Work Environment, ROWE) and 6 months after. Employees were free to choose where and when to work as long as they delivered results. Evaluation results showed increases in time adequacy following ROWE introduction but no decrease in time demands. Time adequacy improvements after ROWE implementation were related to increases in employees' energy, personal mastery as well as self-reported health and decreases in somatic symptoms, psychological distress and emotional exhaustion. Increases in psychological time demands were associated with less energy, reduced personal mastery, impaired psychological well-being, stronger emotional exhaustion, more somatic symptoms and increased levels of psychological distress.

3.1.2 Work Demands and Musculoskeletal Disorders: Moderator and Mediator Effects

Many studies investigated relations between work demands and musculoskeletal disorders. Based on a sample of 1,704 healthy participants, Armon et al. (2010) demonstrated that an increase in burnout levels over 18 months was related to a 2.09-fold higher risk of musculoskeletal pain approximately 18 months later. The authors also reported results from cross-sectional studies on how burnout affected musculoskeletal pain ranging from a 1.2-fold to a 1.7-fold increased risk. Taken together these cross-sectional and longitudinal findings suggest considering burnout as a risk factor for musculoskeletal pain.

Some recent studies examined moderator (e.g., social support, distributive justice) and mediator (e.g. job-related strain) variables with respect to this relation. Pekkarinen et al. (2013) examined whether psychosocial resources moderated relations between job demands and musculoskeletal symptoms (e.g., pain in the neck, back, knees). Survey data were collected from 975 female nurses from 152 geriatric units in Finland. For nurses receiving low social support physical workload (e.g., heavy lifting, awkward postures) was related with a higher risk for musculoskeletal symptoms than for nurses with high social support. Mental workload (e.g. insufficient time to work) went along with a higher risk for musculoskeletal symptoms, when nurses experienced low distributive justice compared to nurses in a work environment with high distributive justice. Pekkarinen et al. (2013, p. 216) concluded that their findings "supported the multifactorial etiology of musculoskeletal symptoms, as both the actual work context and the psychosocial factors were found to influence the symptoms."

Sprigg et al. (2007) demonstrated in a study questioning 936 employees from 22 call centers that job-related strain mediated the positive relation between workload to upper body and musculoskeletal disorders in the lower back. The positive association between workload to upper body and musculoskeletal arm disorders was only partly mediated by job-related strain. Work autonomy did not moderate the relationship between workload and strain or musculoskeletal disorders. Sprigg et al. (2007, p. 1463) derived management implications from their findings: "Managers should consider taking a dual approaching to tackling MSDs, one that acknowledges their complex biomechanical and psychological etiology."

3.1.3 Healthy Work Organization

Wilson et al. (2004) successfully validated a model of healthy work organization using structural equation-modeling procedures based on a sample of 1,130 employees from a retail company. The model includes six second-order latent variables derived from 29 first-order constructs: *Organizational attributes* (values, beliefs, policies and practices related to employee health), *organizational climate* (organizational support, coworker support, participation with others and supervisor, effective communication, safety and health climate), *job design* (workload, autonomy, job content, role clarity, physical work conditions, work scheduling issues), *job future* (job security, procedural and distributive equity, learning opportunities, flexible work arrangements), *psychological work adjustment* (job satisfaction, organizational commitment, efficacy, job stress) and *employee health and well-being* (employee health, psychological health, health risk behaviors, attendance behavior). The model hypothesized and confirmed the following relations between the second-order latent variables (1) Organizational attributes are positively related to organizational climate. (2) Organizational climate is positively correlated with job design and job future. (3) Job design and job future are positively associated with psychological work adjustment. (4) Psychological work adjustment is positively correlated with employee health and well-being.

3.2 Reducing Work-Family Conflicts

Employees need to manage the interface between work and family/private life, thereby dealing with the interdependencies of their work and family roles (Greenhaus and Allen 2011; Rexroth et al. 2012). A work-family conflict results, when “role pressures from work and family are mutually incompatible such that participation in one role is made more difficult by virtue of participation in the other role” (Greenhaus and Allen 2011, p. 165–166). Antecedents and consequences of different forms of work-family conflict have been examined in numerous studies (Sonntag 2014). We want to focus on studies linking work-family conflict to consequences such as health problems, strain or performance declines.

Amstad et al. (2011) conducted a meta-analysis on how work-family conflict was associated with work-related, family-related and domain-unspecific outcomes. 427 effect sizes were included in the analysis. Data were analyzed for two different forms of work-family conflict, namely work interference with family (WIF) and family interference with work (FIW). WIF and FIW were correlated with family-related (−.18), work-related (−.29), and domain unspecific (−.32) outcomes. Parenthood did not moderate the relationship between work-family conflict and different outcomes. Significant weighted mean correlations for WIF/FIW were reported for example with burnout (.38/.27), work-related performance (−.11/−.20), work-related stress (.49/.28), health problems (.35/.24) or somatic symptoms (.29/.14).

Does work-family conflict predict strain, does strain predict work-family conflict, or are they reciprocally related? To answer these questions, Nohe

et al. (in-press) used a meta-analytic path analysis on 33 studies that had repeatedly measured work interference with family (WIF) or family interference with work (FIW) and strain. Additionally this study sheds light on whether relationships between WIF/FIW and work-specific strain support the popular cross-domain perspective or the less popular matching perspective. Results showed reciprocal effects, i.e. that WIF predicted strain ($\beta = .08$) and strain predicted WIF ($\beta = .08$). Similarly, FIW and strain were reciprocally related, such that FIW predicted strain ($\beta = .03$) and strain predicted FIW ($\beta = .05$). WIF had a stronger effect on work specific strain than FIW did, supporting the matching hypothesis rather than the cross domain perspective.

In a recent study, Nohe et al. (2014) used a within-person daily research paradigm to examine the relationship between daily family work-conflict (FWC) and daily job performance. 95 employees completed daily surveys over one work-week. Multilevel modeling results showed that daily FWC was negatively associated with daily job performance and that concentration mediated this relationship. Moreover, general psychological detachment, but not daily psychological detachment, buffered the negative relationship between daily FWC and daily job performance.

In another study, Shockley and Allen (2013) examined whether episodes of work-family conflict were related to cardiovascular health measures like blood pressure or heart rate. Experience sample data were collected from 58 participants over 10 days. Episodes of family interference with work (FIW) were likely to be followed by an increased heart rate. A positive relation between FIW and subsequent blood pressure was only found for participants with low family-supportive supervision.

Other work characteristics with a positive spillover at the work-family interface were job autonomy, variety or complexity (Greenhaus and Allen 2011). Companies can further support employees in balancing demands from work and private life by offering them flexibility regarding time and place of work as well as providing support for private errands (e. g. visiting the bank) or activities at home like cleaning and washing. In addition, in a recent study leadership support, leader role modeling and support from colleagues were positively associated with individual work-life-balance satisfaction and showed negative associations with emotional exhaustion and turnover intention (Rexroth et al. 2012).

3.3 Creating Safe Work Environments

Occupational health management professionals want to create a safe and healthy work environment. Controlling workplace hazards like physical, mechanical, chemical or biological agents is one way to reduce injuries and accidents. Managing hazards involves inspecting, identifying and evaluating risks as well as controlling them (Smith and Carayon 2011). Hazards can be controlled by eliminating them, blocking employee access, informing employees about the risks, enabling employees to avoid the risks or by optimizing of work practices (Glendon

et al. 2006; Smith and Carayon 2011, p. 85). Another approach to foster a safe work environment is to promote a strong safety climate, which can be defined as “employees’ perceptions of the policies, procedures and practices relating to safety” (Clark 2006, p. 315). Climate measures can be applied at different levels of analysis like group, department or organization to assess shared perceptions related to different facets such as innovation, quality or safety (Zohar 2011).

Many studies identified antecedents and consequences of safety climate perceptions (see Zohar 2011 for a review of the literature). Leader behaviors such as rewarding safe work practices, dealing with procedural violations, clarifying expectations or facilitating sharing of perceptions within work groups have been identified as important safety climate antecedents. Also important are procedural variables like “hazard correction, completeness of accident investigation, monitoring unsafe behavior, composition and duties of joint safety committees, and regularity of safety retraining” (Zohar 2011, p. 157). We want to review findings from two meta-analyses demonstrating associations between safety climate perceptions and safety performance in organizations.

Clark (2006) conducted a meta-analysis including 68 studies to examine the relationship between safety climate and safety performance. Employees working within a positive safety climate receive recognition and encouraging feedback for demonstrating safe behavior. A negative safety climate emerges, when management rewards employees for putting production first and thereby ignoring safety rules and values. Safety performance comprised two different kinds of behavior, namely safety compliance and safety participation. Employees following safety rules, regulations and procedures demonstrate safety compliance. Safety participation requires a more active and voluntary kind of behavior, such as suggesting ideas to improve safety or supporting safe behavior from colleagues. The meta-analysis revealed positive relationships between safety climate and safety compliance (mean corrected validity = .43) as well as safety participation (mean corrected validity = .50). A strong safety performance was further related to less occupational accidents and injuries, but the effect sizes were rather small (.09 for safety compliance, .14 for safety participation). For studies with a prospective research design a strong safety climate correlated with less accident involvement (mean corrected validity = .35). Clark (2006, p. 324) concluded that “organizational safety climate has an important influence in ensuring adherence to procedures, but, in particular plays a significant role in the promotion of employee commitment and involvement in safety.”

A more recent meta-analysis examined how safety knowledge, safety motivation, psychological safety climate and group safety climate were related to safety performance behaviors and safety outcomes like accidents or injuries (Christian et al. 2009). 90 studies representing 477 effect sizes were included in the meta-analysis. A second-order factor of safety climate was calculated, based on the following eight first-order safety climate factors: management commitment, human resource management practices, safety systems, supervisor support, internal group processes, boundary management, risk at work and work pressure. Group-level safety climate was determined using individual-level ratings or directly

measured at the group level. Safety knowledge and safety motivation as well as psychological safety climate and group safety climate showed positive relation with safety performance behaviors. Safety climate was more strongly related to safety participation than to safety compliance. Group safety climate was the strongest predictor for safety outcomes (mean corrected correlation = $-.39$), with a stronger climate corresponding to fewer accidents and injuries. Path analysis supported a model where safety climate was positively related to safety knowledge and safety motivation. These two variables showed a positive relationship with safety performance behaviors. Finally, safety performance behaviors were negatively linked to accidents and injuries.

3.4 Providing Counseling Through Employee Assistance Programs

Employees with problems related to family, financial, legal or other matters can turn for help to an employee assistance program (EAP). An EAP is defined “as a systematic, organized, and ongoing provision of counseling, advice, and assistance, provided by or funded by the employer, designed to help employees and (in most cases) their families with problems arising from work-related and external sources” (Cooper et al. 2011, p. 340). Besides, helping employees to cope with their concerns an EAP aims “to assist the organization in the identification and amelioration of productivity issues in employees whose job performance is adversely affected by such personal concerns (. . .)” (Cooper et al. 2011, p. 340).

In a recent study, Spetch et al. (2011) examined problems making employees ask for EAP services. Personal issues (e.g., anger/impulsivity, mood disorder, anxiety disorder, low self-esteem) and marital/family problems (e.g., divorce, marital conflict, parent–child relations) were reported most frequently, whereas work-related issues (e.g., poor work-life balance, low job motivation, career dissatisfaction) were mentioned less often. The authors also compared absenteeism rates between EAP users and non-users over a 3 year period. Absenteeism of EAP users was higher compared to non-users in the year when employees used EAP services. One year before and after EAP utilization, no differences in absenteeism were found between EAP users and non-users. Therefore Spetch et al. (2011, p. 124) concluded, that “employees using EAP services are not likely to have attendance problems over time.”

It is important to identify factors determining employees’ use of employee assistance programs. Harris and Fennell (1988) were especially interested in gender differences in EAP usage. Women were more likely to make use of an EAP, when they were familiar with the program. Men were more willing to make use of an EAP, when they perceived the program as effective. Milne et al. (1994) demonstrated that familiarity with a program, access to the EAP, management and supervisor support for the program and confidence/trust in the EAP were crucial for employees’ program use. Another study also showed a positive relation

between EAP confidentiality and employees' actual and potential use of the program, underscoring the importance of building employee trust (French et al. 1997).

Cooper et al. (2011, p. 346) reviewed studies assessing the effectiveness of employee assistance programs and concluded that "findings on the outcomes of EAPs are mixed (. . .), and that it is simply not possible to draw general conclusions about the effectiveness of these interventions." The authors also identified several problems of EAP outcome evaluations (Cooper et al. 2011, p. 343). Firstly, there are many multiple definitions of EAPs and their interventions making it difficult to compare or aggregate findings from different studies. Secondly, a consensus on evaluation and success criteria is missing and concerns about confidentiality often hinder data collection. Finally, to infer causal effects additional studies are required with a more rigorous methodological design applying longitudinal pre- and post-tests and using multiple data sources.

3.5 Implementing Health Circles

Health circles are a comprehensive form of health promotion interventions addressing organizational and psychosocial factors through employee participation in health-related problem-solving (Aust and Ducki 2004; Sonntag et al. 2012). They are "discussion groups, formed at the workplace, to develop change options for the improvement of potentially harmful working conditions" (Aust and Ducki 2004, p. 259). This involvement enables employees, as experts of their work environment, to collectively come up with solutions to health-related work issues.

Most health circles share some organizing principles (Aust and Ducki 2004): Paid working hours are used for meetings, discussions are structured by a facilitator, results from an employee survey and health report are normally used as starting point for idea generation and protocols of health circle meetings are distributed to all employees. Traditionally two health circles types, the "Berlin" and "Düsseldorf model", were distinguished (Aust and Ducki 2004; Sonntag et al. 2012). Following the "Berlin model", employees from the same hierarchical level try to solve work-related problems with help from an external moderator. Suggestions are then handed over to a steering committee, which takes final decisions and controls the implementation of proposed improvements. In the "Düsseldorf model", the health circle includes team members from different hierarchical and functional positions. Meanwhile many health circles combine and modify design principles from both models to balance their respective advantages and disadvantages. A review, based on eleven studies from Germany, linked health circles to improved physical and psychosocial working conditions, increased employee health/well-being and reduced sickness related absenteeism (Aust and Ducki 2004). But the authors also identified several factors limiting the scientific quality of study data. Control groups and statistical analysis were considered only in three from eleven studies, and no study applied randomization. This calls for further studies with more rigorous research designs.

3.6 Implementing Stress Management Interventions

Stress management interventions (SMI) are an important part of occupational health management services. An SMI can be defined as “any activity or program initiated by an organization that focuses on reducing the presence of work-related stressors or on assisting individuals to minimize the negative outcomes of exposure to these stressors (. . .)” (Richardson and Rothstein 2008, p. 69). Typically, OHM professionals distinguish three different SMI types (Richardson and Rothstein 2008, p. 70). While primary interventions address the sources of stress, secondary interventions try to decrease stress symptoms. Tertiary interventions are about dealing with consequences of persisting stress symptoms and improving employee health. Many SMI such as cognitive-behavioral interventions, relaxation, meditation or exercising are secondary interventions. We want to discuss findings from two meta-analyses that shed light on the effectiveness of different stress management interventions.

Van der Klink et al. (2001) examined in their meta-analysis the benefits for work-related stress interventions. The meta-analysis was based on 48 experimental studies with an overall sample size of 3,736. Interventions were categorized as cognitive-behavioral (18 studies), relaxation techniques (17 studies), multimodal programs (8 studies) or organization-focused interventions (5 studies). Overall effect sizes were $d = 0.08$ for organizational interventions, $d = 0.68$ for cognitive-behavioral programs, $d = 0.35$ for relaxation techniques and $d = 0.51$ for multimodal interventions. Cohen’s d was also calculated for each intervention type and specific outcomes. For example, for cognitive-behavioral interventions significant effect sizes were determined for quality of work ($d = 0.48$), psychological responses and resources ($d = 0.65$) and anxiety symptoms ($d = 0.70$). Relaxation techniques had significant effect sizes for quality of work ($d = 0.29$), psychological responses and resources ($d = 0.26$), physiology ($d = 0.31$) and anxiety symptoms ($d = 0.25$). Van der Klink et al. (2001, p. 274) concluded that “cognitive-behavioral approaches are more effective than relaxation techniques and tend to be more effective than multimodal programs. (. . .) However, a heterogeneous effect was found for cognitive-behavioral interventions, which implies that some interventions were very effective and others were not.”

More recently Richardson and Rothstein (2008) conducted a meta-analysis to examine the effectiveness of stress management interventions in occupational settings. Their meta-analysis was based on 36 experimental studies representing 55 interventions and a total sample size of 2,847 subjects. Stress interventions were categorized as cognitive-behavioral, relaxation, organizational, multimodal or alternative. The overall weighted effect size across all studies was 0.526. Effect sizes were also determined for specific psychological ($d = 0.53$), physiological ($d = 0.29$) and organizational outcome measures (e.g. $d = 0.70$ for productivity; no significant effect for absenteeism). 52 studies included psychological outcomes, 14 studies examined effects on physiological measures and only 11 studies focused on organizational outcomes. The effect size for cognitive-behavioral interventions ($d = 1.16$) was larger than for other intervention categories (relaxation 0.49,

organizational 0.14, multimodal 0.23, alternative 0.90). Cognitive-behavioral interventions were especially effective to reduce anxiety ($d=2.39$) and stress ($d=1.00$). The authors see cognitive-behavioral interventions as effective, because “these interventions encourage individuals to take charge of their negative thoughts, feelings, and resulting behavior by changing their cognitions and emotions to more adaptive ones, and by identifying and practicing more functional behavioral responses” (Richardson and Rothstein 2008, p. 88). Even though relaxation interventions were associated with medium effects only, they were used in 69 % of the studies. The authors attributed this popularity partly to the fact that these interventions are easy to implement (e.g. with audiotapes).

4 Evaluating the Economic Impact of Occupational Health Management

There are three different ways to assess the impact of OHM interventions (Pfaff 2001). It is possible to evaluate single OHM interventions, comprehensive OHM programs, or following a management evaluation approach, to focus more holistically on work characteristics, organizational factors and health management services. We want to review findings from a study applying a management evaluation approach to examine relations between a sustainable occupational health management and multiple individual- and team-level outcomes (Michaelis et al. 2010). Then we will review research on the effects of health promotion interventions and health risks on absenteeism. Finally, financial outcomes of health promotion interventions and health risks will be discussed.

4.1 Management Evaluation Approach for OHM

A German research project¹ examined associations between dimensions of a sustainable occupational health management (“BIG”, *Benchmarking in einem Gesundheitsnetzwerk*) and different outcome measures (Sonntag and Stegmaier 2010). Seven BIG – dimensions were assessed (Sonntag et al. 2010): Occupational health management services, work characteristics (e.g., role clarity, feedback of results), organizational climate (e.g., climate for initiative, perceived organizational support), physical work demands, leadership (e.g., trust in leadership, leader support), safety climate and co-worker social support. Outcomes were measured at the individual and team level. Employee performance ability (e.g. well-being, physical health) and employee performance motivation (e.g., job satisfaction, organizational commitment, task performance, contextual performance) were

¹ The project was funded by BMBF and coordinated by DLR (Project number: 01FA0601).

used as individual-level outcomes. Outcomes at the team-level were work accidents, absenteeism and labor productivity.

Survey data from about 2,000 employees and outcome measures from 10–15 teams were available for analysis. Employee questionnaire ratings were used to measure BIG – dimensions and employee performance ability/motivation (Schraub et al. 2010). Team-level outcomes were assessed using objective data from company controlling systems. Associations with outcome measures were analyzed for single BIG dimensions and for an overall health index (HI) based on all BIG dimensions. Several BIG dimensions, like occupational health management services, work characteristics, safety climate or leadership, correlated positively with employee performance ability and performance motivation (Michaelis et al. 2010). In addition, organizational teams with a higher HI reported fewer work accidents, less absenteeism and stronger labor productivity.

4.2 Health Promotion and Absenteeism

Data from a sample of 152 white-collar employees were analyzed in a study by Kerr and Voss (1993). A decrease in absenteeism for employees participating regularly or irregularly in an employee fitness program was demonstrated. Participants were encouraged to use half an hour of their work time per week for exercising. In contrast, absenteeism rates for members of the non-exercising control group increased over the reviewed 12 month period. Exercising did not influence employees' general well-being.

In their study Serxner et al. (2001) evaluated a health promotion program at a telecommunication company aimed at short-term disability (STD) with a sample of 1,628 employees on STD leave. The program comprised health risk assessments, wellness and fitness activities, self-care materials and specific interventions for high-risk employees. Employees taking part in the health risk assessment were offered \$450 reimbursement for fitness or wellness activities. Looking at a three-year period, participants reduced their net days lost by 5 % whereas nonparticipants had a 15 % increase in net days lost relative to baseline data.

Daley and Parfitt (1996) showed in their research that members of a corporate health and fitness club reported better psychological mood states and physical well-being (e.g., scores in a physical fitness test, level of physical activity) in comparison to non-members. In addition, members were less absent from work and more satisfied with it than non-members.

The impact of health promotion and fitness programs on employee absenteeism was reviewed by Aldana (2001). Each of the 14 studies, looking at effectiveness of health promotion, demonstrated a reduction in absenteeism for participating employees. In addition, five from seven studies evaluating fitness programs demonstrated a negative relationship between program participation and employee absenteeism.

Nine studies on the effects of health promotion program participation on absenteeism, including data from more than 68,000 employees, were reviewed by Aldana

and Pronk (2001). The authors concluded that there was low-to-moderate association of program participation and absenteeism. Reductions in absenteeism following program participation were ranging between 3 % and 16 %. But as effects could not be found for all employee segments, Aldana and Pronk (2001, p. 44) suggested “that participation in worksite health promotion may result in modest reductions in employee absenteeism for some employees.”

In their meta-analysis of 17 studies, Parks and Steelman (2008) determined that participation in an organizational wellness program was negatively correlated with absenteeism (-.33) and positively with job satisfaction (.42). No difference was found for fitness only or comprehensive wellness program types. But as confidence intervals for effects sizes were wide, Parks and Steelman (2008, p. 66) recommended that “practitioners should be conservative in their estimate of the amount of gain associated with organizational wellness programs as interventions aimed at reducing absenteeism and improving job satisfaction.”

Absenteeism’s associations with work strain, psychological illness and physical illness were examined in a meta-analysis by Darr and Johns (2008). 275 effects from 153 studies were included in the analysis. Absenteeism was positively related to work strain (.15), psychological illness (.29) and physical illness (.22). Results from structural equation modeling provided some support that physical and psychological symptoms might mediate the positive relation between work strain and absenteeism. Table 1 summarizes the key findings on the relation between health promotion and absenteeism.

Table 1 Summary of the key findings on the relation between health promotion and absenteeism

Authors	Type of study	Intervention/predictor	Findings
Kerr and Voss (1993)	Primary study	Fitness program	Absenteeism reduced
Serxner et al. (2001)	Primary study	Health promotion	Absenteeism reduced
Daley and Parfitt (1996)	Primary study	Corporate fitness club	Absenteeism reduced
Aldana (2001)	Review	Health promotion, fitness program	Health promotion reduced absenteeism (14 of 14 studies), fitness programs reduced absenteeism (5 from 7 studies)
Aldana and Pronk (2001)	Review	Health promotion	Absenteeism reduced between 3 and 16 % (based on 9 studies)
Parks and Steelman (2008)	Meta-analysis	Organizational wellness programs	Negative correlation with absenteeism (-.33)
Darr and Johns (2008)	Meta-analysis	Work strain, physical illness, psychological illness	Correlations with absenteeism for work strain (.15), psychological illness (.29), physical illness (.22)

4.3 Health Promotion and Financial Outcomes

Gebhardt and Crump (1990) reviewed studies analyzing the impact of fitness and wellness programs on health care costs. A study based on 11,000 employees from Johnson & Johnson demonstrated that employees in companies with fitness and wellness programs had lower health care costs as well as fewer hospital admissions and hospital days. Another study at Prudential Insurance Company showed that exercisers in a fitness program reduced their average sick days by 20.1 % and their major medical costs by 45.7 % (\$262.14 per participant) 1 year after starting to exercise in the program.

Another review from Wolfe et al. (1994) analyzed the return of employee health management programs by various outcome measures. The return on investment ranges from \$1:1.93 for health care costs and disability days to \$1:3.40 based on reduced health claims, fewer absenteeism, decreased life insurance costs and improved productivity.

Aldana (2001) reviewed the literature on the financial impact of health promotion programs, drawing on 72 data-based research articles published before August 2000. Studies addressed associations between health risks and health care costs or determined financial outcomes of health promotion programs. With respect to health risks and health care costs, five from six studies demonstrated a strong positive relationship between BMI/obesity and health care costs. In addition, five studies showed a positive relationship between stress and health care costs. Furthermore, five studies reported a positive relationship between multiple risk factors and health care costs. The impact of other health risks such as cholesterol (six studies), hypertension (five studies), diet (two studies), alcohol use (four studies) and fitness/physical activities (6 studies) on health care costs was inconclusive (Aldana 2001).

Seven studies reported cost-saving ratios for health promotion interventions based on health care costs ranging from \$1:2.3 to \$1:5.9 with an average of \$3.45 saved for every dollar spent (Aldana 2001). Three studies calculated cost-saving ratios for absenteeism related savings, ranging from \$1:2.5 to \$1:10.1 and averaging \$5.82 savings for every dollar invested in health promotion. Finally, three studies used combined savings related to health care costs and absenteeism to determine cost-saving ratios. Ratios ranged from \$1:3.4 to \$1:6 with an average of \$4.3 savings.

The economic consequences for a health wellness intervention program at GlaxoSmithKline were quantified by Stave et al. (2003) with a sample of 6,049 employees. The program covered topics like tobacco use, physical activity, healthy nutrition, stress management, health screening, health self-assessment and immunizations. Comparing participants and nonparticipants over 4 years showed on average \$613 annual savings per program participant. Most of the savings were related to decreased disability costs. With \$100 program cost per participant, the average return on investment was over 600 %.

How ergonomic interventions at the workplace, combined with a proactive role for insurance cases managers, would impact sickness absenteeism related to musculoskeletal disorders (MSDs), was examined in a study by Arnetz et al. (2003). Results from this intervention group (N = 65) were compared to a control group with traditional case management (N = 72). Employees in the intervention group had significantly less sick days than employees in the control group. Over a 12 month period, this translated into \$1,195 cost savings per case representing a benefit-to-cost ratio of 6.8.

In a recent article, 44 experimental or quasi-experimental studies published between January 2000 and May 2010 on the economic impact (medical costs, pharmacy costs, work productivity) of health promotion and wellness programs implemented in the United States were reviewed (Lerner et al. 2013). 13 articles were related to health promotion programs and two articles evaluated fitness/exercise programs. The remaining articles examined disease management programs, worksite medical clinics, employee assistance programs and behavioral health management, disability management programs as well as combination programs. 32 articles (73 %) demonstrated favorable results, 12 articles (27 %) were inconclusive due to negative, mixed or null results. For health promotion and disease prevention programs, ten articles found favorable and three articles unfavorable results. Outcome measures varied strongly between the studies (e.g., medical claims, pharmacy claims, work absences, disability days, work performance). For fitness/exercise programs, two articles showed reductions in short-term disability days for program participants. Lerner et al. (2013, p. 220) summed up the results of their review: “On the basis of this systematic review, it is premature to conclude that a body of scientific evidence supports a positive, neutral, or negative cost-benefit ratio or ROI for employee-focused WHP programs. (...) Of 44 published peer-reviewed research articles, only 10 studies were of high enough quality to be considered sources of evidence regarding any aspect of the economic impact of WHP programs. Of these top-10 studies, eight documented a positive economic impact and two reported a negative impact”. Table 2 summarizes the key findings on the relation between health promotion and financial outcomes.

Table 2 Summary of the key findings on the relation between health promotion and financial outcomes

Authors	Type of study	Intervention/predictor	Findings
Gebhardt and Crump (1990)	Review	Fitness/wellness programs	Health care costs, hospital days, hospital admissions, medical costs, sick days reduced
Wolfe et al. (1994)	Review	Health management program	ROI ranging between \$1:1.93 and \$1:3.40
Aldana (2001)	Review	Health risks	Positive relation with health care costs for obesity (5 from 6 studies), stress (5 from 5 studies) and multiple risk factors (5 from 5 studies)
Aldana (2001)	Review	Health promotion	Average ROIs based on health care costs (\$1:3.45), absenteeism related savings (\$1:5.82), combined savings (\$1:4.3)
Stave et al. (2003)	Primary study	Health promotion	\$613 annual savings per program participant
Arnetz et al. (2003)	Primary study	Ergonomic intervention, proactive case manager	Reduced sick days with ROI of \$1:6.80
Lerner et al. (2013)	Review	Health promotion	Of 10 high-quality studies 8 demonstrated a positive economic impact, 2 reported a negative impact

5 Conclusion

This paper has shown that OHM comprises many different activities and services to create safe and healthy work environments. It was also pointed out how important it is to implement and organize OHM professionally and to remove barriers to increase employee participation. A broad spectrum of evaluation studies allowed shedding light on outcomes and effects of OHM interventions. But no homogenous picture emerged. In some areas, like stress management interventions or creating a safety climate, strong meta-analytic evidence supported the effectiveness of these activities. Other topics like health circles or employee assistance programs require additional studies with more rigorous designs to reach scientifically valid conclusions. Studies on effects of work design or antecedents and consequences of work-family conflict were especially interesting as they revealed moderator and mediator effects, thereby deepening our understanding of causal mechanisms and boundary conditions for generalizations. A management evaluation approach for OHM showed positive associations with individual-level outcomes like employee performance ability or motivation and team-level results like productivity. Health promotion interventions were convincingly associated with reduced absenteeism in many single studies and also based on meta-analytic or review study data. In addition, several studies demonstrated cost-savings or encouraging cost-benefit ratios for health promotion interventions. But as there were also studies with a negative economic impact, further research is needed in this area.

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Investments in Work-Life-Balance Pay Off

The Case of Commerzbank AG

Manfred Bührmann

Abstract

When Commerzbank started taking a closer look at the concerns of women working in the bank in the late eighties, it soon became obvious that the dual role women faced as bank employees and mothers presented a great obstacle to their careers. To help solve this problem the concept of the “corporate childcare center” was developed. Then, in 1998, the first childcare facility was ready to be opened in cooperation with pme Familienservice. Being the first corporation in Germany to offer such an innovative service aimed at supporting the work-life-balance, Commerzbank was not able to draw on the experiences of other companies. For this reason it was decided that the activities would be supervised and scientifically evaluated from the start and over an extended period.

1 Introduction

Today, roughly 15 years after Commerzbank opened its first childcare facility, both the situation of women in the bank has changed as have the employees’ expectations in general on what a modern employer represents. The products and services the bank offers, which are largely administered by our Diversity Management section, serve to relieve the burdens the employees face and assist them in managing both the professional and personal demands. Currently, Commerzbank has approximately 280 full-time places in the crèches and kindergarten, and since 2011 also offers after-school childcare in the Frankfurt headquarters. In addition, a pilot project was launched in April 2013 to provide an extensive modular system to support employees with the care of family members.

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The focus of the Human Resources department is based on the stages of life. And as it is the aim to take both the employees' personal concerns as well as their career development into consideration, the offers are becoming more and more flexible and personalized. The bank is convinced that by pursuing this direction it will continue to be an attractive employer in the future.

My article offers an overview of the most significant results pertaining to the evaluation of our exceptional- and regular child care services. Toward the end is a description of Commerzbank's eldercare services, in particular the innovative care modules, the bank has been offering its employees since April 2013.

2 Corporate Childcare Is an Essential Part of Our Family-Conscious Personnel Policy

Already toward the end of 1999 Commerzbank was offering childcare on an exceptional basis with the aid of the pedagogical-services provider pme Familienservice, as the bank had recognized that many employees took off from work to take care of their dependents if their chosen caretaker was not on hand. This meant that employees were sometimes not available when needed, appointments had to be canceled, substitutes needed to be found at short notice. Today, it is possible for every employee to drop off their child up to the age of 12 at one of the Familienservice's centers for up to 25 days per year at the expense of the bank. Employees especially appreciate this relief during the school holidays, as annual leave generally does not cover these completely. The figures of nearly 6,000 days used per year clearly illustrate that the need for back-up childcare, with peaks during the holiday periods, has remained largely unchanged (Fig. 1).



Fig. 1 Commerzbank's "Kids & Co" in Frankfurt

As all of our childcare services the use of back-up care was also evaluated by the “Frankfurter Agentur für Innovation und Forschung (FAIF)” over a longer period.

All studies (Commerzbank 2009) conducted were based on the following guiding questions:

- What are the effects of corporate childcare on the well-being of the children and the parent–child relationship?
- How satisfied are parents with the company-contracted childcare service?
- What level of pedagogical quality is provided by the center?
- What kind of impact do the childcare services offered have on the parents’ professional life?
- What kind of impact do the services offered have on the organization as a whole?
- Does the investment make economic sense for the company?

The results show interesting correlations between employees’ personal and professional lives.

1. Childcare being offered in the back-up centers makes it considerably easier for parents to plan their schedules. Parents feel less time pressure, whereby the corporate childcare centers offer a distinct advantage here with longer opening hours compared to public daycare facilities and the fact that our centers do not close during the school holidays.
2. The level of pedagogical quality of the centers is above average. This provides for happy children and as such generally satisfied parents, who do not need spend time at work worrying about whether their children are well-taken care of or not, which in turn means that they are able to focus on the demands at work.
3. The back-up childcare services offered are particularly advantageous for single parents. The support provided by the employer in managing such day-to-day situations is especially invaluable and truly plays an important role here.
4. From the bank’s point of the view the investment has really paid off. Surveys have shown that without the service 50 % of the parents using the back-up childcare would not have been able to come to work. Based on the number of users this would have resulted in a loss of working capacity equaling approx. €350,000 (figure from 2003). The annual investment in the back-up facilities equals approx. €210,000 (figure from 2003). This proves that a family-oriented personnel policy also makes economic sense for companies.

Another important aspect of the analysis is the correlation between the pedagogical quality of the facilities and the economic benefit. After all, how and where a child is cared for makes a difference. We see a clear connection between the quality of our childcare services, the resultant children’s happiness, and the consequential parents’ confidence and performance in the bank.

Following characteristics are distinctive of pedagogical quality:

- Children's health and safety
- How the childcare staff deal with the children
- Group size and age mix
- Teacher-child interaction
- Communication between parents and child care staff

Regularly scheduled talks with parents and surveys give insight regarding the quality of the services and allow us to react quickly. The most recent feedback from our parents illustrates that the bank is on the right track:

Quote 1: The offers from Kids & Co., slot-sharing, long opening hours, no company holidays, all of these things are prerequisite for a good family life. I don't mean to say that these are the reasons we decided to have children, but they definitely made the decision easier.

Quote 2: Kids & Co. pursues an approach that has made me personally much more aware of what family life means, while at the same time requiring us, as parents, to deal with the subject of our children's development much more intensively.

Quote 3: A place in Kids & Co. is like a winning lottery ticket! It's dream come true! I have no idea what other superlatives I could use. Really, to not just have a childcare facility, but to have this kind of facility. And of course, this leads to an even greater corporate identity. One is more likely to bend over backwards for the company then.

3 "Kids & Co" Daycare Center: Core Daycare is an Important Base for Many of the Bank's Parents

With the opening of Kids & Co. in 2005 a regular offer of daycare services was established for children of crèche (0–3 years) and kindergarten (3 years to school age) ages. Today, in cooperation with pme Familienservice, the bank has facilities in 21 locations with approximately 280 full-time slots available for the children of Commerzbank employees.

The price for a place is nearly the same in all facilities. A "full-time" slot in a crèche (0–3 years, 5 days per week) currently costs max. €400.00/month. For a full-time slot in the kindergarten the price is €220.00/month. The bank covers the investment costs to establish the childcare centers and pays € 680.00/month (figure from 2007) per place. Although the slots in the childcare centers are more expensive than those in the local communities, our childcare services provide other distinct advantages, which in turn meet our criteria to substantially ease the burden of our parents. Among these are:

- Longer opening hours from 7:00–19:00
- Being open during school holidays
- Care available from 2–5 days per week
- Flexible drop-off and pick-up times
- Child-oriented and well-equipped class- and napping rooms
- Healthy meals prepared on the premises

- Nice outdoor premises often available for playing outdoors
- Above average care-provider to children ratio
- Highly qualified and reliable staff

These criteria allow Kids & Co to largely help relieve parents of the burden of dealing with childcare. Working time and family time are easier to manage, which means that employees can meet demands and expectations at work without being rushed and worrying about their children. The bank's internal studies and surveys have shown that our parents' motivation and performance have increased with the use of the core daycare services. The longer opening hours and the fact that children are taken care of during the school holidays allow parents to be considerably more flexible. This in turn also has a positive effect on the opportunities and willingness to push forward one's career within the organization. Especially for women who wish to pursue a management position, high-quality childcare is essential in order to balance work and the desire to have children without having to lower one's sights in either area.

With the increasing battle to attract highly qualified staff the provision of childcare ensures a reliable commitment to the organization on the one hand. On the other hand, when recruiting the next generation of staff, we are more and more often discovering that a well-adjusted work-life balance is taking on an increasingly important role with Generation Y, which is entering the workforce now. Current research/studies support this.

A family-conscious corporate image is conducive to putting the bank on the next generation's shortlist when deciding where to apply.

Another interesting outcome illustrates that role models are steadily changing, which has an impact on our corporate culture as well. More and more often fathers are taking on the responsibility of dropping off or picking up their children from daycare/school or are taking parental leave. The desire vocalized by many fathers to take part in the care and raising of their children leads to demands on the company as well. As a result we are seeing an increased demand for more flexible models regarding the workplace and working hours. New working-time models are therefore being developed that concentrate on the compatibility of work and family, whereby here the focus is on managerial staff, whom we want to encourage to work part time. Admittedly, the result is often only a small decrease in working hours of 10 % to maximum 30 %. However, since managers also act as role models, their behavior leads to a more positive perception of part-time employment and in the end also to a change in the corporate culture.

4 Investment in Kids & Co also Pays Off for Commerzbank

An investment in the establishment of childcare facilities and the subsequent subsidization of these leads to high costs. As such it was important to examine not only the positive effects on the parents' careers and their performance, but also whether the investment made economic sense.

Already 2 years after the launch of Kids & Co Commerzbank had created 90 full-time daycare slots. At this time, in 2007, the first major study was conducted. Annual costs in the amount of €571,000 were generated by the 90 childcare slots. The study proved though that by operating its own facility the bank realized an annual savings of €702,000. The return on investment as such is €131,000 or 23 %.

The cost saving effects in connection with childcare are realized primarily due to the following points:

- Parents who take advantage of the core childcare services are available to return to work sooner and for more hours after taking parental leave. After just 20 months 29 % of these parents were back to working full-time. Parents returning part-time work an average of 25.6 h/week, which is fairly high.
- Due to the fact that parents return from parental leave sooner (2004: 30.6 months parental leave; 2007: 19.3 months parental leave), we see a decreased need for training and readjustment/familiarization.
- Absences due to family reasons have also decreased by an average of 4.5 days per family and year since the introduction of the childcare services.
- Fluctuation among parents has also decreased, which also leads to a decrease in recruiting- and replacement costs.

In 2011 Commerzbank started expanding its childcare services. As such the number of places was increased by an additional 100 slots in both the headquarters in Frankfurt and in the field.

Additionally, the first corporate daycare service was launched for children up until the end of their time in an elementary school, thereby adding the last missing element toward providing a full range of company childcare.

As with all pilots conducted when introducing new products or services, this project was also subject to scientific evaluation. The initial results were presented in a study in April 2013, which confirmed and supplemented the results of the previous study on childcare for infants and kindergarten age children.

The group of parents surveyed emphasized the interdependencies between the relief provided by the daycare facility and their own satisfaction and motivation and customer satisfaction. The support provided leads to less stress at work and allows parents to focus more on their jobs.

Quotes of mother/father:

It is clear that my satisfaction has an automatic impact on the customer's satisfaction. This is invaluable and almost impossible to calculate. One needs to continually bear in mind that this is clearly connected to the provision of reliable and accommodating childcare services.

Here employees' attitudes and their cooperation are being influenced, something often underestimated. My satisfaction with the high-quality after-school care certainly has an influence on my performance at work.

Many parents used the expression "time wealthy" when addressing how they feel as the company daycare service helps them better harmonize the time needs of the

children, parents, and employer. The long opening hours and the fact that the facilities are open during the school holidays are both important factors in this connection.

Quote: When I am at work I no longer worry about my child. This is an enormous relief. I can tune out my child-care worries and concentrate on my job and the tasks at hand.

The effects also appear to have a positive impact on the working atmosphere, as parents in the bank feel more involved and the daycare service provided by the bank is a clear sign of employee appreciation. Not least, parents emphasized the fact that the available childcare services led to considerably better career opportunities.

Quote: In principle we should also look at the company daycare program in close connection with the current issues concerning women and leadership. This certainly also applies for the company sponsored crèches and kindergartens. If a woman wants to pursue a career and take advantage of various advancement opportunities, then this is hardly possible without customized childcare.

Commitment to and identification with the employer, Commerzbank, also appears to have improved, as statements from mothers and fathers of children attending after-school day care show:

Quote: Competition among banks for well-trained staff will certainly increase in the future. I will not change to another company as the positive experience I've had with the crèche and now with after-school daycare at Familienservice have strengthened my tie to Commerzbank.

Quote: This compatibility between family and work is what distinguishes our company from others. And I see a mind-shift among younger, highly-qualified colleagues toward a work-life balance.

Quote: For us as parents daycare is an important part of the company image. A positive connection to the company has developed for me, which I never would have thought possible in the past. I talk to my friends about the company childcare services offered, and they're always a bit surprised. . . .

In addition to positive economic effects, the bank's investments in work-life related offers are gaining importance in view of the demographic shifts. In our effort to attract the best talent and a shrinking number of qualified applicants, our innovative benefits are becoming a more and more important reason to choose to work for Commerzbank. Decisive is not only the actual availability of services, but also the implicit knowledge that the corporate culture is characterized by values that support a positive work-life balance.

And fittingly the target agreements for the first and second management tiers consist largely of diversity-related topics, which affect approximately 10 % of the variable remuneration. In addition to specific targets, e.g. related to the percentage of women in leadership or share of women in the high potential pool, other more general goals are also covered, such as "Sensitizing Employees Regarding Diversity Issues" or "Promoting the Work-Life Balance".

5 We Are Responding to the “Silver Society” Megatrend with Innovative Offers

In Western industrialized countries, especially in Europe, we have been observing a demographic development resulting in a rising median age of the population. Particularly in Germany we are experiencing an almost dramatic shift in the population structure (Fig. 2).

As a result a smaller number of people needs to support an increasing number of older people, whereby the life expectancy is further rising and parallel to this the number of elderly requiring care is also increasing.

A look toward the future shows that we will be facing an increasing shortage of qualified specialist- and managerial staff. And the more difficult it is to find suitable staff on the labor market the more important it is to keep the staff one has fit for work and to bind them to the company. A personnel policy that responds to this situation is essential, especially in view of the aging workforce which, based on the changing demographics, is anticipated in the coming decades. In addition, these older employees will be further charged with elder-care obligations.

Here just a few figures:

The Federal Office of Statistics (Statistisches Bundesamt 2012) has discovered that for Germany the number of cases of individuals providing nursing care at home rose by 11 % between 2009 and 2011. A large health insurance company forecasts that the number of persons requiring care will rise to nearly 2.8 million by 2020 and 4.2 million by 2050. And the people who will largely carry this burden are those working, and of these still mostly women. Various studies conducted by health insurance companies (Barmer GEK 2012) indicate that approximately 10 % of all

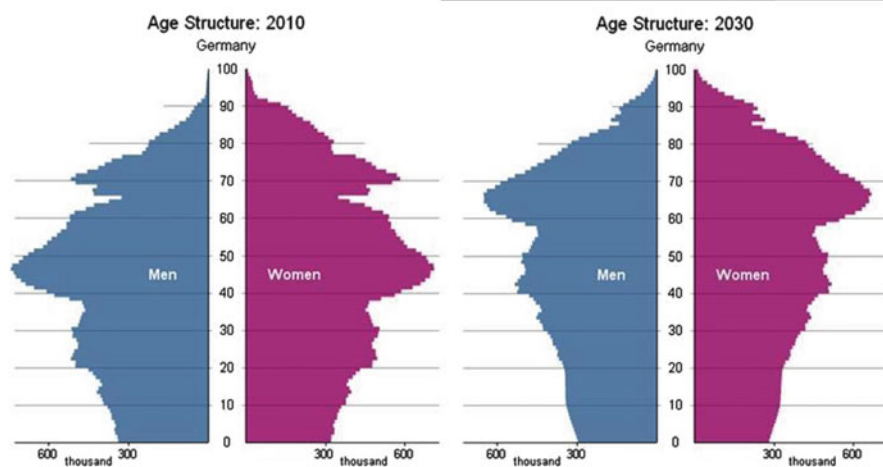


Fig. 2 Demographic development in Germany (Source: <http://www.destatis.de/bevoelkerungspyramide>)

Germans between the ages of 25 and 49 will be affected by the need to provide eldercare.

These figures are represented at Commerzbank as well. In 2020 the largest cluster by age at the bank will be the group of employees 50 and over. And it is exactly this age group that is taking on more and more responsibility for the care of their even older relatives.

For companies such as Commerzbank the problem is that there is no specific source of data from which can be derived how many employees take care of dependents at home. Unlike with the birth of a child, employers have no information when an employee takes on the responsibility of nursing- or eldercare. In order to be able to make the assumptions on which to plan suitable supportive offers, we depend on the studies of the health insurance companies. These studies assume that ten percent of all Germans between the ages of 25 and 49 take care of aging family members. If we apply this to Commerzbank's workforce we are looking at 2,500 employees alone in this age group who provide home care.

An additional problem is that employees "coming out" with the fact that they take care of relatives at home meet with mixed reactions from their colleagues. While on the one hand they receive credit for performing such a difficult job, on the other they are confronted with the opinion that they are no longer as productive. One could then assume that employees providing home care are subject to similar prejudices as mothers working part-time, and that they are categorized as "not suited to pursuing a career". Promoting a positive, appreciative attitude toward colleagues who provide home care is therefore one more reason to offer relief early on in the form of eldercare services and to carry out internal dialogs with employees and management to work on.

6 What Is the Effect of Eldercare on the Employee?

In most cases it is a huge burden on their health! In 2011 Siemens' company health insurance presented the results of a study comparing employees between 31 and 60 years of age who provide eldercare to employees in the same age group who did not. As such the following applies for employees providing home care:

- They require doctor's care more often and generally need more medication and other medical aids. Overall there are 51 % more diagnoses in this group.
- 17 % of the group suffers from depression or low moods, with only 5 % in the reference group.
- They suffer primarily from back pain, circulatory problems, and have increased infection rates. The difference in expenditures for medication and therapy is 70 % higher compared to that of the reference group!

Other studies determined that employees providing homecare often feel close to experiencing burnout.

In any case it is clear that employees additionally providing home care are subject to greater psychological, emotional and physical strain (Pharmazeutische Zeitung online 2013). This poses a high risk- and expense factor for the employer, as increased absenteeism and lower productivity are to be expected along with diminished regenerative properties. As such it is all the more important for employers to face up to this issue and the development of related personnel policies early on.

In 2008 we already negotiated a cooperative agreement with our external partner pme Familienservice, who not only supports us regarding childcare but also in the area of eldercare. Based on the feedback we have received from those employees who have used the service, we know that the service and assistance provided is very professional. The topics covered by their consultancy services range from specific questions concerning eldercare and the quality of care facilities to questions about the settlement of nursing expenses with the insurance carrier. And the entire offer has been rounded out with an information event on the subject of eldercare along with various workshops in the so-called “Network of Excellence on Nursing/Eldercare”.

The consulting and placement services are free of charge to our employees, as are most events. The bank also subsidizes other educational offers regarding eldercare attended by our employees. Frequently families providing eldercare also face additional financial burdens, especially if this results in a reduction of working hours in order to provide the care. As such it is all the more important that the bank offers some financial relief. With that said, we also wish to transport the following message to all employees and management: We respect the efforts of those employees caring for their dependents and stand at the side of our employees.

In the years 2008–2011 the demand for eldercare services was relatively low compared to the demand for childcare. In 2012 however, the figure doubled regarding inquiries concerning consulting and placement services, bringing it to approx. 200. This figure was reached again in the first half of 2013. As such we currently see an enormous increase in this area, which we believe is a result of the intensified communication on the subject of eldercare on the one hand, and on the other the actual increase in the number of dependents requiring care and the impact this also has on our staff.

Being aware of these figures and in the process of realigning our personnel strategy with a stronger view toward the “stages of life” we have thought about what can be done to relieve those employees providing eldercare even further. In cooperation with our partners we then developed a modular system that provides suitable offers for a multitude of eldercare needs and situations, whereby it is especially important that it include products and services that can be drawn on quickly in cases of acute situations. In contrast to childcare, where one has several months “lead time” before the generally happy event, the need for eldercare often arises “overnight”. Dependents then have to face and deal with many new questions and concerns in a short amount of time and make the necessary arrangements (Fig. 3).

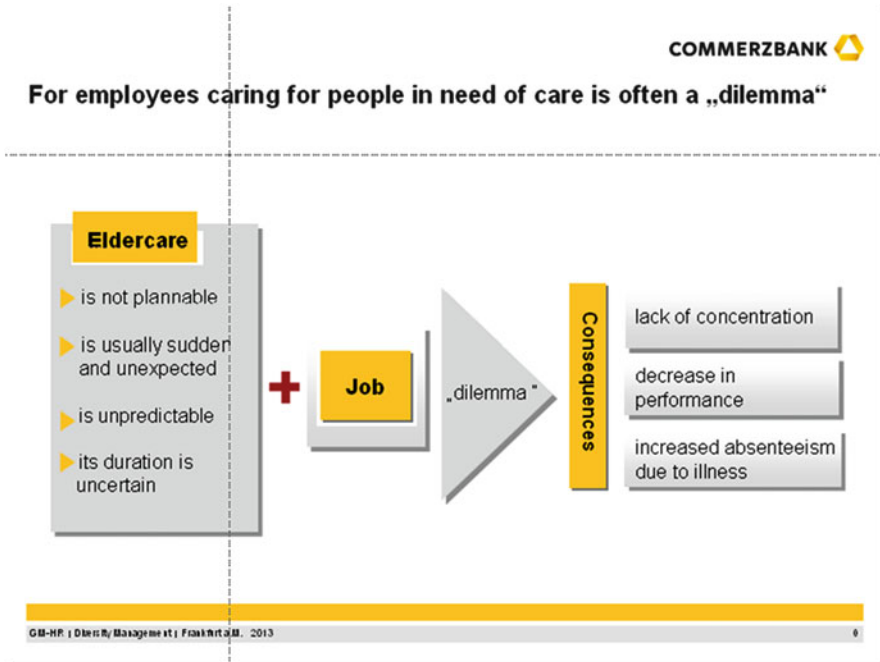


Fig. 3 Effects of eldercare on the employee

Employees who previously focused primarily on their job and career find themselves in a dilemma concerning the compatibility between the two. And what makes it even worse is the fact that in many cases it is not foreseeable how the situation will develop and how long the care will be required. Questions which can often only be answered by experts arise all of a sudden. A financial burden is added. Decisions need to be made regarding who in the family will take on the responsibility of caring for the family member or if the solution is to go with an external provider. It is quickly apparent that these questions require a great deal of concentration and offer a distraction from work; in the worst case they can lead to absenteeism, depression, and illness on the part of the employee. The onset of the need for eldercare shares many symptoms with the onset of a crisis. And especially in times of crises people appreciate and depend on the understanding of their managers and colleagues all the more, and offers of relief provide a basis that allows the caregiver to plan and manage this task.

These realizations, often contributed to by moving discussions with employees who are also caregivers, were fundamental to the development of our “eldercare modules” (Fig. 4).

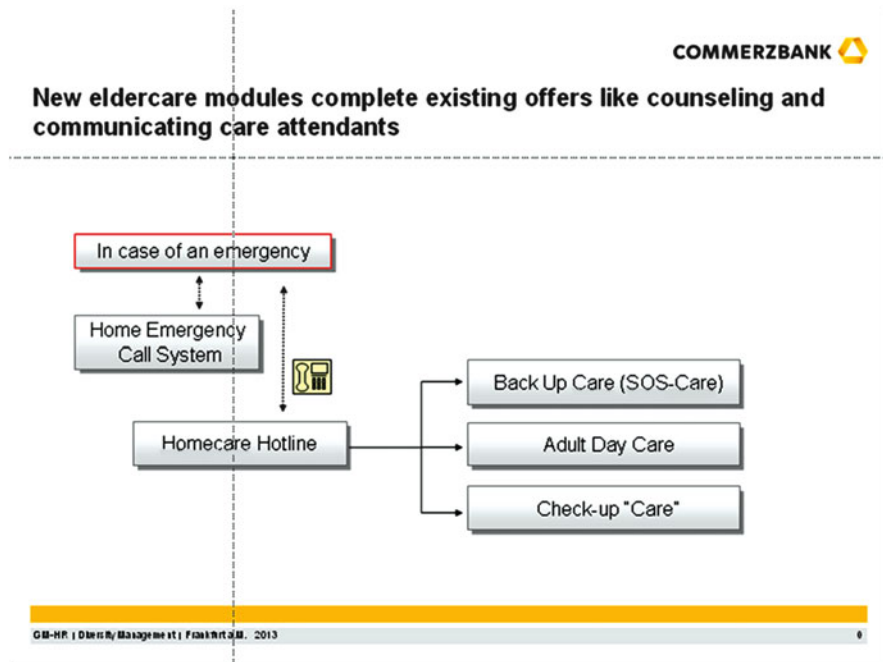


Fig. 4 Commerzbank's new eldercare modules

7 Description of the Eldercare Modules

7.1 Homecare-Helpline

The Homecare Helpline is a hotline that is available 24 h a day/7 days a week. It is free of charge for our employees. The hotline is operated by our cooperation partner, pme Familienservice.

Typical case

The preferred caregiver is not available and a replacement needs to be found at short notice. If a call is placed to the hotline before 6:00 p.m. a qualified substitute can be arranged for the following morning at the latest.

7.2 Home Emergency Call Systems

Our technological partners provide assistance by offering consulting services and brokering emergency call systems for the home. These can be very simple medical alert systems, by which the push of a button signals the nursing care provider,

ambulance or personal caregiver. However, more complex systems can also be ordered, which measure the activity of the individual requiring care in their home and automatically trigger an alarm in case of unusual readings.

Typical case

An employee is concerned about their dependent at home. The home emergency call system provides a certain degree of assurance knowing that in the case of emergency help is quickly available. The employee's minds are at ease and free to focus on the job at hand.

7.3 Emergency In-Home Back Up Care (SOS-Care)

An employee can request a qualified caregiver to care for their dependent in their home if necessary. The SOS-care provider can also stay overnight if the situation calls for this.

Our cooperation partner has a pool of trained caregivers for this purpose and has also further qualified them.

Typical case

An employee of the bank needs to attend an important meeting at short notice. Not being able to take care of the dependent relative during this time, the employee can request back-up in-home care.

7.4 Adult Day Care

As opposed to the “in-home-care module” of the SOS-care adult day care is a “take-to-a-home module”. The bank employee can take a relative over the age of 70 and requiring care to an approved adult day care- or nursing home contracted by the bank. The dependent is cared for here during the day (Monday–Friday, 8:30–16:30). This includes meals and various activities, e.g. exercise and occupational therapy. In some cases it is possible to arrange for in-patient care, for which the employee then carries the cost.

The bank pays the facility an administrative fee and the employee pays the share of the cost not covered by the nursing care insurance fund for a maximum period of 10 days per year (€26.51/day).

Typical case

An employee wishes to take a day off to relax or for own appointments. With adult day care employees know that their relatives are well taken care off and can pursue their own needs or take care of their business.

7.5 Check-Up “Care”

This service offered to our employees covers a so-called geriatric assessment to determine the medical, psycho-social and functional resources as well of their dependents and their problems.

The objectives of the check-up are:

- To achieve or maintain the highest level of independence and improve the functional abilities of the dependent
- To clarify what kind of patient care and accommodation is most suitable
- The prevention of disabilities and avoiding placement in a nursing home
- The check-up is conducted in one of the clinics of the Agaplesion clinic group contracted by Commerzbank and includes a range of recognized tests overseen by a multi-professional team of doctors, psychologists, and caregivers.

A check-up may include the following recognized tests (Püllen et al. 2010):

- Geriatric screening according to Lachs based on 15 points (e.g., vision, hearing, memory, pain, etc.)
- Measuring a person’s daily functioning according to the ten points on the Barthel Index including feeding, washing, getting up and moving about, dressing, etc.)
- The Timed Test of Money Counting according to Nikolaus
- Timed Up & Go-Test (mobility)
- Modified Romberg-Test (balance and coordination)
- Handling medication
- Mini Mental-State-Examination
- Clock-Completion-Test
- Reisberg-Scale to assess the level of dementia
- Confusion-Assessment Method (Cam)
- Social Assessment
- Spiritual Assessment
- Emotional Assessment (Geriatric Depression-Scale)
- Nutritional Assessment (Mini-Nutritional-Risk-Screening NRS)

These tests generally take 2–3 h followed by a consultation at the end, which the bank employee takes part in. The bank covers the cost of the check-up once a year per employee.

8 Why Do We Offer This Very Special Service?

In the course of various talks we discovered that not knowing what the situation is places a big burden on our employees. Worries about the care- or nursing needs and their development follow the employee to work and have an impact on their concentration and performance. With the Check-Up module we provide a service that lightens this burden with the aid of a professional diagnosis of the situation and its possible future development. A clear overview of the path to be pursued and the steps that need to be taken give our employees a frame in which they can better plan what they need to do. Ideally this also clears their mind so that they are freer to focus on their work. In view of this it makes sense that we, the employer, would finance such an undertaking: We are promoting our employees' performance and availability while also creating a strong bond between our employees and our company.

9 Outlook: The "Silver Society" Megatrend Will Lead to an Increased Demand for Corporate Assistance Services

The current figures on the number of users since the introduction of our eldercare modules show that it will take some time before these services are truly widely accepted. We will make use of this time to be in close contact with our employees responsible for eldercare, as we need their feedback concerning the practicability of the modules as well as recommendations on how we can improve our services.

To promote the exchange, a network for "Employees Providing Eldercare" was established. Employee networks have proven quite successful at Commerzbank, and have contributed to a better understanding among employees. Examples include the gay-lesbian network "Arco", the largest corporate LGBT-network in Germany, as well as the women's network "Courage", which is located in all major offices of Commerzbank in Germany and abroad. The latter offers a multitude of activities to promote equal opportunities for men and women at work and support women in the pursuit of their careers.

Similarly, we set great hopes on the new "Eldercare" network, and that it will serve to bundle the interests of employees providing care and represent these in dialogues with the employer and colleagues. In Diversity Management we provide the impetus, financial means, non-material support, and contacts. Ideally an active circle of caregivers then comes together to share their experiences and be available for discussions. Bank-wide activities and continuous communication dealing with eldercare in our internal media will also raise employee consciousness regarding the subject and contribute to a greater understanding and appreciation for colleagues providing eldercare.

In a future study we will most likely see the benefits that offering eldercare services can generate for the bank.

We are convinced that the eldercare services we provide will also lead to a win-win situation for our employees and the bank as the employer, as do the

childcare services. In both cases, whether looking at childcare or eldercare, the services are invaluable to the employees, enabling them to balance their private and professional lives, by helping to reduce their scheduling-, financial- and mental burdens. And the employer, the bank, benefits due to increased employee satisfaction, motivation and loyalty on the one hand, and decreased employee absenteeism and illness on the other. As such, Commerzbank is truly “taking care” of its “human resources”, because we are convinced that the return on investment will pay off more and more in the future. The effects are measurable; the figures are there to prove it.

Furthermore, future generations of employees, who according to various studies are placing more and more importance on their work-life balance, will view the bank as an increasingly attractive employer. In view of the fact that for a time the image of the banking industry had suffered, this is an invaluable advantage.

And not least of all, Commerzbank is meeting its social obligations. By providing innovative personnel products and services it is both triggering and contributing toward the development of a positive working environment.

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Investing in the Subjective Well-Being of Temporary Workers

Examining the Added Value

Susanne Imhof

Abstract

Based on theoretical approaches and empirical results from the research fields of temporary work and subjective well-being, the added value of investments in the temporary workers' subjective well-being is discussed by taking the temporary work's specific triangular employment relationship into account. Positive effects of an increased temporary worker's subjective well-being on productivity, organizational citizenship behavior, health and commitment as well as a negative relation to turnover intention and the risk of counterproductive work behavior are presented in a summarizing cause and effect model. With regard to the return on investment, also limiting factors of well-being enhancing measures like genetic determination, adaptation processes, chosen reference persons as well as investment costs, misleading signals towards the workforce and the well-being promoting activities' unknown effectiveness are included in the model.

1 Introduction

Profit-oriented organizations commonly anticipate target conflicts between the achievement of economic and employee-oriented business goals. Thus, social objectives, like employees' subjective well-being, are neglected, while the realization of economic goals such as profit maximization or product quality is prioritized. However, the question arises if organizations should put a stronger focus on the achievement of social objectives, for example in terms of an increased subjective well-being, in order to boost the realization of economic goals in return.

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The organizational willingness to care about the subjective well-being of employees certainly depends on the existing types of employment relationships in an organization. Therefore, a differentiated corporate strategy concerning investments in well-being promoting activities for various employment groups might be expected. Whereas investing in measures for enhancing the subjective well-being of employed permanent workers is considered to be plausible, supportive investments in non-permanent employees, like temporary workers, might not seem profitable at first sight. Nevertheless, temporarily employed workers are also an essential valuable resource since the number of temporary workers in organizations is continuously increasing due to various organizational advantages of this employment type. On the one hand, the use of temporary employees increases the employer's flexibility (Connelly and Gallagher 2004). On the other hand, the fast availability of temporary workers, the screening effect before offering a permanent position as well as a reduced effort for downsizing procedures are also crucial motives for hiring temporary workers from a company's perspective (Alewell and Hauff 2011; Bellmann et al. 2012).

These organizational advantages are, however, also associated with different negative consequences for temporary workers, which might negatively affect their subjective well-being. Besides the perceived high job insecurity due to the relatively short employment periods and the continuous risk of losing their current job (De Cuyper et al. 2005; De Cuyper et al. 2011), the specific working circumstances of temporary workers, like belonging to a different class of workers within a company's workforce as well as the continuously changing tasks and working environments can cause negative effects on the subjective well-being of a temporary worker. In addition, the lack of further training possibilities reduces social integration within the workforce and the society as well as the lower wages in comparison to the permanent workers (Nienhüser and Baumhus 2002) could have a negative impact. Due to these circumstances, a lower level of temporary workers' subjective well-being in comparison to permanent workers' respective levels can be assumed. Consequently, there might be a great need for enhancing the subjective well-being of temporary workers.

Furthermore, it has to be considered that both permanent as well as temporary workers are crucial operating factors for an organization as the attitudes and behaviors of both employee groups can affect different organizational output variables which are in turn decisive influencing factors of a company's success. Therefore, companies employing temporary workers should care about the well-being of both worker groups in order to achieve this social objective.

In the following, based on theoretical approaches and empirical results from the research fields of temporary work and subjective well-being, the possible positive effects of investments in the subjective well-being of temporary workers are discussed by taking the specific triangular employment relationship into account. Additionally, different limiting factors with regard to the effectiveness as well as implementation of well-being enhancing activities are presented. Finally, a comparative cost-benefit analysis of investments in the subjective well-being of temporary workers will conclude the considerations.

2 Temporary Work and Subjective Well-Being

There are inconsistent findings regarding the well-being of temporary workers. Some empirical results confirm that the well-being of temporary workers is lower than the well-being of permanent workers as it can be expected due to the already mentioned specific working conditions. In contrast, other studies also find contradictory results, that the well-being of temporary workers equals or even outperforms the well-being of permanent workers (De Cuyper et al. 2008; De Cuyper et al. 2011; Gracia et al. 2011).

These conflicting results can be explained by the variety and heterogeneity of different types of employments and contractual forms which in literature are summarized under the terms of temporary work or contingent work (Gracia et al. 2011). For this reason, the focus is on temporary agency work in Germany, which is characterized by a triangular relationship between the temporary worker, the temporary work agency and the user company (Mitlacher 2006). Thus, there are two possible organizations, which might be responsible for well-being enhancing measures. In addition, the analysis of different types of temporary workers in empirical studies can limit the results' comparability and lead to the above mentioned inconsistent research findings. Since temporary employees differ in terms of motives for this employment type (de Jong and Schalk 2010; Tan and Tan 2002), educational level and employment sector, this in turn could also affect a temporary worker's subjective well-being level. Consequently, the specific characteristics of different temporary worker groups also limit the generalizability of the induced effects outlined below.

Furthermore, a comparability of the results regarding the subjective well-being of temporary workers might not be given due to the large number of different variables, which are hidden behind the umbrella term well-being (Wright and Huang 2012) as well as the divergent empirical operationalization of the used variables. Therefore, subjective well-being is in the focus of these considerations since this variable is increasingly important in research (Diener et al. 1999) and describes a person's well-being level according to cognitive and affective subjective evaluations of the life situation (Diener, 1994; Diener and Lucas, 1999; Diener and Suh, 1997; for an overview see Diener and Ryan, 2009). Besides the cognitive component in terms of the evaluation and judgment of the aggregate life satisfaction, also affective components in terms of the experience of positive and negative emotions, are covered by this variable (Diener and Ryan 2009; Lucas et al. 1996). Summing up, a person experiences a high level of subjective well-being if positive evaluations, thoughts and emotions regarding the own whole life are dominant (Diener et al. 1995; Myers and Diener 1995). Although the subjective well-being is relatively stable over time (Andrews 1991; Balatsky and Diener 1993), outstanding positive as well as negative events can cause deviations from the subjective well-being base level. However, in this case, an adjustment to the original level normally takes place within a few months (Diener et al. 2003; Suh et al. 1996), but empirical studies show that dramatic events, like unemployment can lead to a long-term change of the individual's subjective well-being (Lucas et al. 2004). Due to the

aforementioned specific employment situation of temporary workers the question arises to what extent temporary work affects and possibly changes the subjective well-being level of temporarily employed individuals.

3 Added Value of Investments in a Temporary Worker’s Subjective Well-Being

First of all, the implementation of well-being promoting measures might increase the subjective well-being of the employed temporary workers by which the organization creates an added value with regard to the realization of social goals. In addition, due to the enhanced subjective well-being level, various positive effects on individual as well as organizational outcome variables might be induced which in turn promotes the achievement of the organization’s economic goals. These possible positive effects of an increased subjective well-being are outlined below. Moreover, also limiting factors with regard to the effectiveness and implementation of well-being enhancing activities are described. For explaining the different action mechanisms, the specific triangular employment relationship of temporary agency work is taken into consideration. The following cause and effect model summarizes the proposed positive relations between a person’s increased subjective well-being and different outcome variables as well as the limiting factors of well-being enhancing investments (Fig. 1).

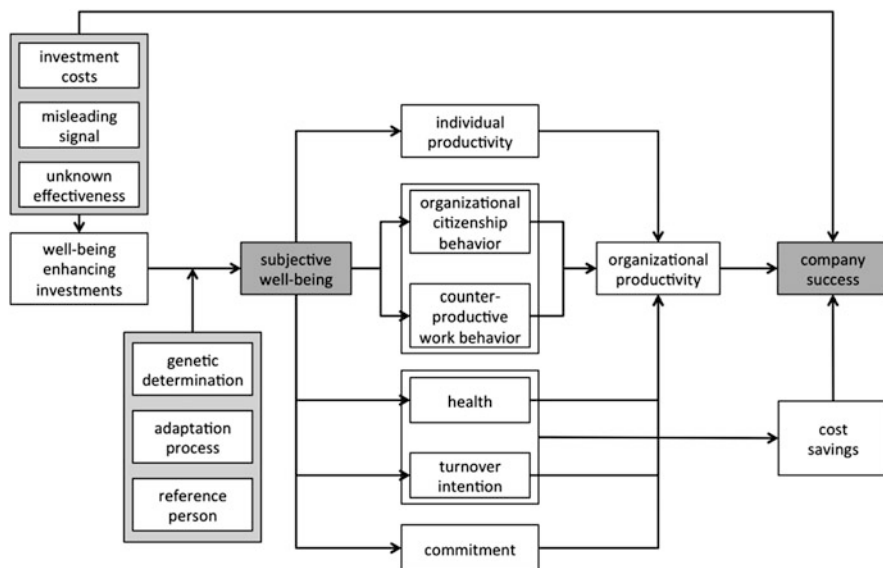


Fig. 1 Effects and limitations of well-being enhancing measures

4 Positive Effects of an Enhanced Subjective Well-Being on Individual and Organizational Output Variables

A positive correlation between the individual's well-being and productivity is confirmed by a variety of different empirical studies (De Neve et al. 2013; Ellingson et al. 1998; Cropanzano and Wright 1999; Wright et al. 2007). Additionally, the study of Wright et al. (2007) shows that subjective well-being has a positive impact as a moderator variable on the causal relationship between job satisfaction and productivity. This means that persons with a high subjective well-being display a stronger relation between job satisfaction and job performance than individuals with a lower well-being level (Wright et al. 2007). Consequently, due to an enhanced subjective well-being level, companies can benefit from an increased individual work productivity which in turn has a positive effect on the aggregate organizational performance (Taris and Schreurs 2009). In addition, persons with a higher well-being level enjoy work (Lyubomirsky et al. 2005a), are more effective decision makers, show more creativity and have a higher work quality as well as better social relations in the work context (De Neve et al. 2013; Lyubomirsky et al. 2005a) which again can influence the individual and aggregate productivity in a positive way. Higher supervisor ratings of persons with an elevated level of subjective well-being (Cropanzano and Wright 1999) provide further evidence for the positive causal relationship.

The positive effects on temporary workers' individual productivity due to an increased subjective well-being level could to a certain degree counterbalance a possible lower productivity level of temporary workers in comparison to permanent workers. The conceivable productivity differences between both employee groups might be explained by the missing firm-specific knowledge of a temporary worker. Moreover, according to Equity theory (Adams 1965), temporary workers might withhold job performance as a consequence of the perceived unfair lower wage level (Alewell and Hauff 2011; Nienhüser and Baumhus 2002). However, it is also imaginable that temporary workers show a higher working performance due to the hope of a permanent position at the current user company (Hirsch and Müller 2012), so that an additional increase in productivity can be induced by well-being enhancing measures. In the end, the number of temporary workers within the total workforce as well as the temporary workers' productivity have an essential impact on the aggregate productivity of a company (Beckmann and Kuhn 2009; Hirsch and Müller 2012).

Furthermore, companies can also benefit from a higher level of organizational citizenship behavior (OCB) which is shown by individuals characterized by a high level of high well-being (Diener and Biswas-Diener 2008; Greguras and Diefendorff 2010). OCB, in turn, has a positive effect on organizational productivity (Podsakoff and MacKenzie 1997) and consequently also for the company's success. Based on empirical findings which suggest that temporary workers show OCB if they are treated with respect and in a similar way like permanent workers (Moorman and Harland 2002; van Dyne and Ang 1998) one might suggest, that well-being enhancing measures and in consequence an increased well-being level

can positively affect the OCB of temporary workers. A user company which represents the actual work environment of the supported temporary worker could probably benefit more from this positive correlation between subjective well-being and OCB than the temporary work agency, since the possibilities for showing OCB in the relationship with the agency characterized by a lack of local presence are limited.

Additionally, an increased level of subjective well-being might also reduce the risk of a counterproductive work behavior in general (Lyubomirsky et al. 2005a). Therefore, the risk of a possible counterproductive work behavior (Robinson and Bennett 1995) of temporary workers against the user company in form of e.g., sabotage, transfer of company secrets or being late for work as well as against the temporary work agency in form of e.g. a non-availability for the matching process or rude behavior towards the employees of the agency (Connelly et al. 2011) can be reduced by an enhanced level of subjective well-being. Here again, a decreased risk of counterproductive work behavior can have a positive effect on organizational performance and in turn on the company's success as well.

Moreover, high subjective well-being is also linked to a good state of health (Diener and Ryan 2009; Diener et al. 1999) and promotes health-seeking behavior (Diener and Biswas-Diener 2008). In consequence of a better health status, absenteeism and costs due to illness as well as the associated consequences, like replacement of sick temporary workers or productivity losses, can be reduced for both companies.

Further cost savings for temporary work agencies and user companies can be achieved due to the fact, that a higher level of well-being leads to a higher probability of remaining on a job (Wright and Bonett 2007) as well as a lower turnover intention (De Cuyper et al. 2009), which in turn can reduce organizational efforts and costs incurred for employees' dismissals. Depending on the qualification level of a temporary worker, a dismissal might be admittedly limited due to missing employment alternatives. However, only a temporary worker's change of the employing temporary work agency can also induce negative consequences for the agency, like the loss of accumulated human capital and reputation with regard to the user companies as well as a worsening of employer attractiveness. Summing up, the temporary work agency might in particular profit from the two positive aspects of an improved health status and a decreased turnover intention, as the agency suffers losses in sales in the case of a temporary worker's illness or dismissal. In case a matched temporary worker does not appear at its job at the user company for any reason, the temporary work agency has to begin with a new matching process for a suitable replacement employee which causes additional costs and can have negative effects on the agency's reputation and the future cooperation with user companies as well as on acquisition of new clients. Nevertheless, the absence of a temporary worker also leads to efforts and costs for the user company since the missing manpower has to be covered by other employees and additional efforts are needed for the introductory training process of a newly matched temporary worker.

Additionally, studies also show a positive correlation between an individual's well-being and the organizational commitment (Aggarwal-Gupta et al. 2010; Garg

and Rastogi 2009; Harris and Cameron 2005). Moreover, organizational commitment itself has in turn positive effects on a variety of different output variables (Mathieu and Zajac 1990). Empirical studies show, that despite the short duration of employment and the perceived job insecurity, temporary workers are committed towards both the user company as well as the temporary work agency (Connelly et al. 2007). It was also shown that the commitment of a temporary worker could be enhanced by organizational support measures (Felfe et al. 2005). For this reason, well-being promoting investments and in turn an increased subjective well-being can positively affect a temporary worker's commitment.

It is obvious that due to the triangular employment relationship, the commitment towards both the user company as well as the temporary work agency has to be considered (Galais and Moser 2009). Indeed, organizations can benefit from an increased temporary worker's commitment that in turn positively impacts the organizational productivity and the company's success. A positive investment effect through elevated levels of a higher individual's subjective well-being might, however probably not materialize since a high level of commitment towards the user company in turn can also have a negative impact on temporary workers' well-being in case of reassignments to new user companies (Galais and Moser 2009). Therefore, one might suggest that well-being enhancing measures should be implemented by the temporary work agency in order to avoid possible negative effects on the individual's subjective well-being. Moreover, due to spillover effects, a temporary worker's organizational commitment towards the temporary work agency as its sole employer can also positively influence its behavior and attitudes towards the user company (Connelly et al. 2011).

Finally, temporary workers might perceive support by the employing organization due to investments in well-being enhancing measures. This perceived organizational support means that the employer values the work of the temporary workers and makes efforts for their well-being (Eisenberger et al. 1986). As a consequence, the perceived organizational support positively affects temporary workers' subjective well-being (Baran et al. 2012). Thus, it can be concluded that besides an increase in the subjective well-being level based on implemented well-being enhancing measures, an additional positive effect on temporary workers' subjective well-being can be induced by perceived organizational support.

In summary, it can be assumed that implemented well-being promoting activities increase the subjective well-being of temporary workers. This enhanced well-being level can positively influence different individual outcome variables, which in turn affect corporate figures, like the organizational productivity or the company's success in an aggregate manner. Consequently, investments in the subjective well-being of temporary workers are beneficial to the achievement of social as well as economic goals in order to generate profitable competitive advantages for the organization. But there are also some factors that possibly limit the effectiveness as well as the organizational implementation of well-being enhancing activities.

5 Limiting Factors Against Investments in Well-Being Enhancing Measures

The return on investment (ROI) of well-being enhancing measures which express the relation between the induced profitable positive effects and the investment costs, can be affected by different factors. At first, various reasons which limit the effectiveness of well-being promoting measures are described: The spectrum of effects for activities which increases a person's subjective well-being is limited due to genetic determination. Empirical studies indicate that nearly 50 % of the individual well-being level is genetically determined (Lykken and Tellegen 1996). This base line of a person's subjective well-being is called the happiness set point (Lyubomirsky et al. 2005b) and is more or less stable during life (Headey 2010). However, recent empirical studies indicate a required revision of the traditional set point theory regarding the possibility of long-term or permanent changes of the individual set point of happiness (Headey 2010). Furthermore, another 10 % of a person's well-being level is influenced by demographic circumstances like gender, age and nationality (Diener et al., 1999; Lyubomirsky et al. 2005b). Consequently, only approximately 40 % of a person's subjective well-being can be affected by well-being enhancing measures and activities (Lyubomirsky et al. 2005b). Besides the described limited spectrum of effects, it also has to be considered that not all well-being promoting factors, like family, health or leisure are in a company's range of influence.

In addition, when implementing well-being enhancing measures, the risk of hedonic adaptation (Brickman and Campbell 1971) has to be taken into account. This means that implemented measures might not lead to a durable change of the subjective well-being since individuals get accustomed to new circumstances which consequently leads to a further adaptation of someone's own well-being level (Diener et al. 1999; Frey and Stutzer 2002). This adaptation process is caused by the effect that an individual's expectations are changing due to implemented measures, which in turn cause a new aspiration level. However, this changed aspiration level again is essential for the comparison of the current situation with own aspirations for evaluating the subjective well-being (Easterlin 2001; Frey and Stutzer 2002). A temporary worker's increased aspiration level, maybe due to former user companies' support measures, can lead to an adaptation to the previous subjective well-being level, if the current situation within a new client organization might not meet the previously built expectations.

However, it is also indicated, that on the one hand, individuals might differ in terms of the rate as well as the extent of adaptation (Diener et al. 2006). On the other hand, the affected area of life, such as the economic or the family domain can also influence the adaptation process (Headey 2010). Consequently, revisions of the traditional hedonic treadmill approach illustrate that measures aimed at a long-term increase of a person's subjective well-being might be possible and effective (Diener et al. 2006). Nevertheless, the risk of adaptation as well as the extent of an adaptation process have to be kept in mind for the conceptualization and implementation of appropriate activities.

Apart from the aspiration level as a comparison basis for evaluating the subjective well-being, reference persons can also be used for the evaluation of the individual well-being level (Diener et al. 1999). In this context, social comparisons with reference persons are important since not a person's absolute situation but a person's relative situation compared to a set of reference persons' situations is essential for an individual's subjective well-being (Frey and Stutzer 2002; Veenhoven 1991). For that reason, persons compare their own situation with the situation of other family members, friends or colleagues (Carrieri 2012). Due to the different working environments of a temporary worker, it can be expected that besides the permanent workers of the current user company also other temporary workers of the same employing agency or another temporary work agency could serve as a temporary worker's reference group. However, up to now, there is only little research on the reference persons of temporary workers (Wilkins 2013). According to social comparison theory (Festinger 1954), temporary workers might compare their own situation with the situation of permanent workers at the current user company due to an easier comparability of the similar working environment. This reference point might also be supported by the fact that persons with a lower subjective well-being tend to compare themselves with persons in better positions (Lyubomirsky and Ross 1997). Since it can be assumed that temporary workers might have a lower well-being level, permanent workers at the current user company seem to be an obvious choice as a reference group (De Cuyper et al. 2008).

Temporary worker's observed differences concerning compensation, development opportunities and job security in comparison to the permanent workers can in turn induce a negative spiral effect on the subjective well-being of temporary workers. In order to obtain a better understanding of the well-being promoting measures' impact, it is necessary to gain more knowledge about the relevant reference group of a temporary worker since varying effects on the temporary worker's subjective well-being might be induced based on the chosen reference person.

However, from an organizational point of view, there are additional factors that can limit the implementation of well-being enhancing measures. Especially with regard to the ROI of investments in the subjective well-being of temporary workers, the unknown point of time at which some positive effects of the implemented well-being promoting measures might occur as well as the uncertain duration of effect have to be considered as factors of uncertainty. For a user company, which invests in the subjective well-being of the currently employed temporary workers, there is a risk that the organization itself might not benefit from the possible effects well-being enhancing activities due to the relatively short employment duration of a temporary worker at a user company. So, user companies might struggle to generate a ROI from well-being enhancing measures targeted at temporary workers since supported temporary workers might be employed by another user company in the meantime. In case a temporary work agency invests in measures for enhancing the subjective well-being of its employed temporary workers, the agency might risk a

negative ROI since a supported temporary worker could be offered a permanent position by a user company or could change the agency.

It can be summarized that besides the effectiveness of well-being enhancing activities in general the onset as well as the duration of effect are also unknown. Due to this fact, the traceability of induced positive effects seems to be quite difficult which in turn limits attempts to assess the ROI for both organizations.

In order to render the effectiveness of well-being enhancing activities visible, the measurability of a person's subjective well-being level is of great importance. On the one hand, it is important to identify the base level of a person's subjective well-being. Particularly with regard to the temporary workers' situation, it can be important to draw a comparison with permanent workers in the current work environment or with other temporary workers in the same temporary work agency to find some possible differences concerning the level of subjective well-being. Then the measured base level as well as possible differences can be seen as a starting point for the necessity of investments in activities for enhancing the subjective well-being of the workforce. On the other hand, when well-being enhancing practices have been implemented, it is necessary to check whether and to which extent the measures lead to changes of employees' subjective well-being. Therefore it is essential to determine the used measures' possible duration of effect based on a data collection at several points of time in order to develop effective long-term strategies. Finally, the measurability of the employees' subjective well-being is certainly the basis for demonstrating a possible ROI of the implemented activities.

Besides the risk of an insufficient effectiveness of the implemented well-being promoting measures, a user company's investments in the subjective well-being of the currently employed temporary workers can also backfire for the following reasons: First, in contrast to the pursued flexibility strategy (Beckmann and Kuhn 2009; Forde et al. 2008), the user company might raise expectations, like a permanent position, amongst the employed temporary workers which cannot be fulfilled by the user company. Second, investments in temporary workers can also be a misleading signal for permanent employees of a user company. The supporting measures for temporary workers can lead to a perceived increasing job insecurity of the permanent workers which in turn can cause lower motivation being linked to a possible loss of organizational productivity (Walwei and Ziegler 2012). In addition, a possible risk of counterproductive work behaviors of permanent workers towards the organization and the temporary workers may arise.

Finally, it should be mentioned, that well-being enhancing activities cause investment costs for the involved organizations. Besides costs for the conceptualization, coordination as well as implementation of well-being promoting measures, costs for assessing the effectiveness of the used activities emerge. Moreover, the amount of costs depends on the type and extent of the implemented measures. But both organizations the temporary work agency as well as the user company would certainly not bear the costs for subjective well-being enhancing activities if they cannot directly benefit from the investments. Therefore, a positive ROI of

the well-being promoting measures is a basic requirement for investing activities. In addition, based on the specific triangular employment relationship, the question of who should pay for the investments in a temporary worker's subjective well-being is crucial.

The question of who is bearing the investment costs as well as the individual and organizational benefits from an increased temporary worker's subjective well-being level are contrasted in the following section.

6 Conclusive Cost-Benefit Analysis

In the previous sections, it has been demonstrated that both the temporary work agency and the user company can generally benefit from an increased subjective well-being of employed temporary workers. Nevertheless, the relevance of the described relations as well as the strength of the induced effects can differ depending on the considered organization within the triangular employment relationship. However, since both organizations can certainly profit from an increased productivity of the employed temporary workers as a result of an enhanced subjective well-being, this positive productivity effect should be considered in more detail.

On the one hand, the temporary work agency can benefit from this effect in terms of an improved employability of the supported temporary worker. An increase in the numbers of successful employee assignments can again have a positive effect on the organizational success of the agency. On the other hand, the user company can also profit from a growth of the temporary worker's individual productivity since this in turn can lead to an increased aggregate organizational productivity of the complete workforce, which can positively influence the user company's success. But for the user company, it has to be kept in mind, that temporary workers' productivity growth can be accompanied by a decline of permanent workers' productivity due to the following reasons: The permanent employees of the user company perceive an increased feeling of job insecurity due to the employment and support of temporary workers. For this reason, some negative effects on motivation and productivity of permanent workers can be found (Beckmann and Kuhn 2009; Moser and Galais 2009; Walwei and Ziegler 2012), which in turn have a negative impact on organizational productivity of the user company. This threatening effect is confirmed by studies, which show an inverted u-shaped relation between the percentage of temporary workers at the user company and the organizational performance (Beckmann and Kuhn 2009; Hirsch and Müller 2012; Nielen and Schiersch 2011). Furthermore, the perceived and experienced unfair treatment of the temporary workers for example due to the wage gap, can deteriorate the permanent workers' attitudes towards the own organization (Moser and Galais 2009) which in turn evoke individual behaviors that can consequently affect the organizational outcome variables in a negative way.

With regard to the benefits of well-being enhancing measures, the following can be noted: Since both organizations of the specific triangular relationship can profit

from well-being enhancing activities, questions concerning cost bearing, organizational willingness and responsibility for the conceptualization and implementation of these measures as well as the cooperativeness between temporary work agencies and user companies arise. For instance, with regard to the monitoring of the measures' effectiveness and the corresponding changes in temporary workers' subjective well-being over time, the temporary work agency might take the place of a coordination center, as the agency is the continuous legal employer as well as a temporary worker's first point of contact.

Since the investment costs are an essential factor for the calculation of the ROI of well-being enhancing measures, the question about cost bearing is discussed from both companies' perspectives. User companies might bear the costs for well-being promoting activities in addition to the fees for the temporary workers, if the organization can immediately benefit from the investments in terms of positive outcome variables during the period of employment at the investing user company. The organizational willingness to accept higher cost is certainly increased by an assumed longer employment period of the temporary worker at the user company. Temporary work agencies might bear the investment costs since an enhanced subjective well-being level and the corresponding induced positive effects might improve the employability of the supported temporary workers in the agency's assignment portfolio. Due to this fact, the agency can profit from a larger number of assignments that consequently influence the agency's organizational success in a positive way. In addition, since the agency takes care of the employees' subjective well-being, the employer attractiveness and the reputation of the temporary work agency might be improved. An agency's improved reputation might in turn be helpful for the recruitment of new temporary workers as well as for the acquisition of new user companies.

In summary, the probability that only one involved party in this specific triangular employment bears the entire investment cost tends to be relatively low since both parties can benefit from the earnings of the investments in a temporary worker's subjective well-being. Therefore, sharing investment costs, similar to the recommended cost sharing with regard to investments in specific human capital of an employee, (see Becker 1962) might be appropriate.

Moreover, due to the specific triangular employment relationship of temporary work, possible spillover effects have to be taken into account with regard to the implementation of well-being enhancing activities. In general this means that a person's attitude and perception towards one organization can also have an effect on the individual's behavior towards another organization (Connelly et al. 2011). Consequently, supportive investments of one company can also influence temporary workers' behavior towards the other involved organization of the triangular relationship. Support measures of the temporary work agency can for example positively affect the temporary worker's attitude towards its agency which again induces a positive behavior of the temporary worker towards its current user company. But this effect can also happen the other way around. If a temporary worker experiences a positive working environment with support activities at the user company, this in turn affects the attitude and relation towards the own agency

in a positive way since the organization is responsible for the placement of the positively perceived employment. Therefore, based on the described spillover effects, an organization within the temporary work employment relationship might benefit from well-being enhancing measures without a direct final participation in the investment costs.

From an economic perspective, these outlined spillover effects represent positive external effects, which means that there will be a lack of supportive investments in well-being enhancing measures for temporary workers since a third party can profit from the investments without any service in return. In order to internalize these external effects and therefore promote investments in the temporary workers' subjective well-being a variety of approaches are conceivable. Besides public subsidies for organizations, which invest in well-being promoting measures for the employed temporary workers, also additional contractual agreements between the temporary work agencies and the user companies could be helpful. These agreements could specify the extent, the implementation as well as the allocation of costs for the required measures and might increase the organizational investments in subjective well-being.

In addition to cost bearing as a factor of uncertainty, a variety of other individual and organization-specific factors have to be considered in the decision making process concerning the investment activities. Apart from the user company's pursued strategy regarding the employment of temporary workers in addition to the core workforce, further aspects like the percentage of temporary workers within the entire workforce, the limited period of employment of a temporary worker as well as the temporary worker's experiences at previous user companies have to be taken into account for the investment decision.

Moreover, evidence of positive effects by well-being enhancing measures as well as the effectiveness and the traceability of effectiveness-related aspects, like the duration of effect, are essential in order to determine the ROI of the supportive investing activities. Therefore the objective as well as continuous measurability of the subjective well-being level and its corresponding changes is a requirement for investments in the subjective well-being of temporary workers. However, there is a risk that changes of a person's subjective well-being might not be clearly evident due to the chosen point of data collection or the chosen time intervals between several surveys. Thus, for example, due to the possible limited effect duration of well-being enhancing measures caused by adaptation processes, the increased subjective well-being level might not become obvious since an adaptation to the initial level has already taken place before the survey. As a consequence, the chosen point in time for the data collection as well as the time interval between several surveys are essential for verifying the effectiveness of well-being promoting activities. In conclusion, the effects of well-being enhancing measures on individual variables have to be quantifiable in order to prove the organizational added value of investments for both organizations within the specific triangular relationship.

Finally, it can be demonstrated that investments in well-being enhancing activities lead to the realization of an organization's social goal in terms of an

increased subjective well-being level of the employees. Due to the enhanced subjective well-being, positive effects on individual outcome variables are induced, which in turn also boost the achievement of economic goals. Therefore, the implementation of both social as well as economic objectives does not forcibly constitute a target conflict for an organization but rather mutually promote the respective goal achievement due to the outlined complementarity of the aforementioned goals. Consequently, organizations have to internalize that economic and social goals are equally important and that focusing only on economic goals might not be longer adequate from an organizational point of view. Instead it is essential to find an appropriate organization-specific mix in the pursuit of employee-oriented as well as profit-oriented goals, which reflect the unique characteristics of an organization, in order to accomplish the social responsibility and to generate competitive advantages.

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Added Value of Employee Financial Participation

Erik Poutsma and Eric Kaarsemaker

Abstract

This chapter broadens our understanding of the added value of employee financial participation. Financial participation is a generic term for the participation of employees in profit and enterprise results including equity of their employing firm. In general, there are two forms of employee financial participation: profit-sharing and employee share ownership (including options). While profit sharing is considered as an incentive for employees with positive individual and organizational level outcomes, employee share ownership adds to that a share holding element where employees may consider themselves as co-owners of the firm, including the possibility of voice and control. In this chapter we review the current literature on the impact of financial participation and show that in most cases the literature shows positive effects on outcomes. However, the literature also shows that financial participation is not a HR instrument that produces the results mainly in a generic way, but that the best results can be achieved when embedded in a configuration of HR policies and practices, which we call ‘high performance ownership system’.

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1 Introduction

Globalization and high dynamics in markets and environments are factors that push companies to a continuous search of methods to advance their productivity and profitability. In this context, human resource management is one of the issues that many companies are struggling with. The tacit elements of employees' work has become increasingly important, making work less tangible and much more dependent on the knowledge and skills, and the motivation and commitment of the employees. Given the larger mobility on the labor market where people have less inclination to take the employment relationship with their current employer for granted, companies are facing challenges to really gain and sustain competitive advantage through their employees. This calls for innovative ways of people management. Employee financial participation is such an innovation.

2 What Is Employee Financial Participation?

Financial participation of employees in profits and enterprise results can take many different forms. The common element and the main feature of schemes is that they aim to employees- usually on a collective basis- to share in the profits and/or results of operations. In general, the literature distinguishes two major categories of participation schemes: profit-sharing arrangements and arrangements for ownership of employee shares including stock options.

2.1 Profit-Sharing

Profit sharing implies that the profit is shared by those who provide capital and those providing their labor. The employees receive in addition to their fixed salary a variable part of income, which depends directly on the profits or other measure of operating results. Contrary to individual bonuses, profit sharing is a collective scheme applied to all or most employees. The scheme can provide immediate or deferred benefits to employees; paid in cash, shares or other securities; or it can be allocated to specific funds invested for the benefit of employees.

2.2 Ownership of Employee Shares

This is an indirect form of participation, in which workers share in the operating results through the payment of dividends and/or capital appreciation of the shares held. It can be allocated as free shares or available for purchase, usually on advantageous terms. Employee share ownership can be both individual and collective. When collectively held, a trust (or other body) receives the dividend and distribute the amount to employees as a profit share. Also, the collectively held shares may be distributed to individual employees over time, such as is the case in USA type Employee Share Ownership Plans (ESOP).

2.3 Stock Options

Stock options are another form of employee financial participation. Stock options are closely related to employee share, but also have some specific features. With stock options employees receive a right to buy company shares in a given period and for a certain price. They are similar to employee shares, in the sense that they can ultimately lead to shareholding, but unlike share schemes, employee stock option plans do not necessarily lead to the ownership of shares in the company.

Related to the profit-sharing schemes are so-called 'gain-sharing' arrangements. Such schemes are not dependent on the financial performance of a company, but other criteria, such as productivity gains, cost savings or certain quality objectives. In general, therefore, they are more strongly related to performance-related pay than to financial participation schemes. If such schemes are based on relatively broad and collective applicable performance standards, 'gain-sharing' can also serve the function of financial participation. This is particularly important for the public sector or non-profit sector, where the other forms of financial participation is obviously non-existent.

In practice, there is a wide variety of financial participation schemes, which are not exactly inline with the general simple arrangements described above, but which may also combine different elements of different approaches: financial participation plans may have elements from both profit-sharing and share ownership. Either type of financial participation may also be combined with employee savings schemes or pension arrangements. Financial participation schemes may thus also include asset accumulation or employee savings plans, provided there is a link between the money deposited in such schemes and the results of operations and/or if these arrangements contribute to some form of co-ownership on the basis of employee shares.

There are a number of other dimensions that characterize financial participation schemes. One of the most important dimensions is coverage; broad-based schemes, where all or most employees are eligible to join, and narrow based schemes, usually targeted to top and senior management and/or core professional groups. Another coverage dimension is the degree of participation in terms of amounts, number of bonds relative to income or total ownership. Profit sharing can be part of income but in practice in most cases it is an arrangement on top of salary and it is rather rare that the profit share amounts more than 20 % of income.

Cooperatives and labor managed firms suggest majority owned firms where employees own more than 50 %, but in most cases the 'mainstream' employee ownership covers less than 5 % of capital. Cooperatives and majority owned companies are a special class of companies and are usually found among small and medium sized business, although there are well known large cooperatives, such as the Spanish Multinational Mondragon and the large majority owned companies such as the John Lewis Partnership from the UK.

An additional set of differences between schemes relate to the institutional embedding of these schemes. National histories, regulations (tax, securities, and income and labor laws) and culture influence the form that schemes take. For

instance, in the UK there is a long tradition for governmental promotion of share option schemes focusing on promotion of an enterprise culture. There are two main broad-based plans with widespread use in the UK: the Save As You Earn (SAYE) share options savings plan, introduced in 1984 and the Share Incentive Plan introduced in 2000. In SAYE employees can take out options to be exercised in 3, 5, or 7 years time, at up to 20 % discount on market value at the time of grant. There is no income tax payable but lower level of capital gain tax on the sale of shares. The Share Incentive Plan provide for grants of free shares, share purchases by employees, awards of matching shares to supplement employees purchases, and share awards based on the dividends accruing to employee share owners. There are additional share schemes arrangement focusing more on share plans for managers, especially also in non-listed smaller companies. It is clear that in the UK context share ownership is firmly entrenched in most larger, listed companies. Pendleton (2007) showed that just fewer than 30 % of workplaces with five or more employees have a share ownership plan.

In contrast to the UK, profit sharing is deeply entrenched in France. This is strongly related to employee savings plans and increasingly also to employee share ownership. Introduced by General de Gaulle in the 1960s with the aim to bridge Capital and Labor, the system in France is based on a deferred profit sharing plan (*Participation*) compulsory in firms with more than 50 employees. The profit share is paid into a fund attracting tax advantages when held in the fund for at least 3 years. Over the years the system is expanded with more voluntary arrangement (*Interessement*) where profit share are paid into a company savings scheme (*PEE*), where these contributions can be complemented by bonus payments or voluntary savings. Most of the savings are invested in *Fonds Communs de Placement d'Entreprise (FCPE)*, which in turn either invests in a diversified fund or in the shares of the employer. Contributions are exempt from taxes. In this way, PEEs are used as a means for developing employee share ownership.

In Germany the development of financial participation is relative modest. Several laws regulate the possibility to use employee savings (matched with a premium from the state) to invest in the employing firm, to acquire shares, to make a loan to the employer, or to enter into a silent partnership with the employer. In the latter, employees do not acquire control rights as full shareholders normally have. The eligibility is restricted to lower income groups and the tax concessions are rather modest.

In a number of European countries there are other arrangements such as in Austria, Finland (Personnel Funds) and Belgium, but in most countries there are no such institutional arrangements that may promote financial participation.

3 Incidence of Employee Financial Participation

As said, the incidence of financial participation in Europe is influenced by country specific histories of promotion and arrangements. There are no systematic statistical data available on the incidence in Europe. The only comprehensive sources of

Table 1 Proportion of companies with financial participation plans per country (only private sector; companies > 100 employees; N = 3,161)

	Share plan	Options	Profit sharing
Austria	13	13	65
Belgium	37	46	36
Bulgaria	17	13	23
Cyprus	10	2	22
Denmark	25	18	13
Estonia	10	10	17
Finland	23	16	80
France	22	10	79
Germany	17	25	71
Greece	26	30	19
Hungary	30	26	4
Lithuania	11	14	16
Netherlands	27	24	59
Slovakia	31	10	20
Slovenia	16	9	35
Sweden	16	11	22
United Kingdom	32	23	19
Iceland	2	17	23
Norway	21	12	26
Russia	11	22	37
Serbia	12	20	12
Switzerland	28	27	73
Israel	14	18	27
Japan	58	13	12
Philippines	12	20	40
USA	19	42	52
Australia	37	23	30
Taiwan	63	45	71
South Africa	44	31	44
Average across countries	23	20	36

Sources: CRANET (2011) and Poutsma and Ligthart (2011)

comparative data are the CRANET HRM surveys with organization level data (www.cranet.org) and the European Working Conditions Survey with employee level data. From these sources we can conclude that the use of these plans is limited to certain domains of the economy. There is considerable diversity in the use of financial participation schemes among countries. Table 1 presents the proportion of companies with narrow or broad-based employee financial participation plans in 2009 (Poutsma and Ligthart 2011). In general, a minority of companies use share and option plans while the proportion of companies using profit sharing plans is much higher. Higher usage of share plans is found in Taiwan, Japan, Belgium, the UK, South Africa and Australia. In some cases this high level is related to favorable tax

concessions as found in Japan, Belgium and the UK. Profit sharing is very common in France and Finland due to specific provisions and tax concessions in those countries. High levels of profit sharing are also found in Germany, Austria and Switzerland. As expected a high level of use of stock options is found in the USA, but also in Belgium, Greece and Taiwan. Note that this database excludes smaller companies with less than 100 employees, where usually the incidence rates are much lower, except for the USA.

Looking at the incidence of broad-based share plans (not presented here), higher incidence rates is found in Japan, Taiwan and the UK. Broad-based options plans are mainly found in the USA and Taiwan, whereas broad-based profit sharing is mainly found in Finland, France, Taiwan, Germany, The Netherlands, USA, Switzerland and Austria.

One of the few sources for employee level data is the European Working Conditions Survey (Welz and Fernández-Macías 2007). The survey contains questions on income received from profit sharing and share ownership. Like the CRANET database, the proportion of employees receiving income from financial participation is generally low in most countries: around 12 % of European employees receive income from some form of profit sharing, and only 2.3 % from shares in the companies they work for. In six countries (Slovakia, Slovenia, Sweden, the Netherlands, Finland and France) does profit sharing affect more than one fifth of employees, and in four (Ireland, France, Luxembourg and Belgium) do more than 5 % receive income from shares in their companies. They compared data from the surveys in 2000/2001 and 2005 and concluded that in the last 5 years the levels have been consistently increasing in all the 15 EU states that were members in both surveys except for the UK. They have not been increasing in most new member states. One limitation of the survey is that, whilst it probably reliably identifies profit sharing, its reference to incomes received from shares is likely to understate employee participation in share ownership plans due to the question of income from shares. Employees may participate in share plans for some time before they receive any direct benefits from it.

4 Which Companies Implement Employee Financial Participation Plans?

From the research on determinants of plans we know that these plans are mainly found in large organizations and in companies listed on stock exchanges. Higher incidence rates are also found in financial services companies. Based on a European wide establishment survey, Poutsma et al. (2003) provide a substantial analysis of the determinants of the existence of financial participation schemes looking at several characteristics of the workforce and work organization. Schemes are less applied for employees with labor terms bound by collective labor agreements. These schemes were found to be implemented for higher qualified professionals and commercial personnel. *Profit sharing* is found in large companies that have a high-qualified workforce and that experienced employment growth. Profit sharing

is not likely in smaller independent single firms with no employee representation, low direct participation and low competitive environments. *Share ownership* is found in larger companies with a high-qualified workforce. These companies have employee representative participation and the work is more individually delegated, i.e., more often direct participation and decentralized decision making. Share ownership is not likely in medium sized, independent single firms with a low qualified workforce. In addition financial participation schemes were found to a lesser degree in companies with substantive degrees of unionism and more often seen as a remuneration instrument for staff and management (see for an overview of the different determinants also Pendleton et al. 2003).

One of the important internal influences shaping participation is the range of values and beliefs, and strategies held by the actors involved. These actors include the managers, individual employees, workgroups and their representatives who are involved in the decision-making process of the organization and the bodies concerned with participation. Research shows that management in companies with schemes agrees that direct participation is important for competitiveness and tends to organize work via teamwork. Financial participation is more developed in organizations where management is convinced of the strategic function of participation and commitment in general (Poutsma et al. 2003).

5 Theories of Employee Financial Participation

Since 1970s, a large number of studies focused on the relationship between financial participation plans and the attitude and behavior of employees and the performance of companies. The literature can be divided into studies focusing on attitude and behavioral effects and studies that more directly establish the link between financial participation and performance. In addition, both types appear to be focused on specific forms of financial participation, i.e., shares, options or profit sharing. Finally, many studies seem to be limited to arrangements for executives and top management, while a limited focus is found on so-called “broad-based” plans, plans intended for a large part of the staff. In the following we want to focus on studies that look at the outcomes of broad-based nature of arrangements.

The theoretical arguments about the effects of broad-based schemes will be similar to that of arrangements for top management, which is that they often rely on agency-thinking and the incentive effect, but there are also differences. The basic reasoning is that employee financial participation intends to influence attitudes and behavior of personnel. These schemes should lead to significant behavioral effects, such as increased effort, improved collaboration, reduced turnover and increased binding to career development in the company. These behavioral effects will have a positive impact on the performance of the company as a whole. Generally, three theoretically distinct central effects of broad-based financial participation schemes on the attitude and behavior of employees are presented (Klein 1987):

1. The ownership effect (also called the intrinsic effect of the scheme); means that employees, simply because they get a share, gain a sense of co-ownership of the company and act accordingly. Pierce et al. (2001, 2003) emphasize in this regard the importance of psychological ownership. The argument is that an ownership causes a change in mindset that qualifies as psychological ownership, which in turn causes changes in attitude and behavior. Several empirical studies support this outcome (Kaarsemaker 2006; Pendleton 2001, Pendleton et al. 1998; Wagner et al. 2003). This change is reflected for example in extra effort as it is important to maintain the property/business but also in protecting the property/business from negative outside influences.
2. The motivation effect; based on the expectation to achieve a favorable result (also referred to the extrinsic effect) employees are motivated to make the effort. This is the traditional expectancy motivation theory of Vroom (1964) where employees react on expected rewards. Research results have supported the extrinsic model (Buchko 1992; Gamble et al. 2002).
3. The commitment effect, in which identification with the organization and its goals takes place (the leveling of interest effect). Goal setting theory explains that financial participation will ultimately have an effect on organizational performance because of the alignment of interest in the collective outcomes between management and employees. This is reflected for example in attitudes and behavior such as watching the performance of the company, to participate in defining the direction of the company and watching the costs of the company. This model received empirical support from research by Pendleton et al. (1998) and Logue and Yates (1999).

There are important differences between the three forms of employee financial participation schemes in their nature and in their effects, especially between shares-related schemes and profit sharing arrangements. Profit sharing is typically directed to the short term and is also easier to allocate in cash which makes the extrinsic motivation impact more direct and stronger than in case of share ownership. Compared with profit sharing plans, share plans are better able to create feelings of ownership and commitment. Option plans may produce both effects. It makes sense to note these differences and companies may promote a combination, which we will address later in this chapter.

6 Outcomes

Since 1970s, a large number of studies investigated the claimed effect of share plans on the attitudes and behavior of employees as well as the organizational performance. Kaarsemaker (2006) summarizes the results of 129 studies over a 30 year period. Of the more than 50 studies looking at attitudes and behavior, more than two-thirds found favorable effects of share plans on identification, satisfaction, commitment and turnover, while other studies show no clear conclusions.

Also the relationship between share plans and organizational performance has been studied many times. A number of studies provide an overview of the results (Conte and Svenjar 1990; Doucouliagos 1995; Kruse and Blasi 1997; Pérotin and Robinson 2003). Kaarsemaker (2006) summarizes over 70 studies in 30 years, which looked at profit margins, productivity and return on assets (ROA). In summary, most studies find a small but positive effect of share plans in particular on productivity. This relationship is stronger when there is a more widespread distribution, i.e., a majority of the employees have a stake in the company. Problem of causality remains because most studies are cross-sectional, i.e., done at a single point in time. A small number of studies that use longitudinal panel data, records positive effects in the longer term (Fakhfakh and Pérotin 2000, Jones and Kato, 1995; Poutsma and Braam 2012).

The relationship between profit sharing and performance has also been studied many times. The general picture is that there is a positive relationship. The overview and meta studies of Doucouliagos (1995) and Kruse and Blasi (1997) show that, in general, and for the countries where the studies were conducted, profit sharing plans have a slightly positive significant effect on productivity.

Most research on the effects of stock options is about options for executives. This research provides a mixed picture of the impact of options on performance, both negative and positive effects, where in general, the positive effects are limited. There are a few studies that have looked at the impact of broad-based option plans (Sesil and Lin 2011). A study in the United Kingdom has found associations between the existence of broad-based plans and several performance indicators (Conyon and Freeman 2001). More in-depth study conducted by Rutgers University (Blasi et al. 2000) positive relationships are found between broad-based option plans with a series of performance indicators compared to firms without broad-based plan. It should be noted that the study took place especially in the biotechnology and computer industry where more substantial plans are common.

7 Combination of Plans

It is important to note that the studies are not always able to distinguish between types of participation plan. That is, that the studies referred to make attribution of effects to a single type of plan, such as shares or profit-sharing, because studies typically measure one of the two, while in practice often a combination exist. This combination may also lead to significant complementary effects, such as profit sharing with extrinsic motivation effect and share plans with ownership effects. Research shows that workers assess differently to what extent different financial participation plans motivate them to work harder for the firm (Blasi et al. 2010b). This can be related to risk aversion and other worker characteristics, such as position and level of pay. Companies may look for different plans that fit differences in preferences, as also suggested by the study by Bryson and Freeman (2010) who found that companies typically combine plans and also switch between plans.

There are a few studies that measure the effect of the interaction of different plans. Robinson and Wilson (2006), note that the combination of profit-sharing and share plans is associated with higher efficiency than companies without plans. Poutsma and Braam (2012) in their longitudinal study found significant positive effects on several financial performance indicators of the combination of share plans and profit sharing plans but not where options plans are part of a combination. The study of Bryson and Freeman (2010) find that the impacts on productivity of what they call 'shared capitalism arrangements' are larger when the firm combines several schemes. Other arguments for synergy between plans are elaborated by Pendleton (2005). Looking at retention in stock option plans, his research show that portfolio diversification is an important determinant of retaining shares by employees. Those who retain shares also have more alternative, share-based investments than those who sell shares after exercise of the options. The study also reveals that those who are motivated to participate in option plans for commitment reasons keep the shares whereas those who participate for extrinsic reasons immediately sell the shares.

8 Why Limited Use?

Given these positive outcomes, the question remains: Why is there only a minority of companies that implement these schemes? There are a number of theoretical reasons for this and we focus on three: the free rider effect, the risks perspective and the attitude of management towards sharing. The free rider effect states that no extra effort accrues from collective incentive plans and no subsequent better collective performance because of the possibility of free riding of colleagues. However, a major study looked into action against shirking due to the ownership and commitment effect of financial participation plans. Freeman et al. (2010) find that workers are most likely to take action against shirkers in workplaces where employees participate in profit sharing, gain sharing, stock options, or other forms of ownership. They show also that workers in workplaces where there is more anti-shirking behavior report that co-workers work harder and encourage other workers more, and that their workplace is more effective in several dimensions related to productivity and profits. These outcomes suggest that participating in different plans increases the involvement of employees, more actions against shirking, with a possible ultimate effect on financial performance.

Clearly there are risks involved when total remuneration is affected by future performance. Thus, it is expected that workers will be risk averse in mixing their own capital with that of the firm, putting effort and capital investment in one basket. Benartzi and Thaler (2001) concludes that this approach violates a cardinal law of economics, portfolio diversification. Clearly, we cannot underestimate the risk issue and employees may differ in their risk preferences. There is however, a more complex story attached to it. Next to objective risks, which could be mitigated by setting limits to amounts and proportion of total remuneration and creating a portfolio of different financial participation plans, there is subjective risks and

economic uncertainty that could be managed. An interesting study came to the following conclusion. Employers with employee financial participation that are structured to take into account worker responses to their economic insecurity and employment culture have better worker attitudes, better workplace outcomes, and a greater willingness of workers to prefer such more risky arrangements. Their outcomes suggest that to the extent that risk means increased lack of control over events and greater uncertainty about the outcomes of these events, it now appears that workers' lack of influence in their workplace and poor relations with management combine with their objective personal economic risk to create an overall sense that their workplace experience is uncertain, beyond their control, not open to influence, in effect, generally a risky place to be (Blasi et al. 2010b, p. 120). The findings are that a good corporate culture – the respective expectations and norms to have a say at work and be treated fairly in employment relations – play an important role in mitigating the risks issue and producing the desired effects.

As with all human resource management practices, management commitment to the policy and practice is key for an effective implementation and use. Employee financial participation may not be in the interest of some managers especially when it relates to wider participation in decision making. And this is the paradox of financial participation. As an early proponent has formulated in this way: the heart of employee financial participation will be found in consultative procedures, co-operative formulation, free discussion of ideas and joint consideration of company financial and production problems (Pateman 1970, p. 3). However, these participative requirements, essential for a scheme's success, are a high price to pay for those managers or employers who prize traditional prerogatives (D'Art 1992, p. 6). This reluctance may be found in several schemes where schemes are stripped of the participative elements but may question the effectiveness of these schemes to stimulate motivation and cooperation. Indeed, management and employers should invest not only in the scheme but also in a cooperative culture. There are indications that this pays off. A European wide survey indicated that in companies with employee financial participation management view participation as a competitive advantage, and that in those companies there were also other participative arrangements in place (Poutsma et al. 2003). The link between financial participation on the one hand, and HRM outcomes and company performance on the other hand is positive but do not appear to come about automatically. The next paragraph discusses what other HRM practices may fit employee financial participation and may take the form of a High Performance Ownership System.

9 High Performance Ownership System

In 1990s of last century a growth of management' interest in increased application of performance related remuneration as an involvement instrument has led to an increase of experiments. One of the arguments for putting financial participation into practice is to commit employees to the company and to develop an entrepreneurial attitude. To use popular buzzwords, the purpose of these policies is to

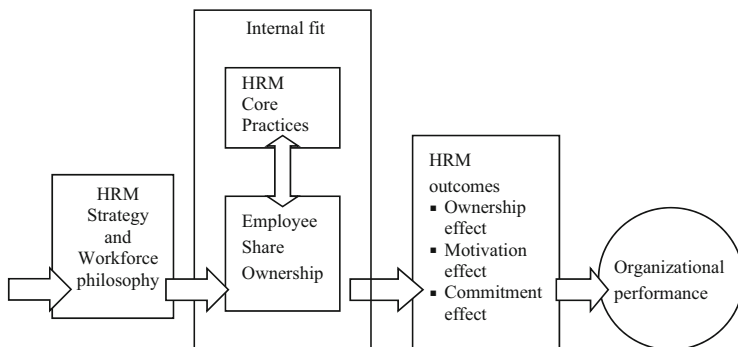


Fig. 1 High performance ownership system

‘empower’ employees and develop ‘High Performance Work Systems’ (HPWS). The strategy focuses on employee share ownership in combination with several other HRM practices to produce increased productivity. The argument is that the effectiveness of employee financial participation schemes is dependent on other HRM tools that pursue similar goals. Although many studies of financial participation schemes show a positive effect on productivity targets as, identification, commitment and job satisfaction, these outcomes are determined by a bundle of HRM practices. A large study by Blasi et al. (2010a) show this effect. They combined a shared capitalism index consisting of employee share ownership, profit sharing, gain sharing and broad-based stock options with a high performance work practices index and found that they appear to work together, with greater impacts when they are combined than when they are used separately. It is therefore important to consider financial participation as a tool alongside other HRM instruments. We need to find an effective fit between the schemes and other HRM tools. The model in Fig. 1 summarizes the argument.

Following McGregor’s (1985) Theory X and Theory Y, Young (1991) introduced what she called ‘Theory O’, with the ‘O’ referring to ‘ownership’. As the first feature of successful employee ownership companies she referred to ‘commitment by the top’ (Young 1991). The importance of the workforce philosophy or management’s commitment to employee ownership has been demonstrated by a number of studies (e.g., Culpepper et al. 2004; Gamble et al. 2002). That is, in successful employee ownership companies the prevailing workforce philosophy is one in which the relative role and value of employees relates to their co-ownership. In successful employee ownership companies, employees are seen as worthy of their co-ownership of the company and they are taken seriously as co-owners.

Several HRM practices have been included in the research, with differing results. This mostly relates to forms of participation in decision-making, but also to information-sharing (e.g., Freeman et al. 2004; Kalmi 2002), and profit-sharing (e.g., Brown et al. 1999; Freeman et al. 2004). The strategic HRM of successful employee ownership companies is focused on producing the ownership and commitment effect. This should be reflected in the other core HRM practices in the

Table 2 Translation of ownership rights into HRM practices

Ownership rights	HRM core practices
Use	Participation in decision-making
	Information sharing
	Training for business literacy
	Mediation
Returns	Profit sharing
Sale	Participation in decision-making about employee ownership
	Sharing of information with regard to employee ownership
	Training for business literacy to understand and be capable of the above

Source: Adapted from Kaarsemaker and Poutsma (2006)

HRM system, “which [] relate to the rights that make up the very construct of ‘ownership’, that is: the right to use an asset, the right to its returns and the right to dispose of or sell an asset” (Kaarsemaker and Poutsma 2006, p. 678). Table 2 shows how these ownership rights translate into various HRM practices.

In order to be effective, an HRM system with employee ownership as a central element and core HRM practice should also include the following HRM practices: participation in decision-making, profit sharing, information sharing, training for business literacy and mediation. The relationships between these core HRM practices are partially conditional, and partially multiplicative. An employee cannot be a real owner if he or she has no say, if he or she does not share in the returns, if he or she has no information about the business or does not understand the information that is being shared. The employee owner must be ‘business literate’. Furthermore, co-ownership is impossible if there is no way of solving conflicts fairly. The presence or absence of these core HRM practices determines whether or not the HRM system consistently sends the message that employees deserve to be owners and that they are taken seriously as such. An HRM system with employee ownership as a central element is ‘strong’ if these five other core HRM practices are present as well (Kaarsemaker and Poutsma 2006).

10 Conclusion

The message of this chapter is that it is recommended to companies to consider the introduction of employee financial participation. Evidence showed that these schemes have positive effects on employees’ attitudes and behavior such as identification and commitment. It also has positive effects on organizational performance through these behavioral effects. However, these effects are not established through the financial participation scheme in itself. The best results can be gained through an internal fit of these schemes with other practices that support the focus on co-ownership of employees. A workforce philosophy and HRM strategy focusing

on the relative role and value of employees as co-owners supported by a set of core HRM practices constitutes a High Performance Ownership System that can produce desired results for both employee and organization.

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Does Employee Downsizing Really Work?

The Empirical Evidence

Deepak K. Datta and Dynah A. Basuil

Abstract

Over the past couple of decades, employee downsizing has become a fact of organizational life, not just in the U.S. but, increasingly so, in other countries, with unprecedented levels of downsizing occurring in several countries during the last recession. Seen as being inevitable in an increasingly competitive global marketplace, the high levels of downsizing activity attest to the deep-seated belief among managers that downsizing enhances organizational efficiency and leads to improved financial performance. Critics, on the other hand, argue that benefits are illusory and point out that attendant costs, both visible and invisible, can make downsizing a relatively ineffective tool for creating firm value.

After a brief discussion of the factors that motivate and propel firms to engage in downsizing, we, in this article, examine the findings of extant research to assess whether downsizing does indeed improve organization performance. What we find based on our examination of 55 studies is that the findings are equivocal with very little agreement among researchers on the efficacy of employee downsizing to create organizational value. We explore possible reasons for the same and conclude by providing directions for future research that, we believe, will provide the insights that scholars and managers need to better understand the complex relationship between employee downsizing and firm value.

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1 Employee Downsizing: The Phenomenon

I think re-engineering or restructuring or downsizing or rightsizing or whatever you want to call it, it's basically firing, has gone way too far. Employees, as I've talked to them across the country, feel that they are not respected, they are not valued, they are worried about their jobs. They simply feel that the company is no longer loyal to them. Why should they be loyal to the company, they ask me. Why should I go the extra mile? Why should I care?
Robert Reich, U.S. Secretary of Labor, Clinton Administration (1993–1997), Source: *Frontline: Does America Still Work?*

Datta et al. (2010) define employee downsizing as “. . . a planned set of organizational policies and practices aimed at workforce reduction with the goal of improving firm performance” (p. 282). They also note that employee downsizing is “. . . one of the most far reaching and significant management issues of the current era.” Indeed, downsizing has become a fact of organizational life and often seen as being inevitable in an increasingly competitive global marketplace. What used to be a U.S. phenomenon (on average, more than 4,000 employees were downsized in the U.S. each business day between 2000 and 2007) has now become a global one, with downsizing becoming prevalent even in countries where it had been traditionally shunned (e.g., Japan and South Korea). The recent global recession witnessed unprecedented levels of employee downsizing in a large number of countries impacting virtually every sector. Even public sector jobs that had traditionally been viewed as being relatively immune from downsizing were not spared. It has been estimated that while there were more than 8.5 million layoffs in the U.S., the recession resulted in nearly 50 million jobs being lost worldwide (Cascio 2012).

Significant controversy surrounds employee downsizing – with the phenomenon having its proponents and detractors. Proponents argue that downsizing represents an important strategy in the arsenal of managers seeking to lower costs, enhance efficiency, and improve productivity in their organizations. It appeals to many executives who see two avenues by which they can make their firms more profitable – enhance revenues or reduce costs. With future costs being more predictable than future revenues, they often resort to downsizing when revenue shortfalls are encountered, with the expectation that it will halt and reverse performance declines. Detractors, on the other hand, point out that the anticipated benefits of downsizing are illusory. They highlight the many negatives associated with downsizing that can result in benefits being overshadowed by costs and making downsizing an ineffective tool for creating firm value. In a scathing criticism of employee downsizing, Uchitelle (2006), in his book *The Disposable American*, highlights the negative psychological impact of employee downsizing, arguing that downsizing is counter-productive and fails to enhance organizational value in the long term.

In this article we delve into the extant research on employee downsizing to examine whether downsizing does indeed create firm value or, alternatively, as critics suggest, represents a mechanism for destroying firm value. We begin by providing a brief discussion of the factors that motivate and propel firms to engage in downsizing and examine the purported costs associated with doing so. Following that, we examine the empirical evidence on the performance outcomes of

downsizing, focusing on both the market responses (in the form of shareholder wealth effects) related to downsizing and firm accounting performance stemming from downsizing. In the concluding section, we briefly discuss the implications of our findings from the standpoint of firm strategy and public policy and suggest some avenues for future research.

2 Why Downsizing? The Motivations

The stated goal in employee downsizing is generally the reduction of payroll costs and the enhancement of organizational efficiency towards making a firm more competitive in the marketplace. Employee downsizing is seen as a viable organizational response in situations involving demand declines stemming from a weakening economy or changes in industry or firm competitive conditions (Baumol et al. 2003; Yu and Park 2006). The link between weak organizational performance and the incidence of downsizing has been well documented in several U.S.-based studies (see Datta et al. 2010 for a list of such studies). In addition, research by Kang and Shivdasani (1997) and Ahmadjian and Robinson (2001) established that layoffs in Japanese firms were also more likely when they experienced lower profitability (ROA) or incurred financial losses. Likewise, low profitability was found to be the primary driver of downsizing among firms in Taiwan (Tsai et al. 2006) and South Korea (Yu and Park 2006). Anecdotal evidence suggests that employee downsizing was widespread among firms that experienced major financial problems during the recent recession. General Motors, for example, engaged in massive layoffs involving as many as 47,000 employees in 2009 (nearly a fifth of its global workforce) in an effort at cutting costs that would match the dramatic revenue drop experienced during the recession. GM subsequently filed for Chapter 11 bankruptcy before requesting the U.S. federal government for a bailout (Vlasic and Bunkley 2009). The recession also saw many firms aggressively using new labor saving technology developed over the past couple of decades to substitute labor for capital. That created redundancies of a more permanent nature, with downsized employees being less likely to be reemployed once demand picked up.

In the U.S. the high incidence of employee downsizing is often been linked to the Wall Street pressure. Preoccupation with short-term quarterly profits stemming from investors seeking instant returns on their investments often forces firms to look for quick cost cutting opportunities whenever revenue shortfalls are encountered. Headcount reduction is often viewed as an easy solution. In contrast, other forms of change are seen as being too “long-term” in meeting investor expectations related to instant returns. Employee downsizing is also more prevalent following acquisitions with acquiring firms looking eliminate acquisition-related redundancies and pare down costs in the combined organization (O’Shaughnessy and Flanagan 1998). With both domestic and cross-border acquisitions gaining in popularity, there has certainly been an increase in acquisition-related downsizing. The acquisition of Electronic Data Systems (EDS) by Hewlett Packard (HP) in 2008 for \$13.9 billion provides an interesting example. HP realized that it needed to

reduce costs in the combined firm to make the acquisition viable. It's CEO, Mark Hurd, widely admired on Wall Street for his ability to cut costs via headcount reductions, sought to downsize more than 24,000 employees after the transaction was complete. These were employees who were expected to become redundant once the two companies were combined. The acquisition eventually turned out to be fiasco with HP taking a \$8 billion charge related to the acquisition in 2012 (Hardy 2012).

Employee downsizing has also been motivated by the changes that have taken place over the past couple of decades in the global macroenvironment. Globalization and increased foreign competition intensified pressures on firms to constantly explore ways by which costs can be reduced. This resulted in many firms in developed economies shifting their operations (via offshoring and outsourcing) to counties where value added activities could be performed at a much lower cost. While it contributed to job creation in countries where such investments were made (often developing and emerging economies), it also resulted in enhanced levels of downsizing at home. Moreover, as the outsourcing (and, concomitant downsizing) among industry leaders became more popular, it resulted in isomorphic pressures on others to follow their lead (Datta et al. 2010). Institutional theory suggests that such pressures within the institutional field motivates firms seeking legitimacy to mimic firms that engage in what is perceived as being "best practices". The conventional wisdom that downsizing is "good" from an organizational performance standpoint (McKinley et al. 2000) lent legitimacy to the employee downsizing activity and increased the propensity on the part of other organizations to engage in similar downsizing.

While it is generally the case, not all downsizing is in response to poor organization performance. Increasingly, firms are engaging in, what is termed as, "proactive" downsizing. In other words, downsizing is undertaken during periods of healthy demand with the objective of enhancing the long-term competitiveness or in anticipation of potential competitive challenges. Often such downsizing is linked to organizational restructuring, changes in organizational processes, and/or a shift towards a flatter organizational structure. In 2013, when Cisco turned a \$2.8 billion profit on sales of \$12.5 billion and beat Wall Street expectations, they surprised many by announcing that they planned to reduce employee headcount by approximately 5 % (approximately 4,000 jobs) starting 2014. Those employees will be added to the almost 8,000 job cuts that had occurred in the previous 2 years. According to Cisco CEO John Chambers, a primary reason for the latest round of job cuts was an effort at streamlining the organization to deal with an anticipated "mixed and unpredictable" economy.

3 The "Downside" of Downsizing

Employee downsizing can only create value when the benefits (primarily cost reduction) outweigh the costs associated with downsizing. The most visible are costs associated with severance pay. While there are no statutory requirements for

such pay in the U.S., there is a general expectation that employers pay severance to laid off employees. Republic Windows and Doors found that out in 2008 when they closed their operations without providing their employees severance pay. The bad press it generated for Republic Windows and Doors along with extensive national media scrutiny resulted in the workers eventually receiving severance and back pay. However, several countries formally mandate severance pay in the context of downsizing. In Australia, for example, employees who have been employed for at least a year are guaranteed a minimum of 4 week's wages as severance pay (ILO Employment protection legislation database 2014). In Canada, severance pay to downsized employees with at least 1 year of employment is 1 week's wages for every year of employment. In Germany, the figure is 2 weeks.

However, the most significant costs associated with downsizing are those that are not readily visible. These hidden costs relate to the effects of downsizing on the attitudes and motivations of those who remain, often termed as the "survivors". Downsizings are often viewed as a violation of the psychological contract between employees and their employers (Rousseau and Tijoriwala 1998). It is predicated on trust and the informal code that employees are expected to do a "fair day's work" and receive a "fair day's pay." Not surprisingly, downsizings are generally associated with important negative implications for work attitudes and behaviors (Pugh et al. 2003), including the loss of motivation and commitment (Armstrong-Stassen 1994; Travaglione and Cross 2006), greater work related stress (Kets de Vries and Balazs 1997), and lower overall morale within an organization (Feldheim 2007). That, in turn, can trigger greater absenteeism, increased turnover and lowered productivity as survivors exhibit psychological withdrawal, reduced loyalty, and lower commitment (Mowday et al. 1982). The consequences are particularly negative when downsizing is associated with a lack of procedural fairness (Wiesenfeld et al. 2000). Critics also argue that downsizing can result in "hollowing out" an organization's skills capacity, thereby destroying long-term competitiveness and value creating potential.

At the organizational level, an important downside relates to employee downsizing's effects on organizational reputation. As the study by Zyglidopoulos (2005) demonstrates, downsizing can have a major negative impact on such reputation. The 2008 layoff of over 7,000 employees by the international shipping company DHL (a division of Deutsche Post World Net) at their Wilmington, Ohio facility provides an interesting example. The impact of DHL's downsizing on the relatively small town of Wilmington (population of 12,000) was sizable. Tax revenues plummeted and the ripple effect threatened other establishments that depended on DHL employees for business. Even the survival of the local hospital was at stake as the mix of paying versus charity patients changed following the layoffs (Driehaus 2008). The sense of betrayal among members of the Wilmington community was considerable, especially given the significant infrastructural investments they had made to facilitate DHL's operations in the town. The DHL story was widely featured in the global news media, including the popular CBS news program "60 Minutes." It is estimated that the negative publicity had a significant long-term impact on DHL's reputation.

4 The Empirical Evidence: What Do We Know?

While research on employee downsizing is both extensive and broad (Datta et al. 2010), our examination of the empirical evidence in this article has been confined to studies conducted over the past three decades and have focused on the question, “Does employee downsizing create firm value?” To address this question we examined the body of research that has specifically focused on the relationship between employee downsizing and organizational performance assessed in the form of shareholder wealth effects and accounting profits. We identified a total of 55 studies that have examined the effects of downsizing on a firm’s market and accounting performance. A majority of them (38 studies) were undertaken in the post-2000 period. Most of the early studies were U.S. based; however, more recently, we have witnessed a dramatic increase in the number of studies involving downsizing in other countries (26 in number, including 23 in the 2000s). A majority of these non-U.S. based studies (19 out of 26, involving downsizing in Australia, Canada, China, France, Israel, Japan, Korea, New Zealand, Portugal, Slovenia, Spain, Taiwan, U.K., and E.U.) are based on accounting measures of performance (rather than abnormal gains at the time of downsizing announcement) to assess the implications of employee downsizing.

5 Effects of Employee Downsizing on Firm Market Returns

We identified a total of 27 studies that have used market measures (based on shareholder wealth effects). These studies have generally used the event-study methodology to assess the level of cumulative abnormal returns (CARs) or shareholder wealth effects associated with downsizing announcements. Most studies assess such effects in the context of relatively narrow windows surrounding the announcement date. The studies are summarized in Table 1.

An examination of the studies in Table 1 highlights that the market response to downsizing in the short-run (less than 1 year) has been primarily negative, with firms that engaged in downsizing experiencing declines in market value in the period immediately surrounding the announcement date. In the context of employee downsizings in the 1980s, negative returns ranged from -0.30 to -2.12 %. The figures are not very different for downsizings in the 1990s, with negative returns ranging from -0.90 to -1.78 %. Farber and Hallock’s study (2009) notes negative wealth effects of -0.32 % among firms that engaged in employee downsizing; however, the negative market reaction was highest in the 1970s and lowest (non-significant wealth effects) in the 1990s. This same trend was observed by Scott, et al. (2011) who found that there was a non-significant return over the 3-day ($-1, +1$) announcement window for employee downsizings undertaken during the 1990s. Brookman et al. (2007) study of layoff announcements in the 1990s and 2000s observed a marginally positive reaction of 0.25 % in the 2-day window immediately surrounding the announcement date.

Table 1 Studies examining the market response associated with downsizing

Study	Sample	Country	Findings
U.S.-based studies			
Worrell et al. (1991)	194 layoff announcements (1979–1987)	U.S.	Firms with layoffs with -1.42 and -0.41 % returns over $(-5, +5)$ and $(-1, +1)$ windows respectively Layoffs due to restructuring and small-sized layoffs (<0.99) associated with positive returns vs negative returns for those that are large, permanent, and due to financial reasons
Lin and Rozeff (1993)	246 temporary and 137 permanent layoff announcements (1978–1985)	U.S.	Temporary layoffs and permanent layoffs of both salaried and hourly workers associated with negative returns of -1.29 , -2.12 , and -0.85 % respectively over $(-1, 0)$ window
Chatrath et al. (1995)	231 layoff announcements (1981–1992)	U.S.	Over $(0, +1)$ window: -1.21 % returns for announcements made in 1981–1983, marginal returns of -0.76 % for those in 1984–1990 and $+0.38$ % returns for those in 1991–1992
Iqbal and Shetty (1995)	187 firms announcing layoffs (1986–1989)	U.S.	Layoffs resulted in -0.3 % returns over $(-1, 0)$ window, especially when involving financially healthy/profitable firms
Madura et al. (1995)	48 bank layoffs (1984–1992)	U.S.	Layoffs resulted in -0.88 % abnormal returns on announcement date
Iqbal and Akhigbe (1997)	48 firms that laid off at least 5 % of their employees (1985–1990)	U.S.	Returns of -0.77 % over $(-1, 0)$ and of -1.86 % over $(-5, 0)$ windows for layoff firms Layoffs designed to improve efficiency with marginal positive returns over $(-1, 0)$ window while layoffs as a passive response with negative returns for all windows (and significantly lower than layoffs to improve efficiency)

(continued)

Table 1 (continued)

Study	Sample	Country	Findings
Palmon et al. (1997)	140 layoff announcements (1982–1990)	U.S.	<p>Layoff announcements by firms experiencing declining demand associated with negative returns over $(-1, 0)$, $(-1, +1)$, $(-1, +10)$, and $(-1, +60)$ windows vs positive returns over $(-1, 0)$ and $(-1, +1)$ windows for layoffs enhancing efficiency</p> <p>For firms citing declining demand, layoff ratio negatively associated with returns over $(-1, 0)$ window vs positively associated for layoffs enhancing efficiency</p>
Elayan et al. (1998)	646 layoff announcements (1979–1991)	U.S.	<p>Downsizing with wealth effects of -0.64% over $(-1, 0)$ and -1.62% over $(-20, +20)$ windows</p> <p>Layoff firms with above industry average ROE and % ROE change associated with negative returns in $(-1, 0)$ window</p> <p>Layoff size, permanent layoffs and layoffs due to declining demand and labor dispute all associated with negative abnormal returns in $(-1, 0)$ window</p>
Franz et al. (1998)	351 involuntary layoff announcements (1978–1992)	U.S.	<p>Downsizing with -0.80, -1.01%, marginal $+2.91$, and $+4.19\%$ abnormal returns over $(-1, 0)$, $(-5, +5)$, $(-90, +90)$, $(+1, +90)$ windows respectively</p> <p>Layoffs motivated by cost reduction and layoffs by healthy firms with negative wealth effects in the $(-90, +90)$ and $(-1, 0)$ windows</p> <p>Significant positive returns for layoffs associated with reorganization and by distressed firms in the $(+1, +90)$ window</p>

(continued)

Table 1 (continued)

Study	Sample	Country	Findings
Hallock (1998)	550 firms with layoff announcements (1987–1995)	U.S.	Negative returns in day 0, (0, +5), (–1 + 1), (–5, +5), (–10, +10), (–20, +20) windows for layoff firms.
			Permanent layoffs with abnormal losses in day 0 and over various windows
			Layoffs due to in-house mergers with positive returns over (0, +5) window and due to bankruptcy with negative returns over all windows
Pouder et al. (1999)	136 layoff announcements (1989–1993) by 103 firms	U.S.	Layoff announcements associated with returns of –1.09 % over (–1, 0) window and +0.62 % on day 1
			Positive relationship between % of outside directors at layoff firms and returns over (–1, 0) window
Chen et al. (2001)	349 layoff announcements (1990–1995)	U.S.	Layoff announcements with –1.2 % returns over (–1, 0) window but returns of +0.17, +0.47, and +0.93 % over (+1, +250), (+1, +500), and (+1, +750) windows respectively
			Layoffs due to objective of cost cutting, demand declines and low prior earnings with negative wealth effects over (–1, 0) window
Chalos and Chen (2002)	Downsizing announcements by 365 Fortune 500 firms (1993–1995)	U.S.	Positive returns for firms engaged in revenue refocusing downsizing on days 0 and +1 Extent of downsizing was positively associated with market returns when downsizing a result of revenue refocusing
Hahn and Reyes (2004)	78 firms announcing layoffs (1995–1999)	U.S.	Announcement of layoffs resulted in negative abnormal returns in day 0 and over (–1, +1), (–3, +3), and (–5, +5) windows.
			Positive relationship between announcements and returns over (–3, +3) window when due to restructuring and weak negative relationship when due to declining demand

(continued)

Table 1 (continued)

Study	Sample	Country	Findings
Nixon et al. (2004)	364 downsizing announcements (1990–1998)	U.S.	<p>Inverse U-relationship between % downsizing and returns over (–1, +1) window</p> <p>Positive relationship between reallocation level (targeted vs. broad downsizing) and its interaction with %downsizing² and returns over (–1, +1) window</p> <p>Moderated positive relationship between disengagement incentive (presence vs. absence) and %downsizing² and returns over (–1, +1) window</p>
Abraham (2006)	135 layoff announcements (1993–1994)	U.S.	<p>Layoff announcements associated with negative returns in day –1 and up to 181-day window</p> <p>Negative returns less pronounced in firms with union presence vs those without</p>
Brookman et al. (2007)	Layoff announcements by 484 firms (1993–2003)	U.S.	Firms with layoffs with +0.60 % returns over (–5, 0) window and weak +0.25 % returns over (–1, 0) window.
Cagle et al. (2009)	Layoff announcement at 79 financial institutions (1994–2003)	U.S.	<p>Layoffs by security brokers/dealers with negative returns over (–1, 0) window vs banks/BHC with positive returns over (–1, 0) and (–1, +1) windows</p> <p>Layoffs due to efficiency positively associated with abnormal returns over (–1, +1) window</p>
Farber and Hallock (2009)	4,273 reduction in force announcements by 1,160 large firms (1970–1999)	U.S.	<p>Overall, reductions in force with –0.32 % abnormal returns over the (–1, +1) window</p> <p>Unlike those associated with demand slump, downsizings for the purpose of reorganizations and plant closings result in significant positive returns</p>
Scott et al. (2011)	189 “clean” downsizing announcements by 120 firms (1990–1992)	U.S.	Significant positive returns of 16.45 and 24.54 % in years y + 2 and y + 3, respectively among downsizing firms

(continued)

Table 1 (continued)

Study	Sample	Country	Findings
NON-U.S. based studies			
Ursei and Armstrong-Stassen (1995)	137 layoff announcements (1989–1992) by 57 Canadian firms	Canada	Overall, layoff announcements with -0.60% returns over $(-1, 0)$ window (-1.01% returns for initial announcements); also, a negative relationship between percentage layoff and 2-day returns
Gunderson et al. (1997)	214 layoff announcements (1982–1989) by 84 major firms in TSE	Canada	Layoff announcements with negative wealth effects of -0.47% over $(-1, +1)$ window and -0.28% on day 0 and day +1 Reactive, indefinite, and full layoffs associated with negative abnormal gains in $(-1, +1)$ window and on days 0 and +1
Lee (1997)	300 U.S. layoff announcements and 73 announcements in Japanese firms (1990–1994)	U.S., Japan	Layoff announcements resulted in -1.78% returns for U.S. and -0.56% for Japanese firms over $(-2, +2)$ window U.S. firms announcing permanent layoffs, reactive layoffs, first in industry announcement, and subsequent announcements with significant negative returns over 5-day window Multiple layoff announcements associated with significant negative returns among Japanese and U.S. firms over 5-day window
Collett (2002)	54 redundancy announcements	U.K.	$+1.43\%$ returns over the $(0, 1)$ window
McKnight et al. (2002)	235 layoff announcements (1980–1999)	U.K.	Layoff announcements in 1990s resulted in market returns ranging from -0.48% to -2.05% over various windows vs -1.4% for announcements in 1980s over $(-2, +2)$ window only Compulsory, reactive, and initial layoffs with negative wealth effects in both 1980s and 1990s announcements; sequential layoffs with negative returns for announcements in 1990s

(continued)

Table 1 (continued)

Study	Sample	Country	Findings
Hillier et al. (2007)	322 layoff announcements by 175 firms in LSE (1990–2000)	U.K.	Layoff announcing firms with -0.81% returns over $(-1, +1)$ window Negative returns also for larger layoffs, initial announcements, and those triggered by plant closures and loss making activities over $(-1, +1)$ window
Marshall et al. (2012)	Downsizing announcements by 350 largest firms in FTSE and LSE (1997–1999; 2001–2002; 2005, 2006; 2008)	U.K.	Downsizing announcements made in 2008 with -1.75% over $(-1, +1)$ and -1.95% over $(-2, +2)$ windows vs $+0.51\%$ (marginal) and $+0.80\%$ over same windows for those made in 2005–2006 Downsizings in 2008 (vs. 2005–2006) associated with restructurings, plant closures, economic conditions, and offshoring associated with significantly lower returns in both windows Difference in returns due to industry observed

While there have been far fewer studies on market responses to downsizing announcements in the non-U.S. context, the findings have been quite similar. In Canada, downsizing-related abnormal gains over the 3-day window ranged from -0.47% in the 1980s (Gunderson et al. 1997) to -0.60% in the early 1990s (Ursel and Armstrong-Stassen 1995). However, a more pronounced negative market response to downsizing was observed in the U.K. (when compared to the U.S.). For example, McKnight et al. (2002) found that the abnormal gains over the 5-day $(-2, +2)$ window ranged from -1.40% in the 1980s to -2.05% in the 1990s. Another study by Hillier et al. (2007) using a larger sample of firms with layoff announcements in the 1990s observed that market reactions over the 3-day window surrounding the announcement date is negative and significant. Similar to Brookman et al.'s (2007) earlier study in the U.S., the recent study by Marshall et al. (2012) indicates that employee downsizings undertaken in the U.K. in the mid-2000s elicited a marginal positive market return of $+0.80\%$ in the $(-2, +2)$ window. However, following the financial crisis in 2007, the same study documented negative wealth effects of -1.95% related to downsizing over the 5-day window in 2008. In Japan, a negative market reaction of -1.78% in the $(-2, +2)$ window was observed for announcements made in the first half of 1990s (Lee 1997).

While market responses in the period immediately surrounding the announcement date are generally negative, a somewhat different picture emerges as we look at studies that have sought to use broader windows. In U.S.-based studies, market returns were often not significantly different from zero in the 10-day (Madura et al. 1995; Pouders et al. 1999), 20-day (Elayan et al. 1998; Pouders et al. 1999), and even in the 60-day period following a downsizing announcement (Lin and Rozeff 1993). Likewise, non-significant market reactions were in the 30-day period following the announcement of layoffs in the U.K. (Collett 2002; Gunderson et al. 1997). More recently, scholars have begun to examine much longer-term market effects of downsizing in a firm. Interestingly, the study by Chen et al. (2001), using a sample of U.S. based firms, found downsizing to have a positive impact of firm value in the 1, 2, and 3 year time frame following the downsizing announcement. Similar findings were observed in the more recent study by Scott et al. (2011) for the 2- and 3-year periods. In the context of downsizing in U.K. based firms, Hillier et al. (2007) found no significant long-term market effects in the 1, 2, and 3 year post-announcement periods.

There have been a few studies that have examined whether the influence of downsizing on market returns is contingent on other factors. One of the more widely studied factors involves the strategic intent (reactive or proactive) underlying employee downsizing. Studies suggest that reactive downsizing, triggered by demand declines, increasing costs, and poor performance generally elicit a more negative market response (Chen et al. 2001; Gunderson et al. 1997; Hahn and Reyes 2004; Hillier et al. 2007; Lee 1997; Marshall et al. 2012; McKnight et al. 2002; Palmon et al. 1997) when compared to proactive downsizing (Franz et al. 1998; Hallock 1998; Iqbal and Akhigbe 1997; Worrell et al. 1991). Indeed, recent evidence indicates that proactive downsizing designed to enhance organizational efficiency or in responding the post-merger rationalization situations are often beneficial from the standpoint of shareholder value (Cagle et al. 2009; Chalos and Chen 2002; Farber and Hallock 2009; Hahn and Reyes 2004; Hallock 1998). In addition, as Franz et al.'s (1998) study demonstrates, the overall financial health of a firm impacts market returns observed when it engages in employee downsizing. Their study and those of Elayan et al. (1998) and Iqbal and Shetty (1995) indicate that while financially weak companies that downsized exhibited positive market returns, companies with profitability above the industry average experienced negative wealth effects.

Market returns associated with downsizing also appear to be contingent on the size of the layoff. Studies (e.g., Farber and Hallock 2009; Hillier et al. 2007; Lee 1997; Worrell et al. 1991) indicate that larger negative market returns are often associated with larger layoffs. However, the study by Nixon et al. (2004) found that the nature of the relationship between the extent of downsizing and market returns is curvilinear, with downsizing size and associated market return exhibiting an inverse U-shaped relationship. Moreover, implementation strategies (e.g., the use of reallocation and disengagement incentives) moderated this curvilinear relationship, with firms showing improved market returns in the presence of such strategies. Studies also suggest that the nature of layoffs have an important bearing on how

markets perceive the downsizing event. Findings of studies by Hallock (1998), Lee (1997) and Lin and Rozeff (1993) also highlight that permanent layoffs contribute to a greater deleterious market response when compared to temporary layoffs (Gunderson et al. 1997; Worrell et al. 1991). In addition, Lee's (1997) study also indicates that multiple downsizing announcements result in value destruction both among U.S. firms and Japanese firms. Other factors that have been shown to influence the market outcomes associated with downsizing are union presence (Abraham 2006), nature of industry (Cagle et al. 2009; Gunderson et al. 1997; Marshall et al. 2012) and whether a firm is the first in its industry to downsize (Lee 1997).

6 Effects of Employee Downsizing on Firm Accounting Returns

We identified 35 studies that have used accounting/profitability measures to assess the implications of downsizing in the period following a downsizing event. The use of accounting measures of performance was particularly prevalent in non-U.S. based studies. They include a total of 19 studies, involving downsizing in Australia, Canada, China, France, Israel, Japan, Korea, New Zealand, Portugal, Slovenia, Spain, Taiwan, U.K., and E.U. Downsizing studies using accounting measures of performance are summarized in Table 2.

Evidence related to the impact of employee downsizing on firms' accounting returns are also equivocal. While a number of studies indicate positive accounting returns (improved ROA, ROE, or ROS) in the period following downsizing (e.g., Brookman et al. 2007; Chen et al. 2001; Espahbodi et al. 2000), others (e.g., Cascio et al. 1997; De Meuse et al. 1994) indicate negative outcomes, while still others (e.g., Iqbal and Akhigbe 1997; Perry and Shivdasani 2005) report no significant change in performance. Consistent with the findings of market-based outcomes, proactive downsizing related to efficiency enhancement or refocusing contributed to improved post-downsizing profitability (Chalos and Chen 2002; Farrell and Mavondo 2005; Iqbal and Akhigbe 1997; Palmon et al. 1997) while reactive or passive downsizing based on demand declines resulted in negative accounting returns (Iqbal and Akhigbe 1997; Palmon et al. 1997; Farrell and Mavondo 2005). Results also indicate that the extent of downsizing plays a key role as evidenced by the findings of studies by Krishnan and Park (2002), Guthrie and Datta (2008) and Krishnan et al. (2007). They all found a significant negative relationship between the magnitude of downsizing and accounting performance. Guthrie and Datta (2008) also observed that industry capital intensity and growth affected the focal firm's post-downsizing ROA. However, Love and Nohria (2005) found no relationship between the level of downsizing and subsequent firm performance.

The inconsistent and equivocal findings involving profitability implications of downsizing in the context of U.S. firms also manifest themselves in downsizing among non-U.S. firms. Studies indicate positive accounting returns in studies by

Table 2 Studies examining the effects of downsizing on accounting profits

Study	Sample	Country	Findings
U.S.-based studies			
De Meuse et al. (1994)	Layoff announcements by 17 Fortune 100 firms in 1989	U.S.	Negative change in ROS and ROE in $y = 0$ (layoff year) and $y + 2$ for firms involved in layoffs Compared to non-layoff firms, firms with layoffs had lower change in ROS, ROA, & ROE in $y = 0$, $y + 1$, and $y + 2$
Iqbal and Shetty (1995)	187 firms announcing layoffs (1986–1989) reported in Wall Street Journal	U.S.	Firms involved in layoffs had lower ROE when compared to industry in the year of the layoff and when compared to their ROE in the previous year
Cascio et al. (1997)	722 employee downsizing occurrences in 537 companies (1980–1994)	U.S.	Employee downsizing contributed to negative changes in ROA from year prior to downsizing to the downsizing year ($y = 0$) and the following year ($y + 1$)
Iqbal and Akhigbe (1997)	48 firms that laid off at least 5 % of their employees (1985–1990)	U.S.	Layoffs resulted in higher ROA from $y = 0$ (layoff year) to $y + 3$ Layoffs as a passive response resulted in marginally lower ROA while layoffs to improve efficiency resulted in higher ROA from base year $y = 0$ (layoff year) to post-layoff years
Palmon et al. (1997)	140 layoff announcements (1982–1990)	U.S.	Firms with declining demand that downsized experienced negative changes in ROE, ROA, and ROS from year $y - 1$ ($y = 0$ is layoff year) to $y + 1$ Firms that downsized for efficiency enhancement experienced positive change in ROE in $y + 2$ ($y = 0$ is layoff year) and in ROS in years $y + 2$ and $y + 3$

(continued)

Table 2 (continued)

Study	Sample	Country	Findings
Espahbodi et al. (2000)	118 firms that announced employee downsizing (1989–1993)	U.S.	Lower ROA and ROE for downsizing firms (vs. match control firms) in $y = 0$ (downsizing year) and in $y + 1$ Marginally lower ROE for downsizing firms (vs. match control firm) in $y + 2$ but higher ROE for downsizing firms in $y + 3$ and $y + 4$
Chen et al. (2001)	349 layoff announcements (1990–1995)	U.S.	Downsizing resulted in positive changes in ROA and ROS between the year of layoff ($y = 0$) and $y + 1$ and $y + 3$
Chalos and Chen (2002)	Employee downsizing in 365 Fortune 500 firms (1993–1995) reported in Wall Street Journal among others	U.S.	Positive change in ROA between the pre-downsizing and post-downsizing periods when firms engage in downsizing because of revenue refocusing, cost cutting or plant closure Refocusing downsizings resulted in greater ROA change when compared to cost cutting and plant closures for $y + 3$ ($y = 0$ as downsizing year)
Krishnan and Park (2002)	60 firms acquiring related ($n = 42$) and unrelated ($n = 18$) targets (1992–1995)	U.S.	Negative relationship between the percentage of workforce reduction and ROE for the consolidated firm in corporate mergers
De Meuse et al. (2004)	Layoff announcements by 78 Fortune 100 firms (1989–1996)	U.S.	Firms engaging in layoffs with lower ROE and ROS in $y + 3$ to $y + 5$ ($y =$ downsizing year)
Farrell and Mavondo (2005)	Downsizing at 486 of the top 2000 manufacturing firms	Australia	Downsizing aimed at organization redesign had a positive relationship with ROI while downsizing driving organization redesign had a negative relationship with firm ROI

(continued)

Table 2 (continued)

Study	Sample	Country	Findings
Love and Nohria (2005)	Downsizing in Fortune 100 firms (1977–1993)	U.S.	Relationship between downsizing (past 3 years) and ROA more positive with higher absolute absorbed slack, broad downsizing scope or proactive downsizing timing 3-way interactions reveal highest ROA for downsizing firms with low absolute slack undertaking broad downsizing proactively
Perry and Shivdasani (2005)	94 non-financial firms that downsized after financial decline (1993)	U.S.	Significant positive change in ROA ($y = 0$ to $y + 2$) for firms that downsized and had more than 50 % outside directors
Brookman et al. (2007)	Layoffs announcements by 484 firms (1993–2003)	U.S.	Layoffs led to positive change in ROA from year of layoff ($y = 0$) to $y + 1$ and from $y + 1$ to $y + 2$
Krishnan et al. (2007)	174 acquisitions (1992–1998)	U.S.	Negative relationship between % employee reduction in the combined firm and the combined firm ROS at $y + 2$ and $y + 3$ ($y = 0$ as base year)
Guthrie and Datta (2008)	144 non-diversified firms (1998–2000)	U.S.	Negative relationship between extent of downsizing and firm ROA, moderated by R&D intensity and industry growth
NON-U.S. based studies			
Kang and Shivdasani (1997)	92 Japanese firms that experienced significant performance declines (1986–1990)	Japan	Weak positive change in ROA from $y = 0$ (layoff year) to $y + 3$ among layoff firms
Suárez-González (2001)	297 large firms (1989–1994)	Spain	Downsizing firms with lower ROS than a matched sample of non-downsizing firms
Carswell (2002)	155 companies that downsized (1997–1999)	New Zealand	Compared to non-downsizing firms, downsizing firms with lower ROE in $y + 1$ and $y + 2$ (with $y = 0$ as layoff year)

(continued)

Table 2 (continued)

Study	Sample	Country	Findings
Gilson et al. (2004)	322 companies with >50 employees (1995, 1999)	New Zealand	Late downsizing negatively associated with firm financial performance (including ROS)
Carswell (2005)	155 companies that downsized (1997–1999)	New Zealand	Effective downsizing practices (particularly outplacement help and alternatives to downsizing decision in particular) with positive effect on post-downsizing ROE ($y = 0$ and $y + 1$)
Kaše and Zupan (2005)	40 downsizing companies with >100 employees (1997–2002)	Slovenia	No difference in ROA for downsizing firms
Yu and Park (2006)	258 firms (with 164 downsizing) from KIS-FAS database (1997–2002)	Korea	Downsizing firms associated with positive 5-year ROA change (1998–2002) and positive difference between 3-year pre vs. post-downsizing period
Hillier et al. (2007)	322 layoff announced by 175 UK firms (1990–2000) in LSE	U.K.	Layoffs contributed to positive change in ROA from the year of layoff ($y = 0$) to $y + 2$
Atanassov and Kim (2009)	25,698 industrial companies from 41 countries (1993–2004)	Multiple	Positive relationship between change in ROA and layoffs (dummy) in countries with strong and weak investor protection
Sheaffer et al. (2009)	196 firms (1992–2001) trading in TASE	Israel	Personnel downsizing, including proactive downsizing, with significant negative impact on firm ROS
Muñoz-Bullón and Sánchez-Bueno (2010)	709 downsizing announcements (1995–2001)	Spain	Size of downsizing negatively associated with firm ROA in year following downsizing
Kawai (2011)	67 MNCs operating in Europe (2010)	Japan	No relationship between downsizing (at 5, 10, 20 %; dummy) and ROS
Marques et al. (2011)	1,357 firms (553 firms downsizing 5 %) (1993–2005)	Portugal	Positive difference in ROS between downsizing and non-downsizing firms in $y + 1$ ($y = 0$ is downsizing year)

(continued)

Table 2 (continued)

Study	Sample	Country	Findings
Muñoz-Bullón and Sánchez-Bueno (2011)	2,053 firms (1,054 firms downsizing 10 %) with 10–200 employees (1993–2005)	Spain	No relationship between ROA and ROS at $y + 2$ ($y = 0$ downsizing year) and downsizing
Gandolfi (2013)	8 largest banks (2008–2010)	Portugal	No difference between ROA and ROE at $y + 1$ vs $y = 0$ (downsizing year) for firms downsizing at 10 %
Luan et al. (2013)	436 listed companies (2005–2009)	Taiwan	Negative relationship between downsizing and ROA
Reynaud (2013)	422 companies with >20 employees (1994–2000)	France	Positive association between downsizers (negative change in workforce) and change in ROA and ROE in medium-term (1996–1997) and long-term (1996–2000) In short-term (1995–1996), positive association between downsizers and ROA vs negative association between downsizers and ROE
Brauer and Laamanen (2014)	73 firms in Europe listed in STOXX (1996–2006) with at least 5 % employee downsizing	Various – Europe	U-shaped relationship between magnitude of downsizing and ROA; relationship magnified by proactive downsizing

Reynaud (2013), Yu and Park (2006) and Kang and Shivdasani (1997) of downsizing at French, Korean and Japanese firms respectively. While Marques et al. (2011) found a significant improvement in the performance of Portuguese firms that engaged in employee downsizing (vis-à-vis those that did not downsize) in the year following the downsizing, the effects were not significant over a 2-year horizon. Indeed, most studies involving the effects of downsizing on accounting profits provide non-significant findings. These include downsizing among Spanish firms (Muñoz-Bullón and Sánchez-Bueno 2010, 2011), Portuguese banks (Gandolfi 2013), Slovenian companies (Kaše and Zupan 2005), Japanese MNCs operating in Europe (Kawai 2011), and firms in the U.K. (Hillier et al. 2007). Other studies that indicate no significant impact on accounting performance include those by Carswell (2002) and Dong and Xu (2008) involving downsizing by firms in New Zealand and China respectively.

Finally, downsizing was shown to have negative effects on firm accounting performance in the context of Taiwanese firms (Luan et al. 2013) and among firms in Israel (Sheaffer et al. 2009) and Spain (Suárez-González 2001). Interestingly, contrary to earlier research which indicated that proactive downsizing has also been shown to have a positive effect on accounting outcomes (Love and Nohria 2005), Shaeffer et al.'s (2009) study revealed a negative relationship between such downsizing and firm profitability. More recently, research by Brauer and Laamanen (2014) examined the nature of the relationship between employee downsizing in European firms and firm performance and observed a U-shaped relationship between the level of downsizing and ROA.

7 Conclusions

The high level of downsizing activity, not just in the U.S. but increasingly so in other countries, attests to the deep-seated belief among managers that a strategy of employee downsizing has positive implications for organizational efficiency and enhanced performance. However, empirical evidence presented in the prior section highlights that downsizing often does not yield anticipated benefits and that there is limited consensus among researchers on whether employee downsizing creates value. In other words, while the use of downsizing has been pervasive in the business world, there is still much that we do not know about when and how such downsizing might create value. They pose some important and interesting questions: What constitutes good downsizing? Are downsizing events often implemented under the wrong set of circumstances that result in them destroying rather than creating value? Do organizations that seek to downsize have good strategy on when to downsize and how much to downsize?

Many of the problems in downsizing (and the cause of value destruction in downsizing events) can be attributed to the fact that downsizing has a potential deleterious impact on employee expectations involving their relationship with the firm. As such, whether employee downsizing creates value is not only contingent on how downsizing fits in with the overall strategy of the firm but also on how effectively the downsizing process is implemented (Brockner 2006). Unfortunately, employee downsizing in organizations is often carried out with haste as firms seek to rapidly reduce payroll costs to improve performance. This was borne out in the study by McCune et al. (1988) which found that 94 % of HR managers were given less than 2 months to make significant employee reductions. When downsizing is carried out without careful evaluation, the process and its management can become the source of problems with firms often removing organizational “muscle” rather than “fat.”

Very importantly, while the focus has been on how downsizing can create value, it must be remembered that firms contemplating such downsizing have other alternatives. One such option that is often mentioned is “work sharing” – wherein employee hours are redistributed among employees to avoid or minimize outright layoffs. This approach is relatively more common in European nations with

provisions for work sharing employment insurance to be paid to employees for the non-working period resulting from work sharing. As the recent study by Hijzen and Venn (2011) indicates, work sharing can be particularly effective in mitigating the number of workers joining the ranks of the unemployed. In Germany, the *Kurzarbeit* (i.e., “short work”) policy enabled the country to maintain relatively low levels of unemployment during the last recession by temporarily moving employees to shorter work schedules. An interesting avenue for future research relates to the comparison of these two alternative approaches – employee downsizing and work sharing from the perspective of firm performance. Is one approach better than the other? The answer to this question obviously has important consequences for public policy. Work sharing is more prevalent in European countries where public policy mandates that firms provide severance packages to employees in downsizing situations and where decisions related to layoffs are often made in consultation with elected worker representatives (work councils). Firms are also required to inform special government agencies of their intent to downsize. These two requirements can be expected to mitigate hasty downsizing and motivate firms to more actively consider alternatives to downsizing.

The empirical evidence provided in this article also has important implications for managerial practice. With a majority of studies indicating that downsizing does not, on average, result in anticipated benefits, managers need to pay greater attention to the circumstances under which downsizing might be appropriate. The success of the downsizing implementation process invariably involves a careful assessment of the relationship between a firm and its employees along with effective communication related to expected changes and their implications from the standpoint of affected employees. The interplay of these factors (vital in mitigating the erosion of trust) represents an important area of employee downsizing research. How these factors interact also depends on the circumstances within which downsizing is undertaken. Particularly important in this context is the role of culture, with country and organizational cultures playing important roles not only in the decision to downsize but also how the post-downsizing phase ought to be managed. For example, an important distinction between the U.S. and, say, Japan and Korea relates to the nature of psychological contracts that employers have with their employees. Most Japanese firms in the past had adopted a policy of lifetime employment and, consequently, shunned layoffs. However, with globalization and increased foreign ownership, the norm of lifetime employment within Japanese organizations is changing. Given the cultural context in Japan, is it quite likely that employee downsizing is likely to be viewed by survivors as a greater violation of psychological contract (when compared to their counterparts at U.S. firms). Research on the management of the downsizing process in different contexts represents an interesting and important avenue for future research. That, along with studies addressing some of the other issues identified above, can be the basis of future research that will undoubtedly help provide the insights that scholars and managers need to better comprehend the complex relationship between employee downsizing and value creation.

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Determining Outcomes of HRM Practices

Benefits, Opportunities and Limitations

Wolfgang Becker, Bianca Brandt, and Harald Eggeling

Abstract

There are different ways to concretize the creation of value as a factor for the success and future viability of a company. As the outcome of a process leading to the creation of operational/business value, it can be defined as value added to a specific input. The resulting added value is distributed to eligible stakeholders (Becker, Controlling. Konzepte, Funktionen und Organisation, *Bamberger Betriebswirtschaftliche Beiträge*, Bamberg, 2013). Besides satisfying stakeholders' demands, such as the satisfaction of needs, including basic needs, security needs, social needs, craving for recognition or individual fulfilment, other reasons for creating value are the fulfilment of own and third-party demands and the generation of compensation (e.g., profit, interest, wage, tax, fees). There seems to be no doubt that Human Resource Management contributes to value creation. To date, however, there is uncertainty about how the added business value created by HR functions and the resulting practices may be identified and assessed. The aim of the present chapter is to approach this issue by discussing the benefits, opportunities and limitations of determining the outcomes of HRM practices from the management and management accounting perspective as shown on the Balanced Scorecard.

1 Introduction

In view of changing demographics and a shortage of skilled workers, investments in the employee recruitment and hiring process would seem to be an important way to strengthen an enterprise's position in the "war for talent" (Chambers et al. 1998).

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This leads, together with increasing labour costs and depending on a company's size or sector, to a high ratio of personnel costs to total costs (Federal Statistics Office 2010, 2013).

On the other hand, rising economic pressures are forcing enterprises to streamline structures and processes. One possible and frequent starting point is to reduce personnel costs. This seems to be reasonable, but what about the increasing prominence of human resources as a possible factor in a company's success? Are such retrenchments appropriate? One point to consider is the problem of establishing a specific cause-effect relationship: costs are assignable, but revenues are usually not. A wide-ranging discussion of this issue will be necessary to decide how to evaluate the success of a measure. We shall return to this point later.

There is clearly a dilemma here: in order to determine the outcomes of HRM practices it is necessary to examine the benefits, opportunities and limitations. Starting with enterprises and value creation in general, the role of human resources will be discussed within the Balanced Value Map. One major problem to consider in any argument about cause-effect relationships is that human resources have limiting properties which have consequences for leadership and management accounting. The interim conclusion is that a holistic framework is needed, wherever qualitative criteria are necessary to assess the success of certain measures in the HR-context, as exemplified by Balanced Scorecard. Finally, recommendations conclude the present chapter.

2 Enterprises, Value Creation, and the Role of Human Resources

Enterprises can be seen as the instruments of economically oriented individuals (Becker 1996; Schmidt 1967). Working on this assumption, it was possible to conceptualize a multi-perspective framework which addresses the needs of shareholders and others. This framework is widely known as Stakeholder Theory (Barnard 1950; Freeman 1984) which basically states that in the long term a company can survive only if it incorporates the interests of its stakeholders. Therefore, in the long run, classic shareholder and stakeholder interests conflate, which means that Shareholder Value only can be maximized if all stakeholders' interests are taken into consideration (Hatten and Hatten 1988).

The satisfaction of different interests leads to various types of monetary and non-monetary benefits that are measurable.

For instance, the shareholders want to be paid dividends, the employees require wages and salaries, and the customers want to benefit from the goods they purchase.

It can thus be argued that a company will endure only if its business model actually delivers benefits in sufficient quantities to its various stakeholders. It is quite obvious that the corporate landscape, qua definition, includes a broad range of business models, many very similar to each other while others differ in many aspects. Therefore, the *Balanced Value Map*, which can be understood as a generic business model (Becker 2003) is employed in Fig. 1.

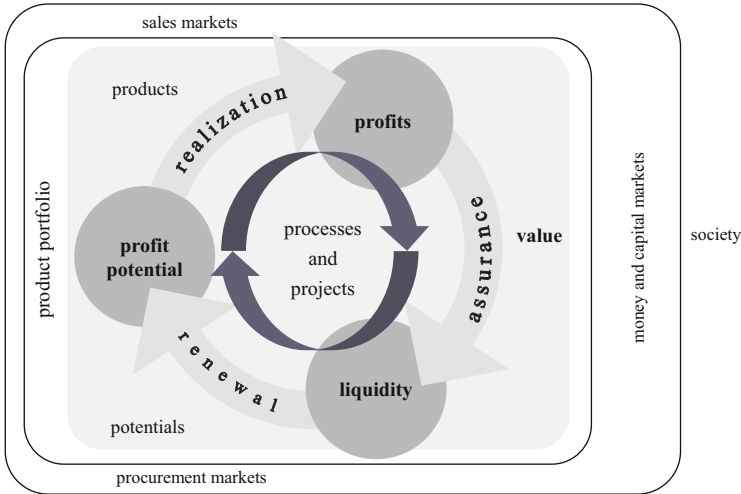


Fig. 1 Balanced value map (Becker 2003)

The *Balanced Value Map* can be seen as a closed loop of three vital and interacting elements, whereby disruptions to one or more of the links between the elements will, depending on what aspect is involved, sooner or later culminate in insolvency if no countermeasures are taken while there is still time to act. Apart from the essential components of profits and liquidity there is *profit potential*; it describes the set of opportunities needed upfront for the realization of future profits (Gälweiler 1974, 1976, 2005). It can be seen as a bundle of factors for success (Breid 1994; Eulerich 2009; Lange 1982). Under this framework, satisfactory profits will depend on an adequate degree of task fulfilment in the context of performance potentials plus subsequent activities taken to realize profits.

Specifically, the elements underlying this meta-construct must of necessity contain the potential to contribute to the company’s performance. This, in turn, requires firms constantly to seek out these elements, to shape them and, depending on the benefits derived, subsequently expand or scale back measures. The cash flow implications of this range of activities will vary. Search activities will generate a net cash requirement, while most steps to shape and expand performance potentials will initially call for net cash injections to finance the resulting future cash inflows. The cash flow consequences of scaling back performance potentials are not quite obvious. For example, the sale of patents generates a positive net cash flow whereas decommissioning a nuclear power plant generates a net cash outflow. Nevertheless, it also can be observed that if German steel plants are taken out of service and sold in emerging countries, they generate net cash for the selling company. Since generating profits is anything but an automatic process, the requisite tasks need to be performed before profits can be realized. For example, human resources (HR) might be classified as a performance potential that can lead to superior performance if, and only if, HR are managed adequately. This is because those

HR related measures which offer the best economic returns have to be identified, initiated and finally realized. To be defined as economically viable a measure has to generate a net present value (NPV) above zero.

Therefore, the contribution to NPV made by HR related measures must be assessed – a task that is not straightforward as HR differs from other resources in many points of view; the most relevant aspects will be discussed in the following chapter.

3 Limiting Properties of Human Resources

Human resources are resources with special characteristics. The challenge is to ascribe a monetary value to HR measures implemented due to uncertain information about cash inflow based on cause-effect relationships, interdependency and other influences. Nevertheless specific information regarding value is needed to realize the principles of rationality and of contrasting input with output. Furthermore, any evidence of value creation as a result of HR measures would be hugely beneficial in establishing the efficacy of HR. So what seems to be the underlying problem?

The importance of a configuration of human resources, which basically are the employees of a company (Bechtel 2010), is reflected in theory by the Resource-based View (Barney 1991). These resources can contribute to the long-term success of a business (Grant 1991; Ringlstetter and Kaiser 2008). Due to their individuality, a unique treatment of resources seems not suitable (Ringlstetter and Kaiser 2008).

A useful tool to examine the contribution of human resources to strategic benefits is the VRIO-model. If human resources can improve chances in a competitive environment or reduce market threats, they meet the value criterion. If, moreover, only a few competitors are equipped with the resources (rarity criterion) and imitation involves high costs (imitability criterion) the resource already meets three essential requirements that would class it as a benefit. The manner in which an organization deals with resources is crucial (organization criterion) (Barney and Hesterly 2010) that is why human resources have a double role (Ringlstetter and Kaiser 2008). The result of examining the value of human resources is that they are valuable and rare in terms of the situation on the labour market (Stock-Homburg 2010) and the war for talent (Chambers et al. 1998), and hard to imitate (Macharzina and Wolf 2012; Rasche and Wolfrum 1994; Ringlstetter and Kaiser 2008).

Proof of contribution to strategic advantage seems to be given when arguments centre on the resource-based view and the VRIO model. Several studies likewise conclude from the evidence that there seems to be a contribution to “value” (e.g. the meta-analysis by Stock-Homburg et al. 2009). But problems with methods and data collection due to the qualitative characteristic of human resources, the time lag associated with HR measures (Ringlstetter and Kaiser 2008) and researchers’ divergent theoretical constructs defining the key factors for success in different studies make it difficult to attribute with absolute certainty specific causes to

business success (e.g., Gmür and Schwerdt 2005; Martin 2003; Zheng et al. 2006). Furthermore the performance of humans cannot be compared with that of machines, resulting in a need for different categories of resources and entailing consequences for leadership and management (see below).

The previous explanations can be illustrated by using the example of training activities. Targeted learning may be named as one general aim of training activities which intend to enhance the trained person's abilities (Berthel and Becker 2010). If an employee participates in a seminar about project management, his/her use of recommended methods and instruments to manage projects effectively and efficiently may become evident soon after the training and thus produce the intended result. But there is no guarantee that the participant is able to translate the subjects taught at the seminar into his everyday work which leads to a vague target. On the other hand better teamwork or less project complexity could also lead to more professional and experienced project management, although several other reasons might also be relevant. To sum up: the cause-effect relationship is unclear, nor indeed can interdependencies between different influencing factors be ruled out. This point becomes clearer when considering the Balanced Scorecard at a later point in this article.

With a view to the Balanced Value Map it can be stated that terming human resources a "key factor for success" is accurate with reservations due to the lack of unequivocal empirical evidence and the difficulty in translating intangible resources into quantitative data.

4 Consequences for Leadership and Management Accounting

Striving for rationality is understood as a paradigm in leadership (Kirsch and Grebenc 1986) and thus also in management accounting as a vital part of leadership. Rationality in an economic sense basically necessitates an optimization of the firm's value sphere with the goal of ensuring that its chances of long-term survival become as high as possible. This stands in clear contrast to a short-term optimization which may quite easily be reached by cutting investment activities. This corresponds to a break in the link between liquidity and profit potentials in the Balanced Value Map (Fig. 1).

If one can say that long-term optimization of a company's value sphere is an appropriate goal, measures must, overall, play a vital part in contributing to the attainment of this goal. More precisely, bundles of related measures must be superordinated to generate a net present value above zero.

One essential management accounting task is, therefore, the correct assessment of the ex-ante value contributions that separate measures or bundles of measures are expected to generate; the tools and techniques best suited to deliver reliable quantitative information about specific value contributions should be chosen for this purpose. Since the NPV at any one time equals the difference between the

present value of cash inflows and present value of cash outflows, it is necessary to put accurate figures on the corresponding cash flows.

The main problem emerging in this specific context is the sheer impossibility of stating with complete accuracy either the anticipated ex-ante value or the ex-post value actually delivered by the HR measure or bundle of measures contemplated.

Ex-ante and ex-post cash outflows, at least in HR related contexts, can be relatively easily assigned and quantified with an acceptable degree of accuracy, whereas neither ex-ante nor ex-post is it possible to unambiguously assign cash inflows to the specific HR measure, nor can they be quantified in satisfactorily accurate manner.

Moreover, there are severe problems regarding the choice of an adequate interest rate for discounting the cash flows expected. For instance, biases can result if the interest rate does not correspond to the measure's risk, which can be greater or smaller than the average risk of the company.

These issues mostly stem from multi-layered, eclectic chains of cause and effect. This in turn is aggravated by the fact that one cause can lead to more than one effect and one effect can be traced to more than one cause.

Therefore, it is quite obvious that in most cases the pre-requirements for the use of value-concretizing tools and techniques, e.g. discounted cash flow (DCF) computations, are far from being fulfilled to a satisfactory degree.

Consequently, the notion of using quantitative tools and techniques to accord a specific monetary value ought to be discarded, although it initially seemed advantageous to apply such tools.

The challenge for the company, therefore, is to work out adequate indicators for the value to be realized as the ultimate effect of a measure; this process will require familiarity with the chains of cause and effect mentioned earlier. The fundamental reasoning behind this is the fact that it is not feasible to compare cash outflows and inflows because measures typically produce significant variations in both.

Moreover, the indicators identified must be interrelated with each other in order to arrive at an understanding of the specific value formation mechanisms and a broader understanding of value creation. A proper understanding of the fundamental activities in terms of resource utilization and working the market is extremely important when managing value in an appropriate manner.

These issues indicate the need to apply a suitable orchestra of various tools and techniques in appropriate manner. Due to its multi-perspective structure the Balanced Scorecard (BSC) would appear to be a tool worthy of consideration.

5 Balanced Scorecard as an Holistic Framework

The Balanced Scorecard by Kaplan and Norton (1992) may be described as a connection between finding and implementing the strategy of a company (e.g. Kaplan and Norton 1996); it shows cause-effect relationships by distinguishing between four different perspectives. For this reason, the Balanced Scorecard would

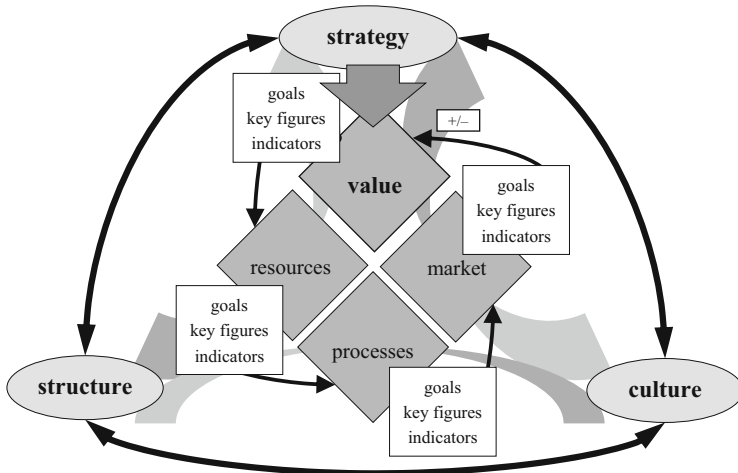


Fig. 2 Balanced scorecard

appear to be a tool to deal with the characteristics of human resources previously noted.

Considering the financial perspective the question is: does the implementation of strategy contribute to performance? (Weber and Schäffer 2010) But besides traditional financial key figures the Balanced Scorecard considers aspects of customers/market and internal processes. While the customer perspective looks at the strategic aims of an enterprise in relation to customer and market segments, the internal process perspective encompasses processes which are important to the financial and customer perspectives (Weber and Schäffer 2010).

The fourth dimension is the resource perspective, which is also termed learning and development in the literature (e.g., Alter 2011; Weber and Schäffer 2010). Kaplan and Norton emphasize the meaning of investments in the future in order to ensure that an organization can develop and learn (Kaplan and Norton 1997). Furthermore, three categories can be distinguished: employees’ qualifications, effectiveness of information systems and motivation of employees (Fig. 2).

As the first non-financially oriented concept of measurement parameters, the characteristic of the Balanced Scorecard is that it stands for ongoing implementation in practice, especially in innovative companies, serving as an organizational framework for the whole management process (Horváth 2011).

The scorecard, with its four perspectives, consideration of short and long-term issues, monetary and non-monetary targets and various temporal indicators, provides a basis for achieving balance. That is an important point in times of saturated markets, where focusing on monetary targets is not enough. But there is also the question, mentioned previously, of intangible factors, which are often unquantifiable (Ahn 2003; Kaplan and Norton 1997). By taking intangible factors into account, the Balanced Scorecard can help to deal with the difficulty of putting exact figures on the contribution that intangible factors arising from HR measures make to business success or to value creation.

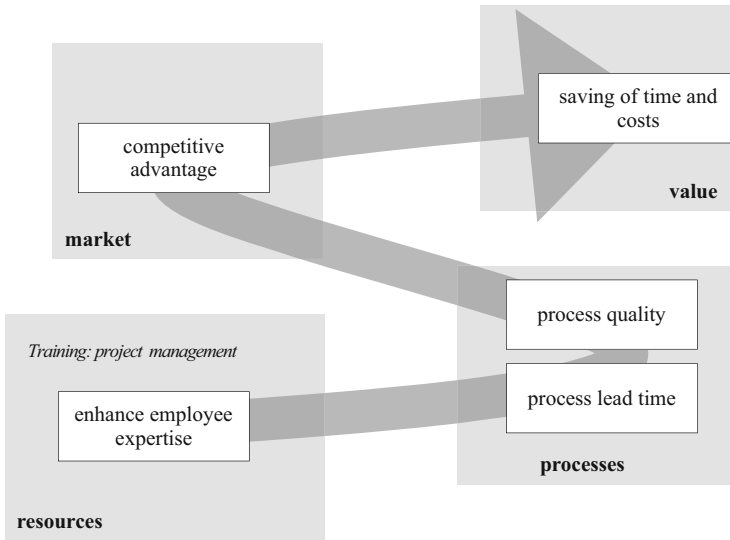


Fig. 3 Strategy map

Apart from assuming a causal connection, it must be noted that there is interaction between the four perspectives. It is believed that the aims of the resources perspective constitute the basis for the other dimensions (Hungenberg 2000). Furthermore, internal process perspective targets have an immediate influence on the market perspective, which affects the financial perspective.

As an integrative instrument, the Balanced Scorecard is suited for showing cause-effect relationships, especially in form of strategy maps, which can help companies to meet the challenge of creating the previously-mentioned adequate indicators for the value realized by any measures implemented (Alter 2011). Goals that have been set can be documented and visualized for anchoring.

Figure 3 illustrates the remarks using the example of project management training as one possible HR measure.

As an HR measure, project management training enhances employee expertise (learning and development perspective) which can lead to better process quality and shorter lead times (internal processes perspective). As a result, improved project management can create a competitive advantage (customer perspective) if the firm deals with projects more efficiently than competitors. This in turn impacts on the value perspective by enabling the firm to save time and costs, thus reducing cash outflow.

It is still difficult to create quantitative information about the NPV consequences of HR measures, but the Balanced Scorecard provides information about the effects and is an aid to understanding. Nevertheless this tool should be complemented by further instruments such as Scoring Models to allow an encompassing view of certain organizational aims and measures.

Although the Balanced Scorecard is fundamentally useful, some major problems have to be addressed when the individual elements at each level are adjusted to reflect HR issues.

The first difficulty is how to integrate the targets into the Balanced Scorecard. Here care should be taken that an appropriately detailed and practical number of suitable targets is available for each level, in order to meet the demands of the SMART approach. Some theorists, for example QUINN, conclude that successful managers often operate with the aid of a few targets described in general terms (Quinn 1980).

And the second problem, especially in the HR context at issue here, is that only in isolated cases is it possible to directly determine the degree to which a target has been met, so that suitable indicators or sets of indicators need to be designed and employed in order to determine outcomes by indirect means.

The third point to be considered is how to factor factual and behavioural aspects into the selection of measures needed to attain the targets. Taking these issues into account, the result in each case should be a dichotomous view of both feasible and effective measures.

However, there can be no practicable consideration of value without an appropriately designed system to manage measures. This will also include reviewing the measures in terms of anticipated outcomes and what was actually achieved.

6 Functional Possibilities for HR Controlling to Measure Beneficial Values

It is clear from the forgoing, that although the Balanced Scorecard can be particularly helpful in explaining the logic behind the generation of the added value created by HR measures, it offers no assistance in determining a real quantitative value that can be expressed in monetary units.

Nevertheless, recourse to this instrument does allow one to conduct a plausibility review of possible HR measures to examine their benefits in value terms, so that at least measures can be eliminated that offer no convincing arguments for correlation with the value level.

Although in the present paper the choice has fallen upon a primarily instrumental approach, one should not forget that this merely represents one functional element within an HR controlling concept.

Therefore an in-depth consideration of the problems described relating to investments in personnel as a key to business success is an essential task if the elementary concept of the control function is to focus more on adding value than on administrative matters.

At the functional level it is possible – in theory at least – to split HR control into two different parts, one strategic and one operational. Whereas the strategic HR controller would attend to the processes involved in HR work, seeking to make them as effective as possible, and thus be primarily concerned with superordinated aspects that cannot be measured exactly (cf. here and in the following the website of

the DGFP, German Society for Personnel Management), the operational manager would be chiefly concerned with quantifiable aspects of the workforce, which can therefore be subjected to efficiency-enhancing reorganization with relatively few problems.

However, this paper has been concerned less with the workforce as such than with the process of HR work in the sense of investment in human resources and any additional value to the company that this factor generates, and as a result a HR controller who thinks strategically must meet certain requirements.

In this connection reference may be made to three dimensions, the control of costs, efficiency and efficacy (cf. on this point and in the following Becker et al. 2014; Wunderer and Jaritz 2007), which must be suitably formulated and accentuated by the HR controller's office in line with the prevailing situation within the company.

From the cost control point of view, adherence to the budgeted HR costs and the personnel work budget are used as arguments for the "value added" through HR management. Stressing this dimension is likely to be of particular benefit to enterprises or corporate divisions that are either very capital intensive and/or are not reliant on high levels of skills.

Cost-benefit analyses are used as controls for efficiency, the second dimension, where the aim is the efficient use of resources to generate satisfactory input-output relationships.

The third dimension is efficacy control, which focuses on indicators or sets of indicators which seek to reveal the value added by personnel work in areas where it is hard to place a specific value on the service; here the Balanced Scorecard can be a useful tool. Specifically, the indicators developed can be used to correlate the separate BSC levels so that the result is convincing evidence to equate the HR measure under review with a contribution to company value.

However, the development of appropriate indicators and tying them together into an economically meaningful system across several levels is, in view of the intangible nature of human resources, a challenge that should not be underestimated. In particular, it should be pointed out at this juncture that a dilemma exists; the system of indicators might be over or under-dimensioned, both in the sense of "bounded rationality" to preserve the ability to act (Simon 1957) and in terms of the congruence of information concept, which postulates a convergence of demand and need for information and the supply of information, taking economic considerations into account (Berthel 1992, p. 875, Becker 2012, p. 24.)

In respect of approaching the problem with a set of indicators, the example of an HR measure presented, i.e. the seminar on project management, clearly showed that a learning effect and an attendant change in behaviour could not be wholly attributed to the HR measure taken. It is conceivable that other factors such as changes in the team membership or new IT options have an impact and these must be taken into consideration. This is difficult, however, because it is not possible to make a full record of the constellation of conditions obtaining, or to keep the conditions constant, so that, where economically advisable, a simulation of effects

should be performed. At this juncture, if not before, it is obvious that for considerations of profitability, there are tight limitations on the analysis and forecast of the economic effects of HR measures in the sense of apparently sophisticated overall economic models with a highly quantitative bias, which conflict with the nature of human resources, with its appreciably greater bias of toward qualitative aspects. For this reason, therefore, the coherence of the object-related sphere under consideration and the chosen approach are important.

7 Conclusion and Recommendations

This article has addressed issues regarding the assessment of the value contributed by HR related measures. It was stated that especially due to the particular characteristics of HR, a concrete monetary assessment of the potential to contribute value cannot be expected. To overcome this aggravating circumstance it was found that besides the usage of an appropriate orchestra of tools and techniques, the BSC would appear to be very well suited. This stems from the fact that the BSC has the inherent ability to deliver information on the mechanism of value formation by connecting resources, processes, markets and value and thus will enhance transparency in the eclectic chains of cause and effect. Finally, it is suggested that the set of tools and techniques used are accompanied by in-depth reporting of quantitative and qualitative aspects and values in order to obtain further evidence to support the economic viability of HR measures.

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